**OFFICIAL STATEMENT DATED DECEMBER 9, 2014**

**New Issue: Book–Entry–Only System** Rating: Standard & Poor's: "A"
Moody's: "A1"
(See "OTHER RELEVANT INFORMATION – Ratings")

*In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date hereof, except as explained under "TAX MATTERS" herein. Interest on the Bonds will be an item of tax preference for purpose of determining the alternative minimum tax imposed on individuals and corporations under section 57(a)(5) of the Code. See "TAX MATTERS" herein for a discussion of Bond Counsel's opinion and certain collateral federal tax consequences.*

# $244,495,000
# CITY OF AUSTIN, TEXAS
## (Travis, Williamson and Hays Counties)
## Airport System Revenue Bonds, Series 2014 (AMT)

Dated: December 9, 2014; Interest to accrue from Date of Initial Delivery Due: As shown on the inside cover page

The $244,495,000 City of Austin, Texas Airport System Revenue Bonds, Series 2014 (AMT) (the "Bonds"), are limited special obligations of the City of Austin, Texas (the "City"), issued pursuant to an ordinance adopted by the City on November 20, 2014 (the "Ordinance"). In the Ordinance, the City Council has delegated the authority to sell the Bonds to the City Manager and the Chief Financial Officer of the City, subject to the parameters set forth in the Ordinance.

Proceeds from the Bonds, together with other legally available funds, will be used for the purpose of (i) designing and constructing improvements to Austin-Bergstrom International Airport ("ABIA" or the "Airport"), as more fully described in "DESCRIPTION OF THE 2014 PROJECTS" in this document, (ii) making a deposit to the Debt Service Reserve Fund, (iii) funding capitalized interest on the Bonds, and (iv) paying certain costs of issuance incurred in connection with the issuance of the Bonds. See "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Selected Definitions" and "SOURCES AND USES OF FUNDS" in this document.

Interest on the Bonds is calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds will accrue from their date of initial delivery, and is payable on May 15, 2015 and semiannually thereafter on November 15 and May 15 of each year until maturity or prior redemption. The City intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book–Entry–Only System will affect the method and timing of payment and the method of transfer. See "DESCRIPTION OF THE BONDS – Book–Entry–Only System" in this document.

The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as more fully described in this document. See "DESCRIPTION OF THE BONDS – Redemption of the Bonds" in this document.

The Bonds, together with the Currently Outstanding Revenue Bonds (defined in this document) and any Additional Revenue Bonds (defined in this document), when and if issued, are limited special obligations of the City payable from, and are equally and ratably secured by, a first lien on the Net Revenues (defined in this document) of the Airport System (defined in this document) and certain funds established by the Ordinance. No mortgage of any of the physical properties forming a part of the Airport System or any lien thereon or security interest therein has been given. **The Bonds are not general obligations of the City, and neither the taxing power of the City nor the State of Texas is pledged as security for the Bonds. See "SECURITY FOR THE BONDS" in this document.**

The Bonds are offered for delivery when, as and if issued, subject to the opinion of the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Bond Counsel for the City. See "APPENDIX E – Form of Bond Counsel's Opinion" in this document. Certain legal matters will be passed on for the Underwriters by their counsel, Bracewell & Guiliani LLP. It is expected that the Bonds will be available for initial delivery to the Underwriters through DTC on or about January 5, 2015.

**CITIGROUP**

**RBC CAPITAL MARKETS** **MORGAN STANLEY**
**PIPER JAFFRAY & CO.** **LOOP CAPITAL MARKETS** **ESTRADA HINOJOSA & COMPANY, INC.**

**$244,495,000**
**CITY OF AUSTIN, TEXAS**
**Airport System Revenue Bonds, Series 2014 (AMT)**

**MATURITY SCHEDULE**
Base CUSIP No. 052398 (1)

| Maturity Date (November 15) | Principal Amount | Interest Rate | Initial Yield (2) | CUSIP Suffix (1) |
|---|---|---|---|---|
| 2026 | $ 8,005,000 | 5.000% | 3.050% | EF7 |
| 2027 | 8,405,000 | 5.000% | 3.140% | EG5 |
| 2028 | 8,830,000 | 5.000% | 3.210% | EH3 |
| 2029 | 9,270,000 | 5.000% | 3.280% | EJ9 |
| 2030 | 9,730,000 | 5.000% | 3.330% | EK6 |
| 2031 | 10,220,000 | 5.000% | 3.380% | EL4 |
| 2032 | 10,730,000 | 5.000% | 3.430% | EM2 |
| 2033 | 11,265,000 | 5.000% | 3.460% | EN0 |
| 2034 | 11,830,000 | 5.000% | 3.500% | EP5 |

$68,620,000 5.000% Term Bonds maturing November 15, 2039, priced to yield 3.630%, CUSIP Suffix EQ3 (1)(2)

$87,590,000 5.000% Term Bonds maturing November 15, 2044, priced to yield 3.730%, CUSIP Suffix ER1 (1)(2)

(Interest to accrue from the Date of Initial Delivery)

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(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. CUSIP numbers are provided for convenience of reference only. None of the City, the Financial Advisor, or the Underwriters shall be responsible for the selection or correctness of CUSIP numbers set forth in this document.

(2) Yield priced to November 15, 2024, the first optional call date. See "DESCRIPTION OF THE BONDS – Redemption of the Bonds" in this document.

No dealer, broker, salesman or other person has been authorized by the City or by the Underwriters in the initial offering of all or any of the Bonds to give any information or to make any representations, other than as contained in this Official Statement, 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 Bonds, 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 Official Statement and may not be reproduced or used for any other purpose. In no instance may this Official Statement be reproduced or used in part.

THE BONDS 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 in this Official Statement. CUSIP numbers have been assigned to the Bonds by CUSIP Global Services for the convenience of the owners of the Bonds.

This Official Statement includes descriptions and summaries of certain events, matters, and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references are qualified in their entirety by reference to this Official Statement in its entirety and to each such 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.

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

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE BONDS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL, OR STATE SECURITIES AUTHORITY OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

# TABLE OF CONTENTS

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**CITY OF AUSTIN, TEXAS**

**Elected Officials** (1)

| | |
|---|---|
| Lee Leffingwell | Mayor |
| Chris Riley | Councilmember Place 1 |
| Mike Martinez | Councilmember Place 2 |
| Kathryne B. Tovo | Councilmember Place 3 |
| Laura Morrison | Councilmember Place 4 |
| William Spelman | Councilmember Place 5 |
| Sheryl Cole, Mayor Pro Tem | Councilmember Place 6 |

(1) As a result of an amendment to the Austin City Charter approved at an election held November 6, 2012, the configuration of the City Council will change to an 11 member council, with the Mayor to be elected at large and the remainder of the council to be elected from 10 single member districts. An election was held on November 4, 2014 to elect a Mayor and councilmembers to serve on the 11 member council. In some of the positions, no candidate received the majority of votes, and a run-off election to fill these positions will be held December 16, 2014. In accordance with the Austin City Code, the elected officials shown above will continue to serve until January 6, 2015, when the regular terms of the new Mayor and councilmembers will commence.

**Appointed Officials**

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

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

**SECURITIES COUNSEL FOR THE CITY**
Fulbright & Jaworski LLP
a member of Norton Rose Fulbright
Dallas and Austin, Texas

**FINANCIAL ADVISOR**
Public Financial Management, Inc.
Austin, Texas

**INDEPENDENT AUDITORS**
Deloitte & Touche LLP
Austin, Texas

For additional information regarding the City, please contact:

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Austin, TX 78701
(512) 614–5323
waleyd@pfm.com

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# OFFICIAL STATEMENT

**relating to**

## $244,495,000
## CITY OF AUSTIN, TEXAS
## (Travis, Williamson and Hays Counties)
## Airport System Revenue Bonds, Series 2014 (AMT)

## INTRODUCTION

The purpose of this Official Statement, which includes the cover page and the appendices hereto, is to set forth information concerning the City of Austin, Texas (the "City"), the Airport System (see "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Selected Definitions" in this document for the complete definition of the Airport System), and the City's Airport System Revenue Bonds, Series 2014 (AMT) (the "Bonds"). The Bonds are limited special obligations of the City issued pursuant to an ordinance adopted by the City on November 20, 2014 (the "Ordinance"). Unless otherwise indicated, capitalized terms used in this Official Statement shall have the meanings established in the Ordinance. See "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Selected Definitions" in this document.

The Bonds are being issued pursuant to Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), Chapter 22, Texas Transportation Code, as amended, and the Ordinance. In the Ordinance, the City Council has delegated the authority to sell the Bonds to the City Manager and the Chief Financial Officer of the City, subject to the parameters set forth in the Ordinance.

Proceeds from the Bonds, together with other legally available funds, will be used for the purpose of (i) designing and constructing improvements to Austin-Bergstrom International Airport ("ABIA" or the "Airport"), the major component of the Airport System, as more fully described in "DESCRIPTION OF THE 2014 PROJECTS" in this document, (ii) making a deposit to the Debt Service Reserve Fund, (iii) funding capitalized interest on the Bonds, and (iv) paying certain costs of issuance incurred in connection with the issuance of the Bonds. See "SOURCES AND USES OF FUNDS" in this document.

The Bonds, together with the Currently Outstanding Revenue Bonds, are secured by and payable from a first lien on the Net Revenues (as hereinafter defined) of the Airport System. Under certain circumstances, the Ordinance permits the issuance of Additional Revenue Bonds which rank on a parity with the Currently Outstanding Revenue Bonds, and the Bonds are being issued as Additional Revenue Bonds. See "SECURITY FOR THE BONDS – Additional Revenue Bonds" in this document. The Ordinance defines the "Currently Outstanding Revenue Bonds" as including the Series 2005 Bonds, the Series 2013 Bonds and the Series 2013A Bonds. As of November 16, 2014, the outstanding principal balance of the Series 2005 Bonds is $198,750,000, the outstanding principal balance of the Series 2013 Bonds is $60,000,000 and the outstanding principal balance of the Series 2013A Bonds is $35,014,000.

**By acceptance of the Bonds, each Owner of a Bond (i) irrevocably and specifically consents to and approves amendments to the Ordinance and the ordinances governing the issuance of Revenue Bonds as described below, (ii) irrevocably appoints the Aviation Director as its true and lawful attorney-in-fact to evidence an Owner's specific consent to and approval of the amendments described below, and (iii) confirms all actions taken by the Aviation Director as attorney-in-fact for the Owner. The amendments described below were so approved by the Owners of the Series 2013 Bonds and the Series 2013A Bonds, but have not been approved by the Owners of the Series 2005 Bonds.** See "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE" in this document.

The amendments are as follows:

Amend Section 6.01(e) of the Ordinance and the Revenue Bond Ordinances to read:

"Refunding Bonds. If Additional Revenue Bonds are being issued for the purpose of refunding less than all previously issued Prior Lien Bonds or Revenue Bonds which are then Outstanding, neither of the certifications described in (c) or (d) above are required so long as the aggregate Debt Service Requirements after the issuance of the Additional Revenue Bonds do not exceed the aggregate Debt Service Requirements prior to the issuance of the Additional Revenue Bonds; provided, that the annual debt service on the refunding bonds in any Fiscal Year will not be more than 10% higher than it is in any other Fiscal Year."

Amend Section 9.03 of the Ordinance and the Revenue Bond Ordinances by changing the phrase "66-2/3% of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding" to "a majority of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding".

The amendment to Section 6.01(e) will become effective once the consent of 66 2/3% of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding is received. Since there are no Prior Lien Bonds now Outstanding, the reference to Prior Lien Bonds above is of no force and effect. The amendment to Section 9.03 will become effective once the consent of 100% of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding is received. Since the Series 2005 Bonds are insured, the consent of the bond insurer will be required to be obtained.

Upon the issuance of the Bonds, the percentage of bondholders of the Currently Outstanding Revenue Bonds and the Bonds who have consented or will have been deemed to have consented to the amendments described above is 63.1%.

See "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Amendments" in this document.

## DESCRIPTION OF THE 2014 PROJECTS

In response to the airlines' request for additional space, as well as the significant increase in passenger growth at ABIA, the City has endeavored to undertake the projects described below (collectively, the "2014 Projects"):

- Terminal East Infill Project - The Terminal East Infill Project, currently under construction, will add approximately 55,000 square feet of terminal floor space on the baggage claim, apron, and concourse levels (see "THE AIRPORT SYSTEM – Airport Facilities" in this document). On the baggage claim level, an 18,900 square-foot U.S. Customs and Border Protection ("CBP") facility will provide for the processing of arriving international passengers and will replace the existing undersized facility. On the concourse level, a 17,000 square-foot area at the east end of the check-in lobby will provide a new checkpoint for the security screening of departing passengers by the U.S. Transportation Security Administration ("TSA"). Other new and renovated spaces will be provided for passenger circulation and concessions, as well as CBP and TSA support functions. The CBP facility will become operational in December 2014 and all other elements of the project are scheduled to be completed in June 2015.

- Terminal and Apron Expansion and Improvement Project - The terminal expansion involves the widening of the east end of the terminal concourse and adjacent aircraft parking apron as well as extending the terminal concourse to provide seven or more additional gates equipped with loading bridges. Three or four of the additional gates will be flexible in design to accommodate both domestic and international flights as well as new, larger aircraft now operating at ABIA. On the concourse level, approximately 57,000 square feet of space will accommodate passenger hold rooms, concessions, restrooms, and a circulation corridor. On the apron level, approximately 18,000 square feet of enclosed space will provide areas for airline operations and 40,000 square feet of unenclosed space will accommodate baggage handling facilities, equipment, and tug driveways. The aircraft parking apron will be expanded by approximately 48 acres to provide additional space for the concourse, airline gates, and new outer taxi lanes to support group V aircraft and aircraft parking. The project scope also includes infrastructure upgrades to support the new expansion as well as renovation work in the ticket lobby to match new technology in order to improve customer service and balance the space needs for passengers and airlines. As part of the project, the check-in lobby, baggage claim, checkpoint exit lanes, security system, public announcement system, hold room business center, radio infrastructure, roof, electrical distribution systems, heating, cooling, and ventilation, and telecommunications systems throughout the terminal will be renovated and replaced. A temporary concourse will provide replacement gate capacity during the construction period of the project. All elements are scheduled to be completed by summer 2018.

The City has hired Gensler as designer and Hensel Phelps as construction manager for the Terminal and Apron Expansion and Improvement Project. The City intends to enter into a construction manager at risk contract with Hensel Phelps in order to minimize the project cost. The construction manager at risk contract is expected to be entered into by June 2015.

— Parking Garage Project Design - This project provides for the design of a new, approximately 5,000 space, five level parking garage at the Lot A site north of the existing parking garage and west of the new consolidated rental car garage. The garage is scheduled to be completed in September 2018. A portion of the proceeds of the Bonds will be used to finance the costs of designing the garage. Financing for the construction of the garage is anticipated in 2016. See "CAPITAL IMPROVEMENT PROGRAM" in this document.

— Other Capital Improvements - Other projects included in the 2014 Projects are HVAC Improvements and other miscellaneous repair and replacement projects at the Airport.

For information on the funding plan for these projects, see "CAPITAL IMPROVEMENT PROGRAM" in this document.

**SOURCES AND USES OF FUNDS**

The following table sets forth the estimated application of proceeds of the Bonds.

| | |
|---|---|
| Sources of Funds: | |
| Principal Amount | $ 244,495,000.00 |
| Original Issue Premium | 29,171,994.25 |
| Total Sources of Funds | $ 273,666,994.25 |
| Uses of Funds: | |
| Deposit to Project Account | $ 216,378,074.73 |
| Deposit to Capitalized Interest Account | 43,039,146.05 |
| Deposit to Debt Service Reserve Fund | 12,224,750.00 |
| Costs of Issuance | 936,012.43 |
| Underwriter's Discount | 1,089,011.04 |
| Total Uses of Funds | $ 273,666,994.25 |

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## DESCRIPTION OF THE BONDS

### General

The Bonds will be issued in the aggregate principal amount and at the interest rates, and will mature in the amounts and on the dates, all as set forth on the inside cover page. The Bonds are issuable in denominations of $5,000 or any integral multiple thereof. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds will accrue from their date of delivery to the initial purchasers, and will be payable on May 15, 2015, and on each November 15 and May 15 thereafter (each such date is referred to as an "Interest Payment Date") until maturity or prior redemption. The Bonds are initially to be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC") as securities depository for the Bonds. Purchases by beneficial owners of the Bonds (the "Beneficial Owners") are to be made in book entry form. See "Book-Entry-Only System" below in this document.

The principal of the Bonds shall be payable in lawful money of the United States of America at the corporate trust office in Dallas, Texas (the "Designated Payment/Transfer Office") of Wilmington Trust, National Association (the "Paying Agent/Registrar"), and the interest on the Bonds shall be paid by check or draft mailed, by first-class mail, by the Paying Agent/Registrar to the respective registered owners thereof at their addresses as they appear on the registration books kept by the Paying Agent/Registrar pertaining to the registration of the Bonds on the last Business Day of the month next preceding an Interest Payment Date. In lieu of mailing such interest payment, such other method may be used at the risk and expense of a registered owner, if requested by the registered owner and acceptable to the Paying Agent/Registrar. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, any payment to the securities depository, or its nominee or registered assigns, shall be made in accordance with arrangements between the City and the securities depository. See " - Book-Entry-Only System" below in this document.

### Redemption of the Bonds

*Optional Redemption.* The City reserves the right, at its option, to redeem the Bonds in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on November 15, 2024, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption. If less than all of the Bonds 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 Bonds are in book-entry-only form) shall determine by lot or other customary random selection method the Bonds, or portions thereof, within such maturity and series to be redeemed.

*Mandatory Sinking Fund Redemption.* The Bonds having stated maturities of November 15 in each of the years 2039 and 2044 respectively (the "Term Bonds"), shall be subject to mandatory redemption in part prior to maturity at the redemption price of par plus accrued interest to the date of redemption on November 15 in each of the years and in principal amounts as follows:

| 5.000% Term Bond due November 15, 2039 | | 5.000% Term Bond due November 15, 2044 | |
|---|---|---|---|
| Year | Principal Amount | Year | Principal Amount |
| 2035 | $ 12,420,000 | 2040 | $ 15,850,000 |
| 2036 | 13,040,000 | 2041 | 16,645,000 |
| 2037 | 13,690,000 | 2042 | 17,475,000 |
| 2038 | 14,375,000 | 2043 | 18,350,000 |
| 2039* | 15,095,000 | 2044* | 19,270,000 |

*Stated maturity.

Approximately 45 days prior to each mandatory redemption date of the Term Bonds, the Paying Agent/Registrar shall select by lot the numbers of the Term Bonds within the stated applicable maturity to be redeemed on the next following November 15 from moneys set aside for that purpose in the Debt Service Fund; *provided*, that during any period in which ownership of the Term Bonds is determined only by a book entry at a securities depository for the Term Bonds, the particular Term Bonds shall be selected in accordance with the arrangements between the City and the securities depository.

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

**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 Bond 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 Ordinance; *provided*, that during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, the particular Bonds shall be selected in accordance with the arrangements between the City and the securities depository. If a Bond (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 Bond (or the portion of its principal sum to be redeemed) shall become due and payable, and interest on the Bond shall cease to accrue from and after the redemption date of the Bond, 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.

Any notice of redemption shall state the redemption date, the redemption price, the amount of accrued interest payable on the redemption date, the place at which Bonds are to be surrendered for payment and, if less than the entire principal amount of a Bond is to be redeemed, the portion thereof to be redeemed. Any notice given as provided in this paragraph shall be conclusively presumed to have been duly given, whether or not the registered owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the redemption price of the Bonds to be redeemed, plus accrued interest to the date fixed for redemption. When the Bonds have been called for redemption in whole or in part and due provision has been made to redeem them, the Bonds or portions thereof so redeemed shall no longer be regarded as Outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the registered owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

**Limitation on Transfer of Bonds Called for Redemption**

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

**Defeasance of Bonds**

The Ordinance provides for the defeasance of the Bonds when the payment of the principal of the Bonds, plus interest to the due date thereof (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 Obligations, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times 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 Bonds. The Ordinance provides that "Defeasance Obligations" means (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 Obligation will be maintained by any particular rating category. See "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Discharge by Deposit" in this document.

**Remedies**

If the City defaults in the payment of principal, interest or redemption price on the Bonds when due, or the City defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, or the City declares bankruptcy, the registered owners of the Bonds may seek a writ of mandamus to compel the City or City officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the courts, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the 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. The City may exercise authority to issue obligations and enter into credit agreements pursuant to Chapter 1371, secured by the Net Revenues of the Airport System. In the proceedings authorizing the issuance of obligations or the execution and delivery of credit agreements, the City may agree to waive sovereign immunity from suit or liability for the purposes of adjudicating a claim to enforce the credit agreement or obligation or for damages for breach of the credit agreement or obligation. The City has not waived the defense of sovereign immunity with respect to the Bonds under Chapter 1371. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the State legislature has effectively waived the City's sovereign immunity from a suit for money damages outside of Chapter 1371, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or covenants contained in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property.

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

**Book-Entry-Only System**

**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 Ordinance. See "- Paying Agent/Registrar" below in this document. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owner of the Bonds are described in this Official Statement.**

*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 Bonds, 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 Bonds), 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 Official Statement. 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 Bonds. The Bonds will be issued as fully-registered Bonds 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 Bonds, 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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 Paying Agent/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 Bonds 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 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds 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 Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are 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 Bonds 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, Bond 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 the Bonds will be printed and delivered to DTC.

**Paying Agent/Registrar**

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

**Transfer, Exchange and Registration**

In the event the book-entry-only system should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar at the Designated Payment/Transfer Office and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form thereon or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar, in lieu of the Bonds 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 Bonds 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 Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" above in this document for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

## SOURCES OF REPAYMENT FOR THE BONDS

**Pledge of Net Revenues**

The Bonds and the Currently Outstanding Revenue Bonds, together with any Additional Revenue Bonds (if and when issued), are secured by and payable from a first lien on the Net Revenues. Gross Revenues shall be deposited and paid into the special funds established and confirmed in the Ordinance and shall be applied toward the payment of all Operation and Maintenance Expenses of the Airport System, to provide for the payment of Debt Service on the Revenue Bonds and any Credit Agreement Obligations related to outstanding Revenue Bonds, and for the payment when due of Administrative Expenses. **Net Revenues shall mean that portion of Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses of the Airport System**. Debt Service shall be payable prior to the payment of any Administrative Expenses. See "- Flow of Funds" below in this document.

**The Ordinance does not constitute a mortgage of any of the physical properties forming a part of the Airport System or create any lien thereon or security interest therein. The Bonds are not general obligations of the City, and neither the taxing power of the City nor the State of Texas is pledged as security for the Bonds.**

As of the date hereof, the Currently Outstanding Revenue Bonds are the only obligations of the City payable from a first lien on and pledge of the Net Revenues.

**Use of Passenger Facility Charges**

The City covenants and agrees, for the benefit of the Owners of the Revenue Bonds, that during each Fiscal Year the City will set aside from any passenger facility charges imposed by the City on enplaned passengers the lesser of (i) such passenger facility charges imposed and collected by the City or (ii) $4.50 derived from each passenger facility charge ("PFC") so imposed and collected by the City for the payment of debt service on the Revenue Bonds in the following Fiscal Year, unless the City receives a report from an Airport Consultant showing that an alternative use of all or a portion of the PFCs will not reduce the forecast coverage of Debt Service Requirements with respect to the Revenue Bonds by forecast Net Revenues during the following Fiscal Year (or such longer forecast period as may be covered in the Airport Consultant's Report) to less than 125%. PFCs are currently being used to pay debt service on Revenue Bonds for PFC-eligible projects that have been approved by the Federal Aviation Administration ("FAA"). See "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Use of Passenger Facility Charges" in this document.

**The proceeds of the PFCs are not part of the Net Revenues pledged by the City to the payment of Revenue Bonds, including the Bonds. Pursuant to the terms of the Ordinance, PFCs are expressly excluded from the definition of "Gross Revenues". Consistent with the definition of "Debt Service Requirements" in the Ordinance, debt service on Revenue Bonds for which PFCs have been appropriated and deposited into a dedicated fund or account, the proceeds of which are required to be transferred into the Debt Service Fund or directly to the Paying Agent/Registrar for such Revenue Bonds, is excluded from the calculation of Debt Service Requirements.** See "- Rate Covenant", "- Additional Revenue Bonds" and the definition of "Debt Service Requirements" in "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Selected Definitions" in this document.

**The City plans to seek approval from the FAA to use PFCs to fund a portion of the 2014 Projects and to pay a portion of the debt service on the Bonds. Upon approval, the City intends to set aside PFCs to pay PFC-eligible debt service on the Bonds in accordance with the covenant described above.** See "CERTAIN INVESTMENT CONSIDERATIONS – Availability of PFCs and PFC Approval" and "APPENDIX A – REPORT OF THE AIRPORT CONSULTANT – Exhibit F" in this document.

See "CAPITAL IMPROVEMENT PROGRAM – Passenger Facility Charges" in this document for data on historical PFC collections.

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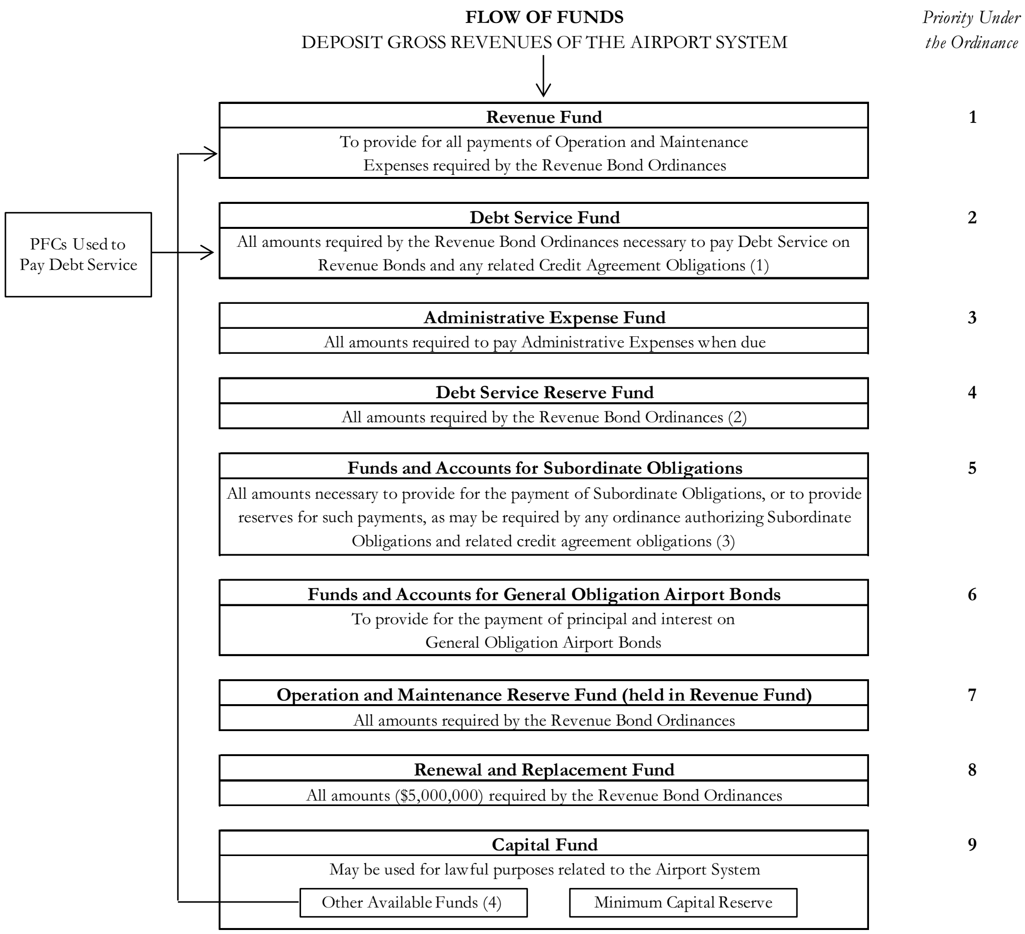
**Flow of Funds**

The Ordinance confirms the prior establishment of special funds which shall be maintained and accounted for so long as any Revenue Bond and related Credit Agreement Obligation remains Outstanding and Administrative Expenses remain unpaid. Gross Revenues as received are required to be deposited into the Revenue Fund established by the Ordinance, and moneys in such fund are required to be applied and allocated on a monthly basis in the manner and the priority established by the Ordinance. See “APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Funds and Flow of Funds” in this document.




(1) See "OUTSTANDING REVENUE BONDS AND SPECIAL FACILITIES BONDS - Financial Transactions Related to the Series 2005 Bonds" in this document.
(2) See "- Debt Service Reserve Fund".
(3) See "- Subordinate Obligations".
(4) See "HISTORICAL FINANCIAL DATA - Table 8" and the definition of "Other Available Funds" in APPENDIX C in this document.

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## Rate Covenant

The City covenants in the Ordinance (see "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Particular Covenants – Rate Covenant" in this document) that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year, the Net Revenues will be at least sufficient to equal the **larger** of either (i) all amounts required to be deposited in the Fiscal Year to the credit of the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund, and to pay any debt service or debt service reserve fund or account for Subordinate Obligations, **or** (ii) an amount, together with Other Available Funds, not less than 125% of the Debt Service Requirements for the Revenue Bonds for the Fiscal Year plus an amount equal to 100% of anticipated and budgeted Administrative Expenses for the Fiscal Year.

If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for the Fiscal Year, must request an Airport Consultant to make its recommendations, if any, as to a revision of the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Airport System in order to satisfy as quickly as practicable the foregoing requirements. Copies of the request and the recommendations of the Airport Consultant shall be filed with the City Clerk. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Ordinance even if the resulting Net Revenues plus Other Available Funds are not sufficient to be in compliance with the covenant set forth above, so long as Debt Service is paid when due.

For purposes of the rate covenant, as described above, Other Available Funds is defined in the Ordinance as unencumbered funds accumulated in the Capital Fund in excess of the Minimum Capital Reserve which, before the beginning of any Fiscal Year, are designated by the City as Other Available Funds and transferred at the beginning of such Fiscal Year to the Revenue Fund; but in no event may this amount exceed 25% of the Debt Service Requirements for the Revenue Bonds for such Fiscal Year. The City has had a practice of transferring Other Available Funds to the Revenue Fund pursuant to the Revenue Bond Ordinances. See "HISTORICAL FINANCIAL DATA – Table 8 – Historical Debt Service Coverage" in this document.

## Debt Service Reserve Fund

The Ordinance and the ordinances authorizing the Currently Outstanding Revenue Bonds establish a Debt Service Reserve Fund for the benefit of all Revenue Bonds and require that an amount equal to the Debt Service Reserve Fund Requirement be accumulated and maintained therein in accordance with such ordinances. The Debt Service Reserve Fund Requirement is defined in the Ordinance and shall mean the amount required to be maintained in the Debt Service Reserve Fund. This amount shall be computed and recomputed annually as a part of the City's budget process and upon the issuance of each series of Revenue Bonds to be the arithmetic average of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Revenue Bonds then Outstanding including the series of Revenue Bonds then being issued. In no event, however, will the amount deposited in the Debt Service Reserve Fund that is allocable to the Revenue Bonds or Additional Revenue Bonds, in accordance with regulations promulgated under the Code, exceed the least of (a) 10% of the stated principal amount of each issue of which the Revenue Bonds or Additional Revenue Bonds are a part, (b) the maximum annual principal and interest requirements of the issue or (c) 125% of the average annual principal and interest requirements of the issue, unless there is received an opinion of nationally recognized bond counsel to the effect that the additional amount will not cause the Revenue Bonds and any Additional Revenue Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code and the regulations thereunder promulgated from time to time. The Ordinance and the ordinances authorizing the Currently Outstanding Revenue Bonds also provide for the use of a Debt Service Reserve Fund Surety Bond in lieu of a cash deposit. See "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Funds and Flow of Funds - Debt Service Reserve Fund" in this document. Upon the issuance of the Bonds, the aggregate Debt Service Reserve Requirement will be $28,130,587. The Debt Service Reserve Fund is currently funded with $2,434,161 of cash and a Debt Service Reserve Fund Surety Bond (the "2005 Reserve Policy") in the amount of $25,536,833. The 2005 Reserve Policy will remain in effect so long as all or a portion of the Series 2005 Bonds are outstanding; however, under certain circumstances, the 2005 Reserve Policy may be cancelled prior to the final maturity of the Series 2005 Bonds (see "OUTSTANDING REVENUE BONDS AND SPECIAL FACILITIES BONDS – Financial Transactions Related to the Series 2005 Bonds" in this document). Pursuant to the terms of the 2005 Reserve Policy, all cash on deposit in the Debt Service Reserve Fund must be utilized before any draw may be made on the 2005 Reserve Policy, and the proceeds of any payments made pursuant to the 2005 Reserve Policy may only be applied to the payment of debt service on the Series 2005 Bonds. The City intends to deposit $12,224,750 in the Debt Service Reserve Fund from a portion of the proceeds of the Bonds. See "SOURCES AND USES OF FUNDS" in this document. Upon such deposit, the Debt Service Reserve Fund will be fully funded.

**Additional Revenue Bonds**

The Bonds will be issued as Additional Revenue Bonds, secured by a first lien on and pledge of the Net Revenues on parity with the Currently Outstanding Revenue Bonds.

Additional Revenue Bonds may be issued upon satisfaction of the conditions set forth in "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Additional Bonds" in this document.

**Subordinate Obligations**

The City has reserved the right to issue or incur, for any lawful Airport System purpose, bonds, notes or other obligations, including reimbursement obligations and obligations pursuant to credit agreements and interest rate hedges, secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Bonds, Currently Outstanding Revenue Bonds, and any Additional Revenue Bonds.

Although referred to in the Ordinance as "Subordinate Obligations", such bonds, notes or other obligations may bear any name or designation provided by the ordinance authorizing their issuance. Such Subordinate Obligations may be secured by any other source of revenues lawfully available for such purposes. No Subordinate Obligations are currently outstanding. See "DEBT SERVICE REQUIREMENTS" in this document.

## OUTSTANDING REVENUE BONDS AND SPECIAL FACILITIES BONDS

**Outstanding Revenue Bonds**

Three series of Revenue Bonds are currently outstanding: the Series 2005 Bonds, the Series 2013 Bonds and the Series 2013A Bonds. As of November 16, 2014, the outstanding principal balance of the Series 2005 Bonds is $198,750,000, the outstanding principal balance of the Series 2013 Bonds is $60,000,000 and the outstanding principal balance of the Series 2013A Bonds is $35,014,000.

The Series 2005 Bonds are variable rate demand obligations with a final maturity of November 15, 2025; the payment of debt service is secured by letters of credit. See "OUTSTANDING REVENUE BONDS AND SPECIAL FACILITIES BONDS – Financial Transactions Related to the 2005 Bonds" in this document. The Series 2013 Bonds are a fixed rate direct placement loan with Prosperity Bank and have a final maturity of May 15, 2028. The Series 2013A Bonds are a fixed rate direct placement loan with Bank of America Merrill Lynch and have a final maturity of November 15, 2018.

**Financial Transactions Related to the Series 2005 Bonds**

The Series 2005 Bonds are variable rate demand obligations and consist of four sub-series of Series 2005 Bonds. The City has entered into a Letter of Credit and Reimbursement Agreement (the "Reimbursement Agreement") with Sumitomo Mitsui Banking Corporation, acting through its New York Branch ("SMBC"). Pursuant to the terms of the Reimbursement Agreement, SMBC has issued four separate letters of credit, one for each sub-series of the Series 2005 Bonds, to provide both liquidity and credit support for each sub-series of the Series 2005 Bonds. Payment of scheduled principal of and interest on the Series 2005 Bonds, together with the purchase price of Series 2005 Bonds subject to optional or mandatory tender for purchase which have not been remarketed, will be payable from amounts received under each letter of credit. If a letter of credit is drawn upon to pay debt service or tenders of a sub-series of Series 2005 Bonds, and the funds received from the draw are not promptly repaid by the City, SMBC will become an owner of the sub-series of Series 2005 Bonds. Series 2005 Bonds tendered for purchase will be paid first, from the proceeds of remarketing, if any, and second, from a liquidity drawing on a letter of credit. The existing letters of credit issued by SMBC each have a scheduled expiration date of October 15, 2018. The existing letters of credit may terminate prior to the scheduled expiration date upon the occurrence of certain events of default as described in the Reimbursement Agreement.

Fees of the City payable to SMBC under the Reimbursement Agreement relating to the issuance of the letters of credit, are Credit Agreement Obligations, payable on a parity with the obligation of the City to pay debt service on the Revenue Bonds.

At the time of the issuance of the Series 2005 Bonds, a financial guaranty insurance policy (the "2005 Bond Policy") was issued to guarantee the scheduled payment of principal of and interest on the Series 2005 Bonds when due. The 2005 Bond Policy was issued by Financial Security Assurance Inc.; Assured Guaranty Municipal Corp. ("AGM") succeeded to the interests of Financial Security Assurance Inc. under the 2005 Bond Policy and the other policies described below.

In connection with the issuance of the Series 2005 Bonds, the City entered into an interest rate swap agreement with Morgan Stanley Capital Services, Inc., as "Counterparty" (the "Interest Rate Swap Agreement"). A financial guaranty insurance policy (the "2005 Swap Policy") was issued relating to the swap transaction entered into by the City with the Counterparty (the "Swap Transaction"), and AGM is obligated to make certain payments under the 2005 Swap Policy in relation to certain events occurring with respect to the Swap Transaction.

In connection with the Swap Transaction, the City is obligated to make payments to the Counterparty calculated on a notional amount equal to the scheduled outstanding principal amount of the Series 2005 Bonds and a fixed interest rate of 4.051% per annum, and the Counterparty is obligated to make reciprocal payments to the City calculated on a notional amount equal to the scheduled outstanding principal amount of the Series 2005 Bonds and a variable rate equal to 71% of the one-month London Interbank Borrowing Rate (LIBOR) for U.S. deposits. Payments are made on a net basis on the first day of each month, ending in November 2025. Interest on the Series 2005 Bonds is determined in a manner that differs from the LIBOR index used to calculate amounts payable to the City under the terms of the Interest Rate Swap Agreement. On the effective date of the Interest Rate Swap Agreement, the Counterparty was rated "Aa3" by Moody's, "AA-" by S&P and "AA-" by Fitch. The City entered into the Interest Rate Swap Agreement in conjunction with the issuance of the Series 2005 Bonds in order to effect and quantify a debt service savings on outstanding bonds that were refunded with the proceeds of the Series 2005 Bonds. Payments to be made by the City, if any, under the terms of the Interest Rate Swap Agreement (other than a "termination payment" as discussed below) constitute Credit Agreement Obligations and are therefore payable solely from and equally and ratably secured by a lien on the Net Revenues of equal rank and dignity with the lien and pledge securing the payment of the Revenue Bonds. See "APPENDIX B – AUDITED FINANCIAL STATEMENTS - Note 9b – Variable Rate Debt Management Program" in this document for a discussion relating to the valuation of and risks associated with the Interest Rate Swap Agreement. As of September 30, 2014, the net aggregate monthly payments the City has made to the Counterparty under the Interest Rate Swap Agreement equal $62,522,363.

The City's obligation to make scheduled payments under the Interest Rate Swap Agreement is insured by AGM under the terms of the 2005 Swap Policy issued in 2005. Any termination payment the City may become obligated to pay under the terms of the Interest Rate Swap Agreement is not covered by the 2005 Swap Policy. A discussion of events that could result in the termination of the 2005 Swap Policy follow below.

If either party to the Interest Rate Swap Agreement commits an event of default, suffers a reduction in credit worthiness, or merges with a materially weaker entity, or in certain other circumstances, the Interest Rate Swap Agreement may be terminated at the option of the other party. Accordingly, no assurance can be given that the Interest Rate Swap Agreement will continue in existence until November 2025. If the Interest Rate Swap Agreement is terminated, then current market conditions will determine whether the City will owe a termination payment to the Counterparty or be entitled to receive a termination payment from the Counterparty. Such termination payment generally would be based on the market value of the Interest Rate Swap Agreement on the date of termination and could be substantial. In addition, a partial termination of the Interest Rate Swap Agreement could occur to the extent any Series 2005 Bonds are redeemed pursuant to the City exercising its right to effect an optional redemption of the Series 2005 Bonds. If such optional redemption were to occur, termination payments related to the portion of the Interest Rate Swap Agreement to be terminated will be owed by either the City or the Counterparty, depending on the existing market conditions. The obligation of the City to pay a termination payment to the Counterparty could result in the City issuing Additional Revenue Bonds or Subordinate Obligations to enable the City to make such a termination payment.

SMBC, the City, the paying agent and tender agent, and AGM have entered into a Second Amended and Restated Bond Insurance Policy Cancellation Agreement (the "Cancellation Agreement"). Under certain conditions as described in the Cancellation Agreement, the providers of the letters of credit may direct the cancellation of the 2005 Bond Policy, which will effect a mandatory tender of the Series 2005 Bonds. No draws upon the 2005 Bond Policy may occur once the providers of the letters of credit have directed the cancellation of the 2005 Bond Policy. Should AGM have made payments, directly or indirectly, on account of principal of or interest on Series 2005 Bonds to any holder of the Series 2005 Bonds (the "Holder") prior to the date the 2005 Bond Policy is cancelled (the "Cancellation Date"), AGM will be (a) subrogated to the rights of the Holder to receive the amount of such payment from the City, and (b) deemed the Holder of such Series 2005 Bonds for all purposes under the Series 2005 Ordinance, including, without limitation, the direction of remedies, the voting or giving consent with respect to remedies and other actions or inactions that may require voting or consent, and the filing of proofs of claim and other indicia of ownership in any insolvency proceeding. AGM also will be entitled to receive the amount of principal and interest as provided in the Series 2005 Bond Ordinance and the Series 2005 Bonds, and the parties to the Cancellation Agreement will otherwise treat AGM as the owner of such rights to the amount of such payment.

In connection with the issuance of the Series 2005 Bonds a Debt Reserve Fund Surety Bond was issued relating to the Series 2005 Bonds (the "2005 Reserve Policy"), and AGM is obligated under the terms of the 2005 Reserve Policy to make payments in the event conditions specified in the ordinance relating to the Series 2005 Bonds occur which would result in a draw being necessary to pay debt service on the Series 2005 Bonds. See "SOURCES OF REPAYMENT FOR THE BONDS – Debt Service Reserve Fund" in this document. The Cancellation Agreement provides that upon the cancellation of the 2005 Bond Policy in accordance with the terms of the Cancellation Agreement (unless an Insurer Event of Default has occurred and is continuing), the 2005 Reserve Policy shall be cancelled by a date that is not more than three years after the Cancellation Date, and the City shall (i) beginning with the first full calendar month following the Cancellation Date, commence funding on a monthly basis an amount sufficient so that the Debt Service Reserve Fund Requirement established in support of the Series 2005 Bonds is established (without giving effect to the 2005 Reserve Policy) by the date that is three years after the Cancellation Date and (ii) restore any draw on the Debt Service Reserve Fund from over a period of no more than eighteen (18) months as required by the Ordinance. The City further agrees in the Cancellation Agreement not to issue any Additional Revenue Bonds payable from the 2005 Reserve Policy.

The City and AGM, in connection with the delivery of the letters of credit described above, have entered into a Second Amended and Restated Agreement Regarding Insured Swap Transaction (City of Austin) (the "Swap Management Agreement"), in which the City may be required to terminate the 2005 Swap Policy if the 2005 Bond Policy is cancelled under the terms of the Cancellation Agreement. In the Swap Management Agreement, upon the termination of the 2005 Bond Policy pursuant to the Cancellation Agreement, the City shall provide AGM with (i) on a monthly basis, a statement of the estimated aggregate mark-to-market value of the Interest Rate Swap Agreement and (ii) notice at such time, if any, as the aggregate mark-to-market value of the Interest Rate Swap Agreement is negative $100,000 or an amount more favorable to the City within two (2) Business Days of that being the case. Unless AGM directs or agrees otherwise, not later than the earlier of (a) ten (10) Business Days after the first date on which the estimated aggregate mark-to-market value of the Interest Rate Swap Agreement payable by the City is zero or on which such estimated aggregate mark-to-market value is positive to the City and (b) three (3) years of the date of the cancellation of the 2005 Bond Policy pursuant to the Cancellation Agreement, the City shall do one of the following: (1) designate an early termination date, or other optional termination, with respect to the Interest Rate Swap Agreement, or (2) deliver to AGM the original 2005 Swap Policy together with an instrument from the Counterparty satisfactory to AGM deeming the Interest Rate Swap Agreement to no longer be insured and releasing AGM from all further liability under the 2005 Swap Policy. **The Swap Management Agreement does provide, however, that the City and AGM agree that in the event the 2005 Bond Policy is cancelled as a result of the occurrence of an Insurer Event of Default (as defined in the Reimbursement Agreement), the City shall not be obligated to perform its obligations described in the immediately preceding sentence.**

### Special Facilities Bonds

The City has reserved the right to issue from time to time, in one or more series, Special Facilities Bonds as provided in the Ordinance to finance and refinance the cost of any Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Bonds shall be payable solely from payments by Special Facilities lessees and/or other security not provided by the City. In no event shall any Gross Revenues or any other amounts held in any other fund or account maintained by the City as security for the Currently Outstanding Revenue Bonds, the Bonds and any Additional Revenue Bonds or for the construction, operation, maintenance or repair of the Airport System be pledged to the payment of Special Facilities Bonds. The City has issued and there is currently outstanding one series of Special Facilities Bonds, the City of Austin, Texas, Rental Car Special Facility Revenue Bonds, Taxable Series 2013.

## DEBT SERVICE REQUIREMENTS

| Bond Year Ending November 15th | Outstanding Revenue Bonds | The Bonds Principal | The Bonds Interest | The Bonds Total | Total Debt Service |
|---|---|---|---|---|---|
| 2015 | $ 28,580,844 | $ - | $ 10,526,868 | $ 10,526,868 | $ 39,107,712 |
| 2016 | 31,434,491 | - | 12,224,750 | 12,224,750 | 43,659,241 |
| 2017 | 32,802,487 | - | 12,224,750 | 12,224,750 | 45,027,237 |
| 2018 | 32,830,147 | - | 12,224,750 | 12,224,750 | 45,054,897 |
| 2019 | 33,817,583 | - | 12,224,750 | 12,224,750 | 46,042,333 |
| 2020 | 32,820,968 | - | 12,224,750 | 12,224,750 | 45,045,718 |
| 2021 | 31,090,472 | - | 12,224,750 | 12,224,750 | 43,315,222 |
| 2022 | 31,112,206 | - | 12,224,750 | 12,224,750 | 43,336,956 |
| 2023 | 31,143,953 | - | 12,224,750 | 12,224,750 | 43,368,703 |
| 2024 | 31,173,616 | - | 12,224,750 | 12,224,750 | 43,398,366 |
| 2025 | 31,199,810 | - | 12,224,750 | 12,224,750 | 43,424,560 |
| 2026 | 5,410,663 | 8,005,000 | 12,224,750 | 20,229,750 | 25,640,413 |
| 2027 | 5,411,813 | 8,405,000 | 11,824,500 | 20,229,500 | 25,641,313 |
| 2028 | 5,410,188 | 8,830,000 | 11,404,250 | 20,234,250 | 25,644,438 |
| 2029 | - | 9,270,000 | 10,962,750 | 20,232,750 | 20,232,750 |
| 2030 | - | 9,730,000 | 10,499,250 | 20,229,250 | 20,229,250 |
| 2031 | - | 10,220,000 | 10,012,750 | 20,232,750 | 20,232,750 |
| 2032 | - | 10,730,000 | 9,501,750 | 20,231,750 | 20,231,750 |
| 2033 | - | 11,265,000 | 8,965,250 | 20,230,250 | 20,230,250 |
| 2034 | - | 11,830,000 | 8,402,000 | 20,232,000 | 20,232,000 |
| 2035 | - | 12,420,000 | 7,810,500 | 20,230,500 | 20,230,500 |
| 2036 | - | 13,040,000 | 7,189,500 | 20,229,500 | 20,229,500 |
| 2037 | - | 13,690,000 | 6,537,500 | 20,227,500 | 20,227,500 |
| 2038 | - | 14,375,000 | 5,853,000 | 20,228,000 | 20,228,000 |
| 2039 | - | 15,095,000 | 5,134,250 | 20,229,250 | 20,229,250 |
| 2040 | - | 15,850,000 | 4,379,500 | 20,229,500 | 20,229,500 |
| 2041 | - | 16,645,000 | 3,587,000 | 20,232,000 | 20,232,000 |
| 2042 | - | 17,475,000 | 2,754,750 | 20,229,750 | 20,229,750 |
| 2043 | - | 18,350,000 | 1,881,000 | 20,231,000 | 20,231,000 |
| 2044 | - | 19,270,000 | 963,500 | 20,233,500 | 20,233,500 |
| | $ 364,239,238 | $ 244,495,000 | $ 272,662,118 | $ 517,157,118 | $ 881,396,356 |

## THE AIRPORT SYSTEM

### Airport Facilities

The Airport System is comprised of airport, heliport and aviation facilities or any interest therein owned, operated or controlled in whole or in part by the City and includes ABIA, but expressly excludes any heliport or heliports operated by City departments other than the Aviation Department. ABIA is classified by the FAA as a medium hub airport. According to Airports Council International, ABIA is the 34th largest airport in the United States based on calendar year 2013 total passengers.

ABIA opened in 1999 at the site of the former Bergstrom Air Force Base, replacing Robert Mueller Municipal Airport. The 700-acre Mueller Airport site, approximately three miles from downtown Austin, is being redeveloped as a mixed-use urban community by the City of Austin under a public-private partnership agreement. The Mueller Airport property is not part of the Airport System.

ABIA occupies a 4,240-acre site approximately eight miles southeast of downtown Austin. Airport access is provided by Texas State Highway 71 (SH 71), a six-lane divided highway running east-west, and U.S. Highway 183 (US 183), a four-lane divided highway running north-south. SH 71 provides access to Interstate Highway 35 (I-35) approximately six miles to the west.

The Airport's parallel north-south runways, designated 17L-35R and 17R-35L, are 9,000 feet and 12,250 feet long, respectively, 150 feet wide, and capable of accommodating all aircraft now in commercial service. The runways are separated by 6,700 feet, allowing their use for the simultaneous arrival of aircraft in virtually all weather conditions.

The passenger terminal is 680,000 square feet and contains four levels:

> Level 1, the baggage claim level, provides 126,000 square feet of space for baggage claim devices and lobby, rental car counters, and support facilities. The baggage claim level accommodates an 11,600-square-foot CBP facility for the processing of international arriving passengers.
>
> Level 2, the apron level, provides 221,000 square feet of space for inbound and outbound baggage handling equipment and facilities, airline operations space, and other non-public areas. The apron level also provides a passenger holdroom for the ground-level loading of regional airline aircraft (Gate 1). The aircraft parking apron adjacent to the terminal provides approximately 56 acres for aircraft parking at the 25 terminal gates, as well as up to 28 "remain overnight" parking positions.
>
> Level 3, the concourse level, provides 271,000 square feet of space for airline check-in counters with lobby and queuing areas, airline offices, public circulation areas, passenger security screening facilities, concessions, passenger holdrooms, restrooms, and supporting facilities. The concourse provides 23 loading bridge-equipped aircraft parking positions (gates) capable of accommodating up to B-757-size aircraft in domestic service, one loading bridge-equipped gate (Gate 2) capable of accommodating widebody aircraft in international service (providing access to the CBP facility), and access to Gate 1 at the apron level.
>
> Level 4, the mezzanine level, provides 56,000 square feet of space for Aviation Department and other offices and airline club rooms. Above the mezzanine level is a 7,000-square-foot penthouse level with mechanical rooms.

Approximately 12,070 public and 1,480 employee parking spaces are provided on Airport property in a three-level parking garage adjacent to the terminal and in surface lots served by shuttle buses. The parking garage provides 2,450 spaces for short-term and valet public parking on the first (ground) and second levels and 1,100 spaces on the third (roof) level for rental car ready-and-return parking. The first level of the garage is at the same level as the arrivals roadway and baggage claim level of the terminal. The third level of the garage is at the same level as the departures roadway and concourse level of the terminal.

A consolidated rental car garage now under construction will provide 3,200 rental car spaces and 900 public parking spaces on five levels. When the rental car garage opens (scheduled for September 2015), the 1,100 spaces on the third level of the existing garage will be converted to use for public parking so that the rental car garage project will result in a net increase of 2,100 spaces for rental car parking and 2,000 spaces for public parking. The consolidated rental car garage was financed with the proceeds of bonds that are Special Facilities Bonds. See "OUTSTANDING REVENUE BONDS AND SPECIAL FACILITIES BONDS – Special Facilities Bonds" in this document.

Other facilities at the Airport include air cargo, general aviation, Texas State Department of Transportation flight services, Texas Air National Guard, aviation support, and non-aeronautical facilities. See "APPENDIX A - REPORT OF THE AIRPORT CONSULTANT – Airline Traffic Analysis – Airport Facilities" in this document.

**AIRPORT MANAGEMENT**

The Department of Aviation is a department within the City. See "THE CITY" in this document. The operations of the Department of Aviation are managed by the Executive Director of Aviation. Biographical information concerning the Executive Director of Aviation and other key employees of the Department of Aviation is provided below.

*Jim Smith, Executive Director of Aviation*. Mr. Smith is responsible for the City's Department of Aviation. He served in executive capacities in Norfolk, Virginia and Dayton, Ohio before joining the City in 1984. Since coming to Austin he has served as Director of Planning and Development, Director of Public Works and Transportation, Assistant City Manager and now Executive Director of the Department of Aviation. He has a Bachelor of Science Degree from the City University of New York and a Master of Public Administration Degree from the University of Dayton.

*Patti Edwards, IAP, Director, Chief Operating Officer*. Ms. Edwards is responsible for the day to day operations of the airport. This includes overseeing several areas responsible for maintenance, operations, security, parking, and information technology. In addition to working with departmental staff, she is the airport liaison with the TSA, CBP, Austin Police Department, and Austin Fire Department. She has been employed by the City's Aviation Department for over 20 years and has been in her current position since November 2005. Ms. Edwards has over 32 years of experience in Facilities and Project management. She is an active member of BOMA, IFMA Airport Council, ACI and AAAE and has earned the Airport Council International certification as an "International Airport Professional".

*Jamy Kazanoff, Assistant Director, Aviation Business Development & Customer Relations*. Ms. Kazanoff is responsible for airport marketing, business development and community relations for ABIA. She oversees the areas of marketing, art and music, passenger air service development, passenger assistance programs, media relations and serves as the point of contact with many Austin-area business and community groups. She has been employed by the City's Aviation Department for ten years. Ms. Kazanoff has 25 years of marketing and business development experience, primarily serving in account executive positions with advertising agencies. She is actively involved in the Airports Council International (ACI) Marketing and Communications Committee, serving as Chairwoman in 2008. She is also active in ACI's International Program, Central Texas Regional Partnership, and Austin Hospitality Council. She is a graduate of the University of Texas at Austin with a Bachelor of Journalism degree.

*David Arthur, CPA, Assistant Director and Chief Financial Officer*. Mr. Arthur is responsible for overall financial management of the Airport System, including financial accounting and reporting, day to day fiscal operations, budgeting, grants administration and airport rate setting. Before joining the City's Aviation Department in July 2009, he served the Houston Airport System in Financial and Management positions, most recently as Assistant Director, Finance and Budget. He is a graduate of Northwest Missouri State University and a Certified Public Accountant and has earned the Airport Council International certification as an "International Airport Professional".

*Shane Harbinson, Assistant Director, Planning & Engineering*. Mr. Harbinson is responsible for Airport Planning, Development and Environmental Services. Mr. Harbinson has served in airport positions at Minneapolis St. Paul International and Midland International in Midland, Texas before joining the City in 1999. Since coming to the City, he has served as Operations Coordinator, Noise Abatement Officer, Airport Planner, Manager of Airport Operations, Assistant Director of Operations and Security, and now Assistant Director of Planning & Engineering. He is a graduate of Saint Cloud State University, Saint Cloud, Minnesota, with a Bachelor of Science in Aviation. He is active in the American Association of Airport Executives and Airport's Council International.

*Donnell January, Assistant Director, Maintenance and Facilities*. Mr. January is responsible for all Maintenance and Facility Services at ABIA. He oversees the areas of Airline Maintenance, Building Maintenance, Airside Maintenance, Landside Maintenance, Facility Services, Motor-pool and the Sign Shop. He joined the Department of Aviation in 2005, and has over 20 years of management experience. Since joining the Aviation Department, Mr. January has served as Division Manager implementing and maintaining the new in-line baggage handling system. Mr. January has a Bachelor of Science Degree from the College of Engineering Technology at Prairie View A&M University, Prairie View, Texas.

## AIRPORT SERVICE REGION

### Primary Service Region

The Airport's primary service region is the 4,220-square-mile, 5-county Austin-Round Rock-San Marcos Metropolitan Statistical Area (the "MSA"). According to the U.S. Department of Commerce, Bureau of the Census, the population of the MSA in 2013 was 1,883,000. See "APPENDIX A – REPORT OF THE AIRPORT CONSULTANT – AIRLINE TRAFFIC ANALYSIS – Airport Service Region" in this document.

### Competing Airports

The Airport's secondary service region is defined by the location of (and airline service provided at) the nearest commercial service airports. The nearest airports classified as large or medium hub airports by the FAA are those serving San Antonio (a medium hub approximately 80 road miles to the southwest), Houston (approximately 160 miles to the east served by Houston Bush Intercontinental, a large hub, and Houston Hobby, a medium hub) and Dallas-Fort Worth (approximately 220 road miles to the north served by DFW International, a large hub and Dallas Love Field, a medium hub). See "APPENDIX A – REPORT OF THE AIRPORT CONSULTANT – AIRLINE TRAFFIC ANALYSIS – Airport Service Region" in this document.

## AIRPORT ACTIVITY STATISTICS

**Table 1**
**Historical Airline Traffic**
**Austin-Bergstrom International Airport**
(For Fiscal Years Ended September 30)

| Fiscal Year | Enplaned Passengers (a) | Annual Increase (Decrease) | Passenger Aircraft Departures Annual | Passenger Aircraft Departures Average Daily | Enplaned Passengers per Departure |
|---|---|---|---|---|---|
| 2000 | 3,655,588 | | 46,260 | 126 | 79 |
| 2001 | 3,679,949 | 0.7% | 45,326 | 124 | 81 |
| 2002 | 3,264,847 | (11.3) | 41,959 | 115 | 78 |
| 2003 | 3,282,670 | 0.5 | 43,747 | 120 | 75 |
| 2004 | 3,482,196 | 6.1 | 47,207 | 129 | 74 |
| 2005 | 3,715,811 | 6.7 | 48,668 | 133 | 76 |
| 2006 | 3,981,081 | 7.1 | 50,663 | 139 | 79 |
| 2007 | 4,262,698 | 7.1 | 53,828 | 147 | 79 |
| 2008 | 4,473,485 | 4.9 | 56,597 | 155 | 79 |
| 2009 | 4,107,593 | (8.2) | 47,848 | 131 | 86 |
| 2010 | 4,256,806 | 3.6 | 46,745 | 128 | 91 |
| 2011 | 4,524,641 | 6.3 | 48,398 | 133 | 93 |
| 2012 | 4,662,738 | 3.1 | 48,372 | 132 | 96 |
| 2013 | 4,928,979 | 5.7 | 50,554 | 139 | 97 |
| 2014 | 5,275,464 | 7.0 | 51,877 | 142 | 102 |

| | Average Annual Percent Increase (Decrease) | |
|---|---|---|
| 2000-2003 | (3.5)% | (1.8)% |
| 2003-2008 | 6.4% | 5.3% |
| 2008-2009 | (8.2)% | (15.5)% |
| 2009-2014 | 5.1% | 1.6% |

Note: Calculated percentages may not match those shown because of rounding.
(a) Excludes through passengers.
Source: City of Austin, Aviation Department records.

As of the date of this Official Statement, ABIA is being served by the following airlines.

**Table 2**
**List of Airlines**

| Passenger Airlines (a) | All-Cargo Airlines |
|---|---|
| Southwest | Air Cargo Carriers, Inc. |
| American (b) | Ameriflight, LLC |
| United | Ameristarjet Charter Inc. |
| Delta | Atlas Air, Inc. |
| JetBlue | Baron Aviation Services, Inc. |
| Frontier | British Airways World Cargo |
| Alaska | Cargolux Airlines International |
| Virgin America | Federal Express Corporation |
| Allegiant | Fliteline BV |
| British Airways | IFL Group |
| Aeromar | Kalitta Charters, LLC |
| Texas Sky | Korean Air Cargo |
| | Martinaire Partners, L.P. |
| | Qatar Airways |
| | Saudia Cargo |
| | Singapore Airlines Cargo |
| | Sky Lease Air Cargo |
| | United Parcel Services, Co. |

(a) Includes regional affiliates.
(b) Includes US Airways
Source: City of Austin, Department of Aviation records.

The following table presents the airlines' shares of enplaned passengers for Fiscal Years 2000-2014.

**Table 3**
**Airline Market Shares**
**Austin-Bergstrom International Airport**
(For Fiscal Years Ended September 30)

| Airline (a) | 2000 | 2005 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|
| Southwest | 34.6% | 33.1% | 36.8% | 36.8% | 37.8% | 39.0% | 38.1% |
| American | 33.2% | 30.3% | 25.5% | 24.8% | 24.0% | 23.4% | 22.4% |
| United | 16.4% | 14.1% | 16.4% | 16.3% | 16.7% | 16.0% | 16.5% |
| Delta | 14.9% | 15.5% | 10.4% | 11.4% | 11.8% | 12.1% | 12.2% |
| JetBlue | -- | -- | 5.8% | 5.9% | 6.1% | 6.3% | 5.6% |
| Frontier | -- | 2.2% | 2.5% | 2.7% | 2.3% | 1.7% | 1.8% |
| Alaska | -- | -- | 2.4% | 2.1% | 1.2% | 1.1% | 1.1% |
| Virgin America | -- | -- | -- | -- | -- | 0.3% | 0.9% |
| British Airways | -- | -- | -- | -- | -- | -- | 0.7% |
| Allegiant | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.6% |
| Aeromar | -- | -- | -- | -- | -- | -- | 0.1% |
| Other (b) | 0.9% | 4.7% | 0.2% | 0.1% | 0.0% | 0.0% | 0.0% |
| Airport Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Notes: Columns may not add to totals shown because of rounding. Shares include affiliates of airlines shown, if any. Percentages of "0.0" indicate a value of less than 0.05%.
(a) Includes regional affiliates.
(b) The high percentage for 2005 is mainly accounted for by Mesa Airlines and SkyWest Airlines, which operated as affiliates of various Signatory Airlines.
Source: City of Austin, Department of Aviation records.

The following table presents historical aircraft operations (landings and takeoffs) for Fiscal Years 2000 – 2014.

**Table 4**
**Historical Aircraft Operations**
**Austin-Bergstrom International Airport**
(For Fiscal Years Ended September 30)

| Fiscal Year | Air Carrier | Air Taxi/ Commuter | General Aviation | Military | Total | Annual Increase/ (Decrease) |
|---|---|---|---|---|---|---|
| 2000 | 99,631 | 16,416 | 82,757 | 5,059 | 203,863 | |
| 2001 | 102,661 | 15,766 | 98,428 | 7,720 | 224,575 | 10.2% |
| 2002 | 93,206 | 17,628 | 97,451 | 8,333 | 216,618 | (3.5)% |
| 2003 | 92,602 | 21,993 | 89,087 | 13,797 | 217,479 | 0.4% |
| 2004 | 92,298 | 26,048 | 86,238 | 15,708 | 220,292 | 1.3% |
| 2005 | 101,296 | 27,242 | 79,738 | 10,386 | 218,662 | (0.7)% |
| 2006 | 94,611 | 24,973 | 80,523 | 7,312 | 207,419 | (5.1)% |
| 2007 | 100,672 | 28,177 | 73,450 | 5,679 | 207,978 | 0.3% |
| 2008 | 106,362 | 30,820 | 75,470 | 5,103 | 217,755 | 4.7% |
| 2009 | 94,484 | 17,157 | 59,601 | 5,882 | 177,124 | (18.7)% |
| 2010 | 92,372 | 17,433 | 57,463 | 6,899 | 174,167 | (1.7)% |
| 2011 | 95,095 | 18,466 | 59,696 | 6,879 | 180,136 | 3.4% |
| 2012 | 96,823 | 15,962 | 50,867 | 5,828 | 169,480 | (5.9)% |
| 2013 | 101,006 | 16,979 | 52,582 | 6,698 | 177,265 | 4.6% |
| 2014 | 103,710 | 17,289 | 51,231 | 6,994 | 179,224 | 1.1% |
| | Average Annual Percent Increase (Decrease) | | | | | |
| 2000-2003 | (2.4)% | 10.2% | 2.5% | 39.7% | 2.2% | |
| 2003-2008 | 2.8% | 7.0% | (3.3)% | (18.0)% | 0.0% | |
| 2008-2009 | (11.2)% | (44.3)% | (21.0)% | 15.3% | (18.7)% | |
| 2009-2014 | 1.9% | 0.2% | (3.0)% | 3.5% | 0.2% | |

Note: Calculated percentages may not match those shown because of rounding.
Source: City of Austin, Department of Aviation records.

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The following table presents historical aircraft landed weight for Fiscal Years 2000 – 2014.

**Table 5**
**Historical Aircraft Landed Weight**
**Austin-Bergstrom International Airport**
**(For Fiscal Years Ended September 30)**
**(in 1,000-pound units)**

| Fiscal Year | Passenger Airlines | All-Cargo Airlines | Total | Annual Increase/ (Decrease) |
|---|---|---|---|---|
| 2000 | 5,266,397 | 985,074 | 6,251,471 | |
| 2001 | 5,526,750 | 997,993 | 6,524,743 | 4.4% |
| 2002 | 4,982,674 | 875,652 | 5,858,326 | (10.2) |
| 2003 | 4,844,743 | 768,318 | 5,613,062 | (4.2) |
| 2004 | 4,824,584 | 723,773 | 5,548,357 | (1.2) |
| 2005 | 5,061,919 | 743,608 | 5,805,526 | 4.6 |
| 2006 | 5,163,142 | 592,220 | 5,755,362 | (0.9) |
| 2007 | 5,578,438 | 543,275 | 6,121,713 | 6.4 |
| 2008 | 5,758,583 | 601,430 | 6,360,014 | 3.9 |
| 2009 | 5,249,325 | 439,566 | 5,688,891 | (10.6) |
| 2010 | 5,143,676 | 397,117 | 5,540,793 | (2.6) |
| 2011 | 5,353,345 | 405,953 | 5,759,298 | 3.9 |
| 2012 | 5,394,633 | 420,904 | 5,815,537 | 1.0 |
| 2013 | 5,688,131 | 434,382 | 6,122,513 | 5.3 |
| 2014 | 5,944,339 | 433,628 | 6,377,968 | 4.2 |

| | Average Annual Percent Increase (Decrease) | | |
|---|---|---|---|
| 2000-2003 | (2.7)% | (7.9)% | (3.5)% |
| 2003-2008 | 3.5% | (4.8)% | 2.5% |
| 2008-2009 | (8.8)% | (26.9)% | (10.6)% |
| 2009-2014 | 2.5% | (0.3)% | 2.3% |

Note: Calculated percentages may not match those shown because of rounding.
Source: City of Austin, Department of Aviation records.

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## HISTORICAL FINANCIAL DATA

The City, as operator of the Airport System, currently accounts for its activities according to generally accepted accounting principles through an enterprise fund. The following table represents the historical operating results of the Airport enterprise fund for Fiscal Years 2009 through 2013 based on the audited financial statements of the City, as reported on by the City's certified public accountants. The City's audited financial statements for the Fiscal Year ended September 30, 2013 are included as APPENDIX B in this document.

**TABLE 6**
**Comparative Statements of Revenues, Expenses and Changes in Retained Earnings/Net Position**
**City of Austin, Texas**
**Airport Fund**
(Fiscal Year Ended September 30)
(in thousands)

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| User fees and rental | $ 80,890 | $ 83,277 | $ 89,548 | $ 95,904 | $ 103,515 |
| Operating revenues | 80,890 | 83,277 | 89,548 | 95,904 | 103,515 |
| **Expenses** | | | | | |
| Operating expenses before depreciation | 57,296 | 60,843 | 63,835 | 69,201 | 70,148 |
| Depreciation | 18,708 | 19,154 | 19,581 | 20,398 | 21,121 |
| **Total operating expenses** | 76,004 | 79,997 | 83,416 | 89,599 | 91,269 |
| **Operating income before nonoperating revenues (expenses) and operating transfers** | 4,886 | 3,280 | 6,132 | 6,305 | 12,246 |
| **Nonoperating revenues (expenses)** | | | | | |
| Interest and other revenues | 4,180 | 1,452 | 711 | 395 | 190 |
| Interest on revenue bonds and other debt | (22,878) | (14,396) | (14,087) | (12,933) | (12,801) |
| Interest capitalized during construction | 1,196 | 1,370 | 372 | 512 | 843 |
| Passenger facility charges | 15,728 | 16,946 | 17,430 | 18,414 | 19,506 |
| Amortization of bond issue cost | (229) | (229) | (229) | (220) | (207) |
| Other nonoperating expenses | (287) | 235 | (5,923) | 537 | (3,704) |
| **Total nonoperating revenues (expenses)** | (2,290) | 5,378 | (1,726) | 6,705 | 3,827 |
| **Income (loss) before contributions and transfers** | 2,596 | 8,658 | 4,406 | 13,010 | 16,073 |
| Capital contributions | 16,186 | 7,799 | 5,479 | 9,030 | 4,598 |
| Transfers In | - | - | - | - | - |
| Transfers Out | - | - | - | (6,395) | (72) |
| **Change in net position** | 18,782 | 16,457 | 9,885 | 15,645 | 20,599 |
| Total net position - beginning | 433,580 | 452,362 | 468,819 | 478,704 | 494,349 |
| Total net position - ending | $ 452,362 | $ 468,819 | $ 478,704 | $ 494,349 | $ 514,948 |

The information in the following table was derived from financial information maintained by the City's Department of Aviation, which was prepared according to generally accepted accounting principles. The following table presents the Airport revenue detail for Fiscal Years 2009 through 2013. The City's audited financial statements for the Fiscal Year ended September 30, 2013 are included as APPENDIX B in this document.

**TABLE 7**
**Airport Revenue Detail by Fiscal Year**
(Fiscal Year Ended September 30)
(in thousands)

| | 2009 Actual | 2010 Actual | 2011 Actual | 2012 Actual | 2013 Actual |
|---|---|---|---|---|---|
| Airline Revenue | | | | | |
| Landing Fees | $16,717 | $18,762 | $19,403 | $19,738 | $22,166 |
| Terminal Rental & Other Fees | 21,514 | 19,564 | 22,385 | 24,029 | 22,587 |
| Total Airline Revenue | $38,231 | $38,326 | $41,788 | $43,767 | $44,753 |
| Non-Airline Revenue | | | | | |
| Parking | $25,251 | $25,201 | $28,416 | $31,568 | $32,670 |
| Other Concessions | 14,759 | 18,191 | 17,934 | 18,751 | 21,075 |
| Other Rentals and Fees | 2,649 | 1,559 | 1,410 | 1,818 | 5,017 |
| Total Non-Airline Revenue | $42,659 | $44,951 | $47,760 | $52,137 | $58,762 |
| Total Revenue | $80,890 | $83,277 | $89,548 | $95,904 | $103,515 |

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

The information set forth in the following table was derived from financial information maintained by the City. The following table presents the historical debt service coverage information for the Outstanding Revenue Bonds for Fiscal Years 2009 through 2013. The amounts shown in the following table were determined in conformity with the requirements of the Ordinance and the Revenue Bond Ordinances. Pursuant to the terms of the Ordinance and the Revenue Bond Ordinances, "Gross Revenues", "Operation and Maintenance Expenses", "Administrative Expenses" and certain other amounts specified therein are not measured according to generally accepted accounting principles for purposes of the rate covenant and other provisions of the Ordinance and the Revenue Bond Ordinances. See the definitions of such terms in "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE" in this document.

**TABLE 8**
**Historical Debt Service Coverage**
(Fiscal Year Ended September 30)
(in thousands)

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Gross Revenues | $ 85,070 | $ 85,156 | $ 90,259 | $ 96,344 | $ 103,705 |
| Other Available Funds (1) | 4,923 | 3,673 | 3,739 | 3,594 | 3,805 |
| Funds Available to Pay Debt Service | $ 89,994 | $ 88,828 | $ 93,997 | $ 99,938 | $ 107,511 |
| Operating Expenses (2) | (54,453) | (57,773) | (64,371) | (65,689) | (69,338) |
| Net Available Revenue | $ 35,541 | $ 31,056 | $ 29,626 | $ 34,249 | $ 38,172 |
| Debt Service (3) | $ 19,694 | $ 14,691 | $ 14,955 | $ 14,375 | $ 15,221 |
| Coverage | 1.80 | 2.11 | 1.98 | 2.38 | 2.51 |

(1) Pursuant to the terms of the Ordinance and the Revenue Bond Ordinances, for purposes of showing compliance with the rate covenant and meeting the conditions for the issuance of Additional Revenue Bonds, transfers of Other Available Funds to the Revenue Fund at the beginning of any Fiscal Year may not exceed 25% of the Debt Service Requirements for the Revenue Bonds for such Fiscal Year. See the definition of "Other Available Funds" in "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE" in this document.

(2) Amounts shown include "Operation and Maintenance Expenses" and "Administrative Expenses" (as such terms are defined in the Ordinance and the Revenue Bond Ordinances), and exclude depreciation and other unfunded post-employment benefits and pension obligation accruals. Pursuant to the terms of the Ordinance and the Revenue Bond Ordinances, Administrative Expenses <u>are</u> included in the coverage calculations for the purpose of determining compliance with the City's rate covenant, and Administrative Expenses <u>are not</u> included in the coverage calculations for the purpose of issuing Additional Revenue Bonds. See "SOURCES OF REPAYMENT FOR THE BONDS – Flow of Funds", "– Rate Covenant" and "– Additional Revenue Bonds" in this document.

(3) Amounts are net of PFCs used to pay debt service. See "SOURCES OF REPAYMENT FOR THE BONDS – Use of Passenger Facility Charges" in this document.

**Historical Debt Service Coverage Information Contained in Audited Financial Statements**

As described above, the amounts shown in Table 8 were determined in conformity with the requirements of the Ordinance and the Revenue Bond Ordinances. The City's audited financial statements for the Fiscal Year ended September 30, 2013 are included as APPENDIX B in this document, also contain historical debt service coverage information for the Outstanding Revenue Bonds. The debt service coverage reported in Note 6.c. on page 75 and in Table 17 of the statistical section of the audited financial statements (which can be accessed at https://assets.austintexas.gov/financeonline/downloads/cafr/cafr2013.pdf) include Other Available Funds as being 25% of the gross debt service on the Revenue Bonds, before deducting the amount of PFCs used to pay debt service. Pursuant to the terms of the Ordinance and the Revenue Bond Ordinances, for purposes of showing compliance with the rate covenant and meeting the conditions for the issuance of Additional Revenue Bonds, transfers of Other Available Funds to the Revenue Fund at the beginning of any Fiscal Year may not exceed 25% of the Debt Service Requirements for the Revenue Bonds for such Fiscal Year. See the definition of "Other

Available Funds" in "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE" and "SOURCES OF REPAYMENT FOR THE BONDS – Use of Passenger Facility Charges" in this document. In addition, the amounts shown as Other Available Funds and debt service due for Fiscal Year 2012 in Table 17 of the statistical section of the audited financial statements include a transfer from the Capital Fund to the Debt Service Fund to retire in full variable rate notes in the amount of $28 million. Such amounts are excluded from the Fiscal Year 2012 information contained in Table 8, as payments of debt service from the Capital Fund do not affect the calculation of debt service coverage for purposes of the Ordinance and the Revenue Bond Ordinances.

**Historical Debt Service Coverage Information Contained in Report of Airport Consultant**

In connection with the proposed issuance of the Bonds, LeighFisher (the "Airport Consultant") prepared the Report of the Airport Consultant (the "Report") which appears in this document as APPENDIX A. The Report contains historical debt service coverage information for Fiscal Years 2011, 2012 and 2013. Except as described in this paragraph, this information was determined in the same manner as the information set forth in Table 8 above. In the Report, amounts shown for Administrative Expenses are shown separately from Operation and Maintenance Expenses and are net of any Administrative Expenses paid from PFCs. Although the City uses PFCs to pay a portion of eligible Administrative Expenses (e.g., letter of credit and remarketing agent fees relating to the Series 2005 Bonds), the City does not reduce Administrative Expenses by the amount paid from PFCs for purposes of the debt service coverage calculation set forth in Table 8 above. Regarding certain grant moneys, the City receives federal grant moneys from the TSA for reimbursement of certain eligible Airport System expenses, which are not included by the City in the coverage calculations set forth in Table 8 above, while the Report applies such grant moneys as a reduction to Operation and Maintenance Expenses. In addition, the amounts shown by the City for operating expenses in Table 8 include certain accounting reclassifications, such as amounts that were previously capitalized and subsequently reclassified as operating expenses as required by generally accepted accounting principles. See "APPENDIX A – REPORT OF THE AIRPORT CONSULTANT – Financial Analysis – Exhibit G" in this document.

**Comparison of Operations for Fiscal Years 2013 and 2014**

The Airport's strong growth in passenger activity and revenue continued in 2013 and throughout 2014. In 2013, the Airport experienced consistent passenger growth for the fourth consecutive year, was the third fastest growing medium hub airport in the United States and served a record ten (10) million passengers for calendar year 2013 for the first time in the Airport's history.

For the Fiscal Year ended September 30, 2013, the Airport increased enplanements 5.7% over the Fiscal Year ended September 30, 2012. For the Fiscal Year ended September 30, 2014, the Airport set a new record for annual traffic for the fourth consecutive year. The total passengers served during Fiscal Year 2014 were 10,520,033 and the enplaned passenger traffic increased 7.0% over the prior year. In July 2014, a new monthly passenger record was set with 1,006,417 passengers.

Airport revenue for the Fiscal Year ended September 30, 2013 was $103.5 million, an increase of 7.9% over Fiscal Year 2012.

Moderate increases in Airport operating expenses in light of record growth and revenue improvement reflect the Airport's culture of cost control and providing value to airlines and airport customers. Airport operating expenses for the Fiscal Year ended September 30, 2013 were $70.1 million, an increase of 1.4% over Fiscal Year 2012.

Thanks to the robust Austin economy, the Airport continues to attract additional new air service at a time when many other U.S. airports are losing air service routes. New airlines and routes include:

- British Airways commenced operations at the Airport in March 2014 with non-stop service to London, Heathrow;
- Allegiant Airlines added direct service to Las Vegas;
- Delta has added direct service to Los Angeles International Airport; and
- Texas Sky/Public Charter launched non-stop service to Victoria, Texas in November 2014.

To accommodate the new air service and passenger traffic in advance of the terminal and facility expansion projects, the Airport implemented a common or shared use passenger processing system at 12 airport ticket counters and five gates and also installed 10 shared use ticket kiosks which allow passengers from different airlines to check in and print boarding passes, bypassing lines that may exist at airline ticket counters.

See "REPORT OF THE AIRPORT CONSULTANT" and "APPENDIX B – AUDITED FINANCIAL STATEMENTS" in this document.

## AIRLINE INFORMATION

Revenues of the Airport System may be affected by the ability of the airlines operating at ABIA, individually and collectively, to meet their respective obligations. Each of said airlines (or their respective parent corporations) is subject to the information reporting requirements of the United States Securities Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the United States Securities and Exchange Commission (the "SEC"). Certain information, including financial information, as of particular dates concerning each of the airlines operating at ABIA (or their respective parent corporations) is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected in the Public Reference Room of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20659, and at the SEC's regional offices at 219 South Dearborn Street, Chicago, Illinois 60604; 26 Federal Plaza, New York, New York 10278; and 5757 Wilshire Boulevard, Suite 500 East, Los Angeles, California 90036-3648 and copies of such reports and statements can be obtained from the Public Reference Section of the SEC at the above address at prescribed rates. In addition, each airline operating at ABIA is required to file periodic reports of financial and operating statistics with the United States Department of Transportation (the "U.S. DOT"). Such reports can be inspected at the following location: Office of Aviation Information Management, Data Requirements and Public Reports Division, Research and Special Programs Administration, Department of Transportation, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from the U.S. DOT at prescribed rates.

## AIRLINE AGREEMENTS

Effective October 1, 2009, the City executed an Airport Use and Lease Agreement (each, an "Airline Agreement") with American, Continental, Delta, Frontier, JetBlue, Southwest, United and US Airways (collectively, the "Signatory Airlines") that collectively accounted for approximately 95% of enplaned passengers and landed weight at the Airport in the Fiscal Year ended September 30, 2014. The term of each Airline Agreement was for five years and, pursuant to its terms, continues month-to-month thereafter until the City and the Signatory Airlines enter into a new use and lease agreement or either party terminates its Airline Agreement upon 30 days prior written notice to the other party. Other airlines operate at the Airport under Airline Lease and Operating Agreements (each, an "Operating Agreement") that, while not providing Signatory Airline status, provide for the payment of rentals, fees, and charges at the Signatory Airline rates.

The City is currently utilizing a shared use system of operations for a portion of the existing terminal space. As the 2014 Projects are implemented, the City will continue to consider the optimal approach for the payment of terminal fees and charges as well as equipment rental. The Signatory Airlines have not objected to continuing operating under the terms of the current Airline Agreements on a month-to-month basis. As the City continues to consider the optimal approach to operating facility space and the payment of terminal fees and charges and equipment rentals, the Airlines are engaged in the process and are supportive of the 2014 Projects and the funding plan included in the five-year Capital Improvement Plan. See "CAPITAL IMPROVEMENT PROGRAM" in this document.

### Rate-Making Approach at ABIA

The airlines agree to pay Signatory Airline rates and charges at the Airport calculated according to the rate-making procedures contained in each Airline Agreement and Operating Agreement, adjusted to include an allocated portion of debt service and coverage on all Airport System debt in the aeronautical rate base. The City believes that the rate-making methodology, costs included in the aeronautical rate base, and cost center allocation methodology assumed in the financial forecasts contained in the Report of the Airport Consultant are fair and reasonable and substantially in conformance with the FAA Policy Regarding Airport Rates and Charges issued on June 21, 1996, and as subsequently amended. See "APPENDIX A – REPORT OF THE AIRPORT CONSULTANT" in this document.

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## CAPITAL IMPROVEMENT PROGRAM

The City continually develops and monitors a list of capital projects and assesses the timing of implementing these projects based on funding availability and needs. These projects comprise the Airport's Capital Improvement Program ("CIP") for the period ending 2018. The current CIP is $529,326,000 and includes the 2014 Projects. Also included are projects that are anticipated to be funded, all or in part, by an Airport System bond issue projected to be issued in 2016. Certain of the federal grants and PFCs described in the table below either have not been applied for or the application for such sources is pending. See "CERTAIN INVESTMENT CONSIDERATIONS – Availability of Funding for the Capital Improvement Program" in this document. Provided below is a table of the estimated funding plan for the CIP:

| | Project costs | Federal grants | PFC revenues pay-as-you-go | Capital Fund | Revenue Bonds Prior Bonds | Revenue Bonds 2014 Bonds | Revenue Bonds 2016 Bonds |
|---|---|---|---|---|---|---|---|
| Terminal East Infill | $ 62,250,000 | $ 4,994,000 | $ 37,336,000 | $ - | $ - | $ 19,920,000 | $ - |
| Terminal and Apron Expansion and Improvement | | | | | | | |
| East concourse expansion | $ 160,000,000 | $ - | $ 13,567,000 | $ - | $ 7,000,000 | $ 139,433,000 | $ - |
| Other terminal improvements | 25,600,000 | - | - | - | - | 25,600,000 | - |
| Aircraft parking apron expension | 38,000,000 | 28,500,000 | - | - | - | 9,500,000 | - |
| Subtotal | $ 223,600,000 | $ 28,500,000 | $ 13,567,000 | $ - | $ 7,000,000 | $ 174,533,000 | $ - |
| Other terminal projects | 20,200,000 | 2,250,000 | 7,775,000 | 2,175,000 | - | - | 8,000,000 |
| Capital equipment and vehicles | 14,425,000 | - | - | 14,425,000 | - | - | - |
| Information technology projects | 22,751,000 | - | 310,000 | 22,441,000 | - | - | - |
| Parking Garage | 133,750,000 | - | - | 25,000,000 | - | 13,750,000 | 95,000,000 |
| Other landside projects | 29,550,000 | 1,012,000 | 3,688,000 | - | 5,800,000 | 8,850,000 | 10,200,000 |
| Airfield projects | 22,800,000 | 10,504,000 | 3,796,000 | - | - | - | 8,500,000 |
| Total | $ 529,326,000 | $ 47,260,000 | $ 66,472,000 | $ 64,041,000 | $ 12,800,000 | $ 217,053,000 | $ 121,700,000 |

Source: City of Austin, Aviation Department, October 30, 2014.

### Passenger Facility Charges

Under the Aviation Safety and Capacity Act of 1990 (the "PFC Act"), as modified by the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century ("AIR-21"), the FAA may authorize a public agency to impose a PFC of $1.00, $2.00, $3.00, $4.00 or $4.50 on each passenger enplaned at any commercial service airport controlled by the public agency, subject to certain limitations.

The City has approval from the FAA to impose a PFC per eligible enplaned passenger at the Airport. The PFC was imposed at $3.00 in August 1995 and increased to $4.50 in April 2004. The cumulative amount of PFC approvals received by the City is $353,389,005. Through September 30, 2014, cumulative PFC revenues, including investment earnings, totaled $266,935,961. Under FAA approvals received to date, the City is authorized to impose the PFC through an estimated date of April 2020. The City has applied PFCs toward project costs on a pay-as-you-go basis and has set aside and applied PFCs toward the following year's Airport System Revenue Bond debt service up to the maximum eligible amount. The City intends to continue such application of PFC revenues in accordance with the covenant of the City contained in the Ordinance. See "SOURCES OF REPAYMENT FOR THE BONDS – Use of Passenger Facility Charges" in this document. Provided below is a table showing the City's PFC revenues, including investment earnings, and the amount set aside for debt service on Revenue Bonds in Fiscal Years 2009-2014 for the payment of debt service due on Revenue Bonds during the next succeeding Fiscal Year.

**TABLE 9**
**PFC Detail by Fiscal Year**

| Fiscal Year | PFC Revenues | Amount Set Aside and Applied Toward Debt Service |
|---|---|---|
| 2009 | $16,249,735 | $11,525,909 |
| 2010 | 17,222,017 | 12,045,971 |
| 2011 | 17,581,883 | 12,045,493 |
| 2012 | 18,494,930 | 11,032,005 |
| 2013 | 19,581,247 | 11,135,562 |
| 2014 | 19,855,510 | 11,260,015 |

**The proceeds of the PFCs are not part of the Net Revenues pledged by the City to the payment of Revenue Bonds, including the Bonds. Pursuant to the terms of the Ordinance, PFCs are expressly excluded from the definition of "Gross Revenues". Consistent with the definition of "Debt Service Requirements" in the Ordinance, debt service on Revenue Bonds for which PFCs have been appropriated and deposited into a dedicated fund or account, the proceeds of which are required to be transferred into the Debt Service Fund or directly to the Paying Agent/Registrar for such Revenue Bonds, is excluded from the calculation of Debt Service Requirements.** See "- Rate Covenant", "- Additional Revenue Bonds" and the definition of "Debt Service Requirements" in "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Selected Definitions" in this document.

**The City plans to seek approval from the FAA to use PFCs to fund a portion of the 2014 Projects and to pay a portion of the debt service on the Bonds. Upon approval, the City intends to set aside PFCs to pay PFC-eligible debt service on the Bonds in accordance with the covenant described above.** See "CERTAIN INVESTMENT CONSIDERATIONS – Availability of PFCs and PFC Approval" in this document.

## REPORT OF THE AIRPORT CONSULTANT

APPENDIX A attached to this document contains the Report prepared by the Airport Consultant. The Report provides information regarding the Airport System, the 2014 Projects, historical and forecast air traffic activity, historical financial information, and forecasts of financial results for the Airport System. The Report should be read in its entirety for an understanding of the assumptions and rationale underlying the financial forecasts. As noted in the Report, any forecast is subject to uncertainties. Some of the assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances may occur. Therefore, there will be differences between the forecast and actual results, and those differences may be material. See "CERTAIN INVESTMENT CONSIDERATIONS – Forward-Looking Statements", and "-Assumptions in the Airport Consultant's Report" in this document.

The following table provides the debt service coverage estimates and projections from the Report. See "APPENDIX A – REPORT OF THE AIRPORT CONSULTANT – Financial Analysis – Exhibit G" in this document. Such table is qualified in its entirety by reference to the complete copy of the Report attached as APPENDIX A to this document. The information set forth in the following table was determined in the same manner as the historical debt service coverage information set forth in Table 8 (prepared by the City) above, except as described in "HISTORICAL FINANCIAL DATA – Historical Debt Service Coverage Information Contained in Report of the Airport Consultant" in this document.

| | FY 2014 (1) | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|---|---|---|---|---|---|---|---|---|
| Gross Revenues | $ 108,401,000 | $ 117,706,000 | $ 123,608,000 | $ 130,176,000 | $ 134,140,000 | $ 151,337,000 | $ 155,737,000 | $ 161,321,000 |
| Less: Operation and Maintenance Expenses | (68,809,000) | (77,604,000) | (81,385,000) | (84,929,000) | (88,602,000) | (99,768,000) | (104,014,000) | (108,411,000) |
| Net Revenues | $ 39,592,000 | $ 40,102,000 | $ 42,223,000 | $ 45,247,000 | $ 45,538,000 | $ 51,569,000 | $ 51,723,000 | $ 52,910,000 |
| Other Available Funds (2) | 3,820,000 | 4,044,000 | 4,582,000 | 6,791,000 | 7,096,000 | 8,179,000 | 8,049,000 | 7,723,000 |
| Net Revenues plus Other Available Funds | $ 43,412,000 | $ 44,146,000 | $ 46,805,000 | $ 52,038,000 | $ 52,634,000 | $ 59,748,000 | $ 59,772,000 | $ 60,633,000 |
| Less: Administrative Expenses (net of payments from PFC revenues) (3) | (1,560,000) | (863,000) | (766,000) | (817,000) | (803,000) | (663,000) | (570,000) | (469,000) |
| Subtotal | $ 41,852,000 | $ 43,283,000 | $ 46,039,000 | $ 51,221,000 | $ 51,831,000 | $ 59,085,000 | $ 59,202,000 | $ 60,164,000 |
| Revenue Bond debt service | $ 26,416,000 | $ 27,439,000 | $ 30,688,000 | $ 39,938,000 | $ 40,054,000 | $ 52,830,000 | $ 52,072,000 | $ 50,432,000 |
| Less: Paid from PFC revenues | (11,136,000) | (11,262,000) | (12,361,000) | (12,774,000) | (11,671,000) | (20,116,000) | (19,876,000) | (19,540,000) |
| Revenue Bond Debt Service Requirements (4) | $ 15,280,000 | $ 16,177,000 | $ 18,327,000 | $ 27,164,000 | $ 28,383,000 | $ 32,714,000 | $ 32,196,000 | $ 30,892,000 |
| Debt service coverage | 2.74 | 2.68 | 2.51 | 1.89 | 1.83 | 1.81 | 1.84 | 1.95 |
| Debt service coverage requirement | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 |

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(1) Amounts shown for Fiscal Year 2014 are estimates. Amounts shown for Fiscal Years 2015 and thereafter are projections.

(2) Pursuant to the terms of the Ordinance and the Revenue Bond Ordinances, for purposes of showing compliance with the rate covenant and meeting the conditions for the issuance of Additional Revenue Bonds, transfers of Other Available Funds to the Revenue Fund at the beginning of any Fiscal Year may not exceed 25% of the Debt Service Requirements for the Revenue Bonds for such Fiscal Year. See the definition of "Other Available Funds" in "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE" in this document.

(3) Pursuant to the terms of the Ordinance and the Revenue Bond Ordinances, moneys on deposit in the Revenue Fund are used to pay Debt Service on Revenue Bonds (including the Bonds), and any related Credit Agreement Obligations, <u>prior</u> to being used to pay Administrative Expenses. Further, pursuant to the terms of the Ordinance and the Revenue Bond Ordinances, Administrative Expenses <u>are</u> included in the coverage calculations for the purpose of determining compliance with the City's rate covenant, and Administrative Expenses <u>are not</u> included in the coverage calculations for the purpose of issuing Additional Revenue Bonds. See "SOURCES OF REPAYMENT FOR THE BONDS – Flow of Funds", "– Rate Covenant" and "– Additional Revenue Bonds" in this document. In addition, amounts shown are net

of PFCs used to pay Administrative Expenses. See "HISTORICAL FINANCIAL DATA – Historical Debt Service Coverage Information Contained in Report of the Airport Consultant" in this document.

(4) Amounts are net of PFCs used to pay debt service. See "SOURCES OF REPAYMENT FOR THE BONDS – Use of Passenger Facility Charges" in this document.

## CERTAIN INVESTMENT CONSIDERATIONS

### General

Since the events of September 11, 2001, the Airport, as well as the rest of the aviation industry, has faced numerous challenges. Following the terrorist events, the aviation industry continued to face obstacles as airline traffic and revenue remained soft, the economy weakened, air traffic demand continued to decrease, and airlines' expenses continued to increase. The aviation industry continues to face obstacles including hostilities in the Middle East, elevated oil prices, increased fare discounting, escalating security costs, the outbreak of SARS, and, most recently, the Ebola virus. All of this has had an impact on the operational levels at airports across the country, including the Airport. The City and the Department of Aviation have been seeking to respond to these series of challenges.

The principal of and interest on the Bonds is payable pursuant to the Ordinance solely from the Net Revenues of the Airport System and moneys on deposit in the Debt Service Fund and the Debt Service Reserve Fund. The ability to pay debt service on the Bonds will depend on the receipt of sufficient Gross Revenues, including the receipt of PFC revenues, a portion of which the City has covenanted in the Ordinance to set aside for payment of the Revenue Bonds, including the Bonds.

The Airport System's ability to generate Gross Revenues, including any PFC revenues, depends upon sufficient levels of aviation activity and passenger traffic at the Airport. The achievement of increased passenger traffic will depend partly on the profitability of the airline industry and the ability of individual airlines to provide sufficient capacity to meet demand. A weak economy, international hostilities and the threat of terrorist activity reduces demand for air travel. To the extent the Airport System is unable to make up for revenue shortfalls, the City's ability to pay debt service on the Bonds may be adversely affected.

In considering the matters set forth in this Official Statement, prospective investors should carefully review all investment considerations set forth throughout this Official Statement, and should specifically consider certain risks associated with the Bonds. There follows a summary of some, but not necessarily all, of the possible investment considerations and risks which should be carefully evaluated by prospective purchasers of the Bonds prior to the purchase thereof. Moreover, the order in which investment considerations are presented in this caption is not intended to reflect either the likelihood that a particular event will occur or the relative significance of such an event. The Bonds may not be suitable investments for all persons. Prospective purchasers should be able to evaluate the risks and merits of an investment in the Bonds and should confer with their own legal and financial advisors before considering a purchase of the Bonds.

### Limited Obligations

The Bonds, together with the Currently Outstanding Revenue Bonds and any Additional Revenue Bonds, when and if issued, are limited special obligations of the City payable from, and equally and ratably secured by, a first lien on the Net Revenues of the Airport System and the Debt Service Fund and Debt Service Reserve Fund established in the Ordinance. No mortgage of any of the physical properties forming a part of the Airport System or any lien thereon or security interest therein has been given. **The Bonds are not general obligations of the City, and neither the taxing power of the City nor the State of Texas is pledged as security for the Bonds.** See "SOURCES OF REPAYMENT FOR THE BONDS" in this document.

### No Acceleration

The Bonds are not subject to acceleration under any circumstances or for any reason, including without limitation, on the occurrence or continuance of an event of default in the payment of debt service on any of the Revenue Bonds (including the Bonds) or a default in the performance of any duty or covenant provided by law or in the Ordinance. Upon the occurrence of such an event of default, Holders of the Bonds would only be entitled to principal and interest payments on the Bonds as they come due. Under certain circumstances, Holders of the Bonds may not be able to pursue certain remedies or enforce covenants contained in the Ordinance. Moreover, since Net Revenues are that portion of Gross Revenues that remain after the deduction of the Operation and Maintenance Expenses of the Airport System, and the City is not subject to involuntary bankruptcy proceedings, the City may be able to continue indefinitely collecting Gross Revenues and applying them to the operation of the Airport System even if an event of default has occurred and no payments are being made on the Bonds. See "DESCRIPTION OF THE BONDS – Remedies" and "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE" in this document.

**Factors Affecting the Airline Industry**

*General*

Key factors that affect airline traffic at the Airport and the financial condition of the airlines, and, therefore, the amount of Net Revenues available for payment of the Revenue Bonds (including the Bonds), include: local, regional, national and international economic and political conditions; international hostilities; world health concerns; aviation security concerns; airline service and routes; airline airfares and competition; airline industry economics, including labor relations and costs; availability and price of aviation fuel (including the ability of airlines to hedge fuel costs); regional, national and international environmental regulations; airline consolidation and mergers; capacity of the national air traffic control and airport systems; capacity of ABIA; competition from neighboring airports; and business travel substitutes, including teleconferencing, videoconferencing and web-casting.

The airline industry is highly cyclical and is characterized by intense competition, high operating and capital costs and varying demand. Passenger and cargo volumes are highly sensitive to general and localized economic trends, and passenger traffic varies substantially with seasonal travel patterns. The profitability of the airline industry can fluctuate dramatically from quarter to quarter and from year to year, even in the absence of catastrophic events such as the terrorist attacks of September 11, 2001 and the economic recession that occurred between 2008 and 2009. Other business decisions by airlines, such as the reduction or elimination of service to unprofitable markets could affect airline operations in the future.

In addition to revenues received from the airlines, the City derives a substantial portion of its revenues from parking operations, food and beverage concessions, retail concessions, car rental companies, and others. See Tables 6 and 7 in "HISTORICAL FINANCIAL DATA" in this document. Declines in passenger traffic at ABIA may adversely affect the commercial operations of many of such concessionaires. While the City's agreements with retail, food and beverage concessionaires as well as car rental companies require them to pay a minimum annual guarantee, severe financial difficulties could lead to a failure by a concessionaire or rental car company to make the required payments or could lead to the cessation of operations of such concessionaire or rental car company.

Many of these factors are outside the City's control. Changes in demand, decreases in aviation activity and their potential effect on enplaned passenger traffic at Airport may result in reduced Gross Revenues and PFCs. Following are just a few of the factors affecting the airline industry including, regional and national economic conditions, costs of aviation fuel, airline concentration, international conflicts and threats of terrorism and structural changes in the travel market. See also "- Aviation Security and Health Safety Concerns" below for additional discussion on the costs of security.

*Economic Conditions*

Historically, the financial performance of the air transportation industry has correlated with the state of the national and global economies. Between 2008 and 2009, the U.S. economy experienced a recession, which was followed by weak economic growth. It is not known at this time whether the high national unemployment rate, or the slow rate of national and global economic growth will persist beyond 2014 and what effect, if any, they will have on the air transportation industry.

*Cost of Aviation Fuel*

Airline earnings are significantly affected by changes in the price of aviation fuel. According to Airlines for America (an airline trade association, formerly known as Air Transport Association of America), fuel, along with labor costs, is one of the largest cost components of airline operations, and continues to be an important and uncertain determinate of an air carrier's operating economics. There has been no shortage of aviation fuel since the "fuel crisis" of 1974, but any increase in fuel prices causes an increase in airline operating costs. Fuel prices continue to be susceptible to, among other factors, political unrest in various parts of the world (particularly in the oil-producing nations in the Middle East and North Africa), Organization of Petroleum Exporting Countries policy, the rapid growth of economies such as China and India, the levels of inventory carried by industries, the amounts of reserves maintained by governments, disruptions to production and refining facilities and weather. According to Airlines for America, for the fourth quarter of 2013, jet fuel accounted for approximately 26.8% of the airline industry's operating expenses. The price of aviation fuel rose to an all-time high of approximately $3.75

per gallon in July 2008. According to the U.S. Bureau of Transportation Statistics, the price of aviation fuel averaged approximately $2.99 per gallon for the first six months of 2014. Significant and prolonged increases in the cost of aviation fuel are likely to have an adverse impact on air transportation industry profitability and hamper the recovery plans and cost-cutting efforts of certain airlines.

*Airline Concentration; Effect of Airline Industry Consolidation*

The airline industry continues to evolve as a result of competition and changing demand patterns and it is possible the airlines serving the Airport could consolidate operations through acquisition, merger, alliances and code share sales strategies. Examples of airlines mergers occurring over the last several years include: (a) in 2008, Delta acquired Northwest and its affiliated air carriers, Mesaba, Pinnacle (now known as Endeavor) and Compass; (b) on October 1, 2010, United Airlines and Continental Airlines merged and United Airlines and Continental Airlines began operating as a single airline (under the United brand) in March 2012; (c) on May 2, 2011, Southwest acquired Air Tran, and Southwest and Air Tran began operating as a single airline (under the Southwest brand) in March 2012; and (d) effective December 9, 2013, AMR Corporation, along with its subsidiaries American Airlines and American Eagle, merged with US Airways Group, Inc. American Airlines and US Airways continue to operate as separate airlines until their operations have been fully integrated. As of the date of this Official Statement, none of these mergers have had any material impact on airline service or enplanements at ABIA. While these prior mergers have not had any material impact on airline service and enplanements at the Airport or on Gross Revenues, future mergers or alliances among airlines operating at the Airport may result in fewer flights or decreases in gate utilization by one or more airlines. Such decreases could result in reduced Gross Revenues, reduced PFC collections and/or increased costs for the other airlines serving ABIA.

*International Conflict and the Threat of Terrorism*

The increased threat of terrorism has had, and may continue to have, a negative impact on air travel. The City cannot predict the likelihood of future incidents similar to the terrorist attacks of September 11, 2001, the likelihood of future air transportation disruptions or the impact on the City or the airlines operating at the Airport from such incidents or disruptions.

*Structural Changes in the Travel Market*

Many factors have combined to alter consumer travel patterns. The threat of terrorism against the United States remains high. As a result, the federal government has mandated various security measures that have resulted in new security taxes and fees and longer passenger processing and wait times at airports. Both add to the costs of air travel and make air travel less attractive to consumers relative to ground transportation, especially to short-haul destinations. Additionally, consumers have become more price-sensitive. Efforts of airlines to stimulate traffic by heavily discounting fares have changed consumer expectations regarding airfares. Consumers have come to expect extraordinarily low fares. In addition, the availability of fully transparent price information on the internet now allows quick and easy comparison shopping, which has changed consumer purchasing habits. Consumers have shifted from purchasing paper tickets from travel agencies or airline ticketing offices to purchasing electronic tickets over the internet. This has made pricing and marketing even more competitive in the U.S. airline industry. Finally, smaller corporate travel budgets, combined with the higher time costs of travel, have made business customers more amenable to communications substitutes such as tele- and video- conferencing.

**Effect of Airline Bankruptcies**

*General*

Since December 2000, numerous airlines have filed for bankruptcy protection including, among others, Northwest, Delta, including its subsidiary Comair, Mesaba, Sun Country (which filed for protection twice), US Airways (which filed for protection twice), UAL Corporation, the parent of United, AMR Corporation, the parent of American Airlines and American Eagle, Air Canada and Frontier. Each of these airlines has emerged from bankruptcy. Only Delta, United, American, Frontier, Northwest, and Sun Country operated at ABIA at the time of their respective filings for bankruptcy protection, and each such airline except for Northwest continues to operate at the Airport.

*Assumption or Rejection of Agreements*

An airline that has executed an Airline Agreement or other executory contract with the City and seeks protection under the U.S. bankruptcy laws must assume or reject (a) its Airline Agreement within 120 days after the bankruptcy filing (subject to court approval, a one-time 90-day extension is allowed (further extensions are subject to the consent of the City)), and (b) its other executory contracts with the City prior to the confirmation of a plan of reorganization.

In the event of assumption and/or assignment of any agreement to a third party, the airline would be required to cure any pre- and post-petition monetary defaults and provide adequate assurance of future performance under the applicable Airline Agreement or other agreements.

Rejection of an Airline Agreement or other agreement or executory contract will give rise to an unsecured claim of the City for damages, the amount of which in the case of an Airline Agreement or other agreement is limited by the United States Bankruptcy Code generally to the amounts unpaid prior to bankruptcy plus the greater of (i) one year of rent or (ii) 15% of the total remaining lease payments, not to exceed three years. However, the amount ultimately received in the event of a rejection of an Airline Agreement or other agreement could be considerably less than the maximum amounts allowed under the United States Bankruptcy Code. Certain amounts unpaid as a result of a rejection of an Airline Agreement or other agreement in connection with an airline in bankruptcy, such as airfield, terminal, concourse and ramp costs would be passed on to the remaining airlines under their respective Airline Agreements, thereby increasing such airlines' cost per enplanement, although there can be no assurance that such other airlines would be financially able to absorb the additional costs. In addition, pre-petition payments made by an airline in bankruptcy within 90 days of filing a bankruptcy case could be deemed to be an "avoidable preference" under the United States Bankruptcy Code and thus subject to recapture by the debtor or its trustee in bankruptcy. In general, risks associated with bankruptcy include risks of substantial delay in payment or of reduced or non-payment and the risk that the City may be delayed or prohibited from enforcing any of its remedies under the agreements with a bankrupt airline. Northwest, Delta, Sun Country, United, American, and Frontier were each operating at Airport under an agreement at the time of their respective filings for bankruptcy protection.

Northwest, Delta, United, American, and Frontier each assumed their respective Airline Agreements when they emerged from bankruptcy protection. During its first bankruptcy proceedings, Sun Country rejected its Operating Agreement; however, the investor group that purchased the assets of the defunct Sun Country signed a new operating agreement. During its second bankruptcy proceedings, Sun Country assumed its operating agreement. See "AIRLINE AGREEMENTS" in this document.

With respect to an airline in bankruptcy proceedings in a foreign country, the City is unable to predict what types of orders and/or relief could be issued by foreign bankruptcy tribunals, or the extent to which any such orders would be enforceable in the United States.

*Pre-Petition Obligations*

During the pendency of a bankruptcy proceeding, a debtor airline may not, absent a court order, make any payments to the City on account of goods and services provided prior to the bankruptcy. Thus, the City's stream of payments from a debtor airline would be interrupted to the extent of pre-petition goods and services, including accrued rent and landing fees. All of the pre-petition obligations of Northwest, Delta, Sun Country, United, American, and Frontier were paid in full.

*PFCs*

Pursuant to the PFC Act, the FAA has approved the City's applications to require the airlines to collect and remit to the City a $4.50 PFC on each enplaning revenue passenger at ABIA. See "CAPITAL IMPROVEMENT PROGRAM - Passenger Facility Charges" in this document.

The PFC Act provides that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the City) imposing the PFCs, except for any handling fee (which currently is $0.11 per PFC) or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC collections separately and to disclose the existence and amount of funds regarded as trust funds in their respective financial statements. However, the airlines, provided they are not under bankruptcy protection, are permitted to commingle PFC collections with other revenues. The bankruptcy courts have not fully addressed such trust arrangements. Therefore, the City cannot predict how a bankruptcy court might rule on this matter in the event of a bankruptcy filing by one of the airlines operating at ABIA.

The PFC Act requires an airline in bankruptcy protection to segregate PFC collections from all of its other revenues.

It is possible that the City could be held to be an unsecured creditor with respect to unremitted PFCs held by an airline that has filed for bankruptcy protection. Additionally, the City cannot predict whether an airline operating at ABIA that files for bankruptcy protection would have properly accounted for the PFCs owed to the City or whether the bankruptcy estate would have sufficient moneys to pay the City in full for the PFCs owed by such airline. All of the airlines that were operating at the Airport at the time of their respective filings for bankruptcy protection and during the time they operated at ABIA while under bankruptcy protection submitted to the City all of the PFCs collected by them. PFCs are not pledged to the repayment of the Revenue Bonds (including the Bonds), however, see "SOURCES OF REPAYMENT FOR THE BONDS - Use of Passenger Facility Charges" in this document for a description of the City's covenants to set aside a portion of PFCs received by the City to pay debt service on the Revenue Bonds eligible to paid from PFCs.

**Aviation Security and Health Safety Concerns**

Concerns about the safety of airline travel and the effectiveness of security precautions, particularly in the context of potential international hostilities and terrorist attacks, may influence passenger travel behavior and air travel demand. These concerns intensified in the aftermath of the events of September 11, 2001 and again in 2014 following the high profile disappearance of Malaysia Airlines Flight 370 and the crash of Malaysia Airlines Flight 17. Travel behavior may be affected by anxieties about the safety of flying and by the inconveniences and delays associated with more stringent security screening procedures, both of which may give rise to the avoidance of air travel generally and the switching from air to surface travel modes.

Safety concerns in the aftermath of the terrorist attacks in September 2001 were largely responsible for the steep decline in airline travel nationwide in 2002. Since 2001, government agencies, airlines, and airport operators have upgraded security measures to guard against future terrorist incidents and maintain confidence in the safety of airline travel. These measures include strengthened aircraft cockpit doors, changed flight crew procedures, increased presence of armed sky marshals, federalization of airport security functions under the TSA, more effective dissemination of information about threats, more intensive screening of passengers, baggage, and cargo, and deployment of new screening technologies. The airlines and the federal government were primarily responsible for, and bore most of the capital costs associated with, implementing the new security measures. No assurance can be given that these precautions will be successful. Also, the possibility of intensified international hostilities and further terrorist attacks involving or affecting commercial aviation are a continuing concern that may affect future travel behavior and airline passenger demand.

Public health and safety concerns have also affected air travel demand from time to time. In 2003, concerns about the spread of severe acute respiratory syndrome (SARS) led public health agencies to issue advisories against nonessential travel to certain regions of the world. In 2009, while the United States Centers for Disease Control and Prevention ("CDC") and the World Health Organization ("WHO") did not recommend that people avoid domestic or international travel, concerns about the spread of influenza caused by the H1N1 virus reduced international air travel, particularly to and from Mexico and Asia. More recently, in 2014, an outbreak of Ebola in West Africa and the discovery of a patient and health care workers infected with Ebola in the United States have again raised concerns about the spread of communicable disease through air travel. While the CDC and WHO have not yet recommended travelers avoid domestic or international travel, in the event the CDC or WHO recommends travel restrictions, or should another outbreak occur, prospective investors should take into consideration the impact that such developments may have on activity levels at the Airport and the potential financial impact on the airlines that serve the Airport.

**Regulations and Restrictions Affecting the Airport**

The operations of the Airport System are affected by a variety of contractual, statutory and regulatory restrictions and limitations including, without limitation, the provisions of the Airline Agreements and the Operating Agreements, the federal acts authorizing the imposition, collection and use of PFCs and extensive federal legislation and regulations applicable to all airports in the United States. In the aftermath of the terrorist attacks of September 11, 2001, ABIA also has been required to implement enhanced security measures mandated by the FAA, the Department of Homeland Security and Department of Aviation management.

It is not possible to predict whether future restrictions or limitations on Airport System operations will be imposed, whether future legislation or regulations will affect anticipated federal funding or PFC collections for capital projects for the Airport System, whether additional requirements will be funded by the federal government or require funding by the City, or whether such restrictions or legislation or regulations would adversely affect Net Revenues. See "- Aviation Security and Health

Safety Concerns" above, "CAPITAL IMPROVEMENT PROGRAM" and "CAPITAL IMPROVEMENT PROGRAM - Passenger Facility Charges" in this document.

**Ability to Meet Rate Covenant**

As described in "SOURCES OF REPAYMENT OF THE BONDS - Rate Covenant" in this document, the City has covenanted in the Ordinance that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year, the rate covenant set forth in the Ordinance is met. In addition to Net Revenues, the City expects to use approximately $11.3 million to $19.4 million of PFCs in each of the Fiscal Years between 2015 and 2021, respectively, to pay a portion (approximately 29.1% - 41.0%) of the Debt Service on the Revenue Bonds. If PFCs have been appropriated and deposited into a dedicated fund or account, the proceeds of which are required to be transferred into the Debt Service Fund or directly to the Paying Agent/Registrar for the Revenue Bonds, the principal and/or interest on such Revenue Bonds is excluded from the calculation of Debt Service Requirements; thus decreasing Debt Service Requirements and increasing debt service coverage for purposes of the rate covenant under the Ordinance. See "SOURCES OF REPAYMENT FOR THE BONDS - Use of Passenger Facility Charges" in this document. See also, "- Availability of PFCs and PFC Approval" below in this document.

If Net Revenues (and PFCs expected to be used to pay debt service) were to fall below the levels necessary to meet the rate covenant in any Fiscal Year, the Ordinance provides for procedures under which the City would retain and request an Airport Consultant to make recommendations as to the revision of the City's rentals, rates, fees and other charges, its Operating and Maintenance Expenses or the method of operation of the Airport System in order to satisfy as quickly as practicable the rate covenant set forth in the Ordinance. The Ordinance provides that so long as the City substantially complies in a timely fashion with the recommendations of the Airport Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Ordinance even if the resulting Net Revenues plus Other Available Funds are not sufficient to be in compliance with the rate covenant set forth in the Ordinance, so long as Debt Service is paid when due.

Increasing the schedule of rentals, rates, fees and other charges for the use of the Airport System and for services rendered by the City in connection with the Airport System is subject to contractual, statutory and regulatory restrictions (see "— Regulations and Restrictions Affecting the Airport" above). Implementation of an increase in the schedule of rentals, rates, fees and other charges for the use of the Airport System could have a detrimental impact on the operation of the Airport System by making the cost of operating at the Airport System unattractive to airlines, concessionaires and others in comparison to other airports, or by reducing the operating efficiency of the Airport System. Notwithstanding this potential detrimental impact, the Airline Agreements acknowledge the existence of the rate covenant under the Ordinance and include an agreement by the Signatory Airlines to pay such rentals, rates, fees and charges.

**Availability of PFCs and PFC Approval**

In addition to the use of Net Revenues, the City expects to use between $11.3 million and $19.4 million of PFCs each Fiscal Year between Fiscal Years 2015 and 2021, to pay a portion of the debt service on the Revenue Bonds (including the Bonds). See "SOURCES OF REPAYMENT FOR THE BONDS - Use of Passenger Facility Charges" and "- Ability to Meet Rate Covenant" above in this document. Additionally, the City expects to use approximately $50.9 million of PFCs to fund a portion of the Planned CIP Projects, including the 2014 Projects. See "CAPITAL IMPROVEMENT PROGRAM" in this document.

**The proceeds of the PFCs are not part of the Net Revenues pledged by the City to the payment of Revenue Bonds, including the Bonds. Pursuant to the terms of the Ordinance, PFCs are expressly excluded from the definition of "Gross Revenues". Consistent with the definition of "Debt Service Requirements" in the Ordinance, debt service on Revenue Bonds for which PFCs have been appropriated and deposited into a dedicated fund or account, the proceeds of which are required to be transferred into the Debt Service Fund or directly to the Paying Agent/Registrar for such Revenue Bonds, is excluded from the calculation of Debt Service Requirements.** See "SOURCES OF REPAYMENT FOR THE BONDS - Rate Covenant", "- Additional Revenue Bonds" and the definition of "Debt Service Requirements" in "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Selected Definitions" in this document. As described in "CAPITAL IMPROVEMENT PROGRAM – Passenger Facility Charges" in this document, under FAA approvals received to date, the City is authorized to impose the PFC through an estimated date of April 2020. **The City plans to seek approval from the FAA to use PFCs to fund a portion of the 2014**

**Projects and to pay a portion of the debt service on the Bonds. No assurance can be given that the FAA will approve the amounts for the projects to be contained in such application.**

The amount of PFC revenue received by the City in future years will vary based upon the actual number of PFC-eligible passenger enplanements at ABIA. No assurance can be given that any level of enplanements will be realized. See "- Factors Affecting the Airline Industry" above in this document. See also "CAPITAL IMPROVEMENT PROGRAM - Passenger Facility Charges" and "- Ability to Meet Rate Covenant" above in this document. Additionally, the FAA may terminate the City's authority to impose the PFC, subject to informal and formal procedural safeguards, if (a) PFC revenues are not being used for approved projects in accordance with the FAA's approval, the PFC Act or regulations promulgated by the FAA under authority of the PFC Act ("PFC Regulations"), or (b) the City otherwise violates the PFC Act or the PFC Regulations. The City's authority to impose a PFC may also be terminated if the City violates certain provisions of the Airport Noise and Capacity Act of 1990 (the "ANCA") and its implementing regulations relating to the implementation of noise and access restrictions for certain types of aircraft. The regulations under ANCA also contain procedural safeguards to ensure that the City's authority to impose a PFC would not be summarily terminated. No assurance can be given that the City's authority to impose a PFC will not be terminated by Congress or the FAA, that the PFC program will not be modified or restricted by Congress or the FAA so as to reduce PFC revenues available to the City or that the City will not seek to decrease the amount of PFCs to be collected, provided such decrease does not violate the City's covenant in the Ordinance. A shortfall in PFC revenues may cause the City to increase rates and charges at ABIA to meet the debt service requirements on the Revenue Bonds (including the Bonds) that the City plans to pay from PFCs, and/or require the City to identify other sources of funding for its capital program (including the "2014 Projects"), including issuing Additional Revenue Bonds and/or Subordinate Obligations, to finance the pay-as-you-go projects currently expected to be paid with PFC revenues.

**Availability of Funding for the Capital Improvement Program**

The City's plan of finance assumes that proceeds of Revenue Bonds, PFC revenues on a pay-as-you-go basis, federal grants, and other available revenues of the City (including certain amounts to be on deposit in the Repair and Replacement Fund and the Capital Fund), will be received by the City in certain amounts and at certain times to pay the costs of the planned projects described in "CAPITAL IMPROVEMENT PROGRAM" in this document (the "Planned CIP Projects"). No assurance can be given that these sources of funding will be available in the amounts or on the schedule assumed. See "-Availability of PFCs and PFC Approval" above in this document.

To the extent that any portion of the funding assumed in the plan of finance for the Planned CIP Projects is not available as anticipated, the City may be required to defer or remove certain of the Planned CIP Projects or issue additional Revenue Bonds and/or Subordinate Obligations to pay the costs of such Planned CIP Projects.

**Federal Funding; Impact of Federal Sequestration**

On February 6, 2012, Congress passed a four-year reauthorization bill for the FAA, the "FAA Modernization and Reform Act of 2012", which was signed into law on February 14, 2012. The final FAA reauthorization authorizes $3.35 billion per year for the Airport Improvement Program ("AIP") through Fiscal Year 2015. AIP provides federal capital grants to support airport infrastructure, including entitlement grants (determined by formulas based on passenger, cargo, and general aviation activity levels) and discretionary grants (allocated on the basis of specific set- asides and the national priority ranking system). There can be no assurance that the FAA will receive spending authority. In addition, AIP could be affected by the automatic across-the-board spending cuts, known as sequestration, described in more detail below. The City is unable to predict the level of available AIP funding it may receive. If there is a reduction in the amount of AIP grants awarded to the City for ABIA, such reduction could (i) increase by a corresponding amount the capital expenditures that the City would need to fund from other sources (including surplus revenues, additional Revenue Bonds or Subordinate Obligations), (ii) result in decreases to Planned CIP Projects or (iii) extend the timing for completion of certain projects. See "CAPITAL IMPROVEMENT PROGRAM" in this document.

Federal funding received by the City and the Department of Aviation could be adversely affected by the implementation of the Budget Control Act of 2011 (the "Budget Control Act"). As a result of the failure of the Joint Select Committee on Deficit Reduction to reach an agreement on the deficit reduction actions as required by the Budget Control Act, sequestration - a unique budgetary feature of the Budget Control Act -has been triggered. On January 2, 2013, President Obama signed into law H.R. 8, the American Taxpayer Relief Act of 2012, which delayed the initiation of the sequestration process from January 2, 2013 to March 1, 2013. On March 26, 2013, President Obama signed the Consolidated and Further Continuing Appropriations Act of 2013, providing funds for operation of the federal government through

September 30, 2013, and off-setting some of the sequestration- mandated reductions for Fiscal Year 2013. The spending reductions for Fiscal Year 2013 were approximately $85.4 billion, with similar cuts for Fiscal Years 2014 through 2021.

The City receives numerous grants from the FAA and the TSA for various capital projects and the FAA employs and manages the air traffic control personnel at ABIA. These expenditures of the FAA are subject to sequestration. The FAA implemented furloughs in April 2013 that resulted in major air traffic control system delays. The furloughs were suspended after one week for the balance of federal Fiscal Year 2013 following Congress' authorization of alternate funding from reductions in the amounts of available AIP funds or any other programs or accounts in federal Fiscal Year 2013. On December 26, 2013, the Senate approved the Bipartisan Budget Act of 2013 (the "Budget Act"), which sets overall discretionary spending for the federal Fiscal Year 2014 at $1.013 trillion, and provides $63 billion in sequester relief over two years. The Budget Act restores the cuts made by budget sequestration to the FAA's operations and procurement accounts and provides full funding for the AIP at $3.35 billion for the federal Fiscal Year 2014.

Between 2009 and 2013, the City received, on average, approximately $6.7 million of grants per year from the FAA and TSA. The City is unable to predict future sequestration funding cuts or furloughs or the impact of such actions on ABIA's airline traffic, grant receipts and Gross Revenues. The City intends to take any commercially reasonable measures necessary to continue smooth operation of ABIA.

**Forward-Looking Statements**

This Official Statement, including the Appendices and the documents incorporated by reference in this document, contain "forward-looking statements," which generally can be identified with words or phrases such as "anticipates," believes," "could," "estimates," "expects," "foresees," "may," "plan," "predict," "should," "will" or other words or phrases of similar import. All statements included in this Official Statement, including the Appendices in this document, that any person expects or anticipates will, should or may occur in the future, including but not limited to, the projections in the Airport Consultant's Report, are forward-looking statements. These statements are based on assumptions and analysis made by the City and the Airport Consultant, as applicable, in light of their experience and perception of historical trends, current conditions and expected future developments as well as other factors they believe are appropriate in the circumstances. However, whether actual results and developments will conform with expectations and predictions is subject to a number of risks and uncertainties, including, without limitation, the information discussed under this "CERTAIN INVESTMENT CONSIDERATIONS" caption in this document as well as additional factors beyond the City's control. The risk factors and assumptions described under such caption and elsewhere in this Official Statement could cause actual results to differ materially from those expressed in any forward-looking statement. All of the forward-looking statements made in this Official Statement and any Appendices in this document are qualified by these cautionary statements. There can be no assurance that the actual results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Net Revenues or the operations of ABIA. All subsequent forward-looking statements attributable to the City or persons acting on its behalf are expressly qualified in their entirety by the factors and assumptions described above and in any documents containing those 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 does not assume any obligation to update any such forward-looking statements.

The forward-looking statements are necessarily based on various assumptions and estimates that are inherently subject to numerous 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, 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, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

Any financial projections set forth in this Official Statement were not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to the prospective financial information. The City's independent auditors have not compiled, examined, or performed any procedures with respect to the prospective financial information contained in this Official Statement, nor have they expressed any opinion or any other form of assurance on such information or its achievability. The City's independent auditors have not been consulted in connection with the preparation of any financial projections contained in this Official Statement and the City's independent auditors assume no responsibility for its content.

**Assumptions in the Airport Consultant's Report**

As noted in the Report, any forecast is subject to uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances may and are likely to occur. Therefore, the actual results achieved during the forecast period will vary, and the variations may be material. See "REPORT OF THE AIRPORT CONSULTANT" and "APPENDIX A – REPORT OF THE AIRPORT CONSULTANT" in this document.

**Future and Proposed Legislation**

The Texas Legislature will convene its Regular Session of the 84th Legislature in January 2015. The City makes no representations or predictions concerning the substance or effect of any legislation that may be proposed and ultimately passed in such Regular Session or any special session that may convene after the end of the Regular Session, or how any such legislation would affect the Net Revenues or the financial condition or operations of ABIA.

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

## LITIGATION

It is the opinion of the City Attorney and ABIA management that, as of the date of this Official Statement, there is no pending litigation against the City that would have a material adverse financial impact upon ABIA or its operations.

## CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the Holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of 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 (i) the portions of the financial statements of the City in APPENDIX B in this document and (ii) 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 (numbered 1 through 9). The City will update and provide this information as of the end of each Fiscal Year within six months after the end of each Fiscal Year. 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 SEC. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided at that time, the City shall provide notice that the audited financial statements are not available and provide unaudited financial information of the type described in the various tables (numbered 1 through 9) in this document and "unaudited financial statements" by the required time, and shall provide audited financial statements for the applicable Fiscal Year, when and if the audit report on the financial statements becomes available. The term "unaudited financial statements" means unaudited financial statements and tables customarily prepared and maintained by the City. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B in this document or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current Fiscal Year is October 1 to September 30. Accordingly, it must provide updated information by March 31 of each year unless the City changes its Fiscal Year. If the City changes its Fiscal Year, it will notify the MSRB of the change.

**Disclosure Event Notices**

The City shall notify the MSRB, in a timely manner not in excess of ten Business Days after the occurrence of the event, of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material. (Neither the Bonds nor the Ordinance make any provision for 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 Ordinance.

As used in clause 12 above, the phrase "bankruptcy, insolvency, receivership or similar event" means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if jurisdiction has been assumed by leaving the City Council and official or officers of the City in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. The term "Business Day" means a day other than a Saturday, Sunday, a legal holiday, or a day on which banking institutions are authorized by law or executive order to close in the City or the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located.

**Availability of Information**

In connection with its continuing disclosure agreement entered into with respect to the Bonds, the City will file all required information and documentation with the MSRB in electronic format 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 Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although Holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

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

### Compliance with Prior Undertakings

Except as described in this paragraph, during the last five (5) years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. The City did not file its unaudited or audited financial statements for the Fiscal Year ended September 30, 2011 by the required deadline of March 31, 2012. The audited financial statements of the City for such Fiscal Year were filed on April 2, 2012. Annual financial information and operating data of the City were filed by the required time in accordance with the City's continuing disclosure agreements in the above-cited year in which the audited financial statements were filed after March 31. The City has filed an event notice in connection with the late filing. In addition, multiple rating changes occurred with respect to certain obligations of the City between 2009 and 2013, and the City did not file event notices with respect to certain of such rating changes. The City has filed event notices with respect to the current ratings of certain of its outstanding obligations. In its annual financial information and operating data filings for the City's electric system and water and wastewater system revenue bonds, for the years 2009, 2010, and 2011, the City omitted a table relating to the City's equity in its electric utility and water and wastewater systems. While the information contained in such table was generally obtainable from its audited financial statements for such years, the City has, since its fiscal year 2012 filing, included this table in its annual financial information and operating data filings for the City's electric system and water and wastewater system revenue bonds. Also, the City inadvertently omitted several tables from the annual financial information and operating data filing for the March 31, 2013 continuing disclosure report relating to certain obligations of the City. The City filed the omitted information on May 14, 2014. The City has implemented procedures to ensure timely filing of all future financial statements and event notices.

## TAX MATTERS

### Opinion

On the date of initial delivery of the Bonds, Bond Counsel will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), for federal income tax purposes, interest on the Bonds will be excludable from the gross income of the owners thereof, except for any owner who is treated pursuant to section 147(a) of the Code as a "substantial user" of the facilities financed with the proceeds of the Bonds or a "related person" to such user. Except as stated above, Bond Counsel will express no opinions as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See "APPENDIX D – FORM OF BOND COUNSEL'S OPINION" in this document.

In rendering its opinion, Bond Counsel will rely upon information furnished by the City, and particularly written representations of officers of the City with respect to certain material facts that are solely within their knowledge relating to the use and investment of the proceeds of the Bonds, the construction, use and management of the facilities to be financed with the proceeds of the Bonds and any election not to claim depreciation or investment tax credit in connection with the facilities to be financed with the proceeds of the Bonds. If the representations are determined to be inaccurate, or there is a failure to comply with the covenants or receive the allocation, then the interest on the Bonds could become includable in gross income retroactively to the date of issuance of the Bonds.

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

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

A ruling was not sought from the Internal Revenue Service by the City with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

**Collateral Federal Income Tax Consequences**

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

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

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

Interest on the Bond is an item of tax preference, as defined in section 57(a)(5) of the Code, for purposes of determining the alternative minimum tax imposed on individuals and corporations by section 55 of the Code.

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

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

**State, Local and Foreign Taxes**

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

**Future and Proposed Legislation**

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

The form of Bond Counsel's opinion is included as APPENDIX D in this document.

## 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 SEC 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.

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 and ABIA are 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 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, 2014, the City's investable funds were invested in the following categories.

| Type of Investment | Percentage |
|---|---|
| U. S. Treasuries | 10% |
| U. S. Agencies | 50% |
| Money Market Funds | 3% |
| Local Government Investment Pools | 37% |

The dollar weighted average maturity for the combined City investment portfolios is 330 days. The City prices the portfolios weekly utilizing a market pricing service.

## THE CITY

### Administration

Incorporated in 1839, the City operates under a Council-Manager form of government under its home rule charter. Currently the City Council is comprised of a Mayor and six council members elected at-large for three-year staggered terms. As a result of an amendment to the Austin City Charter in November 2012, the configuration of the City Council will change to an eleven member council, with the Mayor to be elected at large and the remainder of the council to be elected from ten single member districts. An election was held on November 4, 2014 at which the Mayor and other councilmember positions were contested. For those positions where no candidate received a majority of votes at the November 4 election, a run-off election will be held on December 16, 2014. The terms of the current City Council will expire, and the newly-elected Mayor and Councilmembers will assume their positions on January 6, 2015. The current members of the City Council and appointed officials of the City are shown on page vii 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 Finance and Corporate Services for Austin Energy, the municipally-owned electric utility. During her tenure at the City (service not continuous), she has also served in other financial capacities, including the City's Chief Financial Officer in the late 1980s, Assistant Finance Director, City Controller and Deputy City Auditor. Ms. Hart also has private sector auditing, accounting and consulting experience.

**Services Provided by the City**

The City's major activities include police and fire protection, emergency medical services, parks and libraries, public health and social services, planning and zoning, general administrative services, solid waste disposal, and maintenance of bridges, streets and storm drains. The City owns and operates several major enterprises, including Austin Energy, the Water and Wastewater System, the 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.

**Pension Plans**

There are three contributory defined benefit retirement plans for the Municipal, Fire, and Police employees. State law requires the City to make contributions to the funds in an amount at least equal to the contribution of the employee group. The contributions made by the City to the City of Austin Employees Retirement System ("COAERS") include amounts allocable to the City employees within the Department of Aviation. The contributions allocable to such employees are paid from Gross Revenues and constitute Operation and Maintenance Expenses of the Airport System. The Airport System contribution to the COAERS in Fiscal Year 2013 was $2,964,909.

The following describes the contributions in place as of March 31, 2014. Municipal employees contribute 8.0% and the City contributes 18.0% of payroll. The Firefighters (who are not members of the Social Security System) are scheduled to contribute 17.2% of payroll through September 30, 2014; 17.7% of payroll from October 1, 2014 through September 30, 2015; 18.2% of payroll from October 1, 2015 through September 30, 2016; and 18.7% of payroll on or after October 1, 2016; the City contributes 22.05%. The Police Officers contribute 13.0% and the City contributes 21.63% of payroll.

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability. As of December 31, 2013, the amortization period of the unfunded actuarial accrued liability for the

COAERS was 26.0 years and for the Police Officer's Fund was 28.9 years. As of December 31, 2013 the amortization period of the unfunded actuarial accrued liability for the Fire Fighters Fund was 10.51 years.

As of December 31, 2013, the actuarial accrued liability for the COAERS was $2,909,900,000 and the funded ratio was 70.4%. The actuarial accrued liability for the Police Officers' Fund as of December 31, 2013 was $911,044,154 and the funded ratio was 66.4%. The actuarial accrued liability for the Firefighters' Fund as of December 31, 2013 was $808,771,153 and the funded ratio was 91.8%. The Airport System's allocable share of the unfunded actuarial liability for the COAERS has not been determined.

Although the COAERS funding period had been infinite since December 31, 2002, investment losses in 2008 of 25.9% led to a significant decrease in the actuarial funded ratio and a significant increase to the unfunded actuarial accrued liability. In 2005, a Supplemental Funding Plan ("SFP") was approved that increased the City's annual contribution rate to a maximum of 12%, but even this additional funding was not sufficient to restore the long-term financial health of the COAERS. In FY 2011, City Council approved an amendment to the SFP that increased the City contribution rate to a maximum rate of 18% of pay to be contributed by 2013. The City contributed an additional 6% in FY 2011, an additional 8% in FY 2012 and an additional 10% in FY 2013 pursuant to the terms of the SFP, which brought the City's contribution rate to the maximum of 18%. In addition, a new benefit tier for new employees hired on or after January 1, 2012, was approved by the COAERS Board of Trustees, the City Council and the Texas Legislature. The new benefit tier increases the age and service criteria necessary to reach retirement eligibility. It also decreases the pension multiplier, which is used to determine the final pension amount paid to future retirees. These two actions are expected to substantially improve the long-term financial health of the COAERS over time.

The net pension obligation for the COAERS at September 30, 2013 totaled $128.4 million. Of that amount approximately $4.3 million is allocable to the Airport System.

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

**Other Post-Employment Benefits**

In addition to the contributions made to the three pension systems, the City provides certain other post-employment benefits ("OPEBs") to its retirees, which include retirees of the Department of Aviation. 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 the Department of Aviation are paid from Gross Revenues and constitute Operation and Maintenance Expenses of the Airport 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 $26.9 million for 3,945 retirees in 2013 and $24.2 million for 3,731 retirees in 2012. As of September 30, 2013, the net OPEB obligation is $598.7 million, of which $14.9 million is allocated to the Airport System.

See "APPENDIX B – AUDITED FINANCIAL STATEMENTS – Note 8" in this document for additional information about 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 $10.1 million for claims and damages at the end of Fiscal Year 2013. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Employee Benefits Fund.

## OTHER RELEVANT INFORMATION

### Ratings

The Bonds have received a rating of "A" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), and a rating of "A1" by Moody's Investors Service, Inc. ("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 one or all of such rating companies, if in the judgment of one or more companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price and liquidity of the Bonds.

### Registration and Qualification

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

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

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

### Legal Matters

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that such Bonds are valid and legally binding bonds of the City payable from sources and in the manner described in this Official Statement and in the Ordinance and the approving legal opinion of Bond Counsel. The form of Bond Counsel's opinion appears in this document as APPENDIX D. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System.

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 Official Statement except that in its capacity as Bond Counsel, such firm has reviewed the information appearing in this Official Statement under the captions

"INTRODUCTION", "DESCRIPTION OF THE BONDS" (except for the information under the subcaptions "Remedies" and "Book-Entry-Only System"), "SOURCES OF REPAYMENT FOR THE BONDS", "OUTSTANDING REVENUE BONDS AND SPECIAL FACILITIES BONDS", "CONTINUING DISCLOSURE OF INFORMATION" (except for the subsection "Compliance with Prior Undertakings"), "TAX MATTERS," 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 under "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE", 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 Bonds and the Ordinance. In addition, certain legal matters will be passed upon (i) for the Underwriters by Bracewell & Giuliani LLP, counsel to the Underwriters, and (ii) for the City by Fulbright & Jaworski, LLP, a member of Norton Rose Fulbright, as Securities Counsel for the City. The payment of legal fees to Bond Counsel, counsel to the Underwriters and Securities Counsel in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues expressly addressed in those opinions. In rendering a legal opinions, 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 Bonds. The payment of the fee for services rendered by PFM with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. PFM, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds.

**Financial Information and Independent Auditors**

The financial data listed as six months of Fiscal Year 2014 has been derived from the unaudited internal records of the City. The City's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed any opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited financial information. The unaudited information is preliminary and is subject to change as a result of the audit and may differ from the audited financial statements when they are released.

The financial statements of the City for Fiscal Year 2013 included in this document as APPENDIX B have been audited by Deloitte & Touche LLP, independent auditors, to the extent and for the period indicated in their report.

**Underwriting**

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City for $272,577,983.21, representing the par amount of the Bonds, plus an original issue premium of $29,171,994.25, less an underwriting discount of $1,089,011.04. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased.

The Underwriters have provided the following paragraphs for inclusion in the Official Statement, and the City takes no responsibility for the accuracy thereof.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with each TMC Bonds L.L.C. ("TMS") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Bonds.

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

Loop Capital Markets LLC ("LCM"), one of the Underwriters of the Bonds, has entered into distribution agreements (each a "Distribution Agreement") with each of Deutsche Bank Securities Inc. ("DBS") and Credit Suisse Securities USA LLC ("CS") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Distribution Agreement, each of DBS and CS will purchase the Bonds from LCM at the original issue prices less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Piper Jaffray & Co. and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the Bonds. Under the Agreement, Piper Jaffray & Co. will share with Pershing LLC a portion of the fee or commission paid to Piper.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the City for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

The Underwriters and their respective affiliates also may communicate independent investment recommendations, market advice, or trading ideas and/or publish or express independent research views in respect of such assets, securities or other financial instruments and at any time may hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and other financial instruments.

**Authenticity of Financial Data and Other Information**

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

**Certification of the Official Statement**

This Official Statement, and the execution and delivery of this Official Statement was approved and authorized by the Ordinance adopted by the City Council on November 20, 2014.

/s/ Lee Leffingwell
Mayor
City of Austin, Texas

ATTEST:

/s/ Jannette S. Goodall
City Clerk
City of Austin, Texas

# APPENDIX A

# REPORT OF THE AIRPORT CONSULTANT

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Appendix A

# REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

CITY OF AUSTIN, TEXAS

AIRPORT SYSTEM REVENUE BONDS
Series 2014(AMT) and 2016

Prepared for

City of Austin, Texas

Prepared by

LeighFisher
Burlingame, California

December 1, 2014

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Leigh|Fisher

December 1, 2014

Mr. James W. Smith
Executive Director
Austin-Bergstrom International Airport
3600 Presidential Boulevard, Suite 411
Austin, Texas 78719

Re: **Report of the Airport Consultant**
**City of Austin, Texas**
**Airport System Revenue Bonds**
**Series 2014(AMT) and 2016**

Dear Mr. Smith:

We are pleased to submit this Report of the Airport Consultant on the proposed issuance of Airport System Revenue Bonds by the City of Austin, Texas (the City). Austin-Bergstrom International Airport (the Airport or ABIA) comprises the Airport System operated by the City through its Aviation Department. This letter and the accompanying attachment and financial exhibits constitute our report.

The City's proposed Airport System Revenue Bonds, Series 2014(AMT) (the 2014 Bonds) are being issued in the approximate principal amount of $270,000,000 to fund certain of the costs of enlarging the passenger terminal and making other improvements to the Airport in 2015 through 2018. The report also addresses Airport System Revenue Bonds that the City plans to issue in 2016 (the 2016 Bonds) in the approximate principal amount of $130,000,000 to fund certain of the costs of constructing a new parking garage and making other improvements to the Airport in 2016 through 2018. The projects to be funded in part with the proceeds of the proposed 2014 Bonds and planned 2016 Bonds are referred to collectively in this report as the 2015-2018 Project.

The elements of the 2015-2018 Project, their estimated costs, and the funding plan are summarized in the attachment and in Exhibit A.* The estimated sources and uses of funds from the sale of the proposed 2014 Bonds and planned 2016 Bonds are shown in Exhibit B. The forecast Debt Service Requirements of all outstanding Revenue Bonds, proposed 2014 Bonds, and planned 2016 Bonds are shown in Exhibit C.

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*All financial exhibits are provided at the end of the attachment, "Background, Assumptions, and Rationale for the Financial Forecasts."

### Revenue Bond Ordinances

The 2014 Bonds are to be issued under the terms of a Revenue Bond Ordinance adopted by the City in November 2014, which is substantially in the form of Bond Ordinances authorizing the issuance by the City of its Airport System Refunding Revenue Bonds, Series 2005(AMT) (the 2005 Refunding Bonds), Airport System Revenue Bonds, Series 2013 (the 2013 Bonds), and Airport System Refunding Revenue Bonds, Series 2013A (the 2013A Refunding Bonds). The Revenue Bond Ordinances authorizing the issuance of the 2005 Refunding Bonds, 2013 Bonds, 2013A Refunding Bonds, and proposed 2014 Bonds are collectively referred to as the Revenue Bond Ordinances. Capitalized terms are used in this report as defined in the Revenue Bond Ordinances or in the Airline Agreement (discussed later), except as defined otherwise.

### Outstanding Bonds

As of November 16, 2014, the City had outstanding Revenue Bonds as follows:

| Series | Principal amount | Effective interest rate | Final maturity (November 15) |
|---|---|---|---|
| 2005 Refunding Bonds | $198,750,000 | 4.05% | 2025 |
| 2013 Bonds | 60,000,000 | 2.25 | 2028 |
| 2013A Refunding Bonds | 35,014,000 | 1.56 | 2018 |
| | $293,764,000 | | |

The 2005 Refunding Bonds bear interest at variable rates and are subject to the provisions of an interest rate Swap Agreement that has the effect of converting the City's variable-rate obligation to a fixed-rate obligation. The 2013 Bonds and 2013A Refunding Bonds were issued at fixed interest rates.

### Gross and Net Revenues

The proposed 2014 Bonds and planned 2016 Bonds are to be Additional Revenue Bonds under the Revenue Bond Ordinances and are to be secured by and payable from the Net Revenues of the Airport System (Gross Revenues less Operation and Maintenance Expenses) on a parity with all outstanding Revenue Bonds.

Gross Revenues are defined in the Revenue Bond Ordinances to be, with certain exclusions, all revenues derived directly or indirectly from the operation and use of the Airport System. Expressly excluded from Gross Revenues are, among other amounts, (1) passenger facility charge (PFC) revenues, (2) rental car customer facility charge (CFC) revenues and any other revenues derived from Special Facilities, and (3) Other Available Funds transferred to the Revenue Fund (all as discussed later). Operation and Maintenance Expenses are defined in the Revenue Bond Ordinances to exclude operating and maintenance expenses for Special Facilities payable by lessees under Special Facilities Leases.

### Passenger Facility Charge Revenues

The City has authority from the Federal Aviation Administration (FAA) to impose a PFC of $4.50 per eligible enplaned passenger at the Airport and to use PFC revenues to pay debt service on certain outstanding Revenue Bonds. Under the Revenue Bond Ordinances, PFC revenues are not a part of Gross Revenues but may be set aside during a Fiscal Year for the payment of Revenue Bond debt service in the following Fiscal Year. Revenue Bond debt service paid from such set-aside PFC revenues is deducted in the calculation of Debt Service Requirements and debt service coverage for such following Fiscal Year. Approvals from the FAA will be required to permit the use of PFC revenues to pay debt service on the 2014 and 2016 Bonds and pay-as-you-go costs of the 2015-2018 Project. The forecast sources and uses of PFC revenues are shown in Exhibit F, assuming continued imposition of a $4.50 PFC and the use of PFC revenues to pay debt service to the maximum PFC-eligible amount.

### Rental Car Customer Facility Charge Revenues

As of September 30, 2014, the City had outstanding $143,770,000 principal amount of its Rental Car Special Facility Revenue Bonds, Taxable Series 2013 (the 2013 Rental Car Special Facility Bonds) issued to pay certain of the costs of constructing a consolidated rental car center at the Airport. The 2013 Rental Car Special Facility Bonds are secured by and payable from revenues derived from a CFC collected by the rental car companies from all Airport rental car customers, currently assessed at a rate of $5.95 per rental car transaction-day. Under the Revenue Bond Ordinances, the 2013 Rental Car Special Facility Bonds are not Revenue Bonds secured by the Net Revenues of the Airport System and CFC revenues are not included in Gross Revenues. In this report, rental car operations were considered insofar as they may affect Net Revenues, but the adequacy of CFC revenues to meet the debt service requirements of the 2013 Rental Car Special Facility Bonds was not analyzed.

### Rate Covenant

Under Section 5.03 of the Revenue Bond Ordinances, the City covenants that it will impose and collect rentals, rates, fees, and other charges for the use of the Airport System so that in each Fiscal Year, Net Revenues will be at least sufficient to equal the larger of either:

(a) All amounts required to be deposited in the Fiscal Year to the credit of the Debt Service Fund, the Debt Service Reserve Fund, and the Administrative Expense

Fund and to any debt service or debt service reserve fund or account for Subordinate Obligations, or

(b) An amount that, together with Other Available Funds, is not less than 125% of the Debt Service Requirements of Revenue Bonds plus 100% of budgeted Administrative Expenses for the Fiscal Year.

The amount specified in Section 5.03(b) is forecast to be the larger. Such provision of the Revenue Bond Ordinances is referred to in this report as the Rate Covenant. The City's Fiscal Year (FY) is the 12 months ended September 30.

**Other Available Funds**

For the purposes of the Rate Covenant, Other Available Funds are defined in the Revenue Bond Ordinances as unencumbered amounts in the Capital Fund in excess of the Minimum Capital Reserve, up to a maximum of 25% of the Debt Service Requirements of Revenue Bonds for a Fiscal Year, that are designated by the City as Other Available Funds and transferred at the beginning of such Fiscal Year to the Revenue Fund. Such transfer has the effect of providing "rolling" debt service coverage to contribute to meeting the 125% requirement of the Rate Covenant.

Forecasts of debt service coverage calculated according to the requirements of the Revenue Bond Ordinances and demonstrating compliance with the Rate Covenant are presented in Exhibit G.

**Airline Use and Lease Agreement**

Most of the airlines serving the Airport operate under the provisions of an Airline Use and Lease Agreement (the Airline Agreement) that became effective in October 2009 with an initial five-year term that, under its terms, is currently continuing month-to-month. Airlines that are signatory to the Airline Agreement are:

American Airlines (including US Airways)
Delta Air Lines
JetBlue Airlines
Southwest Airlines
United Airlines.

These five airlines, referred to collectively in this report as the Signatory Airlines, accounted for approximately 95% of passengers enplaned at the Airport in FY 2014.

Under the Airline Agreement, landing fees are set in accordance with cost-center residual principles and terminal rentals and other airline charges are set according to compensatory principles. Coverage at 25% debt service allocable to the airline cost centers is included in the airline rate base. For the purposes of this report, it was assumed that the provisions of the Airline Agreement relating to the calculation of airline rentals, fees, and charges will remain unchanged through the forecast period. The Airline Agreement does not require majority-in-interest or other approvals of capital projects or financings.

**Scope of Report**

This report was prepared to evaluate the ability of the City to generate Gross Revenues from the Airport System sufficient to pay Operation and Maintenance Expenses; pay the Debt Service Requirements of outstanding Revenue Bonds, the proposed 2014 Bonds, and planned 2016 Bonds; and meet the debt service coverage requirements of the Rate Covenant.

In preparing the report, we analyzed:

- Future airline traffic demand at the Airport, giving consideration to the demographic and economic characteristics of the Airport service region, historical trends in airline traffic, and other factors that will affect future traffic

- Estimated sources and uses of funds for the 2015-2018 Project and associated annual Debt Service Requirements

- Historical and estimated future PFC revenues and the use of certain of such revenues to pay Revenue Bond debt service

- Historical relationships among revenues, expenses, and airline traffic at the Airport

- The facilities to be provided as part of the 2015-2018 Project and other operational considerations affecting revenues and expenses

- The City's policies and contractual agreements relating to the use and occupancy of Airport facilities, including the calculation of airline rentals, fees, and charges under the Airline Agreement; the operation of concession privileges; and the leasing of buildings and grounds

We also identified key factors upon which the future financial results of the Airport may depend and formulated assumptions about those factors. On the basis of those assumptions, we assembled the financial forecasts through FY 2021 presented in the exhibits at the end of the report. Estimates of project costs, financing assumptions, and debt service were provided by the sources noted in the exhibits.

### Forecast Debt Service Coverage

Exhibit G and the following tabulation present the forecasts of Revenue Bond debt service coverage, showing that the 125% coverage requirement of the Rate Covenant is exceeded in each year of the forecast period.

| | | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|---|---|---|---|---|---|---|---|---|
| Gross Revenues | | $117,706 | $123,608 | $130,176 | $134,140 | $151,337 | $155,737 | $161,321 |
| Less: Operation and Maintenance Expenses | | (77,604) | (81,385) | (84,929) | (88,602) | (99,768) | (104,014) | (108,411) |
| Net Revenues | | $ 40,102 | $ 42,223 | $ 45,247 | $ 45,538 | $ 51,569 | $ 51,723 | $ 52,910 |
| Other Available Funds | | 4,044 | 4,582 | 6,791 | 7,096 | 8,179 | 8,049 | 7,723 |
| Net Revenues plus Other Available Funds | | $ 44,146 | $ 46,805 | $ 52,038 | $ 52,634 | $ 59,748 | $ 59,772 | $ 60,633 |
| Less: Administrative Expenses (net of payments from PFC revenues) | | (863) | (766) | (817) | (803) | (663) | (570) | (469) |
| Subtotal | [A] | $ 43,283 | $ 46,039 | $ 51,221 | $ 51,831 | $ 59,085 | $ 59,202 | $ 60,164 |
| Revenue Bond debt service | | $27,439 | $30,688 | $39,938 | $40,054 | $52,830 | $52,072 | $50,432 |
| Less: Paid from PFC revenues | | (11,262) | (12,361) | (12,774) | (11,671) | (20,116) | (19,876) | (19,540) |
| Revenue Bond Debt Service Requirements | [B] | $16,177 | $18,327 | $27,164 | $28,383 | $32,714 | $32,196 | $30,892 |
| Debt service coverage | [A/B] | 2.68 | 2.51 | 1.89 | 1.83 | 1.81 | 1.84 | 1.95 |
| Debt service coverage requirement | | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 |

* * * * *

The forecasts are based on information and assumptions that were provided by or reviewed with and agreed to by Airport management. The forecasts reflect Airport management's expected course of action during the forecast period and, in Airport management's judgment, present fairly the expected financial results of the Airport. Those key factors and assumptions that are significant to the forecasts are set forth in the attachment, "Background, Assumptions, and Rationale for the Financial Forecasts." The attachment should be read in its entirety for an understanding of the forecasts and the underlying assumptions.

In our opinion, the underlying assumptions provide a reasonable basis for the forecasts. However, any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur. Therefore, there will be differences between the forecast and actual results, and those differences may be material. Neither LeighFisher nor any person acting on our behalf makes any warranty, express or implied, with respect to the information, assumptions, forecasts, opinions, or conclusions disclosed in this report. We have no responsibility to update this report to reflect events and circumstances occurring after the date of the report.

We appreciate the opportunity to serve as the City's Airport Consultant for the financing of the 2015-2018 Project.

Respectfully submitted,

LeighFisher

LEIGHFISHER

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Attachment

BACKGROUND, ASSUMPTIONS, AND RATIONALE
FOR THE FINANCIAL FORECASTS

REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

CITY OF AUSTIN, TEXAS

AIRPORT SYSTEM REVENUE BONDS
Series 2014(AMT) and 2016

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TABLES



FIGURES

FINANCIAL EXHIBITS

## AIRLINE TRAFFIC ANALYSIS

### AIRPORT FACILITIES

Austin-Bergstrom International Airport opened in 1999 at the site of the former Bergstrom Air Force Base, replacing Robert Mueller Municipal Airport. The 700-acre Mueller Airport site, approximately three miles from downtown Austin, was successfully redeveloped as a mixed-use urban community by the City of Austin under a public-private partnership agreement. The Mueller Airport property is not part of the Airport System.

ABIA is classified as a medium hub by the Federal Aviation Administration (FAA) and occupies a 4,240-acre site approximately eight miles southeast of downtown Austin. Airport access is provided by Texas State Highway 71 (SH 71), a six-lane divided highway running east-west, and U.S. Highway 183 (US 183), a four-lane divided highway running north south. SH 71 provides access to Interstate Highway 35 (I-35) approximately six miles to the west and Texas State Highway 130 (SH 130 Toll Road) approximately six miles to the east.

The Airport's parallel north-south runways, designated 17L-35R and 17R-35L, are 9,000 feet and 12,250 feet long, respectively, 150 feet wide, and capable of accommodating all aircraft now in commercial service. The runways are separated by 6,700 feet, allowing their use for the simultaneous arrival of aircraft in virtually all weather conditions.

#### Passenger Terminal and Apron

Figure 1 shows a site plan of the Airport's four-level, 681,000-square-foot Barbara Jordan passenger terminal and adjacent automobile parking facilities.

> Level 1, the baggage claim level, provides 126,000 square feet of space for baggage claim devices and lobby, rental car counters, and support facilities. The baggage claim level accommodates an 11,600-square-foot Customs and Border Protection (CBP) facility for the processing of international arriving passengers.
>
> Level 2, the apron level, provides 221,000 square feet of space for inbound and outbound baggage handling equipment and facilities, airline operations space, and other non-public areas. The apron level also provides a passenger holdroom for the ground-level loading of regional airline aircraft (Gate 1). The aircraft parking apron adjacent to the terminal provides approximately 56 acres for aircraft parking at the 25 terminal gates, as well as up to 28 "remain overnight" parking positions.
>
> Level 3, the concourse level, provides 271,000 square feet of space for airline check-in counters with lobby and queuing areas, airline offices, public

circulation areas, passenger security screening facilities, concessions, passenger holdrooms, restrooms, and supporting facilities. The concourse provides 23 loading bridge-equipped aircraft parking positions (gates) capable of accommodating up to B-757-size aircraft in domestic service, one loading bridge-equipped gate (Gate 2) capable of accommodating widebody aircraft in international service (providing access to the CBP facility), and access to Gate 1 at the apron level.

Level 4, the mezzanine level, provides 56,000 square feet of space for Aviation Department and other offices and airline club rooms. Above the mezzanine level is a 7,000-square-foot penthouse level with mechanical rooms.

As discussed in the later section, “2015-2018 Project,” the terminal has been or is to be expanded at the baggage claim, apron, and concourse levels to accommodate an additional seven gates, additional passenger security screening facilities, and larger CBP facilities.

Table 1 summarizes terminal gate use by airline in terms of average daily departures and departing seats per gate. Of the 25 gates at the terminal, 20 are leased on a preferential-use basis and 5 are operated by the City on a shared-use basis under the provisions of a City policy intended to make best use of the gates while ensuring the equitable treatment of all airlines. Gates 1, 2, and 3, which provide access to the CBP facility for arriving international passengers, are operated as shared-use gates.

### Automobile Parking

Approximately 12,070 public and 1,480 employee parking spaces are provided on Airport property in a three-level parking garage adjacent to the terminal and in surface lots served by shuttle buses. The parking garage provides 2,450 spaces for short-term and valet public parking on the first (ground) and second levels and 1,100 spaces on the third (roof) level for rental car ready-and-return parking. The first level of the garage is at the same level as the arrivals roadway and baggage claim level of the terminal. The third level of the garage is at the same level as the departures roadway and concourse level of the terminal.

A consolidated rental car garage now under construction will provide 3,200 rental car spaces and 900 public parking spaces on five levels. When the rental car garage opens (scheduled for September 2015), the 1,100 spaces on the third level of the existing garage will be converted to use for public parking so that the rental car garage project will result in a net increase of 2,100 spaces for rental car parking and 2,000 spaces for public parking.

As discussed in the later section, “2015-2018 Project,” a second parking garage with approximately 5,000 public parking spaces on five levels is to be constructed as part of the 2015-2018 Project.

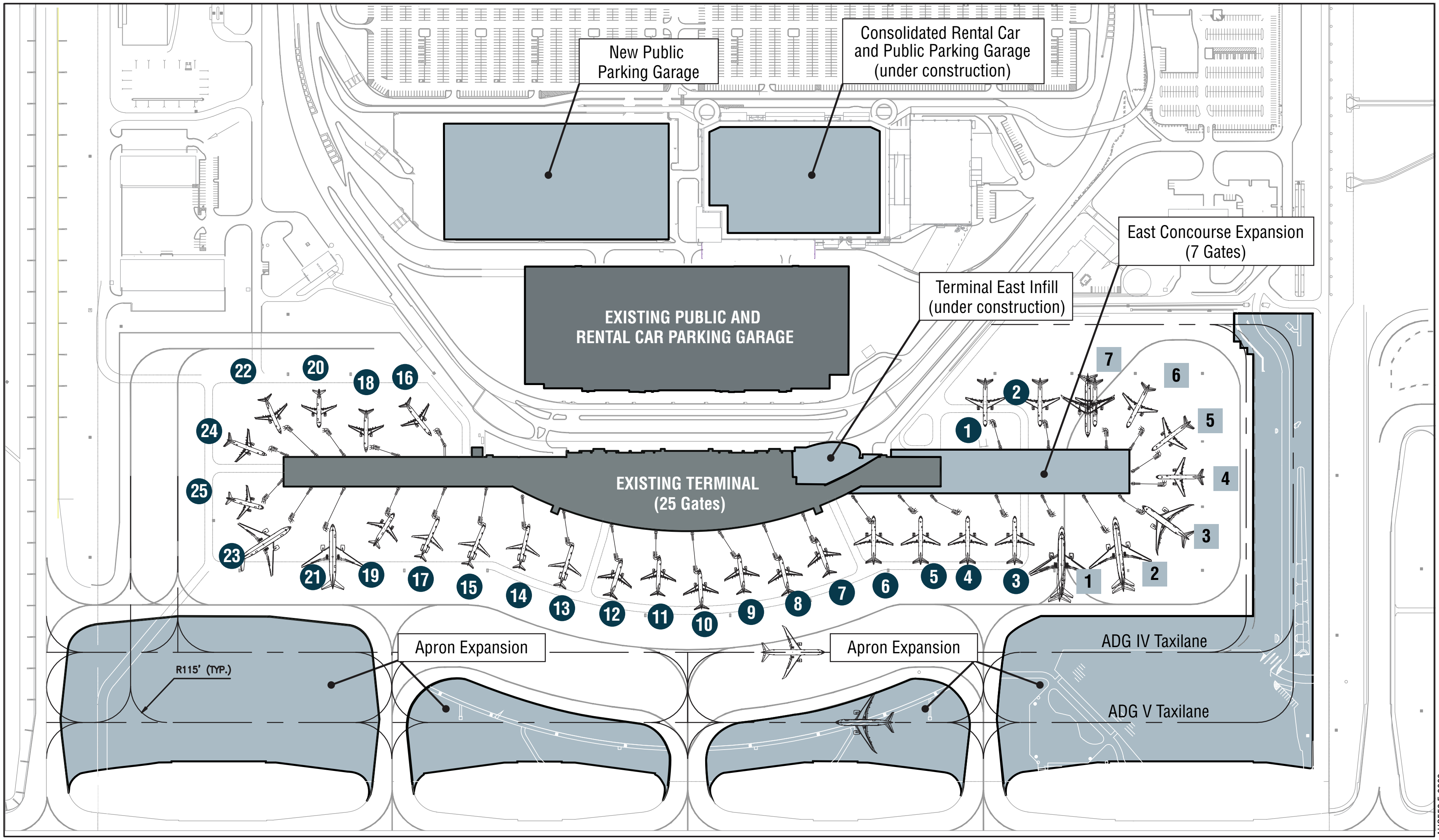



Figure 1

**PASSENGER TERMINAL AND 2015-2018 PROJECT**

Austin-Bergstrom International Airport

Table 1
**GATE DISTRIBUTION AND USE BY AIRLINE**
Austin-Bergstrom International Airport
July 2014

| | Number of gates | Average daily *(a)* Departures | Departures per gate | Departing seats | Departing seats per gate |
|---|---|---|---|---|---|
| Leased gates | | | | | |
| Southwest | 6 | 55.6 | 9.3 | 7,842 | 1,307 |
| American | 5 | 31.1 | 6.2 | 3,932 | 786 |
| United | 5 | 31.5 | 6.3 | 2,968 | 594 |
| Delta | 3 | 20.2 | 6.7 | 2,464 | 821 |
| JetBlue | 1 | 7.0 | 7.0 | 900 | 900 |
| Subtotal, leased gates | 20 | 145.4 | 7.3 | 18,106 | 905 |
| Shared-use gates | | | | | |
| Frontier | | 2.0 | | 276 | |
| Virgin America | | 1.7 | | 230 | |
| British Airways | | 1.0 | | 214 | |
| Alaska | | 1.0 | | 170 | |
| Allegiant | | 0.5 | | 91 | |
| Aeromar | | 0.7 | | 35 | |
| Subtotal, shared-use gates | 5 | 7.0 | 1.4 | 1,017 | 203 |
| Airport total | 25 | 152.4 | 6.1 | 19,123 | 765 |

Note: Columns may not add to totals shown because of rounding.

*(a)* Scheduled departures and seats on domestic and international flights. Some flights of the five Signatory Airlines operate from shared-use gates, so that the average numbers of departures and departing seats per gate shown overstate the true number for the 20 leased gates and understate the true numbers for the 5 shared-use gates.

Sources: Average daily departures and seats: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed July 2014.

Number of leased gates by airline (as of July 2014): City of Austin, Aviation Department records.

## Air Cargo

Air cargo facilities occupy approximately 61 acres on the northern boundary of the Airport site, adjacent to SH 71. Air freight and mail carried on all-cargo aircraft, which accounts for approximately 73% of air cargo enplaned and deplaned at the Airport, is handled at these facilities. Four air cargo buildings with a combined floor area of 230,000 square feet and 34 acres of apron for aircraft parking are provided. The facilities are managed by Aeroterm and Lynxs Group CargoPort. FedEx and UPS Air Cargo account for approximately 85% of air cargo at the Airport.

Air cargo carried in the bellies of passenger aircraft is handled at two buildings with a combined floor area of 60,000 square feet occupying 5 acres immediately west of the passenger terminal apron. These facilities are managed by Airport Facilities Company.

### General Aviation

General and business aviation at the Airport is served by two full-service fixed-base operators (FBOs), Atlantic Aviation Services and Signature Flight Support, at sites adjacent to Runway 17L-35R. Atlantic Aviation occupies a 47-acre site with five 12,000-square-foot hangars, a 14,000-square-foot terminal building, fuel storage facilities, and a 10-acre aircraft parking apron. Signature Flight Support occupies a 46-acre site with five 12,000-square-foot hangars, a 9,000-square-foot terminal building, fuel storage facilities, and a 9-acre aircraft parking apron. Three T-hangar buildings contiguous with the Signature Flight Support facility provide hangars for 54 aircraft. Approximately 120 general aviation aircraft are based at the Airport.

### Other Airport Facilities

**Texas State Department of Transportation.** The State Aviation Division's Flight Services Section occupies a 13-acre site east of Runway 17L-35R with aircraft hangars, fueling facilities, a terminal building, and an aircraft parking apron where aircraft used by State officials and employees are operated and maintained.

**Texas Air National Guard.** The Guard occupies a 60-acre site at the southern boundary of the Airport site for its Army Aviation Support Facility (AASF) with aircraft hangars and maintenance facilities, helicopter parking aprons, and administrative buildings. Adjacent to the site is a U.S. Armed Forces Reserve Center.

**Federal Aviation Administration.** An FAA Terminal Radar Approach Control (TRACON) facility is located at the Airport Traffic Control Tower.

**Aviation Support.** Support facilities include an aircraft fuel storage facility with two above-ground storage tanks with a combined capacity of 1.2 million gallons operated by Aircraft Service International Group; an airline ground service equipment (GSE) maintenance building; an in-flight catering building occupied by Sky Chefs; and Aviation Department operations, maintenance, and engineering facilities.

**Nonaeronautical facilities.** Nonaeronautical facilities on Airport property include a 262-room Hilton hotel at the entrance to the Airport, rental car service and storage facilities, and a City of Austin employee training facility (Learning and Research Center). Infrastructure is in place to support future commercial and other development.

## AIRPORT SERVICE REGION

### Primary Service Region

The Airport's primary service region is the 4,220-square-mile, 5-county Austin-Round Rock-San Marcos Metropolitan Statistical Area (the MSA), shown on Figure 2. According to the U.S. Department of Commerce, Bureau of the Census, the estimated population of the MSA in 2013 was 1,883,000.

### Competing Airports

As shown on Figure 2, the nearest airports classified as large or medium hub airports by the FAA are those serving San Antonio (a medium hub approximately 80 road miles to the southwest), Houston (approximately 160 miles to the east served by Houston Bush Intercontinental, a large hub, and Houston Hobby, a medium hub) and Dallas-Fort Worth (approximately 220 road miles to the north served by DFW International, a large hub, and Dallas Love Field, a medium hub).

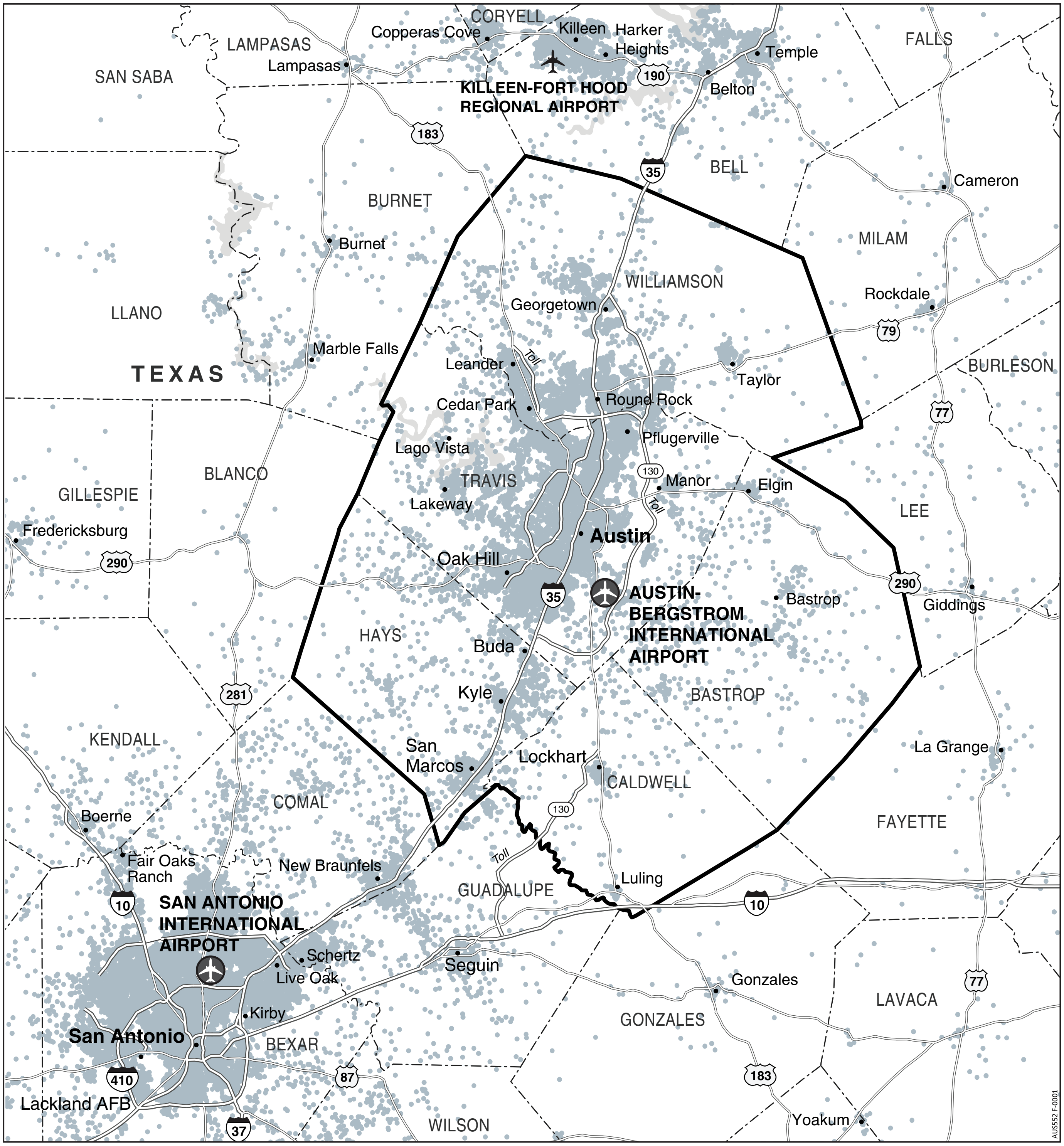
Table 2 provides data on airline service and passenger numbers at ABIA and selected other Texas airports.

San Antonio International Airport serves the San Antonio-New Braunfels MSA with a 2013 population of approximately 2.3 million (compared with approximately 1.9 million for the MSA served by ABIA). Passengers originating their journeys from the Austin and San Antonio airport service regions have airline service options from either airport. As shown in Table 2, in July 2014, 18% more scheduled departing seats were provided from ABIA than from San Antonio International and, between FY 2000 and FY 2013, the number of domestic originating passengers at ABIA increased 30% compared with 8% at San Antonio International.

Killeen-Fort Hood Regional Airport, 75 road miles to the north of the Airport, is classified as a nonhub airport by the FAA. The Killeen airport is conveniently accessible to northern parts of the MSA, but, as shown in Table 2, provides only limited regional airline service.

## ECONOMIC BASIS FOR AIRLINE TRAFFIC

In general, the population and economy of an airport's service region are the primary determinants of originating passenger numbers at the airport. Connecting passenger numbers are primarily determined by airline decisions to provide connecting service at the airport. As discussed in the later section "Historical Airline Traffic," only approximately 6% of ABIA's passengers are connecting between flights. Approximately 53% of originating passengers are residents of the MSA and 47% are visitors.




**LEGEND**

Airport Service Region (Austin-Round Rock-San Marcos Metropolitan Statistical Area)

Population density: 1 dot represents 100 people

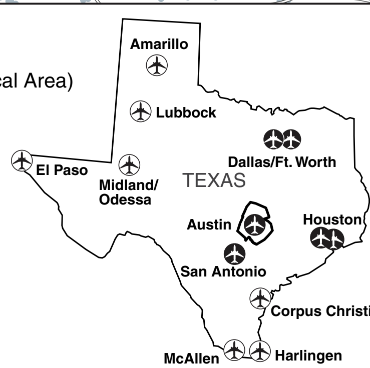
Large or medium hub airport as defined by the FAA for 2013

Small hub airport as defined by the FAA for 2013

Other commercial service airport

County boundary

Source: U.S. Census data, 2010.




N

7.5 0 7.5 15

Graphic Scale in Miles

| Road miles from Austin to: | |
|---|---|
| Corpus Christi | 221 |
| Dallas (Love) | 210 |
| Dallas/Ft. Worth (DFW) | 222 |
| Houston (Bush) | 161 |
| Houston (Hobby) | 167 |
| Killeen-Fort Hood | 75 |
| Midland/Odessa | 333 |
| San Antonio | 83 |

Figure 2

**AIRPORT SERVICE REGION**

Austin-Bergstrom International Airport

Table 2
**AIRLINE SERVICE AT SELECTED TEXAS AIRPORTS**
July 2014 and Fiscal Year ended September 30, 2013

| | AUS | DFW | IAH | HOU | DAL | SAT | GRK |
|---|---|---|---|---|---|---|---|
| Driving distance from AUS (miles) | -- | 222 | 161 | 167 | 210 | 83 | 75 |
| Average daily departing seats *(a)* | | | | | | | |
| Domestic | 17,593 | 93,984 | 51,844 | 21,845 | 16,839 | 14,202 | 673 |
| International | 174 | 13,825 | 17,266 | -- | -- | 911 | -- |
| Total | 17,767 | 107,810 | 69,110 | 21,845 | 16,839 | 15,113 | 673 |
| Average daily departures *(a)* | | | | | | | |
| Domestic | 149.4 | 845.0 | 558.9 | 172.6 | 128.5 | 118.3 | 13.3 |
| International | 3.0 | 96.0 | 139.3 | 0.1 | -- | 7.8 | -- |
| Total | 152.4 | 940.9 | 698.2 | 172.8 | 128.5 | 126.1 | 13.3 |
| Airports served nonstop *(a)* | | | | | | | |
| Domestic | 38 | 144 | 115 | 49 | 19 | 28 | 3 |
| International | 4 | 53 | 69 | -- | -- | 5 | -- |
| Total | 42 | 197 | 184 | 49 | 19 | 33 | 3 |
| Domestic outbound O&D passengers (in thousands) *(b)* | | | | | | | |
| FY 2000 | 3,198 | 10,196 | 5,537 | 3,300 | 2,839 | 3,076 | 91 |
| FY 2013 | 4,141 | 10,452 | 6,032 | 3,605 | 2,813 | 3,313 | 157 |
| Percent change | 29.5% | 2.5% | 8.9% | 9.2% | (0.9)% | 7.7% | 73.5% |

AUS = Austin-Bergstrom International Airport
DFW = Dallas/Fort Worth International Airport
IAH = George Bush Intercontinental Airport
HOU = William P. Hobby Airport
DAL = Dallas Love Field
SAT = San Antonio International Airport
GRK = Killeen-Fort Hood Regional Airport
O&D = Origin and destination

Note: Columns may not add to totals shown because of rounding.

*(a)* OAG Aviation Worldwide Ltd, OAG Analyser database, accessed July 2014. Data shown are for scheduled domestic and international service in July 2014.
*(b)* U.S. Department of Transportation, Air Passenger Origin-Destination Survey, reconciled to Schedules T100 and 298C T1, accessed July 2014. Data shown are for the 12 months ended September 30, 2013.

The following sections provide a discussion of the economic basis for passenger traffic at the Airport in terms of historical socioeconomic indicators for the MSA and the economic profile of the MSA by industry sector.

## Historical Socioeconomic Indicators

Table 3 shows historical data on population, nonagricultural employment, and per capita income for the MSA and the nation.

Table 3
**HISTORICAL SOCIOECONOMIC DATA**
Austin-Round Rock-San Marcos MSA and United States

| | Population (thousands) *(a)* | | Nonagricultural employment (thousands) *(b)* | | Per capita income (2013 dollars) *(c)* | |
|---|---|---|---|---|---|---|
| | MSA | United States | MSA | United States | MSA | United States |
| 1990 | 852 | 249,464 | 389 | 109,487 | $31,660 | $34,402 |
| 2000 | 1,265 | 282,162 | 673 | 131,881 | 43,815 | 40,782 |
| 2001 | 1,321 | 284,969 | 674 | 131,919 | 42,418 | 40,868 |
| 2002 | 1,348 | 287,625 | 658 | 130,450 | 40,500 | 40,584 |
| 2003 | 1,376 | 290,108 | 653 | 130,100 | 40,044 | 40,774 |
| 2004 | 1,410 | 292,805 | 667 | 131,509 | 40,319 | 41,689 |
| 2005 | 1,453 | 295,517 | 692 | 133,747 | 41,441 | 42,190 |
| 2006 | 1,515 | 298,380 | 723 | 136,125 | 42,612 | 43,421 |
| 2007 | 1,578 | 301,231 | 758 | 137,645 | 42,099 | 44,076 |
| 2008 | 1,634 | 304,094 | 777 | 136,852 | 42,828 | 43,586 |
| 2009 | 1,682 | 306,772 | 760 | 130,876 | 40,897 | 42,143 |
| 2010 | 1,728 | 309,326 | 770 | 129,917 | 41,074 | 42,268 |
| 2011 | 1,782 | 311,583 | 796 | 131,497 | 42,503 | 43,208 |
| 2012 | 1,835 | 313,874 | 827 | 133,739 | 44,517 | 44,200 |
| 2013 | 1,883 | 316,129 | 864 | 135,930 | 44,114 | 44,119 |
| | Average annual percent increase (decrease) | | | | | |
| 1990-2000 | 4.0% | 1.2% | 5.6% | 1.9% | 3.3% | 1.7% |
| 2000-2003 | 2.8 | 0.9 | (1.0) | (0.5) | (3.0) | (0.0) |
| 2003-2007 | 3.5 | 0.9 | 3.8 | 1.4 | 1.3 | 2.0 |
| 2007-2010 | 3.1 | 0.9 | 0.5 | (1.9) | (0.8) | (1.4) |
| 2010-2013 | 2.9 | 0.7 | 3.9 | 1.5 | 2.4 | 1.4 |

MSA = Metropolitan Statistical Area comprising the 5 counties shown on Figure 2 for all years.

Notes: Population numbers are estimated as of July 1 each year.
Calculated percentages may not match those shown because of rounding.

*(a)* Source: U.S. Department of Commerce, Bureau of the Census, www.census.gov, accessed June 2014.

*(b)* Source: U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed June 2014.

*(c)* Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov, accessed November 2014. Adjusted to 2013 dollars using the U.S. Department of Labor *Consumer Price Index for All Urban Consumers*.

**Population.** Since 1990, the MSA has been one of the fastest growing major metropolitan areas in the nation. Between 1990 and 2000, the population of the MSA increased an average of 4.0% per year, compared with an increase of 1.2% per year for the nation. Between 2000 and 2013, the population of the MSA increased an average of 3.1% per year, compared with an increase of 0.9% per year for the nation. Much of the MSA population growth resulted from in-migration caused by employment opportunities, a relatively low cost of living, and a high quality of life.

**Nonagricultural Employment.** The MSA has similarly experienced much stronger growth in employment than for the nation as a whole. During and after the 2001 recession, MSA employment decreased more than for the nation as a whole, but since 2003, employment growth has been consistently stronger than for the nation. Employment in the MSA increased 16.1% between 2003 and 2007 (compared with a 5.8% increase for the nation), was less affected by the 2008-2009 recession, increasing 1.6% between 2007 and 2010 (compared with a 5.6% decrease for the nation), and increased 12.2% between 2010 and 2013 (compared with a 4.6% increase for the nation). Employment by industry sector is discussed in the later section "Economic Profile by Industry Sector."

**Unemployment Rates.** As shown on Figure 3, average unemployment rates for the MSA were consistently lower than those for the United States as a whole during the 1990s. However, the 2001 recession affected the MSA more severely than the nation, and MSA unemployment rates were similar to national rates between 2001 and 2007. The unemployment rate in the MSA increased sharply beginning in the third quarter of 2008, later than experienced in most of the nation, and peaked at 7.3% in the first quarter of 2010 (compared with a peak rate of 10.4% for the nation). Since then, the unemployment rate in the MSA has again been consistently lower than for the nation as a whole. In the second quarter of 2014, the MSA unemployment rate was 4.1%, compared with a national rate of 6.1%.

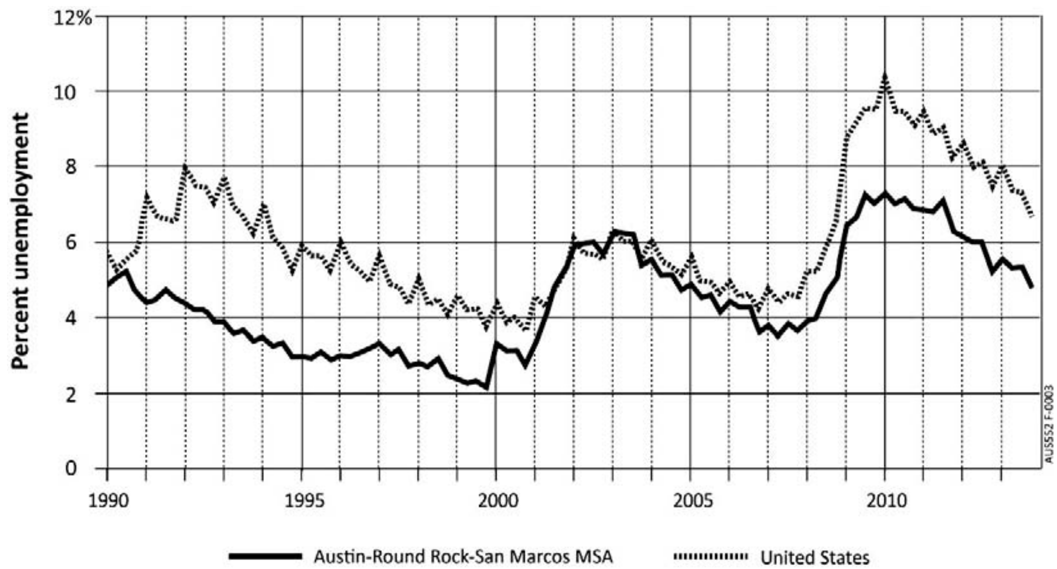
**Per Capita Income.** Strong economic growth in the MSA during the 1990s resulted in an average increase in per capita income of 3.3% per year, compared with 1.7% per year for the nation as a whole. However, between 2000 and 2010, per capita income for the MSA decreased an average of 0.6% per year (compared with an increase of 0.4% per year for the nation). Between 2010 and 2013, per capita income for the MSA recovered, increasing an average of 2.4% per year (compared with 1.4% per year for the nation).

**Cost of Living.** While inflation-adjusted per capita income for the MSA has decreased since 2000, the MSA has consistently had a lower cost of living than the nation as a whole, a key factor in attracting businesses and residents. The American Chamber of Commerce Researchers Association (ACCRA) reported a composite first quarter 2014 cost of living index of 95.4 for Austin, compared with a national index of 100.0. In particular, Austin ranks lower in housing costs. The first quarter 2014 ACCRA cost-of-housing index showed that average housing costs were 9.8% lower for Austin than for the nation as a whole.

Figure 3

**TRENDS IN UNEMPLOYMENT RATES**

Austin-Round Rock-San Marcos MSA and United States




Note: Data shown are 3-month moving averages of monthly unemployment rate data.

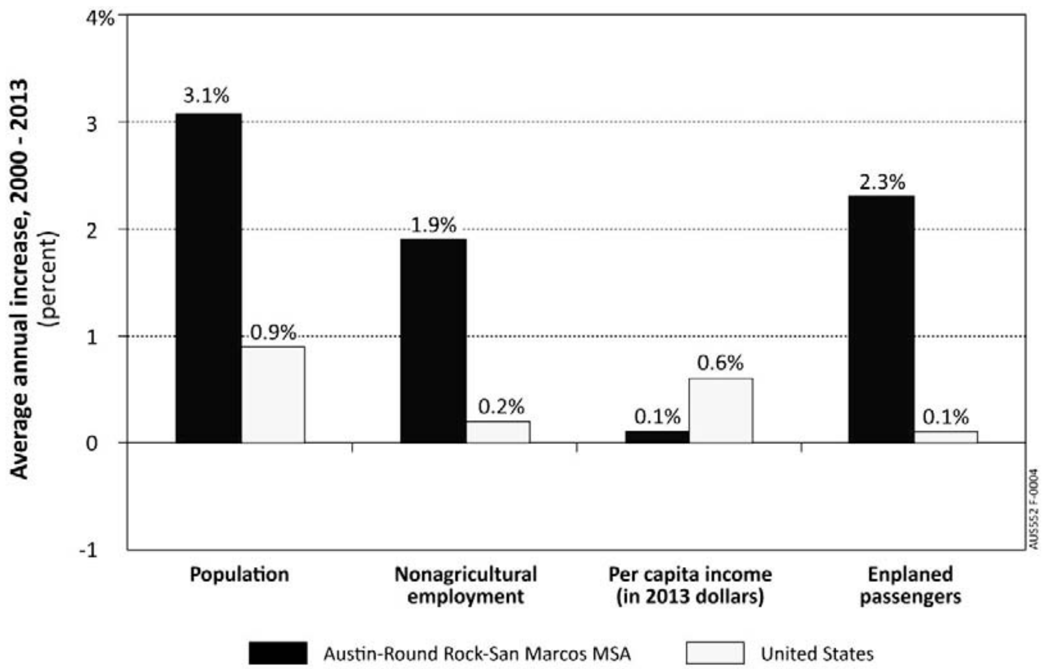
Source: U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed June 2014.

**Historical Socioeconomic Indicators and Enplaned Passengers.** Figure 4 presents a comparison of historical growth rates for population, nonagricultural employment, per capita income, and enplaned passengers in the MSA and the United States between 2000 and 2012 (the most recent year for which complete data are available.) Over the 12 years, enplaned passenger numbers at the Airport increased at an average annual rate of 2.0%, comparable to the rates for population and employment in the MSA.

Figure 4

**CHANGES IN ECONOMIC INDICATORS AND ENPLANED PASSENGERS**

Austin-Round Rock-San Marcos MSA and United States




Sources: Population: U.S. Department of Commerce, Bureau of the Census, www.census.gov, accessed June 2014.

Employment: U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed June 2014.

Per capita income: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov, accessed November 2014. Adjusted to 2013 dollars using the U.S. Department of Labor, *Consumer Price Index for All Urban Consumers*.

Enplaned passengers: City of Austin, Department of Aviation and U.S. Department of Transportation, Schedule T100, accessed July 2014.

## Economic Profile by Industry Sector

Table 4 presents the percentage distribution of nonagricultural employment by industry sector in the MSA and the nation in 1990, 2000, 2007 (before the 2008-2009 recession), 2010, and 2013. Table 5 lists the largest private employers in the MSA in 2013. The companies listed accounted for approximately 10% of total nonagricultural employment in the MSA in 2013, with the remaining 90% accounted for by smaller businesses and organizations and public sector employers. The following sections provide a summary of each industry sector, discussed in order of MSA employment share.

Table 4

**DISTRIBUTION OF NONAGRICULTURAL EMPLOYMENT BY INDUSTRY SECTOR**

Austin-Round Rock-San Marcos MSA and United States

| | Austin-Round Rock-San Marcos MSA | | | | | United States | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1990 | 2000 | 2007 | 2010 | 2013 | 1990 | 2000 | 2007 | 2010 | 2013 |
| Services | | | | | | | | | | |
| Professional and business | 9.4% | 13.7% | 14.0% | 14.2% | 15.5% | 9.9% | 12.6% | 13.0% | 12.9% | 13.6% |
| Education and health | 9.3 | 9.3 | 10.2 | 11.4 | 11.7 | 10.0 | 11.5 | 13.3 | 15.1 | 15.5 |
| Leisure and hospitality | 9.0 | 9.0 | 10.4 | 11.1 | 11.7 | 8.5 | 9.0 | 9.8 | 10.0 | 10.4 |
| Other | 4.0 | 3.3 | 3.7 | 4.3 | 4.4 | 3.9 | 3.9 | 4.0 | 4.1 | 4.0 |
| Subtotal services | 31.7% | 35.2% | 38.3% | 41.0% | 43.2% | 32.3% | 37.0% | 40.1% | 42.1% | 43.5% |
| Government | 28.6 | 20.3 | 20.7 | 22.1 | 19.6 | 16.8 | 15.8 | 16.1 | 17.3 | 16.0 |
| Trade, transportation, and utilities | 15.6 | 17.1 | 17.9 | 17.6 | 17.6 | 20.7 | 19.9 | 19.4 | 19.0 | 19.0 |
| Manufacturing | 12.2 | 12.3 | 7.9 | 6.2 | 6.0 | 16.2 | 13.1 | 10.1 | 8.9 | 8.8 |
| Financial activities | 5.9 | 5.2 | 5.9 | 5.5 | 5.6 | 6.0 | 5.8 | 6.0 | 5.9 | 5.8 |
| Mining, logging, and construction | 3.4 | 6.1 | 6.5 | 5.2 | 5.2 | 5.5 | 5.6 | 6.1 | 4.8 | 4.9 |
| Information | 2.7 | 3.6 | 2.9 | 2.5 | 2.7 | 2.5 | 2.8 | 2.2 | 2.1 | 2.0 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Total employment (thousands) | 389 | 673 | 758 | 770 | 864 | 109,487 | 131,881 | 137,645 | 129,917 | 135,930 |

MSA = Metropolitan Statistical Area comprising the 5 counties shown on Figure 2 for all years

Notes: Columns may not add to totals shown because of rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed July 2014.

Table 5
**LARGEST AUSTIN AREA PRIVATE SECTOR EMPLOYERS**
2013

| | Company | Head-quartered in area | Fortune 500 company | Principal industry | Number of area employees |
|---|---|---|---|---|---|
| 1 | Dell, Inc. | * | *(a)* | Computer technology | 14,000 |
| 2 | Seton Healthcare Family | | | Health-care services | 12,600 |
| 3 | HEB Grocery Company | | | Supermarkets | 11,300 |
| 4 | St. David's Healthcare | * | | Health-care services | 8,000 |
| 5 | IBM Corporation | | * | Information technology | 6,000 |
| 6 | Freescale Semiconductor, Inc. | * | | Semiconductors | 4,000 |
| 7 | Apple, Inc. | | * | Information technology | 3,000 |
| 8 | Harden Healthcare, Inc. | * | | Health-care services | 2,800 |
| 9 | National Instruments Corporation | * | | Computer technology | 2,800 |
| 10 | Samsung Austin Semiconductor, LLC | | | Semiconductors | 2,500 |
| 11 | Advanced Micro Devices, Inc. | | * | Semiconductors | 2,000 |
| 12 | Flextronics America | | | Electronic manufacturing services | 2,000 |
| 13 | Keller Williams Realty, Inc. | * | | Real estate | 2,000 |
| 14 | Time Warner Cable, Central Texas | | * | Telecommunications | 1,700 |
| 15 | Austin Regional Clinic PA | * | | Health-care services | 1,700 |
| 16 | Sears TeleServ Center | | * | Department store call center | 1,500 |
| 17 | Intel Corporation | | * | Semiconductors | 1,400 |
| 18 | Wells Fargo | | * | Financial services | 1,400 |
| 19 | Goodwill Industries of Central Texas, Inc. | * | | Department store (nonprofit) | 1,200 |
| 20 | Randall's Food Markets, Inc. | | | Supermarkets | 1,200 |

Notes: Ranking of area employers based on number of employees as of June 2013. Government entities are not shown.

*(a)* Dell was a Fortune 500 company in 2013 and earlier, but was not listed in 2014 because it is no longer a publicly held company.

Sources: Company ranking: *Austin Business Journal*, "2014 Book of Lists." Only companies that responded to the survey are included. Whole Foods Market, Inc. is headquartered in Austin and is a Fortune 500 company, but did not respond.

Status as a Fortune 500 company for 2014: www.fortune.com, accessed July 2014.

**Services**. As in the United States as a whole, the services sector (professional, business, education, health, leisure, hospitality, and other services combined) is the largest industry sector in the MSA. Since 1990, the services sector has accounted for over half of the increase in MSA employment. The sector accounted for 43.2% of MSA employment in 2013, an increase from 31.7% in 1990.

In contrast to most other industry sectors, the services sector added jobs between 2007 and 2010, and strong growth continued between 2010 and 2013. Over the 2007-2013 period as a whole, 83,400 service sector jobs were added in the MSA, 28,300 in the professional and business subsector, 23,500 in the education and health subsector, 22,100 in the leisure and hospitality subsector, and 4,200 in the other services subsector.

Dell, headquartered in Round Rock, is the MSA's largest private sector employer, developing and manufacturing computer technology solutions and products. Other major employers engaged in engineering, design, research, and development in the computer, data analytics, information technology and other high-technology industries are Apple, Advanced Micro Devices, Applied Materials, Hewlettt-Packard, IBM, Intel, National Instruments, Oracle, and Samsung.

The University of Texas at Austin, with a 2013 student enrollment of approximately 52,000, is the fifth largest public university in the nation and employs approximately 24,000 people. The university is known as a world-class center of education and research and is an important contributor to the region's economy. In 2013, approximately another 130,000 students were enrolled at 28 other universities and colleges in the region. Other four-year colleges and universities in the MSA include Texas State University, St. Edward's University, Southwestern University, and Concordia University. Community colleges and technical schools include Austin Community College and Central Texas College.

Austin's population is young, with 68% of the 2012 population under 45 (compared with 60% for the nation as a whole), and educated, with 41% of the adult population of the MSA holding a bachelor's or more advanced degree (compared with 29% for the nation).

According to the Austin Chamber of Commerce, the Austin area has 36 hospitals providing 4,600 beds, with the health care industry supporting approximately 84,000 jobs. Major health care employers are Seton Healthcare Family, St. David's Healthcare, Austin Regional Clinic, and Baylor Scott and White.

Research activities at the University of Texas at Austin and other universities and colleges have been the catalyst for the development of life sciences industries in the MSA. Approximately 190 companies provide 11,000 jobs in the biotechnology, pharmaceutical, medical device, healthcare information technology, and related industries. According to an economic analysis by TXP, Inc., development of the new Dell Medical School at the University of Texas, scheduled to accept its first class in 2016, is expected to result in the addition of 6,900 jobs in the health services subsector.

Tourism has become an important contributor to the MSA's economy. Austin bills itself as the "Live Music Capital of the World." Each spring the city hosts the South by Southwest (SXSW) Music-Film-Interactive conference and festival and each fall, it hosts the Austin City Limits Music Festival, a two-week-long celebration of music performance. In 2012, the 1,500-acre Circuit of the Americas motorsports venue opened. The venue hosts the annual U.S Formula One Grand Prix race among other sports and entertainment events. The Austin Convention Center in downtown Austin provides 370,000 square feet of exhibit and meeting space convenient to 6,500 downtown hotel rooms.

**Government.** Austin is the capital of Texas, and the government sector accounted for 19.6% of MSA employment in 2013, compared with 16.0% for the nation as a whole. Government's share of MSA employment has decreased, from 28.6% in 1990, as the economy has diversified. In 2013, local government accounted for approximately 50% of government sector jobs, State government for 43%, and the federal government for 7%. Between 2007 and 2010, 13,400 jobs were added in the government sector (the only industry sector besides services to experience an increase during the recession).

The State of Texas is the largest single employer in the MSA, with 48,000 employees (excluding the 24,000 employees at the University of Texas who are accounted for in the services sector). An Internal Revenue Service regional processing center is the largest single federal employer, with 5,000 employees. The largest local government employers are the City of Austin and the Austin and Round Rock independent school districts.

**Trade, Transportation, and Utilities.** The trade, transportation, and utilities sector accounts for a smaller share of employment in the MSA (17.6% in 2013) than in the nation as a whole (19.0%). Employment in the sector increased by 20,900 jobs between 2000 and 2007 and a further 16,400 jobs between 2007 and 2013.

International trade is an important component of the MSA economy. Exports from the MSA include semiconductors, electronics, software, and information technology. A foreign trade zone covers the MSA and provides for the establishment of secure sites to allow qualifying export-import businesses to defer or avoid U.S. Customs duties and certain other taxes. The economy of the MSA benefited from the 1993 passage of North American Free Trade Agreement (NAFTA), which reduced tariffs and trade barriers among Canada, Mexico, and the United States. The MSA's location on I-35 positions it to benefit particularly from trade with Mexico. Other important international trading partners are China, Taiwan, Malaysia, and South Korea.

**Manufacturing.** The manufacturing sector accounted for 6.0% of MSA employment in 2013, a lower share than for the nation as a whole (8.8%). MSA employment in the manufacturing sector decreased by 23,100 jobs between 2000 and 2007 and by a further 12,100 jobs between 2007 and 2010 before recording an increase of 4,600 jobs between 2010 and 2013. Over the 2007-2013 period as a whole, MSA employment in the manufacturing sector decreased by 7,500 jobs, the largest decrease in any sector.

Key manufacturers in the MSA are those producing computer, semiconductor, and electronic products. MSA employers in these industries include Dell, Applied Materials, Flextronics, Freescale Semiconductor, National Instruments, Samsung, Spansion, and 3M. Although still the largest private sector employer in the MSA, Dell has reduced its manufacturing employment in the MSA since 2007 as its share of the personal computer market has decreased and it has moved manufacturing overseas.

**Financial Activities.** The financial activities sector accounted for 5.6% of MSA employment in 2013, close to the share for the nation as a whole (5.8%). Between 2000 and 2007, employment in the sector increased by 9,400 jobs. As a result of the national banking and credit crisis, between 2007 and 2010, the sector lost 2,200 jobs. Between 2010 and 2013, the sector fully recovered, gaining 5,700 jobs. Large employers in the sector are Charles Schwab, JP Morgan Chase, Progressive Insurance, State Farm Insurance, and Wells Fargo.

**Mining, Logging, and Construction.** The mining, logging, and construction sector accounted for 5.2% of MSA employment in 2013, higher than the sector's 2013 share of employment in the nation as a whole (4.9%).

Decreases in construction employment in the MSA during the 2008-2009 recession were smaller than in the nation as a whole, and housing prices were reduced less (in part because housing prices in the MSA did not increase as much as those in the nation during the residential housing boom). Employment in the sector decreased 18.4% (9,000 jobs) between 2007 and 2010, compared with a 25.4% decrease in the nation as a whole. Between 2010 and 2013, sector employment the MSA increased by 5,100 jobs, but was still below pre-recession levels.

**Information.** The information sector accounted for 2.7% of MSA employment in 2013, higher than its share of national employment (2.0%). Between 2007 and 2013 the sector had a small net gain of 1,400 jobs. Large information sector employers in the MSA are AT&T, IBM, Hewlett-Packard, IBM, Intel, Oracle, Time Warner Cable, and Visa.

## ECONOMIC OUTLOOK

### Outlook for the U.S. Economy

Between the fourth quarter of 2007 and the second quarter of 2009, the U.S. economy, as measured by real gross domestic product (GDP), contracted 4.1%. National GDP growth resumed in the second half of 2009, but economic growth since then has not been strong enough to replace the jobs lost during the 2008-2009 recession.

Continued U.S. economic growth will depend on, among other factors, recovery in the housing market, the effectiveness of monetary stimulus, the health of the financial and credit markets, the strength of the U.S. dollar versus other currencies, energy prices, the ability of the federal government to reduce historically high deficits, inflation remaining within the range targeted by the Federal Reserve, and the economic health of trading partners.

The Perryman Group published forecasts for the national economy in January 2014. As shown in Table 6, nationwide nonagricultural employment is forecast to increase 1.7% in 2014 and at an average annual rate of 1.6% in 2013 through 2018.

Table 6
**EMPLOYMENT FORECASTS**
Austin-Round Rock-San Marcos MSA and United States

| | Historical average annual increase 2000-2013 *(b)* | Forecast annual increase *(a)* 2013-2014 | 2013-2018 |
|---|---|---|---|
| Nonagricultural employment | | | |
| Austin-Round Rock-San Marcos MSA *(c)* | 1.9% | 2.9% | 2.5% |
| United States | 0.2 | 1.7 | 1.6 |

MSA = Metropolitan Statistical Area comprising the 5 counties shown on Figure 2 for all years

Note: Calculated percentages may not match those shown because of rounding.

*(a)* Source: The Perryman Group: *The Perryman Economic Forecast, Winter 2013,* January 2014.
*(b)* Source: U.S. Department of Labor, Bureau of Labor Statistics (see Table 2).
*(c)* Forecast growth rate for wage and salary employment.

## Outlook for the Austin-Round Rock-San Marcos MSA Economy

The Austin-Round Rock-San Marcos MSA experienced the effects of economic recession between 2007 and 2010, although job losses in the MSA were much less severe than for the nation as a whole and recovery from the recession was stronger. Indeed, the MSA's economy has had one of the strongest recoveries among the nation's 50 largest MSAs. The MSA's nonagricultural employment in 2013 was 14.0% higher in 2013 than the 2007 pre-recession level. For the nation, employment in 2013 was still 1.2% lower than in 2007.

Continued economic growth in the MSA will generally depend on the same factors as listed in the preceding section for the nation, although the MSA is seen as having particular advantages that will underpin its economic prosperity, in particular a business-friendly economic environment, relatively low living costs, and a quality of life that will allow a young, well-educated labor force to be attracted and retained. Industries that Austin targets for growth are advanced manufacturing, clean energy and power technologies, data management, life sciences, and creative and digital media.

As shown in Table 6, The Perryman Group forecasts that nonagricultural employment in the MSA will increase 2.9% in 2014 and then increase at a higher average rate (2.5%) than in the nation (1.6%) between 2013 and 2018.

## HISTORICAL AIRLINE TRAFFIC

### Enplaned Passengers

Table 7 presents historical data on numbers of enplaned passengers and passenger aircraft departures at the Airport. All data in this section are presented by the City's Fiscal Year (FY) ended September 30.

Between FY 2000 and FY 2003, the number of enplaned passengers at the Airport decreased 10.2% as a result of the 2001 economic recession and the decline in airline travel following the September 11, 2001, attacks. With the return of passenger confidence in the security of airline travel and the widespread availability of low fares, traffic growth returned. Between FY 2003 and FY 2008, enplaned passenger numbers at the Airport increased an average of 6.4% per year, compared with 3.3% per year for the nation as a whole.

Between FY 2008 and FY 2009, enplaned passenger numbers at the Airport decreased 8.2% as the airlines reduced seat capacity in response to the contraction of demand during the 2008-2009 recession and increases in operating expenses. With the resumption of economic growth, enplaned passenger numbers at the Airport increased an average of 4.7% per year between FY 2009 and FY 2013, with the passenger number in FY 2013 exceeding the FY 2007 pre-recession number by 15.6%. For the nation as a whole, the number of enplaned passengers in FY 2013 was still 1.4% below the FY 2007 number. The Airport accounted for 0.7% of passengers enplaned at all U.S. airports in FY 2013, an increase from 0.5% in FY 2000.

In FY 2013, approximately 94% of enplaned passengers at the Airport originated their airline travel at the Airport and 6% connected between flights.

Since 2001, growth in passenger numbers at ABIA has been among the strongest at medium-sized U.S. airports. Among the 33 U.S. airports classified as medium hubs by the FAA (those with between approximately 2 million and 6 million enplaned passengers in 2013), ABIA had the largest absolute increase in the number of enplaned passengers between 2001 and 2013. Between FY 2013 and FY 2014, the number of enplaned passengers at the Airport increased 7.0%. FY 2014 passenger data for the nation are not yet available.

Since FY 2000, the number of passenger aircraft departures has increased an average rate lower than the rate of increase in enplaned passengers as the average seating capacity of airline aircraft serving the Airport and passenger load factors have both increased. The average number of passengers per departure increased from 79 in FY 2000 to 102 in FY 2014.

### Airline Competition and Market Shares

Table 8 lists historical airline shares of enplaned passengers. Nine of the 10 largest mainline U.S. passenger airlines (all except Spirit Airlines) served the Airport as of July 2014. In all discussions of airline service and passenger traffic by airline in this report, unless otherwise noted, data for merged airlines are accounted for with the surviving airline (i.e., America West Airlines, Trans World Airlines, and US Airways with American; Northwest Airlines with Delta Air Lines; Continental Airlines with United Airlines; Midwest Airlines with Frontier Airlines; and AirTran Airways with Southwest Airlines).

Table 7
**HISTORICAL ENPLANED PASSENGERS AND AIRCRAFT DEPARTURES**
Austin-Bergstrom International Airport
Fiscal Years ended September 30

| Fiscal Year | Enplaned passengers *(a)* | Annual increase (decrease) | Passenger aircraft departures | | Enplaned passengers per departure |
|---|---|---|---|---|---|
| | | | Annual | Average daily | |
| 2000 | 3,655,588 | | 46,260 | 126 | 79 |
| 2001 | 3,679,949 | 0.7% | 45,326 | 124 | 81 |
| 2002 | 3,264,847 | (11.3) | 41,959 | 115 | 78 |
| 2003 | 3,282,670 | 0.5 | 43,747 | 120 | 75 |
| 2004 | 3,482,196 | 6.1 | 47,207 | 129 | 74 |
| 2005 | 3,715,811 | 6.7 | 48,668 | 133 | 76 |
| 2006 | 3,981,081 | 7.1 | 50,663 | 139 | 79 |
| 2007 | 4,262,698 | 7.1 | 53,828 | 147 | 79 |
| 2008 | 4,473,485 | 4.9 | 56,597 | 155 | 79 |
| 2009 | 4,107,593 | (8.2) | 47,848 | 131 | 86 |
| 2010 | 4,256,806 | 3.6 | 46,745 | 128 | 91 |
| 2011 | 4,524,641 | 6.3 | 48,398 | 133 | 93 |
| 2012 | 4,662,738 | 3.1 | 48,372 | 132 | 96 |
| 2013 | 4,928,979 | 5.7 | 50,554 | 139 | 97 |
| 2014 | 5,275,464 | 7.0 | 51,877 | 142 | 102 |
| | Average annual percent increase (decrease) | | | | |
| 2000-2003 | (3.5)% | | (1.8)% | | |
| 2003-2008 | 6.4 | | 5.3 | | |
| 2008-2009 | (8.2) | | (15.5) | | |
| 2009-2014 | 5.1 | | 1.6 | | |

Note: Calculated percentages may not match those shown because of rounding.

*(a)* Excludes through passengers.

Source: City of Austin, Aviation Department records.

Table 8
**HISTORICAL AIRLINE SHARES OF ENPLANED PASSENGERS**
Austin-Bergstrom International Airport
Fiscal Years ended September 30

| Airline *(a)* | 2000 | 2005 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|
| Southwest | 34.6% | 33.1% | 36.8% | 36.8% | 37.8% | 39.0% | 38.1% |
| American | 33.2 | 30.3 | 25.5 | 24.8 | 24.0 | 23.4 | 22.4 |
| United | 16.4 | 14.1 | 16.4 | 16.3 | 16.7 | 16.0 | 16.5 |
| Delta | 14.9 | 15.5 | 10.4 | 11.4 | 11.8 | 12.1 | 12.2 |
| JetBlue | -- | -- | 5.8 | 5.9 | 6.1 | 6.3 | 5.6 |
| Frontier | -- | 2.2 | 2.5 | 2.7 | 2.3 | 1.7 | 1.8 |
| Alaska | -- | -- | 2.4 | 2.1 | 1.2 | 1.1 | 1.1 |
| Virgin America | -- | -- | -- | -- | -- | 0.3 | 0.9 |
| British Airways | -- | -- | -- | -- | -- | -- | 0.7 |
| Allegiant | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.6 |
| Aeromar | -- | -- | -- | -- | -- | -- | 0.1 |
| Other *(b)* | 0.9 | 4.7 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| Airport total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Notes: Columns may not add to totals shown because of rounding. Shares include any affiliates of airlines shown.
Percentages of "0.0" indicate a value of less than 0.05%.

*(a)* Includes regional affiliates.
*(b)* The high percentage for 2005 is mainly accounted for by Mesa Airlines and SkyWest Airlines, which operated as affiliates of various Signatory Airlines

Source: City of Austin, Department of Aviation records.

## Domestic Airline Service by Destination

Table 9 presents data on the top 25 city markets as ranked by domestic originating passengers at the Airport in FY 2013. Also shown are the numbers of average daily scheduled seats and departures by airport as scheduled for July 2014 and the airlines providing nonstop service from the Airport. Daily nonstop service was provided from the Airport to 24 of the 25 markets (all except Kansas City) and competing service by two or more airlines was provided to 13 of the 25 markets. Airports for which there is a large difference between the numbers of originating passengers and departing seats (e.g., Dallas/Fort Worth) are hubs at which many passengers from ABIA connect to other flights. Figure 5 shows the airports served nonstop from the Airport in July 2014.

## International Airline Service

Effective March 2014, British Airways began daily nonstop service from the Airport to London Heathrow with 214-seat B-787 aircraft. Other year-round international service is provided to Cancun by Southwest (with 143-seat B-737 aircraft) and to Mexico City by Aeromar (with 50-seat CRJ-200 aircraft).

Table 9
**SCHEDULED DOMESTIC AIRLINE SERVICE BY DESTINATION**
Austin-Bergstrom International Airport

| Originating passenger rank FY 2013 | City and airport | Air miles from ABIA | FY 2013 (ended September 30) *(a)* | | July 2014 *(b)* | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Average daily originating passengers | Percent of originating passengers | Average daily scheduled seats | Average daily scheduled departures | Average seats per departure | Airlines providing nonstop service *(c)* |
| 1 | San Francisco | | | | | | | |
| | San Francisco | 1,501 | 495 | 4.4% | 730 | 6.4 | 114 | United, Virgin America |
| | San Jose (Mineta) | 1,472 | 235 | 2.1 | 244 | 1.7 | 143 | Southwest |
| | Oakland | 1,494 | 102 | 0.9 | 143 | 1.0 | 143 | Southwest |
| | Subtotal | | 831 | 7.3% | 1,118 | 9.1 | 122 | |
| 2 | New York | | | | | | | |
| | Kennedy | 1,519 | 364 | 3.2% | 694 | 4.8 | 143 | American, Delta, JetBlue |
| | Newark | 1,501 | 280 | 2.5 | 486 | 4.5 | 108 | Southwest, United |
| | LaGuardia | 1,520 | 149 | 1.3 | -- | -- | -- | |
| | White Plains | 1,539 | 7 | 0.1 | -- | -- | -- | |
| | Islip (MacArthur) | 1,559 | 7 | 0.1 | -- | -- | -- | |
| | Subtotal | | 808 | 7.1% | 1,180 | 9.4 | 126 | |
| 3 | Los Angeles | | | | | | | |
| | Los Angeles | 1,238 | 454 | 4.0% | 998 | 8.9 | 113 | American, Delta, United, Southwest |
| | Long Beach | 1,223 | 141 | 1.2 | 300 | 2.0 | 150 | JetBlue |
| | Orange County (John Wayne) | 1,209 | 90 | 0.8 | -- | -- | -- | |
| | Ontario | 1,196 | 33 | 0.3 | -- | -- | -- | |
| | Burbank (Bob Hope) | 1,241 | 23 | 0.2 | -- | -- | -- | |
| | Subtotal | | 742 | 6.5% | 1,298 | 10.9 | 119 | |
| 4 | Washington, D.C. | | | | | | | |
| | Baltimore/Washington | 1,339 | 259 | 2.3% | 276 | 2.0 | 140 | Southwest |
| | Reagan | 1,313 | 181 | 1.6 | 171 | 1.0 | 171 | Southwest |
| | Dulles | 1,294 | 102 | 0.9 | 213 | 3.0 | 71 | United |
| | Subtotal | | 541 | 4.8% | 660 | 6.0 | 111 | |
| 5 | Dallas/Fort Worth | | | | | | | |
| | Love Field | 189 | 383 | 3.4% | 1,513 | 11.0 | 137 | Southwest |
| | Dallas/Fort Worth | 190 | 144 | 1.3 | 2,066 | 14.5 | 142 | American |
| | Subtotal | | 528 | 4.6% | 3,579 | 25.6 | 140 | |

Table 9 *(page 2 of 3)*
**SCHEDULED DOMESTIC AIRLINE SERVICE BY DESTINATION**
Austin-Bergstrom International Airport

| Originating passenger rank FY 2013 | City and airport | Air miles from ABIA | FY 2013 (ended September 30) *(a)* Average daily originating passengers | FY 2013 (ended September 30) *(a)* Percent of originating passengers | July 2014 *(b)* Average daily scheduled seats | July 2014 *(b)* Average daily scheduled departures | July 2014 *(b)* Average seats per departure | July 2014 *(b)* Airlines providing nonstop service *(c)* |
|---|---|---|---|---|---|---|---|---|
| 6 | Denver | 775 | 512 | 4.5 | 1,167 | 9.5 | 123 | Frontier, Southwest, United |
| 7 | Chicago | | | | | | | |
| | O'Hare | 977 | 316 | 2.8% | 885 | 7.6 | 116 | American, United |
| | Midway | 972 | 186 | 1.6 | 411 | 2.7 | 152 | Southwest |
| | Subtotal | | 502 | 4.4% | 1,297 | 10.4 | 125 | |
| 8 | Las Vegas | 1,087 | 375 | 3.3 | 510 | 3.5 | 145 | Allegiant, Southwest |
| 9 | Boston | | | | | | | |
| | Logan | 1,695 | 275 | 2.4% | 100 | 1.0 | 100 | JetBlue |
| | Providence (T.F. Green) | 1,662 | 33 | 0.3 | -- | -- | -- | |
| | Manchester | 1,692 | 27 | 0.2 | -- | -- | -- | |
| | Subtotal | | 335 | 3.0% | 100 | 1.0 | 100 | |
| 10 | Atlanta | 811 | 319 | 2.8% | 1,569 | 10.1 | 155 | Delta, Southwest |
| 11 | Orlando | 992 | 317 | 2.8 | 486 | 3.2 | 151 | Delta, JetBlue, Southwest |
| 12 | Phoenix | | | | | | | |
| | Sky Harbor | 869 | 293 | 2.6% | 932 | 8.6 | 108 | American, Southwest |
| | Mesa Gateway | 850 | 0 | 0.0 | -- | -- | -- | |
| | Subtotal | | 293 | 2.6% | 932 | 8.6 | 108 | |
| 13 | Miami | | | | | | | |
| | Fort Lauderdale | 1,102 | 219 | 1.9% | 243 | 2.0 | 122 | JetBlue, Southwest |
| | Miami | 1,103 | 43 | 0.4 | -- | -- | -- | |
| | West Palm Beach | 1,095 | 15 | 0.1 | -- | -- | -- | |
| | Subtotal | | 277 | 2.4% | 243 | 2.0 | 122 | |
| 14 | Seattle-Tacoma | 1,768 | 257 | 2.3 | 170 | 1.0 | 170 | Alaska |
| 15 | San Diego | 1,161 | 235 | 2.1 | 314 | 2.0 | 157 | Southwest |
| 16 | Philadelphia | 1,428 | 167 | 1.5 | 121 | 1.0 | 121 | American |

Table 9 *(page 3 of 3)*
**SCHEDULED DOMESTIC AIRLINE SERVICE BY DESTINATION**
Austin-Bergstrom International Airport

| Originating passenger rank FY 2013 | City and airport | Air miles from ABIA | FY 2013 (ended September 30) *(a)* Average daily originating passengers | FY 2013 (ended September 30) *(a)* Percent of originating passengers | July 2014 *(b)* Average daily scheduled seats | July 2014 *(b)* Average daily scheduled departures | July 2014 *(b)* Average seats per departure | July 2014 *(b)* Airlines providing nonstop service *(c)* |
|---|---|---|---|---|---|---|---|---|
| 17 | El Paso | 527 | 166 | 1.5 | 362 | 2.8 | 127 | Southwest |
| 18 | Nashville | 755 | 157 | 1.4 | 278 | 2.0 | 141 | Southwest |
| 19 | Minneapolis-Saint Paul | 1,042 | 152 | 1.3 | 254 | 2.8 | 90 | Delta |
| 20 | Portland, OR | 1,712 | 151 | 1.3 | 143 | 1.0 | 143 | Southwest |
| 21 | Houston | | | | | | | |
| | Hobby | 148 | 93 | 0.8% | 512 | 3.8 | 133 | Southwest |
| | Bush | 140 | 51 | 0.5 | 1,011 | 10.4 | 97 | United |
| | Subtotal | | 144 | 1.3% | 1,522 | 14.3 | 107 | |
| 22 | Detroit | 1,148 | 141 | 1.2 | 315 | 2.8 | 112 | Delta |
| 23 | Tampa | 925 | 129 | 1.1 | 138 | 1.0 | 138 | Southwest |
| 24 | Salt Lake City | 1,084 | 123 | 1.1 | 270 | 2.8 | 95 | Delta |
| 25 | Kansas City | 650 | 121 | 1.1 | -- | -- | -- | |
| | Subtotal airports listed | | 8,321 | 73.3% | 18,026 | 142.7 | 126 | |
| | All other U.S. airports | | 3,025 | 26.7 | 665 | 6.6 | | |
| | Airport total | | 11,346 | 100.0% | 18,691 | 149.4 | 125 | |

Note: Columns may not add to totals shown because of rounding.

*(a)* Source: Outbound Origin-Destination passengers: U.S. Department of Transportation, *Air Passenger Origin-Destination Survey,* reconciled to Schedules T100 and 298C T1, accessed July 2014.
*(b)* Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed July 2014. Only nonstop airline service is shown.
*(c)* Including flights operated by regional affiliates.


**LEGEND**

○ Destinations with service by only one airline

● Destinations with service by two or more airlines

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed July 2014.
Airports shown are those served by nonstop flights operated five or more days per week.

Figure 5
**DESTINATIONS SERVED NONSTOP**
Austin-Bergstrom International Airport
July 2014

### Air Cargo

Table 10 presents historical data on enplaned and deplaned air cargo tonnage. Cargo tonnage (carried by all-cargo aircraft and as belly cargo on passenger airline aircraft) decreased between FY 2000 and FY 2014, at an average of 5.4% per year. For the nation as a whole, cargo tonnage decreased an average of 0.5% per year (for U.S. airlines only) between FY 2000 and FY 2013. National data for FY 2014 are not yet available. The decrease in air cargo tonnage, both at the Airport and nationwide, is attributable to a combination of factors, including post-September 2001 security restrictions, increased use of time-definite ground transportation modes as the relative operating economics of air and truck modes have changed, changes in patterns of global trade and supply-chain functionality, and industry consolidation. Many medium-sized airports have experienced particularly large decreases in air cargo tonnages as more cargo has been moved by truck to nearby large hub airports for air transport (Dallas/Fort Worth and Houston Bush in ABIA's case). In FY 2014, FedEx accounted for 61.0% of the air cargo tonnage enplaned and deplaned at the Airport, UPS Air Cargo for 19.3%, and Atlas Air for 2.1%. The remaining 17.6% of air cargo tonnage was carried by passenger airlines (British Airways 4.8%, others 7.3%) and miscellaneous air cargo operators (5.5%).

### Aircraft Landed Weight

Table 11 presents historical aircraft landed weight at the Airport, which generally correlates closely with airline aircraft departures. In FY 2014, the passenger airlines together accounted for approximately 93.2% of landed weight and the all-cargo airlines accounted for the remaining 6.8%.

### Aircraft Operations

Table 12 presents historical data on aircraft operations (landings and takeoffs) at the Airport. Between FY 2000 and FY 2014, aircraft operations decreased an average of 0.9% per year. The distribution of aircraft operations in FY 2014 was: air carrier, 57.9%; air taxi and commuter, 9.6%; general aviation, 28.6%;, and military, 3.9%.

Table 10

**HISTORICAL AIRLINE CARGO**

Austin-Bergstrom International Airport

Fiscal Years ended September 30

| Fiscal Year | Weight of cargo enplaned and deplaned (tons) *(a)* Freight and express | Mail | Total | Annual increase (decrease) |
|---|---|---|---|---|
| 2000 | 154,385 | 14,873 | 169,258 | |
| 2001 | 157,198 | 14,287 | 171,485 | 1.3% |
| 2002 | 135,946 | 5,590 | 141,536 | (17.5) |
| 2003 | 127,423 | 5,018 | 132,441 | (6.4) |
| 2004 | 121,296 | 4,740 | 126,036 | (4.8) |
| 2005 | 121,900 | 4,052 | 125,952 | (0.1) |
| 2006 | 109,929 | 3,491 | 113,420 | (9.9) |
| 2007 | 105,089 | 2,274 | 107,363 | (5.3) |
| 2008 | 102,625 | 3,073 | 105,698 | (1.6) |
| 2009 | 77,829 | 2,800 | 80,629 | (23.7) |
| 2010 | 75,047 | 2,839 | 77,886 | (3.4) |
| 2011 | 73,528 | 2,344 | 75,872 | (2.6) |
| 2012 | 75,857 | 1,544 | 77,401 | 2.0 |
| 2013 | 76,637 | 1,668 | 78,305 | 1.2 |
| 2014 | 76,281 | 1,852 | 78,133 | (0.2) |
| | Average annual percent increase (decrease) | | | |
| 2000-2003 | (6.2)% | (30.4)% | (7.9)% | |
| 2003-2008 | (4.2) | (9.3) | (4.4) | |
| 2008-2009 | (24.2) | (8.9) | (23.7) | |
| 2009-2014 | (0.4) | (7.9) | (0.6) | |

Note: Calculated percentages may not match those shown because of rounding.

*(a)* On all-cargo and passenger aircraft.

Source: City of Austin, Aviation Department records.

Table 11

**HISTORICAL AIRCRAFT LANDING WEIGHT**

Austin-Bergstrom International Airport

Fiscal Years ended September 30

| Fiscal Year | Passenger airlines | All-cargo airlines | Total | Annual increase (decrease) |
|---|---|---|---|---|
| 2000 | 5,266,397 | 985,074 | 6,251,471 | |
| 2001 | 5,526,750 | 997,993 | 6,524,743 | 4.4% |
| 2002 | 4,982,674 | 875,652 | 5,858,326 | (10.2) |
| 2003 | 4,844,743 | 768,318 | 5,613,062 | (4.2) |
| 2004 | 4,824,584 | 723,773 | 5,548,357 | (1.2) |
| 2005 | 5,061,919 | 743,608 | 5,805,526 | 4.6 |
| 2006 | 5,163,142 | 592,220 | 5,755,362 | (0.9) |
| 2007 | 5,578,438 | 543,275 | 6,121,713 | 6.4 |
| 2008 | 5,758,583 | 601,430 | 6,360,014 | 3.9 |
| 2009 | 5,249,325 | 439,566 | 5,688,891 | (10.6) |
| 2010 | 5,143,676 | 397,117 | 5,540,793 | (2.6) |
| 2011 | 5,353,345 | 405,953 | 5,759,298 | 3.9 |
| 2012 | 5,394,633 | 420,904 | 5,815,537 | 1.0 |
| 2013 | 5,688,131 | 434,382 | 6,122,513 | 5.3 |
| 2014 | 5,944,339 | 433,628 | 6,377,968 | 4.2 |
| | Average annual percent increase (decrease) | | | |
| 2000-2003 | (2.7)% | (7.9)% | (3.5)% | |
| 2003-2008 | 3.5 | (4.8) | 2.5 | |
| 2008-2009 | (8.8) | (26.9) | (10.6) | |
| 2009-2014 | 2.5 | (0.3) | 2.3 | |

Note: Calculated percentages may not match those shown because of rounding.

Source: City of Austin, Aviation Department records.

Table 12

**HISTORICAL AIRCRAFT OPERATIONS**

Austin-Bergstrom International Airport

Fiscal Years ended September 30

| Fiscal Year | Air carrier | Air taxi/ commuter | General aviation | Military | Total | Annual increase (decrease) |
|---|---|---|---|---|---|---|
| 2000 | 99,631 | 16,416 | 82,757 | 5,059 | 203,863 | |
| 2001 | 102,661 | 15,766 | 98,428 | 7,720 | 224,575 | 10.2% |
| 2002 | 93,206 | 17,628 | 97,451 | 8,333 | 216,618 | (3.5) |
| 2003 | 92,602 | 21,993 | 89,087 | 13,797 | 217,479 | 0.4 |
| 2004 | 92,298 | 26,048 | 86,238 | 15,708 | 220,292 | 1.3 |
| 2005 | 101,296 | 27,242 | 79,738 | 10,386 | 218,662 | (0.7) |
| 2006 | 94,611 | 24,973 | 80,523 | 7,312 | 207,419 | (5.1) |
| 2007 | 100,672 | 28,177 | 73,450 | 5,679 | 207,978 | 0.3 |
| 2008 | 106,362 | 30,820 | 75,470 | 5,103 | 217,755 | 4.7 |
| 2009 | 94,484 | 17,157 | 59,601 | 5,882 | 177,124 | (18.7) |
| 2010 | 92,372 | 17,433 | 57,463 | 6,899 | 174,167 | (1.7) |
| 2011 | 95,095 | 18,466 | 59,696 | 6,879 | 180,136 | 3.4 |
| 2012 | 96,823 | 15,962 | 50,867 | 5,828 | 169,480 | (5.9) |
| 2013 | 101,006 | 16,979 | 52,582 | 6,698 | 177,265 | 4.6 |
| 2014 | 103,710 | 17,289 | 51,231 | 6,994 | 179,224 | 1.1 |
| | Average annual percent increase (decrease) | | | | | |
| 2000-2003 | (2.4%) | 10.2% | 2.5% | 39.7% | 2.2% | |
| 2003-2008 | 2.8 | 7.0 | (3.3) | (18.0) | 0.0 | |
| 2008-2009 | (11.2) | (44.3) | (21.0) | 15.3 | (18.7) | |
| 2009-2014 | 1.9 | 0.2 | (3.0) | 3.5 | 0.2 | |

Note: Calculated percentages may not match those shown because of rounding.

Source: City of Austin, Aviation Department records.

## KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC

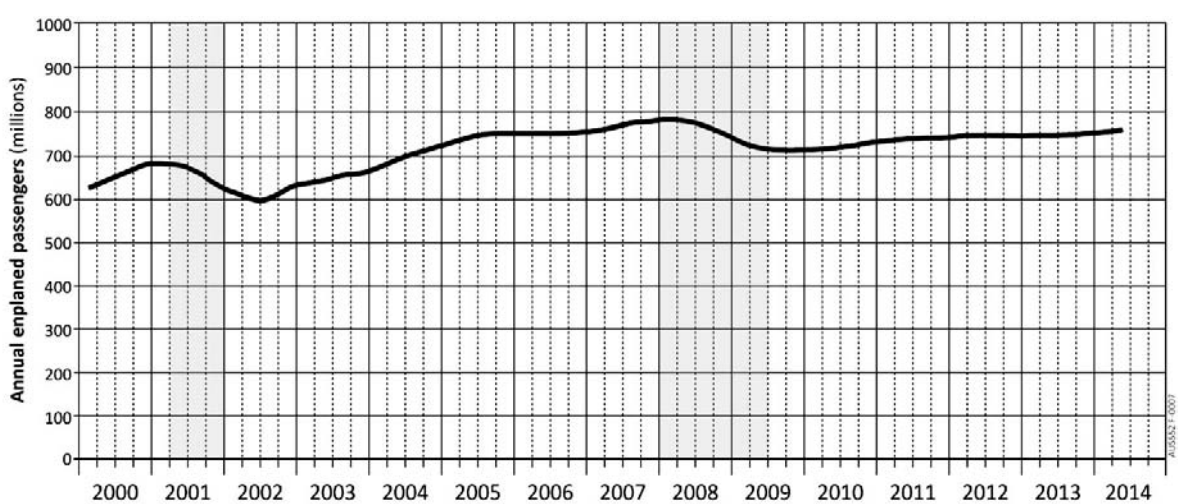
In addition to the population and economy of the Airport service region, discussed in the earlier section "Airport Service Region," key factors that will affect future airline traffic at ABIA include:

- Economic and political conditions
- Financial health of the airline industry
- Airline service and routes
- Airline competition and airfares
- Availability and price of aviation fuel
- Aviation safety and security concerns
- Capacity of the national air traffic control system
- Capacity of the Airport

### Economic and Political Conditions

Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. As illustrated in Figure 6, recession in the U.S. economy in 2001 and 2008-2009 and associated high unemployment reduced discretionary income and coincided with reduced airline travel demand in those years.

Figure 6
**HISTORICAL ENPLANED PASSENGERS ON U.S. AIRLINES**




Notes: Data shown are 12-month moving averages of monthly enplaned passengers. Shaded quarters indicate economic recession. Data are for scheduled and non-scheduled service to domestic and international destinations.

Sources: Bureau of Transportation Statistics , T-100 Market and Segment; National Bureau of Economic Research.

With the globalization of business and the increased importance of international trade and tourism, the U.S. economy has become more closely tied to worldwide economic, political, and social conditions. As a result, international economics, trade balances, currency exchange rates, political relationships, and hostilities all influence passenger traffic at major U.S. airports. Sustained future increases in passenger traffic at the Airport will depend on stable international conditions as well as national and global economic growth.

### Financial Health of the Airline Industry

The number of passengers using the Airport will depend partly on the profitability of the U.S. airline industry and the associated ability of the industry and individual airlines to make the necessary investments to provide service.

As a result of the 2001 economic recession, the disruption of the airline industry that followed the September 2001 attacks, increased fuel and other operating costs, and price competition, the industry experienced huge financial losses. In 2001 through 2005, the major U.S. passenger airlines collectively recorded net losses of approximately $61 billion. To mitigate those losses, all of the major network airlines restructured their route networks and flight schedules and reached agreement with their employees, lessors, vendors, and creditors to cut costs, either under Chapter 11 bankruptcy protection or the possibility of such. Between 2002 and 2005, Delta Air Lines, Northwest Airlines, United Airlines, and US Airways all filed for bankruptcy protection and restructured their operations.

In 2006 and 2007, the U.S. passenger airline industry as a whole was profitable, recording net income of approximately $23 billion, but in 2008, as oil and aviation fuel prices increased to unprecedented levels, the industry experienced a profitability crisis. In 2008 and 2009, the U.S. passenger airline industry recorded net losses of approximately $27 billion. The industry responded by, among other actions, grounding less fuel-efficient aircraft, eliminating unprofitable routes and hubs, reducing seat capacity, and increasing airfares. Between 2007 and 2009, the U.S. passenger airlines collectively reduced domestic capacity (as measured by available seat-miles) by approximately 10%.

In 2010 through 2013, the U.S. passenger airline industry as a whole recorded net income of approximately $8 billion, in spite of sustained high fuel prices, by controlling capacity and nonfuel expenses, increasing airfares, recording high load factors, and increasing ancillary revenues. Over the four years 2009 to 2013, the airlines collectively increased domestic seat-mile capacity by an average of just 1.0% per year. American filed for bankruptcy protection in 2011.

Sustained industry profitability will depend on, among other factors, economic growth to support airline travel demand, continued capacity control to allow increased airfares, and stable fuel prices. Consolidation of the U.S. airline industry has resulted from the acquisition of Trans World by American (2001), the merger of

US Airways and America West (2005), the merger of Delta and Northwest (2009), the merger of United and Continental (2009), the acquisition of AirTran by Southwest (2011), and the merger American and US Airways (2013). Such consolidation has resulted in four airlines (American, Delta, Southwest, and United) now accounting for approximately 84% of domestic capacity and is expected by airline industry analysts to contribute to industry profitability. However, any resumption of financial losses could cause U.S. airlines to seek bankruptcy protection or liquidate. The liquidation of any of the large network airlines would drastically affect airline service at certain connecting hub airports, present business opportunities for the remaining airlines, and change airline travel patterns nationwide.

### Airline Service and Routes

Most large airports serve as gateways to their communities and as a connecting points. The number of origin and destination passengers at an airport depends on the intrinsic attractiveness of the region as a business and leisure destination, the propensity of its residents to travel, and the airline fares and service provided. The number of connecting passengers, on the other hand, depends entirely on the airline service provided. As discussed in the earlier section, "Enplaned Passengers," most passengers at ABIA are originating their journeys rather than connecting between flights.

The large airlines have developed hub-and-spoke systems that allow them to offer high-frequency service in many city-pair markets. Because most connecting passengers have a choice of airlines and intermediate airports, connecting traffic at an airport depends on the route networks and flight schedules of the airlines serving that airport and competing hub airports. Since 2003, as the U.S. airline industry has consolidated, airline service has been or is being drastically reduced at many former connecting hub airports, including those serving St. Louis (American 2003-2005), Dallas-Fort Worth (Delta 2005), Pittsburgh (US Airways 2006-2008), Las Vegas (US Airways 2007-2010), Cincinnati (Delta 2009-2011), Memphis (Delta 2011-2013), and Cleveland (United 2014).

### Airline Competition and Airfares

Airline fares have an important effect on passenger demand, particularly for relatively short trips for which automobile and other travel modes are potential alternatives, and for price-sensitive "discretionary" travel. The price elasticity of demand for airline travel increases in weak economic conditions when the disposable income of potential airline travelers is reduced. Airfares are influenced by airline capacity and yield management; passenger demand; airline market presence; labor, fuel, and other airline operating costs; taxes, fees, and other charges assessed by governmental and airport agencies; and competitive factors. Future passenger numbers, both nationwide and at the Airport, will depend, in part, on the level of airfares.

Overcapacity in the industry, the ability of consumers to compare airfares and book flights easily via the Internet, and other competitive factors combined to reduce airfares between 2000 and 2005. During that period, the average domestic yield for U.S. airlines decreased from 16.1 cents to 13.8 cents per passenger-mile. In 2006 through 2008, as airlines reduced capacity and were able to sustain fare increases, the average domestic yield increased to 15.9 cents per passenger-mile. In 2009, yields again decreased, but, beginning in 2010, as airline travel demand increased and seat capacity was restricted, yields increased to 17.5 cents per passenger-mile by 2013. Beginning in 2006, ancillary charges have been introduced by most airlines for services such as checked baggage, preferred seating, in-flight meals, and entertainment, thereby increasing the effective price of airline travel more than these yield figures indicate.

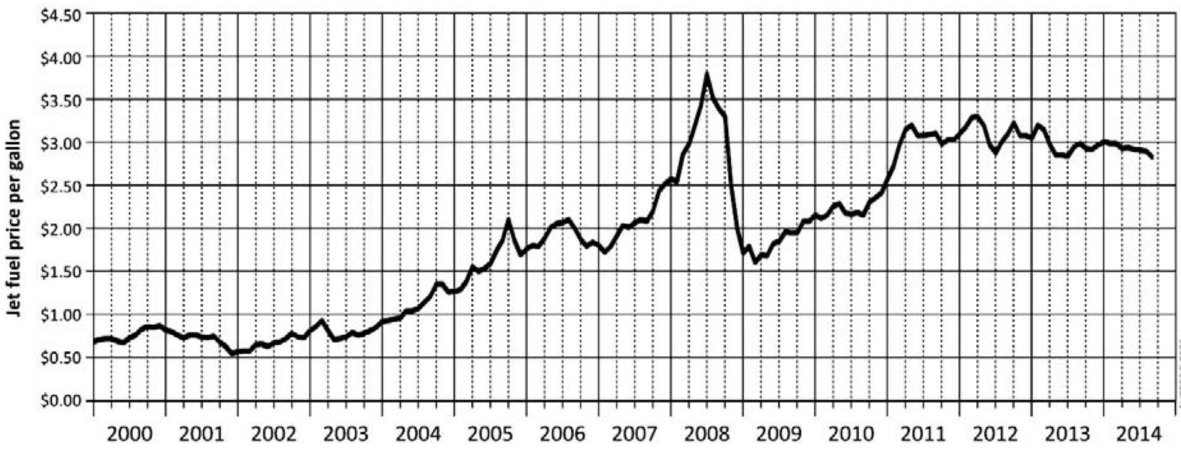
### Availability and Price of Aviation Fuel

The price of aviation fuel is a critical and uncertain factor affecting airline operating economics. Fuel prices are particularly sensitive to worldwide political instability and economic uncertainty. Figure 7 shows the historical fluctuation in fuel prices since 2000. Beginning in 2003, fuel prices increased as a result of the invasion and occupation of Iraq; political unrest in other oil-producing countries; the growing economies of China, India, and other developing countries; and other factors influencing the demand for and supply of oil. By mid-2008, average fuel prices were three times higher than they were in mid-2004 and represented the largest airline operating expense, accounting for between 30% and 40% of expenses for most airlines. Fuel prices fell sharply in the second half of 2008 as demand for oil declined worldwide, but have since increased as global demand has increased. Between early 2011 and mid-2014, fuel prices were relatively stable, partly as a result of increased oil supply from U.S. domestic production. As of mid-2014, average aviation fuel prices were approximately three times the prices prevailing at the end of 2003. Various geopolitical and economic factors contributed to reduced oil prices in late 2014.

Airline industry analysts hold differing views on how oil and aviation fuel prices may change in the near term. However, there is widespread agreement that fuel prices are likely to remain high relative to historical levels and to increase over the long term as global energy demand increases in the face of finite and increasingly expensive oil supplies.

Aviation fuel prices will continue to affect airfares, passenger numbers, airline profitability, and the ability of airlines to provide service. Airline operating economics will also be affected as regulatory costs are imposed on the airline industry as part of efforts to reduce aircraft emissions contributing to global climate change.

Figure 7
**HISTORICAL AVIATION FUEL PRICES**




Source: Bureau of Transportation Statistics F41 Schedule P12A as of 7/21/2014.

### Aviation Safety and Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions influence passenger travel behavior and airline travel demand. Anxieties about the safety of flying and the inconveniences and delays associated with security screening procedures lead to both the avoidance of travel and the switching from air to surface modes of transportation for short trips. Public health and safety concerns have also affected airline travel demand from time to time.

Safety concerns in the aftermath of the September 2001 attacks were largely responsible for the steep decline in airline travel nationwide in 2002. Since 2001, government agencies, airlines, and airport operators have upgraded security measures to guard against changing threats and maintain confidence in the safety of airline travel. These measures include strengthened aircraft cockpit doors, changed flight crew procedures, increased presence of armed sky marshals, federalization of airport security functions under the Transportation Security Administration (TSA), more effective dissemination of information about threats, more intensive screening of passengers and baggage, and deployment of new screening technologies.

Historically, airline travel demand has recovered after temporary decreases stemming from terrorist attacks or threats, hijackings, aircraft crashes, public health and safety concerns, and international hostilities. Provided that precautions by government agencies, airlines, and airport operators serve to maintain confidence in the safety of commercial aviation without imposing unacceptable inconveniences for airline travelers, it can be expected that future demand for airline travel at the Airport will depend primarily on economic, not safety or security, factors.

## Capacity of the National Air Traffic Control System

Demands on the national air traffic control system have, in the past, caused delays and operational restrictions affecting airline schedules and passenger traffic. The FAA is gradually implementing its Next Generation Air Transport System (NextGen) air traffic management programs to modernize and automate the guidance and communications equipment of the air traffic control system and enhance the use of airspace and runways through improved air navigation aids and procedures. Since 2007, airline traffic delays have decreased as a result of reduced numbers of aircraft operations, but, as airline travel increases in the future, flight delays and restrictions may be expected.

## Capacity of the Airport

In addition to any future constraints that may be imposed by the capacity of the national air traffic control and airport systems, future growth in airline traffic at ABIA will depend on the provision of capacity at the Airport itself.

The Airport's two parallel air carrier runways are able to accommodate the simultaneous arrival of aircraft in virtually all weather conditions and will not constrain airfield capacity for the foreseeable future. The additional facilities being provided by the 2015-2018 Project will likewise provide terminal capacity to meet demand until well beyond the forecast period.

# AIRLINE TRAFFIC FORECASTS

Forecasts of airline traffic at the Airport through FY 2021 were developed taking into account analyses of the economic basis for airline traffic at the Airport, trends in historical airline traffic, and key factors likely to affect future airline traffic, all as discussed in earlier sections.

In developing the forecasts, it was assumed that airline traffic at the Airport will increase as a function of the growth in the population and economy of the Airport service region. It was assumed that airline service at the Airport will not be constrained by the availability of aviation fuel, limitations on the capacity of the air traffic control system or the Airport, charges for the use of aviation facilities, or government policies or actions that constrain Airport operations. Forecasts developed by the FAA for the Airport were also considered.

Passenger numbers for FY 2015 were estimated on the basis of advance schedules of airline seat capacity published by OAG Aviation Worldwide. The estimated number of enplaned passengers at the Airport in FY 2015, 5.5 million, is a 4.3% increase from the 5.3 million enplaned in FY 2014. Two passenger forecasts were developed for FY 2016 through FY 2021, a base forecast and a stress test forecast, as presented in Table 13. The forecasts are presented graphically on Figure 8.

## Base Forecast and Assumptions

For the base forecast, it was assumed that, beginning in FY 2016:

- The U.S. economy will experience sustained growth in GDP averaging approximately 2.5% per year, with nonagricultural employment increasing approximately 1.0% per year (a lower rate of growth than shown in the earlier Table 6).
- Employment in the Airport service region will increase at a rate approximately twice that of the United States as a whole.
- Airlines will add service to meet travel demand at the Airport and competition among airlines will ensure competitive airfares for flights from the Airport.
- A generally stable international political environment and safety and security precautions will ensure airline traveler confidence in aviation without imposing unreasonable inconveniences.
- There will be no major disruption of airline service or airline travel behavior as a result of international hostilities or terrorist acts or threats.
- The Airport will continue to be primarily an origin-destination airport and the small percentage of passengers connecting at the Airport will not change materially.

The number of enplaned passengers at the Airport is forecast to increase from 5.27 million in FY 2014 to 6.45 million in FY 2021, or an average of 2.9% per year. In its most recent *Terminal Area Forecast* (published February 2014), the FAA forecasts an average increase of 3.0% per year in enplaned passengers at the Airport over the same period.

## Stress Test Forecast and Assumptions

The stress test forecast of enplaned passengers was developed to provide the basis for a test of the Airport's financial results to a hypothetical reduction in passenger numbers. The same assumptions underlie the stress test forecast as the base forecast except that passenger traffic at the Airport was assumed to be decreased by approximately 15% in FY 2016 as result of reduced airline service and weak economic conditions. In FY 2017 through FY 2021 passenger numbers were then increased at rates similar to those for the baseline forecast. The stress test in effect postulates a five-year deferral of passenger growth, i.e., reaching 5.2 million enplaned passengers – approximately the number enplaned in FY 2014 – by FY 2019.

Table 13

**AIRLINE TRAFFIC FORECASTS**

Austin-Bergstrom International Airport

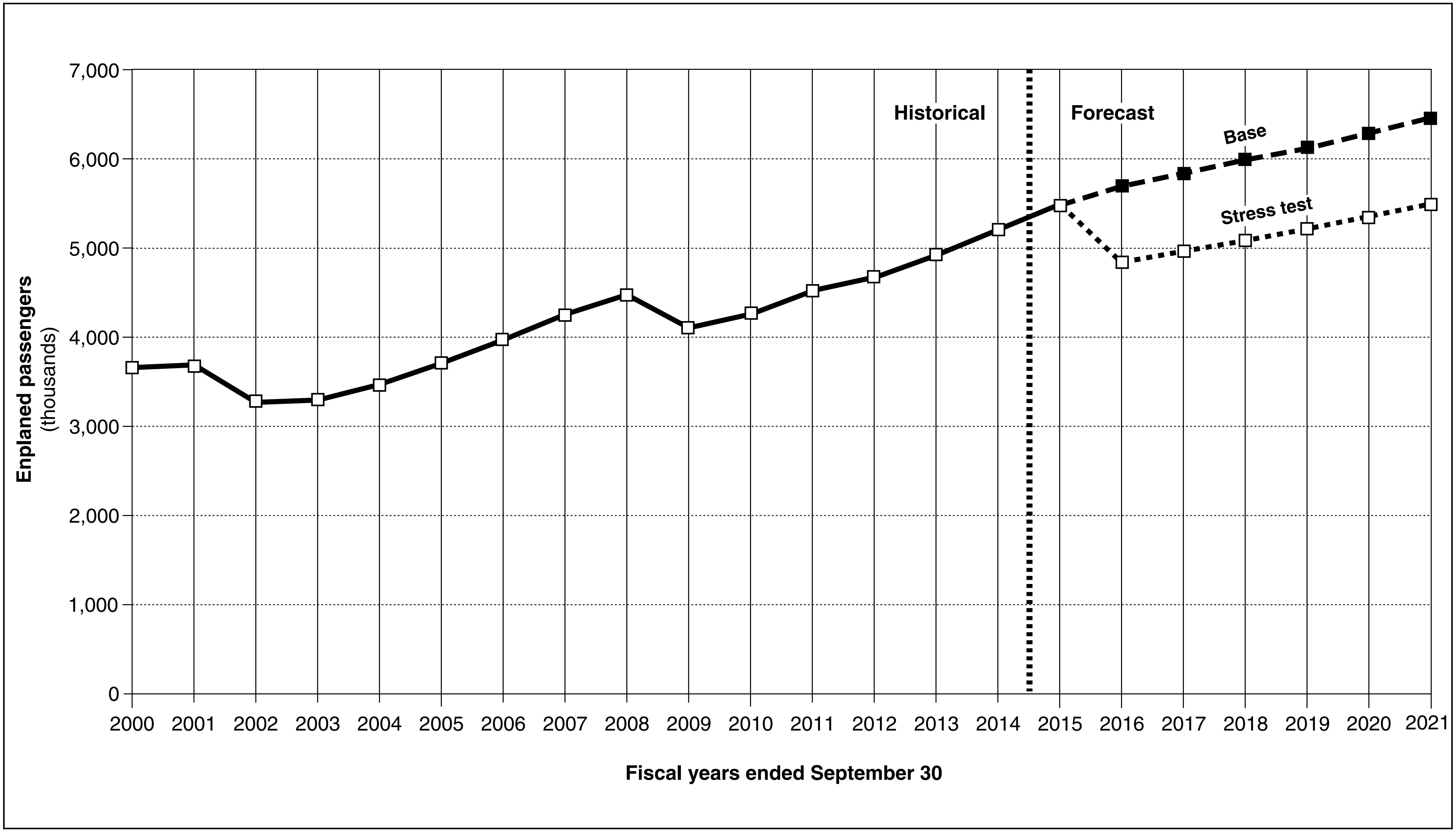
Fiscal Years ended September 30

(in thousands)

The forecasts presented in this figure were prepared using the information and assumptions described in the accompanying text. Inevitably, some of the assumptions will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

| | Historical | | | | Forecast | | | | | | | Average annual increase (decrease) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2014-2021 |
| **BASE FORECAST** | | | | | | | | | | | | |
| Enplaned passengers (thousands) | 4,525 | 4,663 | 4,929 | 5,275 | 5,500 | 5,700 | 5,850 | 6,000 | 6,150 | 6,300 | 6,450 | 2.9% |
| Percent annual change | 6.3% | 3.1% | 5.7% | 7.0% | 4.3% | 3.6% | 2.6% | 2.6% | 2.5% | 2.4% | 2.4% | |
| Passenger airline departures | 48,398 | 48,372 | 50,554 | 51,877 | 55,500 | 57,300 | 58,500 | 59,600 | 60,800 | 62,000 | 63,100 | 2.8% |
| Percent annual change | 3.5% | (0.1%) | 4.5% | 2.6% | 7.0% | 3.2% | 2.1% | 1.9% | 2.0% | 2.0% | 1.8% | |
| Average enplaned passengers per departure | 93 | 96 | 97 | 102 | 99 | 99 | 100 | 101 | 101 | 102 | 102 | |
| Landed Weight (millions of pounds) | | | | | | | | | | | | |
| Passenger airlines | 5,353 | 5,395 | 5,688 | 5,944 | 6,290 | 6,520 | 6,680 | 6,840 | 7,000 | 7,170 | 7,330 | 3.0% |
| All-cargo airlines | 406 | 421 | 434 | 434 | 430 | 430 | 430 | 430 | 430 | 430 | 430 | (0.1%) |
| | 5,759 | 5,816 | 6,123 | 6,378 | 6,720 | 6,950 | 7,110 | 7,270 | 7,430 | 7,600 | 7,760 | 2.8% |
| Percent annual change | 3.9% | 1.0% | 5.3% | 4.2% | 5.4% | 3.4% | 2.3% | 2.3% | 2.2% | 2.3% | 2.1% | |
| **STRESS TEST FORECAST** | | | | | | | | | | | | |
| Enplaned passengers (millions) | | | | | 5,500 | 4,850 | 4,970 | 5,100 | 5,230 | 5,360 | 5,480 | |
| Percent below base forecast | | | | | 0.0% | (14.9%) | (15.0%) | (15.0%) | (15.0%) | (14.9%) | (15.0%) | |

Sources: Historical: City of Austin, Department of Aviation records.
Forecast: LeighFisher, November 2014.




The forecasts presented in this figure were prepared using the information and assumptions described in the accompanying text. Inevitably, some of the assumptions will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

Sources: Historical—City of Austin, Department of Aviation records.
Base forecast and stress test—LeighFisher, July 2014.

Figure 8
**AIRLINE PASSENGER FORECASTS**
Austin-Bergstrom International Airport

### Landed Weight Forecast and Assumptions

The forecasts of passenger airline departures and landed weight shown in Table 13 were based on an assumption of gradually increasing aircraft seating capacities and load factors, resulting in an average rate of increase in total landed weight of 2.8% per year between FY 2014 and FY 2021. Corresponding assumptions were made for the stress test forecast.

# FINANCIAL ANALYSIS

## FRAMEWORK FOR AIRPORT FINANCIAL OPERATIONS

The City of Austin develops, operates, and maintains the Airport System as a self-supporting enterprise fund of the City through its Aviation Department with a staff of approximately 360 people under the direction of an Executive Director. Certain accounting, budgeting, financing, treasury, and related functions are performed by the City's Financial Services Department. Airport System funds are held in separate City accounts.

### Revenue Bond Ordinances

The financial operations of the Airport are governed, in large part, by the Revenue Bond Ordinances. Beginning with the 2005 Refunding Bonds, the City has issued its Revenue Bonds as subordinated obligations secured by a lien on and pledge of Net Revenues junior and subordinate to the pledge securing bonds issued in 2003 and earlier (the Prior Lien Bonds). In the Revenue Bond Ordinances authorizing the 2005 Refunding Bonds, 2013 Bonds, and 2013A Refunding Bonds, the City agreed not to issue Additional Prior Lien Bonds. With the issuance of the 2013A Refunding Bonds, all the Prior Lien Bonds were defeased, with the effect that all Revenue Bonds, including the proposed 2014 Bonds and planned 2016 Bonds, will be secured by a first lien and pledge of Net Revenues.

In the Rate Covenant (Section 5.03(b) of the Revenue Bond Ordinances), the City covenants that it will impose and collect rentals, rates, fees, and other charges for the use of the Airport System so that in each Fiscal Year, Net Revenues will be at least sufficient to equal an amount that, together with Other Available Funds, is not less than 125% of the Debt Service Requirements of Revenue Bonds plus 100% of budgeted Administrative Expenses associated with Swap Agreements or other Credit Agreements related to Revenue Bonds for the Fiscal Year.

The Revenue Bond Ordinances provide for the issuance of Additional Revenue Bonds and prescribe the application of Airport System Revenues to the funds and accounts established under the Revenue Bond Ordinances, as described in the later section "Application of Revenues."

### Airline Agreement

Effective the beginning of FY 2010, the City executed an Airport Use and Lease Agreement (the Airline Agreement) with Signatory Airlines that collectively accounted for approximately 95% of enplaned passengers and landed weight at the Airport in FY 2014. As described in the later sections "Landing Fees" and "Airline Terminal Rentals and Fees," the Airline Agreement provides for the calculation of Signatory Airline rentals, fees, and charges according to cost-recovery principles. Other airlines operate at the Airport under Airline Lease and Operating Agreements (Operating Agreements) that, while not providing Signatory Airline status, provide for the payment of rentals, fees, and charges at the Signatory Airline rates. Airline revenues presented in this report were forecast on the assumption that the Signatory Airlines and Operating Agreement Airlines will pay rentals, fees, and charges in accordance with the provisions of the Airline Agreement through the forecast period.

## 2015-2018 PROJECT

The projects to be funded in part with the proceeds of the proposed 2014 Bonds and planned 2016 Bonds, collectively referred to in this report as the 2015-2018 Project, are illustrated in the earlier Figure 1 and summarized in the following sections. Estimated project costs and funding sources for the 2015-2018 Project are shown in Exhibit A.

### Terminal East Infill Project

The Terminal East Infill project, parts of which are complete, involves the construction of approximately 55,000 square feet of additional terminal floor space at the baggage claim, apron, and concourse levels.

At the baggage claim level, a new 18,900-square-foot CBP facility provides for the processing of arriving international passengers and replaces an undersized facility. A new, larger baggage claim device is provided before the CBP interview stations to allow the one-stop processing of passengers through customs and immigration checks. At the concourse level, a 17,000-square-foot area at the east end of the check-in lobby will provide a new checkpoint for the security screening of departing passengers by the TSA. Other new and renovated space is being provided for passenger circulation, concessions, and CBP and TSA support functions.

The CBP facility will become operational in December 2014. All other elements of the project are scheduled to be completed by June 2015.

### Terminal and Apron Expansion and Improvement Project

The Terminal and Apron Expansion and Improvement project involves the widening and extension of the existing 95-foot-wide concourse and enlargement of the adjacent aircraft parking apron to provide seven or more additional gates equipped with loading bridges. Five of the gates at the expanded concourses will be capable of accommodating narrowbody aircraft and two will be capable of accommodating widebody aircraft. The two widebody gates and two or more of the narrowbody gates will allow access to the new CBP facility and will be available for both domestic and international operations.

At the concourse level, approximately 70,000 square feet of space will accommodate passenger holdrooms, concessions, restrooms, and a circulation corridor. At the apron level, approximately 20,000 square feet of enclosed space will provide areas for airline operations and 50,000 square feet of unenclosed space will accommodate baggage handling facilities and equipment and tug driveways. The aircraft parking apron will be expanded by approximately 40 acres to provide additional space for concourse and remain-overnight parking and taxilanes to allow the movement of widebody aircraft.

As part of the project, the check-in lobby, baggage claim lobby, security checkpoint exit lanes, and terminal roof will be renovated or replaced. Electrical distribution systems, telecommunications systems, heating, ventilation, and air conditioning systems, and other infrastructure throughout the terminal will also be renovated or replaced.

A temporary concourse will provide replacement gate capacity during construction of the project, all elements of which are scheduled to be completed and in use by the summer of 2018.

### Parking Garage Project

The Parking Garage project comprises a new five-level parking garage with approximately 5,000 spaces at the Lot A site, north of the existing parking garage and west of the new rental car garage. The new garage will be connected to the existing garage and, net of the spaces lost at Lot A, will provide approximately 4,000 additional public parking spaces.

The garage is scheduled to be completed and in use by September 2018.

### Other Capital Improvements

Other Airport renewal, replacement, and upgrade needs included in the 2015-2018 Project are:

- **Airfield:** Modifications to the west taxiway system, reconstruction of perimeter fences, and other airside improvements.
- **Terminal:** Improvements to baggage handling systems and renewal and replacement of terminal facilities and systems.
- **Landside:** Renewal and replacement of roads, utilities, and other Airport support facilities and systems.
- **Other:** Replacement of capital equipment, vehicles, and information technology systems.

## SOURCES OF FUNDS

Exhibit A summarizes estimated funding sources for the 2015-2018 Project.

### Federal Grants-in-Aid

The City is eligible to receive grants-in-aid under the FAA's Airport Improvement Program (AIP) for up to 75% of the costs of airfield and other approved projects. Certain of these grants are entitlement grants, the annual amount of which is calculated on the basis of the number of enplaned passengers and landed weight of all-cargo aircraft at the Airport. Other, discretionary, grants are awarded on the basis of the FAA's determination of the priorities for projects at the Airport and at other airports in the nation. In FY 2008 through FY 2013, the City was awarded an average of $2.1 million per year in entitlement grants and an average of $4.6 million per year in discretionary grants for a total of $6.7 million per year.

In the City's funding plan shown in Exhibit A, AIP entitlement and discretionary grants totaling $42.3 million were assumed to be received in FY 2015 through FY 2019 (average of $8.5 million per year) for airfield, safety, and security projects. In addition, the City has been awarded a TSA grant of $5.0 million to pay certain costs of the Terminal East Infill project.

### Passenger Facility Charge Revenues

The City has approval from the FAA to impose a PFC per eligible enplaned passenger at the Airport. The PFC was imposed at $3.00 in August 1995 and increased to $4.50 in April 2004. Through September 2014, cumulative PFC revenues, including investment earnings, totaled $266.9 million, of which $216.6 million had been expended for approved project costs, essentially all to pay Revenue Bond debt service. Under FAA approvals received to date, the City is authorized to continue to impose the PFC and use PFC revenues to pay certain debt service on outstanding bonds. Further approvals will be required to permit the use of PFC revenues to pay debt service on the 2014 and 2016 Bonds and pay-as-you-go costs of the 2015-2018 Project. Historically, the City has used PFC revenues derived from the $4.50 PFC to pay PFC-eligible Revenue Bond Debt Service and intends to continue such use of PFC revenues. As shown in Exhibit A, the City also plans to use $66.5 million for pay-as-you-go funding of the Terminal East Infill project and other elements of the 2015-2018 Project.

Exhibit F presents historical and forecast sources and uses of PFC revenues by year, assuming continued imposition of a $4.50 PFC and the receipt of all required FAA approvals to allow the collections and expenditures shown.

### Capital Fund

As shown in Exhibit A, the City plans to use $64.0 million of amounts accumulated in the Capital Fund to pay the costs of the Parking Garage project and other elements of the 2015-2018 Project.

### Revenue Bonds

Amounts not paid from federal grants, PFC revenues, and contributions from the Capital Fund are to be met from the proceeds of Revenue Bonds. Exhibit B presents the estimated sources and uses for the proposed 2014 Bonds and planned 2016 Bonds. Financing assumptions, as provided by Public Financial Management, Inc., the City's financial advisors, are shown on Exhibit B.

The estimated sources of Bond funds are proceeds from the sale of the Revenue Bonds after original issue discount and, subject to certain restrictions, investment earnings on available amounts in the Construction Fund and Capitalized Interest Account during construction.

The estimated uses of Revenue Bond funds are (1) reimbursement of interim financing for the Terminal East Infill project provided by the City of Austin, (2) deposits to the Construction Fund to pay other costs of the 2015-2018 Project; (3) deposits to the Capitalized Interest Account to pay Revenue Bond interest during construction; (4) deposits to meet the Debt Service Reserve Fund Requirement; and (5) payment of underwriters' discount, financing, legal, and other Bond issuance expenses.

### Revenue Bond Debt Service Requirements

Exhibit C presents Debt Service Requirements (amounts to be accrued for the Fiscal Years ended September 30) for outstanding Revenue Bonds, the proposed 2014 Bonds, and the planned 2016 Bonds. Debt Service Requirements are allocated to Airport cost centers in accordance with the provisions of the Airline Agreement.

Three series of Revenue Bonds are now outstanding. The 2005 Refunding Bonds (which were issued as auction rate securities and are subject to the provisions of an interest-rate Swap Agreement that has the effect of converting the City's debt service obligation to a fixed interest rate) refunded certain of the 1995A Bonds issued to fund construction of the Airport. The 2013 Bonds were issued to fund various Airport improvements. The 2013A Refunding Bonds refunded the 2003 Refunding Bonds, which in turn refunded certain of the 1995A Bonds issued to fund construction of the Airport.

### Subordinate Obligation Requirements

Exhibit C also presents the requirements of other debt obligations subordinate to Revenue Bonds. Such other obligations now outstanding are the Administrative Expenses (i.e., letter of credit and remarketing fees) associated with the variable-rate 2005 Refunding Bonds and debt service on the City of Austin General Obligation Bonds issued for the Airport.

## OPERATION AND MAINTENANCE EXPENSES

Operation and Maintenance (O&M) Expenses are defined in the Revenue Bond Ordinances as all reasonable and necessary current expenses of operating, maintaining, and repairing the Airport System (as paid or accrued), including allocated City overhead expenses and costs of direct support services provided by City departments other than the Aviation Department.

Exhibit D presents Operation and Maintenance Expenses by function and by cost center. Data for FY 2011 through FY 2013 are from the City's annual *Rates and Charges Reconciliation* reports, data for FY 2014 are from preliminary unaudited financial reports, and data for FY 2015 are from the *FY 2015 Rates and Charges Budget* report. Expenses are allocated to cost centers in accordance with the provisions of the Airline Agreement.

The line items of Operation and Maintenance Expenses shown in Exhibit D were forecast, using FY 2015 budgeted amounts as the base, by taking into account increases in unit costs as a result of inflation, forecast aircraft and passenger activity, and planned Airport development. In particular, the following assumptions were made:

1. To account for inflation, the unit costs of salaries, wages, benefits, materials, services, and supplies will increase an average of approximately 3.0% per year.

2. In addition to inflation-related increases, the costs of operating, maintaining, and administering airfield, terminal, and other Airport facilities will increase as a function of the forecast increases in passenger and aircraft activity documented in Table 13 in the earlier section, "Airline Traffic Forecasts."

3. As elements of the 2015-2018 Project open, increased expenses will be incurred, particularly in FY 2015 (terminal east infill) and FY 2019 (east concourse expansion and parking garage).

## REVENUES

Exhibit E presents Gross Revenues. Data for FY 2011 through FY 2013 are from the City's annual *Rates and Charges Reconciliation* reports, data for FY 2014 are from preliminary unaudited financial reports, and data for FY 2015 are from the *FY 2015 Rates and Charges Budget* report. The distribution of operating revenues by major category in FY 2013 and FY 2014 was as follows:

| | FY 2013 | | FY 2014 | |
|---|---|---|---|---|
| | Revenues | Share | Revenues | Share |
| Airline revenues | | | | |
| Landing fees | $ 21,653,000 | 21.0% | $ 21,324,000 | 19.7% |
| Terminal Building rentals | 15,997,000 | 15.5 | 15,513,000 | 14.4 |
| Other | 6,200,000 | 6.0 | 6,858,000 | 6.3 |
| Subtotal | $ 43,850,000 | 42.5% | $ 43,695,000 | 40.3% |
| Nonairline revenues | | | | |
| Terminal concessions | $ 8,061,000 | 7.8% | $ 9,365,000 | 8.6% |
| Parking and ground transportation | 43,927,000 | 42.7 | 46,372,000 | 42.8 |
| Other | 7,202,000 | 7.0 | 8,969.000 | 8.3 |
| Subtotal | $ 59,190,000 | 57.5% | $ 64,706,000 | 59.7 |
| Total | $103,040,000 | 100.0% | $108,401,000 | 100.0% |

Individual components of Gross Revenues shown in Exhibit E were forecast, using FY 2014 preliminary actual results and FY 2015 budgeted amounts as the base, taking into account allowances for unit price inflation at 3.0% per year, planned terminal and parking development, and the provisions of the Airline Agreement and other leases and agreements with tenants and users of the Airport.

Revenues from sources related to passenger numbers, such as concession, parking, and rental car revenues, and from sources related to aircraft movements, such as landing fees, were forecast as a function of the activity forecasts documented in Table 13 in the earlier section "Airline Traffic Forecasts." The specific assumptions underlying individual components of Gross Revenues are described in the following sections.

## AIRLINE REVENUES

Airline revenues shown in Exhibits E and E-1 are as calculated under the provisions of the Airline Agreement (on the assumption that the provisions of any successor agreement(s) relating to the calculation of rentals, fees, and charges will be the same as those of the Airline Agreement).

The Airline Agreement establishes cost centers to which debt service, 25% debt service coverage, amortization of investments from the Capital Fund, O&M expenses, O&M Reserve Account deposits, and other requirements are allocated. Amounts allocated to the airline cost centers provide the basis for calculating rentals, fees, and charges paid by the airlines. Amounts allocable to nonairline cost centers are met by the City from concession, parking, rental car, and other nonairline revenues.

### Airline Cost Centers

**Airfield:** Runways, taxiways, air navigation aids, and associated land, facilities, and equipment. The Signatory Airlines pay landing fees, calculated according to a residual methodology, to recover the requirements allocated to the cost center after the credit of fuel flowage fee revenues.

**Terminal Apron:** Aircraft parking apron at the terminal building, including apron areas for overnight aircraft parking. The Signatory Airlines pay apron fees calculated to recover the requirements allocated to the cost center over leased parking positions.

**Terminal Building:** Airline-leased space and facilities in the terminal. The Signatory Airlines pay terminal building rentals, calculated according to a compensatory methodology, to recover the requirements allocated to the cost center over leased space.

**Terminal Equipment:** The Signatory Airlines separately pay terminal equipment fees to allow recovery of the costs of passenger loading bridges, flight information display systems, and baggage handling systems.

**Fuel Facility:** Fuel storage and distribution facilities. The Signatory Airlines pay fuel facility fees calculated to meet the capital recovery requirements of the cost center (shown under other revenues in Exhibit E).

## Nonairline Cost Centers

**Terminal Building:** All terminal space and facilities not leased to the Signatory Airlines, including unleased airline space, public circulation space, and concession space.

**Automobile Parking:** Public and employee automobile parking garages and lots and associated facilities and equipment.

**Other Nonairline Areas:** Rental car, air cargo, and other facilities, buildings, and grounds including utilities, roads, bridges, and other infrastructure.

**PBX/STS/PDS:** Telecommunication systems and other shared tenant services.

## Allocation of Requirements to Cost Centers

Requirements are allocated to the airline and nonairline cost centers as follows.

**Debt Service:** Debt service on outstanding Revenue Bonds and on the proposed 2014 Bonds and planned 2016 Bonds allocated in accordance with the project costs funded (as shown in Exhibit C).

**Debt Service Coverage:** Coverage at 25% allocated pro rata according to each cost center's share of debt service.

**Amortization of Capital Fund investments:** Amounts to recover project costs funded from the Capital Fund.

**Operation and Maintenance Expenses:** Allocated according to fixed percentages as agreed to with the Signatory Airlines under the Airline Agreement (as shown in Exhibit D).

**Operating Reserve Account Deposit:** Allocated pro rata according to each cost center's share of O&M Expenses.

## Landing Fees

Exhibit E-1 shows historical and forecast Landing Fees and Signatory Airline landing fee rates per 1,000 pounds of landed weight. Airlines operating under Operating Agreements pay rentals, fees, and charges at the Signatory Airline rates. For the financial forecasts in this report, it was assumed that airlines accounting for substantially all landed weight at the Airport will pay Landing Fees at the Signatory Airline rate. Amounts shown are net of Landing Fees waived for airlines providing new airline service under the City's air service incentive program ($0.7 million in FY 2014).

### Terminal Rentals and Fees

**Terminal Building Rentals.** Exhibit E-1 shows historical and forecast Terminal Building rentals and the average terminal rental rate per square foot of leased space. Amounts shown include charges for the use of shared-use facilities. Amounts shown are net of rentals and charges waived for airlines providing new airline service under the City's air service incentive program ($0.9 million in FY 2014).

**Other Terminal Fees.** Exhibit E-1 also shows Terminal Apron fees (including overnight parking fees), Terminal Equipment fees, and fees for the use of the CBP international arrivals facility.

**Terminal Occupancy.** For the purposes of the forecasts of Terminal Building rentals and other terminal fees shown in Exhibit E-1, it was assumed that the additional airline-leasable space to be constructed for the East Concourse Expansion project will be approximately 67% occupied when the expansion opens in FY 2018.

### Airline Payments per Enplaned Passenger

Exhibit E-1 summarizes airline payments and the average of such payments per enplaned passenger.

## NONAIRLINE REVENUES

Exhibit E presents nonairline revenues. Assumptions underlying the forecasts of the major line items of revenues are described in the following sections.

### Terminal Concession Revenues

In FY 2013 and FY 2014, concessions and other services in the terminals generated 7.8% and 8.6% of Airport operating revenues, respectively, as follows:

| | FY 2013 | | FY 2014 | |
|---|---|---|---|---|
| | Revenues | Share | Revenues | Share |
| Food and beverage | $3,945,000 | 48.9% | $5,187,000 | 55.4% |
| Retail | 2,930,000 | 36.3 | 2,772,000 | 29.6 |
| Advertising | 875,000 | 10.9 | 1,238,000 | 13.2 |
| Passenger services | 310,000 | 3.9 | 168,000 | 1.8 |
| Total | $8,060,000 | 100.0% | $9,365,000 | 100.0% |

Food, beverage, and retail outlets in the terminal are operated under two prime concession agreements with Delaware North Companies Travel Hospitality Services and LS Travel Retail (which acquired the concession privileges through its acquisition of News and Gift Shops International). Certain outlets are operated by local and disadvantaged business enterprise partners. The concession privileges were awarded at the time the terminal opened in 1999 and will extend through approximately the end of FY 2017, assuming all options to renew are exercised.

**Food and Beverage.** Fifteen food and beverage outlets are operated in the terminals. In FY 2014, gross receipts for food and beverage concessions totaled approximately $32.7 million, or $6.20 per enplaned passenger, and the City received approximately $5.2 million, or 15.8% of gross receipts, in concession fees.

**Retail.** Twelve news, gift, and other retail merchandise concession outlets are operated in the terminals. In FY 2014, gross receipts for retail merchandise concessions totaled $14.3 million, or $2.70 per enplaned passenger, and the City received approximately $2.8 million, or 19.4% of gross receipts.

**Advertising.** Advertising in the terminal is managed by Clear Channel Airport under a concession agreement that provides for concession fees calculated as a percentage of gross revenues against a minimum annual guaranteed amount. In FY 2014, the City received approximately $1.2 million, or $0.24 per enplaned passenger, in advertising revenues.

**Passenger Services.** Other passenger convenience services from which the City derives revenues include telephone, wireless, ATM, luggage carts, currency exchange, massage, and shoeshine. In FY 2014, the City received approximately $0.2 million, or $0.03 per enplaned passenger, in fees from the providers of such services.

**Forecast Assumptions.** It was assumed that terminal concession revenues will increase as a function of inflation and forecast increases in numbers of enplaned passengers, with allowances for increased sales per passenger effective the beginning of FY 2019 when additional concession space opens in the expanded east concourse. It was assumed that the percentages of gross receipts payable to the City under future concession agreements will be the approximately the same as those payable under the current agreements.

### Automobile Parking Revenues

As of July 2014, the City provided approximately 12,070 public parking spaces, as follows:

- Terminal parking garage directly across from the terminal (2,450 spaces including spaces used for valet parking). Garage parking rates are $3 per hour (or part thereof) up to a daily maximum of $22. The daily rate was last increased (from $20) in November 2011.

- Close-in parking lot (Lot A) within a short walk of the terminal (1,050 spaces). Rates are $3 per hour (or part thereof) up to a daily maximum of $11. The daily rate was last increased (from $10) in November 2011.

- Long-term parking lots served by shuttle buses (7,240 spaces in normal use plus 1,330 overflow spaces used for special events and at holiday times). Rates are $3 per hour (or part thereof) up to a daily maximum of $7. The daily rate was last increased (from $6) in May 2011.

Valet parking service is also provided, with drop-off at the terminal curb, at a rate of $26 per day ($15 per day for "family friendly" valet parking under a pilot program).

All Airport public parking facilities and shuttle bus services are provided under a management fee contract with ABM Parking Services (formerly Ampco System Parking) under which ABM is reimbursed for operating and maintenance expenses and paid a management fee of $0.5 million per year. The management fee contract was effective in October 2009, and, assuming the exercise of two one-year options, extends through September 2016.

In FY 2014, parking revenues totaled approximately $33.7 million, or 31.1% of the total revenues shown in Exhibit E. Included in this amount are privilege fees paid by off-Airport parking operators and charges for parking at the approximately 1,480 parking spaces provided by the City for Airport and airline employees.

Two private operators provide approximately 6,400 covered parking spaces in off-Airport lots. Rates charged by the off-Airport operators are about $10 per day (subject to various discounts), higher than the rates charged by the City for long-term parking. The City collects a privilege fee from the off-Airport parking operators calculated as 10% of their gross receipts. In FY 2014, off-Airport privilege fees totaled approximately $1.6 million (included with parking in Exhibit E.)

Parking revenues were forecast assuming that:

1. Approximately 2,000 additional public garage parking spaces will become available effective the beginning of FY 2016 when the consolidated rental center opens (900 spaces on the first floor of the rental car center and 1,100 covered spaces on the third floor of the public garage now used for rental car parking).

2. Lot A (1,050 spaces) will be removed from use effective the beginning of FY 2017 when construction of the new garage begins, then approximately 5,000 parking spaces will become available effective the beginning of FY 2019 when the new garage opens.

3. Approximately 1,500 planned additional surface spaces will be made available on-Airport for long-term parking during FY 2016.

4. The addition of these garage and surface parking spaces will provide the capacity for on-Airport parking transactions to increase from FY 2014 levels in proportion to forecast increases in numbers of enplaned passengers and

will result in a diversion of parking transaction from long-term lots to garage parking effective the beginning of FY 2019 when the new garage opens.

5. Parking rates will be increased in FY 2015 through FY 2019 so as to achieve increases in revenues per parking transaction averaging approximately 3.0% per year.

6. Parking facilities will continue to be operated under management fee agreements with financial terms substantially the same as the current agreement.

## Rental Car Revenues

Rental car revenues shown in Exhibit E are derived from concession privilege fees under the terms of concession agreements that became effective in 1998 and will remain in effect until they are superseded by new agreements to become effective at the date of beneficial occupancy of the new rental car garage, expected in September 2015, and extend for eleven years with two additional five-year renewals at the City's option. Under both the existing and new agreements, the rental car companies pay 10% of their gross receipts, against minimum annual guaranteed amounts, for the privilege of operating on Airport. The rental car companies also pay ground rentals for their storage and maintenance facilities (shown in Exhibit E under building and ground rentals). The City expects that the rental car companies will continue to lease the storage and maintenance facilities when the consolidated rental car center opens.

The rental car companies operating on Airport and their shares of gross revenues in FY 2014 were as follows:

| | FY 2013 | | FY 2014 | |
|---|---|---|---|---|
| Company | Revenues | Share | Revenues | Share |
| Hertz *(a)* | $ 31,790,000 | 28.2% | $ 34,601,000 | 28.7% |
| Alamo/National/Signature *(c)* | 20,434,000 | 18.1 | 23,590,000 | 19.5 |
| Avis/Zip Car *(b)* | 19,434,000 | 17.2 | 20,167,000 | 16.7 |
| Enterprise *(c)* | 15,302,000 | 13.6 | 16,637,000 | 13.8 |
| Budget *(b)* | 9,441,000 | 8.4 | 10,316,000 | 8.5 |
| Dollar *(a)* | 4,805,000 | 4.3 | 4,649,000 | 3.9 |
| Thrifty *(a)* | 3,591,000 | 3.2 | 3,733,000 | 3.1 |
| Texas/Ace | 3,476,000 | 3.0 | 3,575,000 | 3.0 |
| Advantage | 4,549,000 | 4.0 | 3,441,000 | 2.8 |
| Total | $112,822,000 | 100.0% | $120,709,000 | 100.0% |

*(a)* Operates as a subsidiary of Hertz Global Holdings, Inc.
*(b)* Operates as a subsidiary of Avis Budget Group.
*(c)* Operates as a subsidiary of Enterprise Holdings, Inc.

In, rental car privilege fees from these companies totaled $12.2 million or $2.31 per enplaned passenger. Off-Airport rental car companies pay privilege fees of 8% certain of their gross revenues, but such fees amounted to less than $10,000 in FY 2014 (shown with rental cars in Exhibit E). Rental car privilege fees were forecast to increase with inflation and enplaned passengers.

On behalf of the City, each on-Airport rental car company collects a customer facility charge (CFC) of $5.95 per transaction-day. As discussed in the letter at the beginning of this report, the 2013 Rental Car Special Facility Bonds issued to fund construction of the consolidated rental car facility are secured by and payable from revenues derived from the CFC. Under the Revenue Bond Ordinances, such CFC revenues are not included in Gross Revenues and are not shown in Exhibit E.

### Ground Transportation Fees

The City collects commercial ground transportation fees from the operators of taxicabs, limousines, and shuttle buses and vans. In FY 2014, such fees totaled approximately $0.5 million, or $0.09 per enplaned passenger, and were forecast to increase with inflation and enplaned passengers.

### Fuel Flowage Fees

General and business aviation at the Airport is served by two fixed base operators, Atlantic Aviation Services and Signature Flight Support. The fixed base operators collect fuel flowage fees on behalf of the City. In FY 2014, such revenues totaled approximately $0.6 million, and were forecast to increase with inflation. Ground and facility rentals paid by the fixed base operators are included in Exhibit A with other building and ground rentals.

### Fuel Facility Fees

In FY 2014, fuel facility fees (calculated to meet capital recovery requirements) were $0.8 million and were forecast to remain unchanged.

### Cargo Apron Fees

In FY 2014, aircraft parking fees paid to the City for the use of the apron at the Cargo Port were $0.5 million and were forecast to increase with inflation.

### Hotel Fees

A Hilton hotel at the entrance to the Airport provides approximately 260 rooms, restaurants, and meeting facilities. Revenues paid to the City are calculated as approximately 5% of gross hotel receipts and in FY 2014 totaled $0.7 million. Such hotel revenues were forecast to increase with inflation.

### Building and Ground Rentals

The City derives revenues from Airport property located outside the passenger terminal complex. Such revenues include rents from building and ground leases with the fixed base operators and various other aeronautical and nonaeronautical tenants, including the City of Austin's Learning and Research Center. Also included are rentals for space in the passenger terminal paid by the CBP, TSA, and other nonairline tenants.

In FY 2014, revenues from building and ground rentals totaled approximately $3.0 million and were forecast assuming that the provisions of existing leases or other business arrangements (with payments generally increasing with inflation) will continue through the forecast period. No allowance was included for potential revenues from commercial development that may take place on Airport property.

### Other Revenues

In FY 2014, revenues from various other sources totaled approximately $3.3 million.

**In-flight catering fees.** In-flight catering services to the airlines are provided by Sky Chefs under a concession agreement that provides for fees to the City calculated as 10% of airline catering sales. FY 2014, fees from such services were $0.3 million, and were forecast to increase with inflation and enplaned passengers.

**Shared tenant service fees.** In FY 2014, fees paid by airlines and others for telecommunications and other shared tenant services were $0.4 million, and were forecast to increase with inflation.

**Rental car facility contributions.** The City receives revenues from the rental car facility trust as reimbursements of foregone parking revenues and operating expenses associated with the construction and operation of the new rental car garage. For FY 2013 and FY 2014, such revenues totaled $1.5 million and, beginning in FY 2016, were forecast to be between $0.8 million and $0.9 million per year.

### Interest Income

Interest income shown in Exhibit E represents investment earnings on balances in the Revenue Fund. In FY 2014, such earnings totaled $0.1 million, and were forecast to be unchanged. Interest income on balances in the Debt Service Reserve Fund are retained in such fund and are not included.

## APPLICATION OF REVENUES

Exhibit G presents the application of Gross Revenues and Other Available Funds credited to the Revenue Fund in the following amounts and order of priority as established by the Revenue Bond Ordinances:

- **Operation and Maintenance Expenses**. Pay all reasonable and necessary expenses of operating, maintaining, and repairing the Airport System. (Operation and Maintenance Expenses as shown in Exhibit D are forecast.)

- **Debt Service Fund**. Pay Debt Service on Revenue Bonds and any related Credit Agreement Obligations. (Debt Service Requirements as shown in Exhibit C, net of amounts paid from PFC revenues as shown in Exhibit F, are forecast.)

- **Administrative Expense Fund**. Pay fees, expenses, and other amounts payable as Administrative Expenses associated with Revenue Bonds and related Credit Agreement Obligations. (Letter of credit and remarketing fees associated with the Swap Agreement for the 2005 Refunding Bonds are forecast.)

- **Debt Service Reserve Fund**. Transfer any amounts to maintain a balance equal to the Debt Service Reserve Fund Requirement. (The increase in such requirement is forecast to be met from the proceeds of the proposed 2014AB Bonds and planned 2016 Bonds and no transfers are forecast to be required from the Revenue Fund.)

- **Subordinate Obligations**. Pay any Debt Service or other amounts due on Subordinate Obligations. (No such payments are forecast to be required.)

- **General Obligation Airport Bonds**. Pay Debt Service on City of Austin General Obligation Bonds. (Payments on such bonds allocable to the Airport System are forecast to be made.)

- **Operation and Maintenance Reserve Fund**. Transfer any amounts required to maintain a balance at least equal to two months budgeted Operation and Maintenance Expenses. (Amounts increasing with Operation and Maintenance are forecast.)

- **Renewal and Replacement Fund**. Transfer any amounts required to maintain the Renewal and Replacement Fund Requirement, currently established at $5.0 million. (No such transfers are forecast to be required.)

- **Capital Fund**. Amounts remaining after all other funding requirements of the Revenue Bond Ordinances have been met are transferred to the Capital Fund.

Amounts credited to the Capital Fund may be used at the City's discretion to pay the costs of renewal, replacement, or other capital expenditures or for any other lawful purpose. Amounts designated at the City's discretion as Other Available Funds are transferred to the Revenue Fund. (Amounts equal to 25% of the Debt Service Requirements of Revenue Bonds are forecast to be transferred in each Fiscal Year as Other Available Funds to contribute to meeting the debt service coverage requirement of the Rate Covenant.)

## APPLICATION OF PFC REVENUES

All PFC revenues are deposited by the City into the PFC Fund to be used for FAA-approved PFC-eligible projects, either to pay project costs directly or to pay debt service on Revenue Bonds. Under the Revenue Bond Ordinances, PFC revenues are not a part of Gross Revenues but may be set aside during a Fiscal Year for the payment of PFC-eligible debt service in the following Fiscal Year. Revenue Bond debt service paid from such set-aside PFC revenues is deducted in the calculation of Debt Service Requirements and debt service coverage for such following Fiscal Year. As shown in Exhibit F, the balance in the PFC Fund at the end of each Fiscal Year is forecast to exceed the amount to be set aside and used to pay debt service on Revenue Bonds in the following Fiscal Year. Such excess balance would, subject to FAA approval, be available for the payment of the costs of PFC-eligible projects.

## DEBT SERVICE COVERAGE

Exhibit G shows the calculation of debt service coverage. As required by the Rate Covenant, Net Revenues (Gross Revenues less Operation and Maintenance Expenses) and Other Available Funds are forecast to be sufficient to pay at least 125% of the Debt Service Requirements of all outstanding Revenue Bonds, 100% of Administrative Expenses, and all other amounts required under the Revenue Bond Ordinances in each Fiscal Year of the forecast period.

## BASE FORECASTS AND STRESS TEST PROJECTIONS

Exhibit H-1 summarizes the forecast financial results as presented in Exhibits A through G and discussed in the preceding sections assuming the "base" forecast of enplaned passengers and aircraft landed weight presented earlier in Table 13.

Exhibit H-2 is an identical presentation of financial results in which the projected revenues and expenses reflect the "stress test" forecast of enplaned passengers and aircraft landed weight, as also presented in Table 13.

The assumptions underlying the stress test projections are the same as those for the base passenger forecasts, except:

1. Nonairline revenues related to passenger numbers, such as terminal concession revenues, parking, and rental car revenues, are reduced proportionately.

2. PFC revenues are similarly reduced in proportion to reduced passenger numbers and cover a lower share of Revenue Bond debt service.

3. Certain operating and maintenance expenses are reduced to reflect the lower passenger and flight activity (overall O&M Expenses in FY 2021 approximately 10% lower than for the base case). The amounts of such reduced expenses allocated to the airline and nonairline cost centers are likewise reduced.

4. Airline landing fee and terminal rental payments are reduced to reflect the lower allocation of O&M Expenses to the airline cost centers. Airline terminal rentals are further reduced because the occupancy of terminal facilities is lower.

For the stress test, the entire 2015-2018 Project was assumed to be implemented and funded by Revenue Bonds to the same schedule as for the base case and projected debt service is unchanged. Required airline payments per passenger are projected to increase, as shown on Exhibit H-2. Projected Revenue Bond debt service coverage ratios are reduced but still exceed the Rate Covenant requirements.

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Exhibit A

**PROJECT COSTS AND FUNDING SOURCES**
Austin-Bergstrom International Airport

| | Project costs | Federal grants | PFC revenues pay-as-you-go | Capital Fund | Revenue Bonds | | |
|---|---|---|---|---|---|---|---|
| | | | | | Prior Bonds | 2014 Bonds | 2016 Bonds |
| Terminal East Infill | $ 62,250,000 | $ 4,994,000 | $ 37,336,000 | $ - | $ - | $ 19,920,000 | $ - |
| Terminal and Apron Expansion and Improvement | | | | | | | |
| East concourse expansion | $ 160,000,000 | $ - | $ 13,567,000 | $ - | $ 7,000,000 | $ 139,433,000 | $ - |
| Other terminal improvements | 25,600,000 | - | - | - | - | 25,600,000 | - |
| Aircraft parking apron expension | 38,000,000 | 28,500,000 | - | - | - | 9,500,000 | - |
| Subtotal | $ 223,600,000 | $ 28,500,000 | $ 13,567,000 | $ - | $ 7,000,000 | $ 174,533,000 | $ - |
| Other terminal projects | 20,200,000 | 2,250,000 | 7,775,000 | 2,175,000 | - | - | 8,000,000 |
| Capital equipment and vehicles | 14,425,000 | - | - | 14,425,000 | - | - | - |
| Information technology projects | 22,751,000 | - | 310,000 | 22,441,000 | - | - | - |
| Parking Garage | 133,750,000 | - | - | 25,000,000 | - | 13,750,000 | 95,000,000 |
| Other landside projects | 29,550,000 | 1,012,000 | 3,688,000 | - | 5,800,000 | 8,850,000 | 10,200,000 |
| Airfield projects | 22,800,000 | 10,504,000 | 3,796,000 | - | - | - | 8,500,000 |
| Total | $ 529,326,000 | $ 47,260,000 | $ 66,472,000 | $ 64,041,000 | $ 12,800,000 | $ 217,053,000 | $ 121,700,000 |

Source: City of Austin, Aviation Department, October 30, 2014.

Exhibit B

**SOURCES AND USES OF BOND FUNDS**

Austin-Bergstrom International Airport

| | Revenue Bonds | | |
|---|---|---|---|
| | 2014 Bonds | 2016 Bonds | Total |
| **Sources of Bond Funds** | | | |
| Bond proceeds | | | |
| Principal amount of Bonds | $ 267,005,000 | $ 129,960,000 | $ 396,965,000 |
| Original issue premium (discount) | 13,016,600 | - | 13,016,600 |
| Net proceeds | $ 280,021,600 | $ 129,960,000 | $ 409,981,600 |
| Investment earnings on Bond funds | | | |
| Construction Fund | $ 672,621 | $ 333,370 | $ 1,005,992 |
| Capitalized Interest Account | 194,137 | - | 194,137 |
| Debt Service Reserve Fund | - | - | - |
| Subtotal investment earnings | $ 866,758 | $ 333,370 | $ 1,200,129 |
| Total sources of Bond funds | $ 280,888,358 | $ 130,293,370 | $ 411,181,728 |
| **Uses of Bond Funds** | | | |
| Project costs | $ 217,053,000 | $ 121,700,000 | $ 338,753,000 |
| Capitalized Interest Account | 47,143,810 | - | 47,143,810 |
| Debt Service Reserve Fund Requirement | | | |
| Debt Service Reserve Fund deposit | 13,350,250 | 6,964,556 | 20,314,806 |
| Bond insurance premium | - | - | - |
| Subtotal | $ 13,350,250 | $ 6,964,556 | $ 20,314,806 |
| Other issuance costs | 3,341,298 | 1,628,814 | 4,970,112 |
| Total uses of Bond funds | $ 280,888,358 | $ 130,293,370 | $ 411,181,728 |
| **Key financing assumptions** | | | |
| Effective Bond interest rate | 4.73% | 4.44% | |
| Issuance date (beginning of Fiscal Year) | 2015 | 2017 | |
| Capitalized interest period (years) | 3.5 | 0.0 | |
| Interest-only period thereafter (years) | 7.5 | 9.0 | |
| Principal amortization period (years) | 19.0 | 21.0 | |

Source: Public Financial Management, Inc., November 20, 2014.

Exhibit C

**DEBT SERVICE REQUIREMENTS**

Austin-Bergstrom International Airport

For Fiscal Years ending September 30

This exhibit is based on information from the sources indicated and assumptions provided and adopted by Airport management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

| | Historical (a) | | | Estimated | | Forecast | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| **Revenue Bonds** | | | | | | | | | | | |
| 2003 Refunding Bonds | $ 4,525,400 | $ 10,170,919 | $ 3,239,363 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 2005 Refunding Bonds | 22,703,015 | 16,567,840 | 23,555,242 | 25,074,000 | 25,151,000 | 12,274,000 | 10,483,000 | 24,134,000 | 28,115,000 | 27,536,000 | 25,892,000 |
| 2013 Bonds | - | - | - | 28,000 | 1,096,000 | 3,319,000 | 5,200,000 | 5,412,000 | 5,415,000 | 5,409,000 | 5,413,000 |
| 2013A Refunding Bonds | - | - | - | 1,314,000 | 1,188,000 | 14,951,000 | 16,906,000 | 3,325,000 | 173,000 | - | - |
| Proposed 2014 Bonds (b) | - | - | - | - | 4,000 | 144,000 | 1,107,000 | 1,406,000 | 13,350,000 | 13,350,000 | 13,350,000 |
| Planned 2016 Bonds (b) | - | - | - | - | - | - | 6,242,000 | 5,777,000 | 5,777,000 | 5,777,000 | 5,777,000 |
| Subtotal Revenue Bond debt service | $ 27,228,415 | $ 26,738,759 | $ 26,794,605 | $ 26,416,000 | $ 27,439,000 | $ 30,688,000 | $ 39,938,000 | $ 40,054,000 | $ 52,830,000 | $ 52,072,000 | $ 50,432,000 |
| Less: Paid from PFC revenues | (12,045,971) | (12,045,493) | (11,032,005) | (11,136,000) | (11,262,000) | (12,361,000) | (12,774,000) | (11,671,000) | (20,116,000) | (19,876,000) | (19,540,000) |
| Revenue Bond Debt Service Requirements | $ 15,182,444 | $ 14,693,266 | $ 15,762,600 | $ 15,280,000 | $ 16,177,000 | $ 18,327,000 | $ 27,164,000 | $ 28,383,000 | $ 32,714,000 | $ 32,196,000 | $ 30,892,000 |
| **Other obligations** | | | | | | | | | | | |
| 1998 Notes | $ 2,282,162 | $ 2,204,994 | $ 2,536,790 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 2005 Bonds Administrative Expenses (c) | $ 2,699,035 | $ 3,776,165 | $ 3,250,380 | $ 2,811,000 | $ 1,502,000 | $ 1,333,000 | $ 1,309,000 | $ 1,288,000 | $ 1,157,000 | $ 1,001,000 | $ 845,000 |
| Less: Paid from PFC revenues | (1,480,900) | (1,648,636) | (1,364,261) | (1,251,000) | (639,000) | (567,000) | (492,000) | (485,000) | (494,000) | (431,000) | (376,000) |
| Subtotal | $ 1,218,135 | $ 2,127,529 | $ 1,886,119 | $ 1,560,000 | $ 863,000 | $ 766,000 | $ 817,000 | $ 803,000 | $ 663,000 | $ 570,000 | $ 469,000 |
| General Obligation Airport Bonds | 30,101 | 29,718 | 26,272 | 27,000 | 27,000 | 27,000 | 27,000 | 27,000 | 27,000 | 27,000 | 27,000 |
| Subtotal other obligations | $ 3,530,398 | $ 4,362,241 | $ 4,449,181 | $ 1,587,000 | $ 890,000 | $ 793,000 | $ 844,000 | $ 830,000 | $ 690,000 | $ 597,000 | $ 496,000 |
| Total Revenue Bonds and other obligations | $ 18,712,842 | $ 19,055,507 | $ 20,211,781 | $ 16,867,000 | $ 17,067,000 | $ 19,120,000 | $ 28,008,000 | $ 29,213,000 | $ 33,404,000 | $ 32,793,000 | $ 31,388,000 |
| **Allocation by cost center** | | | | | | | | | | | |
| Airline cost centers | | | | | | | | | | | |
| Airfield | $ 4,982,176 | $ 5,073,657 | $ 5,382,923 | $ 4,487,000 | $ 4,389,000 | $ 4,608,000 | $ 5,418,000 | $ 5,765,000 | $ 5,566,000 | $ 5,405,000 | $ 5,029,000 |
| Terminal apron | 324,813 | 330,777 | 350,940 | 292,000 | 277,000 | 276,000 | 306,000 | 335,000 | 567,000 | 556,000 | 532,000 |
| Terminal building (airline) | 3,351,756 | 3,413,300 | 3,621,358 | 3,025,000 | 3,215,000 | 3,921,000 | 4,991,000 | 5,346,000 | 7,713,000 | 7,603,000 | 7,351,000 |
| Terminal equipment | - | - | - | - | - | 1,000 | 50,000 | 49,000 | 157,000 | 157,000 | 157,000 |
| Subtotal airline cost centers | $ 8,658,745 | 8,817,734 | 9,355,221 | 7,804,000 | 7,881,000 | 8,806,000 | 10,765,000 | 11,495,000 | 14,003,000 | 13,721,000 | 13,069,000 |
| Nonairline cost centers | | | | | | | | | | | |
| Terminal building (nonairline) | $ 3,141,884 | $ 3,199,575 | $ 3,394,605 | $ 2,833,000 | $ 2,912,000 | $ 3,360,000 | $ 4,171,000 | $ 4,460,000 | $ 5,836,000 | $ 5,733,000 | $ 5,497,000 |
| Parking | 4,603,559 | 4,688,088 | 4,973,851 | 4,149,000 | 4,152,000 | 4,554,000 | 9,821,000 | 9,847,000 | 10,018,000 | 9,868,000 | 9,521,000 |
| Other nonairline cost centers | 2,308,655 | 2,350,109 | 2,488,104 | 2,081,000 | 2,122,000 | 2,400,000 | 3,252,000 | 3,409,000 | 3,546,000 | 3,472,000 | 3,301,000 |
| Subtotal nonairline cost centers | $ 10,054,098 | $ 10,237,772 | $ 10,856,560 | $ 9,063,000 | $ 9,186,000 | $ 10,314,000 | $ 17,244,000 | $ 17,716,000 | $ 19,400,000 | $ 19,073,000 | $ 18,319,000 |
| Total | $ 18,712,843 | $ 19,055,506 | $ 20,211,781 | $ 16,867,000 | $ 17,067,000 | $ 19,120,000 | $ 28,009,000 | $ 29,211,000 | $ 33,403,000 | $ 32,794,000 | $ 31,388,000 |

(a) Source: City of Austin, Aviation Department, annual Rates and Charges Reconciliation reports.

(b) Source: Public Financial Management, Inc., November 20, 2014.

(c) Letter of credit and remarketing fees for the variable-rate 2005 Refunding Bonds.

December 1, 2014

Exhibit D

**OPERATION AND MAINTENANCE EXPENSES**

Austin-Bergstrom International Airport

For Fiscal Years ending September 30

This exhibit is based on information from the sources indicated and assumptions provided and adopted by Airport management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

| | Historical (a) | | | Estimated | | Forecast | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| **Expenses by function** | | | | | | | | | | | |
| Administration | | | | | | | | | | | |
| Management | $ 1,887,141 | $ 1,981,913 | $ 2,262,253 | $ 2,770,000 | $ 3,197,000 | $ 3,352,000 | $ 3,498,000 | $ 3,650,000 | $ 4,099,000 | $ 4,274,000 | $ 4,454,000 |
| Information technology | 3,632,226 | 4,289,348 | 3,891,418 | 4,205,000 | 5,139,000 | 5,390,000 | 5,625,000 | 5,868,000 | 6,591,000 | 6,871,000 | 7,161,000 |
| Finance and purchasing | 1,232,377 | 1,477,865 | 1,642,511 | 1,821,000 | 2,541,000 | 2,665,000 | 2,781,000 | 2,901,000 | 3,259,000 | 3,397,000 | 3,541,000 |
| City support services | 3,518,906 | 3,114,729 | 3,912,729 | 4,573,000 | 4,975,000 | 5,217,000 | 5,444,000 | 5,680,000 | 6,379,000 | 6,651,000 | 6,932,000 |
| Other administration | 2,530,491 | 2,553,296 | 2,840,340 | 3,419,000 | 4,482,000 | 4,700,000 | 4,905,000 | 5,117,000 | 5,747,000 | 5,991,000 | 6,245,000 |
| Total administration | $ 12,801,141 | $ 13,417,151 | $ 14,549,251 | $ 16,788,000 | $ 20,334,000 | $ 21,324,000 | $ 22,253,000 | $ 23,216,000 | $ 26,075,000 | $ 27,184,000 | $ 28,333,000 |
| Operations and maintenance | | | | | | | | | | | |
| Operations | $ 826,956 | $ 1,007,795 | $ 1,190,828 | $ 1,145,000 | $ 1,336,000 | $ 1,401,000 | $ 1,462,000 | $ 1,525,000 | $ 1,713,000 | $ 1,786,000 | $ 1,862,000 |
| Parking | 8,725,526 | 7,681,940 | 8,368,833 | 8,741,000 | 9,232,000 | 9,681,000 | 10,103,000 | 10,540,000 | 12,091,000 | 12,605,000 | 13,138,000 |
| Facility services | 5,961,488 | 6,136,753 | 6,481,605 | 6,759,000 | 7,464,000 | 7,828,000 | 8,169,000 | 8,522,000 | 9,572,000 | 9,979,000 | 10,401,000 |
| Airfield maintenance | 1,828,485 | 2,220,453 | 2,895,189 | 2,755,000 | 2,896,000 | 3,037,000 | 3,169,000 | 3,306,000 | 3,713,000 | 3,871,000 | 4,035,000 |
| Building maintenance | 6,092,417 | 6,451,050 | 6,983,727 | 7,211,000 | 8,613,000 | 9,033,000 | 9,426,000 | 9,834,000 | 11,045,000 | 11,515,000 | 12,002,000 |
| Grounds maintenance | 1,132,620 | 1,192,074 | 1,211,521 | 1,363,000 | 1,466,000 | 1,538,000 | 1,605,000 | 1,674,000 | 1,880,000 | 1,960,000 | 2,043,000 |
| Utilities | 4,442,649 | 5,175,993 | 5,090,720 | 5,667,000 | 5,472,000 | 5,739,000 | 5,989,000 | 6,248,000 | 7,017,000 | 7,316,000 | 7,625,000 |
| Aircraft rescue and firefighting | 5,125,511 | 5,183,126 | 5,191,211 | 4,846,000 | 5,287,000 | 5,545,000 | 5,786,000 | 6,036,000 | 6,780,000 | 7,069,000 | 7,367,000 |
| Police and security | 8,910,104 | 9,589,460 | 10,365,108 | 10,551,000 | 11,886,000 | 12,465,000 | 13,008,000 | 13,570,000 | 15,242,000 | 15,891,000 | 16,563,000 |
| Planning and engineering | 1,628,567 | 1,783,583 | 2,042,868 | 2,089,000 | 2,850,000 | 2,989,000 | 3,119,000 | 3,254,000 | 3,655,000 | 3,811,000 | 3,972,000 |
| Other operations and maintenance | 558,266 | 640,484 | 789,567 | 894,000 | 768,000 | 805,000 | 840,000 | 877,000 | 985,000 | 1,027,000 | 1,070,000 |
| Total operation and maintenance | $ 45,232,589 | $ 47,062,711 | $ 50,611,177 | $ 52,021,000 | $ 57,270,000 | $ 60,061,000 | $ 62,676,000 | $ 65,386,000 | $ 73,693,000 | $ 76,830,000 | $ 80,078,000 |
| Total expenses by function | $ 58,033,730 | $ 60,479,862 | $ 65,160,428 | $ 68,809,000 | $ 77,604,000 | $ 81,385,000 | $ 84,929,000 | $ 88,602,000 | $ 99,768,000 | $ 104,014,000 | $ 108,411,000 |
| Annual percent change | | 4.2% | 7.7% | 5.6% | 12.8% | 4.9% | 4.4% | 4.3% | 12.6% | 4.3% | 4.2% |
| **Expenses by cost center** | | | | | | | | | | | |
| Airline cost centers | | | | | | | | | | | |
| Airfield | $ 12,636,633 | $ 13,402,843 | $ 14,436,093 | $ 14,591,000 | $ 16,553,000 | $ 17,360,000 | $ 18,116,000 | $ 18,899,000 | $ 21,227,000 | $ 22,130,000 | $ 23,066,000 |
| Terminal apron | 3,987,916 | 4,445,930 | 5,028,360 | 5,251,000 | 5,955,000 | 6,245,000 | 6,517,000 | 6,799,000 | 7,637,000 | 7,962,000 | 8,298,000 |
| Terminal building (airline) | 10,215,087 | 10,879,648 | 11,604,365 | 12,397,000 | 14,138,000 | 14,827,000 | 15,473,000 | 16,141,000 | 18,130,000 | 18,902,000 | 19,700,000 |
| Terminal equipment | 2,325,906 | 2,515,970 | 2,933,439 | 2,909,000 | 3,507,000 | 3,678,000 | 3,838,000 | 4,004,000 | 4,497,000 | 4,688,000 | 4,887,000 |
| Subtotal airline cost centers | $ 29,165,542 | $ 31,244,391 | $ 34,002,257 | $ 35,148,000 | $ 40,153,000 | $ 42,110,000 | $ 43,944,000 | $ 45,843,000 | $ 51,491,000 | $ 53,682,000 | $ 55,951,000 |
| Nonairline cost centers | | | | | | | | | | | |
| Terminal building (nonairline) | 15,425,717 | 16,360,940 | 17,374,027 | 18,749,000 | 21,419,000 | 22,463,000 | 23,441,000 | 24,454,000 | 27,466,000 | 28,635,000 | 29,846,000 |
| Parking | 10,809,254 | 9,960,461 | 10,752,682 | 11,339,000 | 12,122,000 | 12,712,000 | 13,266,000 | 13,839,000 | 15,797,000 | 16,469,000 | 17,165,000 |
| Other nonairline cost centers | 2,633,216 | 2,914,070 | 3,031,463 | 3,572,000 | 3,910,000 | 4,101,000 | 4,279,000 | 4,464,000 | 5,014,000 | 5,228,000 | 5,448,000 |
| Subtotal nonairline cost centers | $ 28,868,187 | $ 29,235,471 | $ 31,158,172 | $ 33,660,000 | $ 37,451,000 | $ 39,276,000 | $ 40,986,000 | $ 42,757,000 | $ 48,277,000 | $ 50,332,000 | $ 52,459,000 |
| Total expenses by cost center | $ 58,033,729 | $ 60,479,862 | $ 65,160,429 | $ 68,808,000 | $ 77,604,000 | $ 81,386,000 | $ 84,930,000 | $ 88,600,000 | $ 99,768,000 | $ 104,014,000 | $ 108,410,000 |

(a) Source: City of Austin, Aviation Department, annual Rates and Charges Reconciliation reports.

December 1, 2014

Exhibit E

**GROSS REVENUES**

Austin-Bergstrom International Airport

For Fiscal Years ending September 30

This exhibit is based on information from the sources indicated and assumptions provided and adopted by Airport management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

| | Historical (a) | | | Estimated | | Forecast | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| **Airline revenues** | | | | | | | | | | | |
| Landing fees | $ 19,135,407 | $ 20,277,911 | $ 21,653,215 | $ 21,324,000 | $ 23,056,000 | $ 23,904,000 | $ 25,625,000 | $ 26,826,000 | $ 29,150,000 | $ 29,590,000 | $ 29,834,000 |
| Terminal building rentals | 13,757,482 | 14,533,581 | 15,997,142 | 15,513,000 | 18,504,000 | 19,430,000 | 21,002,000 | 21,882,000 | 26,269,000 | 27,100,000 | 27,692,000 |
| Other rentals and fees | 5,391,508 | 5,757,500 | 6,207,434 | 6,858,000 | 6,719,000 | 7,461,000 | 7,655,000 | 7,808,000 | 8,436,000 | 8,496,000 | 8,692,000 |
| Total airline revenues | $ 38,284,397 | $ 40,568,992 | $ 43,857,791 | $ 43,695,000 | $ 48,279,000 | $ 50,795,000 | $ 54,282,000 | $ 56,516,000 | $ 63,855,000 | $ 65,186,000 | $ 66,218,000 |
| Annual percent change | | 6.0% | 8.1% | -0.4% | 10.5% | 5.2% | 6.9% | 4.1% | 13.0% | 2.1% | 1.6% |
| **Nonairline revenues** | | | | | | | | | | | |
| Terminal concession revenues | | | | | | | | | | | |
| Food and beverage | $ 3,173,110 | $ 3,426,224 | $ 3,945,229 | $ 5,187,000 | $ 5,196,000 | $ 5,546,000 | $ 5,863,000 | $ 5,667,000 | $ 6,282,000 | $ 6,628,000 | $ 6,990,000 |
| Retail | 2,345,201 | 2,452,742 | 2,930,790 | 2,772,000 | 2,921,000 | 3,118,000 | 3,296,000 | 3,583,000 | 3,972,000 | 4,190,000 | 4,419,000 |
| Advertising | 556,809 | 813,329 | 875,176 | 1,238,000 | 1,645,000 | 1,756,000 | 1,856,000 | 1,961,000 | 2,070,000 | 2,184,000 | 2,303,000 |
| Passenger services | 368,002 | 391,844 | 309,565 | 168,000 | 197,000 | 204,000 | 209,000 | 215,000 | 220,000 | 225,000 | 231,000 |
| Subtotal terminal concession revenues | $ 6,443,122 | $ 7,084,139 | $ 8,060,760 | $ 9,365,000 | $ 9,959,000 | $ 10,624,000 | $ 11,224,000 | $ 11,426,000 | $ 12,544,000 | $ 13,227,000 | $ 13,943,000 |
| Annual percent change | | 9.9% | 13.8% | 16.2% | 6.3% | 6.7% | 5.6% | 1.8% | 9.8% | 5.4% | 5.4% |
| Enplaned passengers | 4,524,641 | 4,662,738 | 4,928,979 | 5,275,464 | 5,500,000 | 5,700,000 | 5,850,000 | 6,000,000 | 6,150,000 | 6,300,000 | 6,450,000 |
| Annual percent change | | 3.1% | 5.7% | 7.0% | 4.3% | 3.6% | 2.6% | 2.6% | 2.5% | 2.4% | 2.4% |
| Per enplaned passenger | $1.42 | $1.52 | $1.64 | $1.78 | $1.81 | $1.86 | $1.92 | $1.90 | $2.04 | $2.10 | $2.16 |
| Parking and ground transportation | | | | | | | | | | | |
| Parking | $ 27,854,382 | $ 31,028,655 | $ 32,155,216 | $ 33,723,000 | $ 37,113,000 | $ 38,719,000 | $ 40,128,000 | $ 40,542,000 | $ 48,122,000 | $ 49,296,000 | $ 51,830,000 |
| Rental cars | 9,613,115 | 10,104,656 | 11,313,391 | 12,190,000 | 13,478,000 | 14,387,000 | 15,209,000 | 16,067,000 | 16,962,000 | 17,897,000 | 18,873,000 |
| Ground transportation | 420,734 | 344,326 | 458,522 | 459,000 | 486,000 | 519,000 | 549,000 | 580,000 | 612,000 | 646,000 | 681,000 |
| Subtotal parking and ground transportation | $ 37,888,231 | $ 41,477,637 | $ 43,927,129 | $ 46,372,000 | $ 51,077,000 | $ 53,625,000 | $ 55,886,000 | $ 57,189,000 | $ 65,696,000 | $ 67,839,000 | $ 71,384,000 |
| Annual percent change | | 9.5% | 5.9% | 5.6% | 10.1% | 5.0% | 4.2% | 2.3% | 14.9% | 3.3% | 5.2% |
| Per enplaned passenger | $8.37 | $8.90 | $8.91 | $8.79 | $9.29 | $9.41 | $9.55 | $9.53 | $10.68 | $10.77 | $11.07 |
| Other revenues | | | | | | | | | | | |
| Fuel flowage fees | $ 602,776 | $ 547,237 | $ 591,707 | $ 640,000 | $ 641,000 | $ 660,000 | $ 680,000 | $ 700,000 | $ 721,000 | $ 743,000 | $ 765,000 |
| Fuel facility fees | 746,933 | 752,185 | 748,641 | 761,000 | 757,000 | 757,000 | 757,000 | 757,000 | 757,000 | 757,000 | 757,000 |
| Cargo apron fees | 436,665 | 437,415 | 453,915 | 466,000 | 663,000 | 683,000 | 703,000 | 724,000 | 746,000 | 769,000 | 792,000 |
| Hotel fees | 550,352 | 577,523 | 610,228 | 683,000 | 666,000 | 686,000 | 707,000 | 728,000 | 750,000 | 772,000 | 795,000 |
| Building and ground rentals | 2,858,331 | 2,890,474 | 3,099,685 | 3,049,000 | 3,117,000 | 3,210,000 | 3,307,000 | 3,406,000 | 3,508,000 | 3,613,000 | 3,722,000 |
| Other | 1,384,041 | 1,531,245 | 1,586,542 | 3,254,000 | 2,437,000 | 2,458,000 | 2,520,000 | 2,584,000 | 2,650,000 | 2,721,000 | 2,835,000 |
| Interest income | 201,417 | 111,996 | 111,124 | 116,000 | 110,000 | 110,000 | 110,000 | 110,000 | 110,000 | 110,000 | 110,000 |
| Subtotal other revenues | $ 6,780,515 | $ 6,848,075 | $ 7,201,842 | $ 8,969,000 | $ 8,391,000 | $ 8,564,000 | $ 8,784,000 | $ 9,009,000 | $ 9,242,000 | $ 9,485,000 | $ 9,776,000 |
| Annual percent change | | 1.0% | 5.2% | 24.5% | -6.4% | 2.1% | 2.6% | 2.6% | 2.6% | 2.6% | 3.1% |
| Total nonairline revenues | $ 51,111,868 | $ 55,409,851 | $ 59,189,731 | $ 64,706,000 | $ 69,427,000 | $ 72,813,000 | $ 75,894,000 | $ 77,624,000 | $ 87,482,000 | $ 90,551,000 | $ 95,103,000 |
| Total revenues | $ 89,396,265 | $ 95,978,843 | $ 103,047,522 | $ 108,401,000 | $ 117,706,000 | $ 123,608,000 | $ 130,176,000 | $ 134,140,000 | $ 151,337,000 | $ 155,737,000 | $ 161,321,000 |
| Annual percent change | | 7.4% | 7.4% | 5.2% | 8.6% | 5.0% | 5.3% | 3.0% | 12.8% | 2.9% | 3.6% |

(a) Source: City of Austin, Aviation Department, annual Rates and Charges Reconciliation reports.

December 1, 2014

Exhibit E-1

**AIRLINE REVENUES**

Austin-Bergstrom International Airport

For Fiscal Years ending September 30

This exhibit is based on information from the sources indicated and assumptions provided and adopted by Airport management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

| | Historical (a) | | | Estimated | | Forecast | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| **Airfield revenues** | | | | | | | | | | | |
| Landing fees | $ 19,135,407 | $ 20,277,911 | $ 21,653,215 | $ 21,324,000 | $ 23,056,000 | $ 23,904,000 | $ 25,625,000 | $ 26,826,000 | $ 29,150,000 | $ 29,590,000 | $ 29,834,000 |
| Landed weight | 5,759,298 | 5,815,537 | 6,122,513 | 6,377,967 | 6,720,000 | 6,950,000 | 7,110,000 | 7,270,000 | 7,430,000 | 7,600,000 | 7,760,000 |
| Average landing fee rate (per 1,000 lbs) | $3.32 | $3.49 | $3.54 | $3.34 | $3.43 | $3.44 | $3.60 | $3.69 | $3.92 | $3.89 | $3.84 |
| **Terminal apron revenues** | | | | | | | | | | | |
| Terminal apron fees | $ 2,024,709 | $ 2,339,757 | $ 2,334,906 | $ 2,338,000 | $ 2,709,000 | $ 2,810,000 | $ 2,931,000 | $ 3,058,000 | $ 3,542,000 | $ 3,631,000 | $ 3,748,000 |
| RON fees | 2,007,550 | 1,944,750 | 2,059,550 | 2,442,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 |
| Terminal apron revenues | $ 4,032,259 | $ 4,284,507 | $ 4,394,456 | $ 4,780,000 | $ 4,709,000 | $ 4,810,000 | $ 4,931,000 | $ 5,058,000 | $ 5,542,000 | $ 5,631,000 | $ 5,748,000 |
| **Terminal building revenues** | | | | | | | | | | | |
| Air-conditioned space rentals | $ 8,699,245 | $ 9,126,824 | $ 9,798,385 | $ 9,845,000 | $ 11,590,000 | $ 13,008,000 | $ 14,058,000 | $ 14,680,000 | $ 18,207,000 | $ 18,906,000 | $ 19,500,000 |
| Airline leased conditioned space | 106,840 | 104,933 | 104,933 | 104,933 | 122,141 | 122,141 | 122,141 | 122,141 | 151,141 | 154,420 | 157,426 |
| Average terminal rental rate | $81.42 | $86.98 | $93.38 | $93.82 | $94.89 | $106.50 | $115.10 | $120.19 | $120.46 | $122.43 | $123.87 |
| Baggage claim conveyor revenues | $ 3,441,927 | $ 3,683,166 | $ 4,311,690 | $ 3,985,000 | $ 4,976,000 | $ 4,253,000 | $ 4,499,000 | $ 4,644,000 | $ 4,652,000 | $ 4,709,000 | $ 4,750,000 |
| Conditioned apron space rentals | 395,321 | 419,341 | 464,178 | 429,000 | 404,000 | 557,000 | 667,000 | 699,000 | 1,182,000 | 1,209,000 | 1,169,000 |
| Unconditioned apron space rentals | 287,316 | 304,774 | 354,919 | 299,000 | 288,000 | 393,000 | 471,000 | 493,000 | 865,000 | 887,000 | 859,000 |
| Mezzanine space rentals | 933,673 | 999,476 | 1,067,970 | 954,000 | 1,246,000 | 1,219,000 | 1,308,000 | 1,365,000 | 1,364,000 | 1,390,000 | 1,414,000 |
| Other terminal building revenues | $ 5,058,237 | $ 5,406,757 | $ 6,198,757 | $ 5,667,000 | $ 6,914,000 | $ 6,422,000 | $ 6,945,000 | $ 7,201,000 | $ 8,063,000 | $ 8,195,000 | $ 8,192,000 |
| **Terminal equipment revenues** | | | | | | | | | | | |
| Loading bridge and MUFID fees | $ 911,078 | $ 996,276 | $ 1,350,747 | $ 1,389,000 | $ 1,588,000 | $ 1,543,000 | $ 1,604,000 | $ 1,667,000 | $ 1,908,000 | $ 1,927,000 | $ 2,005,000 |
| Baggage makeup equipment fees | 448,170 | 476,717 | 462,231 | 689,000 | 422,000 | 1,108,000 | 1,119,000 | 1,083,000 | 986,000 | 938,000 | 939,000 |
| Total terminal equipment fees | $ 1,359,248 | $ 1,472,993 | $ 1,812,978 | $ 2,078,000 | $ 2,010,000 | $ 2,651,000 | $ 2,723,000 | $ 2,750,000 | $ 2,894,000 | $ 2,865,000 | $ 2,944,000 |
| **Airline payments per passenger** | | | | | | | | | | | |
| Total airline payments | $ 38,284,396 | $ 40,568,992 | $ 43,857,791 | $ 43,694,000 | $ 48,279,000 | $ 50,795,000 | $ 54,282,000 | $ 56,515,000 | $ 63,856,000 | $ 65,187,000 | $ 66,218,000 |
| Less: Landing fees paid by all-cargo airlines | ($1,322,197) | ($1,386,221) | ($1,475,217) | ($1,511,000) | ($1,475,000) | ($1,479,000) | ($1,550,000) | ($1,587,000) | ($1,687,000) | ($1,674,000) | ($1,653,000) |
| Subtotal | $ 36,962,199 | $ 39,182,771 | $ 42,382,574 | $ 42,183,000 | $ 46,804,000 | $ 49,316,000 | $ 52,732,000 | $ 54,928,000 | $ 62,169,000 | $ 63,513,000 | $ 64,565,000 |
| Enplaned passengers | 4,524,641 | 4,662,738 | 4,928,979 | 5,275,464 | 5,500,000 | 5,700,000 | 5,850,000 | 6,000,000 | 6,150,000 | 6,300,000 | 6,450,000 |
| Airline payments per passenger | $8.17 | $8.40 | $8.60 | $8.00 | $8.51 | $8.65 | $9.01 | $9.15 | $10.11 | $10.08 | $10.01 |

(a) Source: City of Austin, Aviation Department, annual Rates and Charges Reconciliation reports.

Exhibit F

**SOURCES AND USES OF PFC REVENUES**

Austin-Bergstrom International Airport

For Fiscal Years ending September 30

This exhibit is based on information from the sources indicated and assumptions provided and adopted by Airport management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

| | Historical (a) | | | Estimated | | Forecast | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| **Sources of PFC revenues** | | | | | | | | | | | |
| Enplaned passengers | 4,524,641 | 4,662,738 | 4,928,979 | 5,275,464 | 5,500,000 | 5,700,000 | 5,850,000 | 6,000,000 | 6,150,000 | 6,300,000 | 6,450,000 |
| Net PFC per passenger (b) | $4.39 | $4.39 | $4.39 | $4.39 | $4.39 | $4.39 | $4.39 | $4.39 | $4.39 | $4.39 | $4.39 |
| Percent passengers paying PFC | 87.7% | 90.0% | 90.1% | 85.5% | 85.0% | 85.0% | 85.0% | 85.0% | 85.0% | 85.0% | 85.0% |
| PFC collections | $ 17,429,910 | $ 18,413,826 | $ 19,506,796 | $ 19,806,000 | $ 20,523,000 | $ 21,270,000 | $ 21,829,000 | $ 22,389,000 | $ 22,949,000 | $ 23,508,000 | $ 24,068,000 |
| Investment earnings | 151,973 | 81,104 | 74,451 | 49,000 | 252,000 | 105,000 | 85,000 | 92,000 | 114,000 | 113,000 | 130,000 |
| Total PFC revenues | $ 17,581,883 | $ 18,494,930 | $ 19,581,247 | $ 19,855,000 | $ 20,775,000 | $ 21,375,000 | $ 21,914,000 | $ 22,481,000 | $ 23,063,000 | $ 23,621,000 | $ 24,198,000 |
| **Uses of PFC revenues** | | | | | | | | | | | |
| Debt service on Revenue Bonds | $ 12,045,971 | $ 12,045,493 | $ 11,032,005 | $ 11,136,000 | $ 11,262,000 | $ 12,361,000 | $ 12,774,000 | $ 11,671,000 | $ 20,116,000 | $ 19,876,000 | $ 19,540,000 |
| 2005 Bonds Administrative Expenses | 1,480,900 | 1,648,636 | 1,364,261 | 1,251,000 | 639,000 | 567,000 | 492,000 | 485,000 | 494,000 | 431,000 | 376,000 |
| Pay-as-you-go expenditures | - | - | - | - | 38,102,000 | 12,518,000 | 7,254,000 | 5,994,000 | 2,606,000 | - | - |
| Total PFC expenditures | $ 13,526,871 | $ 13,694,129 | $ 12,396,266 | $ 12,387,000 | $ 50,003,000 | $ 25,446,000 | $ 20,520,000 | $ 18,150,000 | $ 23,216,000 | $ 20,307,000 | $ 19,916,000 |
| Net PFC revenues over (under) expenditures | $ 4,055,012 | $ 4,800,801 | $ 7,184,981 | $ 7,468,000 | $ (29,228,000) | $ (4,071,000) | $ 1,394,000 | $ 4,331,000 | $ (153,000) | $ 3,314,000 | $ 4,282,000 |
| PFC Fund balance | $ 30,862,681 | $ 35,663,482 | $ 42,848,463 | $ 50,317,000 | $ 21,089,000 | $ 17,018,000 | $ 18,413,000 | $ 22,745,000 | $ 22,591,000 | $ 25,905,000 | $ 30,188,000 |
| Required set-aside for payment of all PFC-eligible debt service in following Fiscal Year | $ 12,045,493 | $ 11,032,005 | $ 11,135,552 | $ 11,262,000 | $ 12,361,000 | $ 12,774,000 | $ 11,671,000 | $ 20,116,000 | $ 19,876,000 | $ 19,540,000 | $ 20,150,000 |

(a) Source: City of Austin, Aviation Department, quarterly PFC reports.

(b) $4.50 less airline collection fee of $0.11 per passenger effective April 2004.

Exhibit G

**APPLICATION OF REVENUES AND DEBT SERVICE COVERAGE**

Austin-Bergstrom International Airport

For Fiscal Years ending September 30

This exhibit is based on information from the sources indicated and assumptions provided and adopted by Airport management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

| | Historical | | | Estimated | | Forecast | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| **Gross Revenues and Other Available Funds** | | | | | | | | | | | |
| Airline revenues | $ 38,284,397 | $ 40,568,992 | $ 43,857,791 | $ 43,695,000 | $ 48,279,000 | $ 50,795,000 | $ 54,282,000 | $ 56,516,000 | $ 63,855,000 | $ 65,186,000 | $ 66,218,000 |
| Nonairline revenues | 51,111,868 | 55,409,851 | 59,189,731 | 64,706,000 | 69,427,000 | 72,813,000 | 75,894,000 | 77,624,000 | 87,482,000 | 90,551,000 | 95,103,000 |
| Gross Revenues (a) | $ 89,396,265 | $ 95,978,843 | $ 103,047,522 | $ 108,401,000 | $ 117,706,000 | $ 123,608,000 | $ 130,176,000 | $ 134,140,000 | $ 151,337,000 | $ 155,737,000 | $ 161,321,000 |
| Other Available Funds (b) | 3,795,611 | 3,673,317 | 3,940,650 | 3,820,000 | 4,044,000 | 4,582,000 | 6,791,000 | 7,096,000 | 8,179,000 | 8,049,000 | 7,723,000 |
| Gross Revenues and Other Available Funds | $ 93,191,876 | $ 99,652,160 | $ 106,988,172 | $ 112,221,000 | $ 121,750,000 | $ 128,190,000 | $ 136,967,000 | $ 141,236,000 | $ 159,516,000 | $ 163,786,000 | $ 169,044,000 |
| **Application of Gross Revenues and Other Available Funds** | | | | | | | | | | | |
| Operation and Maintenance Expenses (c) | $ 58,033,730 | $ 60,479,862 | $ 65,160,428 | $ 68,809,000 | $ 77,604,000 | $ 81,385,000 | $ 84,929,000 | $ 88,602,000 | $ 99,768,000 | $ 104,014,000 | $ 108,411,000 |
| Revenue Bond Debt Service Requirements (d) | 15,182,444 | 14,693,266 | 15,762,600 | 15,280,000 | 16,177,000 | 18,327,000 | 27,164,000 | 28,383,000 | 32,714,000 | 32,196,000 | 30,892,000 |
| Administrative Expenses (d) | 1,218,135 | 2,127,529 | 1,886,119 | 1,560,000 | 863,000 | 766,000 | 817,000 | 803,000 | 663,000 | 570,000 | 469,000 |
| Debt Service Reserve Fund | - | - | - | - | - | - | - | - | - | - | - |
| Subordinate Obligations (e) | 2,282,162 | 2,204,994 | 2,536,790 | - | - | - | - | - | - | - | - |
| General Obligation Airport Bonds | 30,101 | 29,718 | 26,272 | 27,000 | 27,000 | 27,000 | 27,000 | 27,000 | 27,000 | 27,000 | 27,000 |
| Operation and Maintenance Reserve Fund | 627,561 | 449,546 | 605,758 | 493,000 | 1,600,000 | 630,000 | 591,000 | 612,000 | 1,861,000 | 708,000 | 733,000 |
| Renewal and Replacement Fund | - | - | - | - | - | - | - | - | - | - | - |
| Capital Fund | 15,817,743 | 19,667,245 | 21,010,205 | 26,052,000 | 25,479,000 | 27,055,000 | 23,439,000 | 22,809,000 | 24,483,000 | 26,271,000 | 28,512,000 |
| Total application | $ 93,191,876 | $ 99,652,160 | $ 106,988,172 | $ 112,221,000 | $ 121,750,000 | $ 128,190,000 | $ 136,967,000 | $ 141,236,000 | $ 159,516,000 | $ 163,786,000 | $ 169,044,000 |
| **Calculation of debt service coverage** | | | | | | | | | | | |
| Gross Revenues | $ 89,396,265 | $ 95,978,843 | $ 103,047,522 | $ 108,401,000 | $ 117,706,000 | $ 123,608,000 | $ 130,176,000 | $ 134,140,000 | $ 151,337,000 | $ 155,737,000 | $ 161,321,000 |
| Less: Operation and Maintenance Expenses | (58,033,730) | (60,479,862) | (65,160,428) | (68,809,000) | (77,604,000) | (81,385,000) | (84,929,000) | (88,602,000) | (99,768,000) | (104,014,000) | (108,411,000) |
| Net Revenues | $ 31,362,535 | $ 35,498,981 | $ 37,887,094 | $ 39,592,000 | $ 40,102,000 | $ 42,223,000 | $ 45,247,000 | $ 45,538,000 | $ 51,569,000 | $ 51,723,000 | $ 52,910,000 |
| Other Available Funds | 3,795,611 | 3,673,317 | 3,940,650 | 3,820,000 | 4,044,000 | 4,582,000 | 6,791,000 | 7,096,000 | 8,179,000 | 8,049,000 | 7,723,000 |
| Net Revenues plus Other Available Funds | $ 35,158,146 | $ 39,172,298 | $ 41,827,744 | $ 43,412,000 | $ 44,146,000 | $ 46,805,000 | $ 52,038,000 | $ 52,634,000 | $ 59,748,000 | $ 59,772,000 | $ 60,633,000 |
| Less: Administrative Expenses (d) | (1,218,135) | (2,127,529) | (1,886,119) | (1,560,000) | (863,000) | (766,000) | (817,000) | (803,000) | (663,000) | (570,000) | (469,000) |
| Subtotal [A] | $ 33,940,011 | $ 37,044,769 | $ 39,941,625 | $ 41,852,000 | $ 43,283,000 | $ 46,039,000 | $ 51,221,000 | $ 51,831,000 | $ 59,085,000 | $ 59,202,000 | $ 60,164,000 |
| Revenue Bond Debt Service Requirements (d) [B] | $ 15,182,444 | $ 14,693,266 | $ 15,762,600 | $ 15,280,000 | $ 16,177,000 | $ 18,327,000 | $ 27,164,000 | $ 28,383,000 | $ 32,714,000 | $ 32,196,000 | $ 30,892,000 |
| Debt service coverage [A/B] | 2.24 | 2.52 | 2.53 | 2.74 | 2.68 | 2.51 | 1.89 | 1.83 | 1.81 | 1.84 | 1.95 |
| Debt service coverage requirement | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 |

(a) See Exhibit E.

(b) Amounts, up to a maximum of 25% of Revenue Bond Debt Service Requirements, transferred from the Capital Fund as permitted under the Rate Covenant of the Revenue Bond Ordinances.

(c) See Exhibit D.

(d) See Exhibit C. Amounts are net of payments from PFC revenues.

(e) Debt service on 1998 Notes.

December 1, 2014

Exhibit H-1

**SUMMARY OF FORECAST FINANCIAL RESULTS: BASE CASE PASSENGER FORECAST**

Austin-Bergstrom International Airport

For Fiscal Years ending September 30

This exhibit is based on information from the sources indicated and assumptions provided and adopted by Airport management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

| | Historical | | | Estimated | | Forecast | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| **Gross Revenues and Other Available Funds** | | | | | | | | | | | |
| Airline revenues | $ 38,284,397 | $ 40,568,992 | $ 43,857,791 | $ 43,695,000 | $ 48,279,000 | $ 50,795,000 | $ 54,282,000 | $ 56,516,000 | $ 63,855,000 | $ 65,186,000 | $ 66,218,000 |
| Terminal concession revenues | 6,443,122 | 7,084,139 | 8,060,760 | 9,365,000 | 9,959,000 | 10,624,000 | 11,224,000 | 11,426,000 | 12,544,000 | 13,227,000 | 13,943,000 |
| Parking and ground transportation revenues | 37,888,231 | 41,477,637 | 43,927,129 | 46,372,000 | 51,077,000 | 53,625,000 | 55,886,000 | 57,189,000 | 65,696,000 | 67,839,000 | 71,384,000 |
| Other revenues | 6,780,515 | 6,848,075 | 7,201,842 | 8,969,000 | 8,391,000 | 8,564,000 | 8,784,000 | 9,009,000 | 9,242,000 | 9,485,000 | 9,776,000 |
| Gross Revenues | $ 89,396,265 | $ 95,978,843 | $ 103,047,522 | $ 108,401,000 | $ 117,706,000 | $ 123,608,000 | $ 130,176,000 | $ 134,140,000 | $ 151,337,000 | $ 155,737,000 | $ 161,321,000 |
| Other Available Funds | 3,795,611 | 3,673,317 | 3,940,650 | 3,820,000 | 4,044,000 | 4,582,000 | 6,791,000 | 7,096,000 | 8,179,000 | 8,049,000 | 7,723,000 |
| Gross Revenues and Other Available Funds | $ 93,191,876 | $ 99,652,160 | $ 106,988,172 | $ 112,221,000 | $ 121,750,000 | $ 128,190,000 | $ 136,967,000 | $ 141,236,000 | $ 159,516,000 | $ 163,786,000 | $ 169,044,000 |
| Enplaned passengers | 4,524,641 | 4,662,738 | 4,928,979 | 5,275,464 | 5,500,000 | 5,700,000 | 5,850,000 | 6,000,000 | 6,150,000 | 6,300,000 | 6,450,000 |
| Annual percent change | | 3.1% | 5.7% | 7.0% | 4.3% | 3.6% | 2.6% | 2.6% | 2.5% | 2.4% | 2.4% |
| Airline payments per passenger | $8.17 | $8.40 | $8.60 | $8.00 | $8.51 | $8.65 | $9.01 | $9.15 | $10.11 | $10.08 | $10.01 |
| **Application of Gross Revenues and Other Available Funds** | | | | | | | | | | | |
| Operation and Maintenance Expenses | $ 58,033,730 | $ 60,479,862 | $ 65,160,428 | $ 68,809,000 | $ 77,604,000 | $ 81,385,000 | $ 84,929,000 | $ 88,602,000 | $ 99,768,000 | $ 104,014,000 | $ 108,411,000 |
| Revenue Bond debt service | 27,228,415 | 26,738,759 | 26,794,605 | 26,416,000 | 27,439,000 | 30,688,000 | 39,938,000 | 40,054,000 | 52,830,000 | 52,072,000 | 50,432,000 |
| Less: Paid from PFC revenues | (12,045,971) | (12,045,493) | (11,032,005) | (11,136,000) | (11,262,000) | (12,361,000) | (12,774,000) | (11,671,000) | (20,116,000) | (19,876,000) | (19,540,000) |
| Other applications | 4,157,959 | 4,811,787 | 5,054,939 | 2,080,000 | 2,490,000 | 1,423,000 | 1,435,000 | 1,442,000 | 2,551,000 | 1,305,000 | 1,229,000 |
| Capital Fund | 15,817,743 | 19,667,245 | 21,010,205 | 26,052,000 | 25,479,000 | 27,055,000 | 23,439,000 | 22,809,000 | 24,483,000 | 26,271,000 | 28,512,000 |
| Total application | $ 93,191,876 | $ 99,652,160 | $ 106,988,172 | $ 112,221,000 | $ 121,750,000 | $ 128,190,000 | $ 136,967,000 | $ 141,236,000 | $ 159,516,000 | $ 163,786,000 | $ 169,044,000 |
| **Passenger Facility Charges** | | | | | | | | | | | |
| PFC revenues | $ 17,581,883 | $ 18,494,930 | $ 19,581,247 | $ 19,855,000 | $ 20,775,000 | $ 21,375,000 | $ 21,914,000 | $ 22,481,000 | $ 23,063,000 | $ 23,621,000 | $ 24,198,000 |
| Less: PFC revenues used to pay debt service | (12,045,971) | (12,045,493) | (11,032,005) | (11,136,000) | (11,262,000) | (12,361,000) | (12,774,000) | (11,671,000) | (20,116,000) | (19,876,000) | (19,540,000) |
| Less: PFC revenues used to pay Administrative Expenses | (1,480,900) | (1,648,636) | (1,364,261) | (1,251,000) | (639,000) | (567,000) | (492,000) | (485,000) | (494,000) | (431,000) | (376,000) |
| Less: Pay-as-you-go expenditures | - | - | - | - | (38,102,000) | (12,518,000) | (7,254,000) | (5,994,000) | (2,606,000) | - | - |
| Net PFC revenues over (under) expenditures | $ 4,055,012 | $ 4,800,801 | $ 7,184,981 | $ 7,468,000 | $ (29,228,000) | $ (4,071,000) | $ 1,394,000 | $ 4,331,000 | $ (153,000) | $ 3,314,000 | $ 4,282,000 |
| PFC Fund balance | $ 30,862,681 | $ 35,663,482 | $ 42,848,463 | $ 50,317,000 | $ 21,089,000 | $ 17,018,000 | $ 18,413,000 | $ 22,745,000 | $ 22,591,000 | $ 25,905,000 | $ 30,188,000 |
| **Debt service coverage** | | | | | | | | | | | |
| Debt service coverage | 2.24 | 2.52 | 2.53 | 2.74 | 2.68 | 2.51 | 1.89 | 1.83 | 1.81 | 1.84 | 1.95 |
| Debt service coverage requirement | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 |

Source: See preceding exhibits and accompanying text.

December 1, 2014

Exhibit H-2

**SUMMARY OF PROJECTED FINANCIAL RESULTS: STRESS TEST PASSENGER FORECAST**

Austin-Bergstrom International Airport

For Fiscal Years ending September 30

This exhibit is based on information from the sources indicated and assumptions provided and adopted by Airport management, as described in the accompanying text. Inevitably, some assumptions used to develop the projections will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those projected and the variations could be material.

| | Historical | | | Estimated | | Projected | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| **Gross Revenues and Other Available Funds** | | | | | | | | | | | |
| Airline revenues | $ 38,284,397 | $ 40,568,992 | $ 43,857,791 | $ 43,695,000 | $ 48,279,000 | $ 47,890,000 | $ 50,757,000 | $ 52,470,000 | $ 58,791,000 | $ 58,238,000 | $ 57,526,000 |
| Terminal concession revenues | 6,443,122 | 7,084,139 | 8,060,760 | 9,365,000 | 9,959,000 | 9,039,000 | 9,536,000 | 9,711,000 | 10,667,000 | 11,254,000 | 11,845,000 |
| Parking and ground transportation revenues | 37,888,231 | 41,477,637 | 43,927,129 | 46,372,000 | 51,077,000 | 45,629,000 | 47,478,000 | 48,611,000 | 55,870,000 | 57,718,000 | 60,649,000 |
| Other revenues | 6,780,515 | 6,848,075 | 7,201,842 | 8,969,000 | 8,391,000 | 8,533,000 | 8,751,000 | 8,974,000 | 9,205,000 | 9,446,000 | 9,734,000 |
| Gross Revenues | $ 89,396,265 | $ 95,978,843 | $ 103,047,522 | $ 108,401,000 | $ 117,706,000 | $ 111,091,000 | $ 116,522,000 | $ 119,766,000 | $ 134,533,000 | $ 136,656,000 | $ 139,754,000 |
| Other Available Funds | 3,795,611 | 3,673,317 | 3,940,650 | 3,820,000 | 4,044,000 | 4,582,000 | 6,791,000 | 7,096,000 | 9,987,000 | 8,898,000 | 7,723,000 |
| Gross Revenues and Other Available Funds | $ 93,191,876 | $ 99,652,160 | $ 106,988,172 | $ 112,221,000 | $ 121,750,000 | $ 115,673,000 | $ 123,313,000 | $ 126,862,000 | $ 144,520,000 | $ 145,554,000 | $ 147,477,000 |
| Enplaned passengers | 4,524,641 | 4,662,738 | 4,928,979 | 5,275,464 | 5,500,000 | 4,850,000 | 4,970,000 | 5,100,000 | 5,230,000 | 5,360,000 | 5,480,000 |
| Annual percent change | | 3.1% | 5.7% | 7.0% | 4.3% | -11.8% | 2.5% | 2.6% | 2.5% | 2.5% | 2.2% |
| Airline payments per passenger | $8.17 | $8.40 | $8.60 | $8.00 | $8.51 | $9.52 | $9.86 | $9.94 | $10.86 | $10.50 | $10.15 |
| **Application of Gross Revenues and Other Available Funds** | | | | | | | | | | | |
| Operation and Maintenance Expenses | $ 58,033,730 | $ 60,479,862 | $ 65,160,428 | $ 68,809,000 | $ 77,604,000 | $ 75,208,000 | $ 77,247,000 | $ 79,397,000 | $ 89,424,000 | $ 93,254,000 | $ 97,126,000 |
| Revenue Bond debt service | 27,228,415 | 26,738,759 | 26,794,605 | 26,416,000 | 27,439,000 | 30,688,000 | 39,938,000 | 40,054,000 | 52,830,000 | 52,072,000 | 50,432,000 |
| Less: Paid from PFC revenues | (12,045,971) | (12,045,493) | (11,032,005) | (11,136,000) | (11,262,000) | (12,361,000) | (12,774,000) | (11,671,000) | (12,883,000) | (16,480,000) | (19,540,000) |
| Other applications | 4,157,959 | 4,811,787 | 5,054,939 | 2,080,000 | 2,490,000 | 793,000 | 844,000 | 1,129,000 | 2,362,000 | 1,235,000 | 1,141,000 |
| Capital Fund | 15,817,743 | 19,667,245 | 21,010,205 | 26,052,000 | 25,479,000 | 21,345,000 | 18,058,000 | 17,953,000 | 12,787,000 | 15,473,000 | 18,318,000 |
| Total application | $ 93,191,876 | $ 99,652,160 | $ 106,988,172 | $ 112,221,000 | $ 121,750,000 | $ 115,673,000 | $ 123,313,000 | $ 126,862,000 | $ 144,520,000 | $ 145,554,000 | $ 147,477,000 |
| **Passenger Facility Charges** | | | | | | | | | | | |
| PFC revenues | $ 17,581,883 | $ 18,494,930 | $ 19,581,247 | $ 19,855,000 | $ 20,775,000 | $ 18,203,000 | $ 18,615,000 | $ 19,091,000 | $ 19,580,000 | $ 20,083,000 | $ 20,547,000 |
| Less: PFC revenues used to pay debt service | (12,045,971) | (12,045,493) | (11,032,005) | (11,136,000) | (11,262,000) | (12,361,000) | (12,774,000) | (11,671,000) | (12,883,000) | (16,480,000) | (19,540,000) |
| Less: PFC revenues used to pay Administrative Expenses | (1,480,900) | (1,648,636) | (1,364,261) | (1,251,000) | (639,000) | (567,000) | (492,000) | (485,000) | (494,000) | (431,000) | (376,000) |
| Less: Pay-as-you-go expenditures | - | - | - | - | (38,102,000) | (12,518,000) | (7,254,000) | (5,994,000) | (2,606,000) | - | - |
| Net PFC revenues over (under) expenditures | $ 4,055,012 | $ 4,800,801 | $ 7,184,981 | $ 7,468,000 | $ (29,228,000) | $ (7,243,000) | $ (1,905,000) | $ 941,000 | $ 3,597,000 | $ 3,172,000 | $ 631,000 |
| PFC Fund balance | $ 30,862,681 | $ 35,663,482 | $ 42,848,463 | $ 50,317,000 | $ 21,089,000 | $ 13,846,000 | $ 11,941,000 | $ 12,883,000 | $ 16,480,000 | $ 19,652,000 | $ 20,284,000 |
| **Debt service coverage** | | | | | | | | | | | |
| Debt service coverage | 2.24 | 2.52 | 2.53 | 2.74 | 2.68 | 2.17 | 1.67 | 1.64 | 1.36 | 1.45 | 1.61 |
| Debt service coverage requirement | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 |

Source: See preceding exhibits and accompanying text.

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# APPENDIX B

## AUDITED FINANCIAL STATEMENTS

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Deloitte.

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## Independent Auditors' Report

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

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Austin, Texas, (the "City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of discretely presented component units which represents 100% percent of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports, one of which (Austin Bergstrom Landhost Enterprises, Inc.) contains an emphasis of matter paragraph related to a going concern issue, has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Austin, Texas, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis, the Retirement Plans – Trend Information, and the Other Post-Employment Benefits – Trend Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte & Touche LLP

March 28, 2014

The Management's Discussion and Analysis (MD&A) section of the City of Austin's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2013.

The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 64.

## FINANCIAL HIGHLIGHTS

**Government-wide financial statements**
The assets of the City exceeded its liabilities at the end of the fiscal year 2013, resulting in $4.6 billion of net position. Net position associated with governmental activities is approximately $1.4 billion, or 29.8% of the total net position of the City. Net position associated with business-type activities is approximately $3.2 billion, or 70.2% of the total net position of the City. The largest portion of net position consists of net investment in capital assets, which is $3.8 billion, or 84.5% of total net position.

Unrestricted net position, which may be used to meet the City's future obligations, is $68.9 million, or 1.5% of the City's total net position. Unrestricted net position for governmental activities is a deficit of $397.2 million, while unrestricted net position for business-type activities is approximately $466.2 million, or 14.6% of total business-type net position. The deficit in governmental unrestricted net position is largely due to the recognition of $376 million in other post employment benefit liabilities for governmental activities.

During fiscal year 2013, total net position for the City of Austin increased $84.9 million or 1.9%. Of this amount, governmental activities decreased $60.4 million, or 4.3% from the previous year and business-type activities increased $145.3 million, or 4.8% from the previous year.

Total revenues for the City increased $271.7 million; revenues for governmental activities increased $104.1 million; revenues for business-type activities increased $167.6 million. Total expenses for the City increased $125.5 million; expenses for governmental activities increased $75.4 million; expenses for business-type activities increased $50.1 million.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, consisting of three components:
- government-wide financial statements,
- fund financial statements, and
- notes to the financial statements.

This report also contains required supplementary information in addition to the basic financial statements.

**a -- Government-wide financial statements**
The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner comparable to a private-sector business. The two government-wide financial statements are, as follows:

- The ***Statement of Net Position*** presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Austin is improving or deteriorating.

- The ***Statement of Activities*** presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues for uncollected taxes and expenses for future general obligation debt payments. The statement includes the annual depreciation for infrastructure and governmental assets.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; and urban growth management. The business-type activities include electric, water, wastewater, airport, convention, environmental and health services, public recreation, and urban growth management.

**OVERVIEW OF THE FINANCIAL STATEMENTS, continued**

The government-wide financial statements include the City as well as blended component units: the Austin Housing Finance Corporation (AHFC), the Austin Industrial Development Corporation (AIDC), the Mueller Local Government Corporation (MLGC), and the Urban Renewal Agency (URA). The operations of AHFC, AIDC, MLGC, and URA are included within the governmental activities of the government-wide financial statements. AHFC is reported as the Housing Assistance Fund. Although legally separate from the City, these component units are blended with the City because of their governance or financial relationships to the City.

The government-wide financial statements also include two discretely presented component units: Austin-Bergstrom Landhost Enterprises, Inc. and Austin Convention Enterprises, Inc. These entities are legally separate entities that are not considered part of the City's operations; therefore, data from these units are shown separately from data of the City. More information on these entities, including how to get a copy of their separately audited financial statements, can be found in the notes to the financial statements.

**b -- Fund financial statements**

The fund financial statements are designed to report information about groupings of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental, proprietary, and fiduciary funds. Within the governmental and proprietary categories, the emphasis is on the major funds.

**Governmental funds**. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds. These funds focus on current sources and uses of liquid resources and on the balances of available resources at the end of the fiscal year. This information may be useful in determining what financial resources are available in the near term to finance the City's future obligations.

Because the focus of governmental fund level statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide statements. In addition to the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balance, separate statements are provided that reconcile between the government-wide and fund level financial statements.

The City's General Fund is reported as a major fund and information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances. In addition, the City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects, and permanent funds). Data from these governmental funds are combined into a single column labeled nonmajor governmental funds. Individual fund data for the funds is provided in the form of combining statements in the supplementary section of this report.

**Proprietary funds**. Proprietary funds are generally used to account for services for which the City charges customers – either outside customers or internal units or departments of the City. Proprietary fund statements provide the same type of information shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of three of the City's major funds, Austin Energy$^{TM}$, Austin Water Utility, and Austin-Bergstrom International Airport (Airport), as well as the nonmajor enterprise funds.

- Internal Service funds are used to report activities that provide supplies and services for many City programs and activities. The City's internal service funds include: Capital Projects Management; Combined Transportation, Emergency and Communications Center (CTECC); Employee Benefits; Fleet Maintenance; Information Systems; Liability Reserve; Support Services; Wireless Communication; and Workers' Compensation. Because these services predominantly benefit governmental operations rather than business-type functions, they have been included in governmental activities in the government-wide financial statements.

The nonmajor enterprise funds and the internal service funds are combined into separately aggregated presentations in the proprietary fund financial statements. Individual fund data for the funds are provided in the form of combining statements in the supplementary section of this report.

**OVERVIEW OF THE FINANCIAL STATEMENTS, continued**

**b -- Fund financial statements, continued**

**Fiduciary funds**. Fiduciary funds are used to account for resources held for the benefit of parties outside City government. Since the resources of fiduciary funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting policies applied to fiduciary funds are much like those used for proprietary funds.

**Comparison of government-wide and fund financial components**. The following chart compares how the City's funds are included in the government-wide and fund financial statements:

| Fund Types/Other | Government-wide | Fund Financials |
|---|---|---|
| General Fund | Governmental | Governmental - Major |
| Special revenue funds | Governmental | Governmental - Nonmajor |
| Debt service funds | Governmental | Governmental - Nonmajor |
| Capital projects funds | Governmental | Governmental - Nonmajor |
| Permanent funds | Governmental | Governmental - Nonmajor |
| Internal service funds | Governmental | Proprietary |
| Governmental capital assets, including infrastructure assets | Governmental | Excluded |
| Governmental liabilities not expected to be liquidated with available expendable financial resources | Governmental | Excluded |
| Austin Energy | Business-type | Proprietary - Major |
| Austin Water Utility | Business-type | Proprietary - Major |
| Airport | Business-type | Proprietary - Major |
| Convention | Business-type | Proprietary – Nonmajor |
| Environmental and health services | Business-type | Proprietary – Nonmajor |
| Public recreation | Business-type | Proprietary – Nonmajor |
| Urban growth management | Business-type | Proprietary – Nonmajor |
| Fiduciary funds | Excluded | Fiduciary |
| Discrete component units | Discrete component units | Excluded |

**Basis of reporting --** The government-wide statements and fund-level proprietary statements are reported using the flow of economic resources measurement focus and the full accrual basis of accounting. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

**c -- Notes to the financial statements**

The notes to the financial statements provide additional information that is essential to fully understanding the data provided in the government-wide and fund financial statements.

**d -- Other information**

The Required Supplementary Information (RSI) section immediately follows the basic financial statements and related notes section of this report. The City adopts an annual appropriated budget for the General Fund plus four separately budgeted activities, all of which comprise the General Fund for GAAP reporting. RSI provides a comparison of revenues, expenditures and other financing sources and uses to budget and demonstrates budgetary compliance. In addition, trend information related to the City's retirement and other post employment benefits plans is presented in RSI. Following the RSI are other statements and schedules, including the combining statements for nonmajor governmental and enterprise funds, internal service funds, and fiduciary funds.

## FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

**a -- Net position**

The following table reflects a summary statement of net position compared to prior year (in thousands):

**Condensed Statement of Net Position**
**as of September 30**
**(in thousands)**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Current assets | $ 654,691 | 610,999 | 1,228,103 | 1,154,653 | 1,882,794 | 1,765,652 |
| Capital assets | 2,561,611 | 2,484,175 | 7,121,722 | 6,942,717 | 9,683,333 | 9,426,892 |
| Other noncurrent assets | 20,555 | 16,511 | 990,593 | 907,357 | 1,011,148 | 923,868 |
| Total assets | 3,236,857 | 3,111,685 | 9,340,418 | 9,004,727 | 12,577,275 | 12,116,412 |
| Deferred outflows of resources | -- | -- | 117,003 | 178,918 | 117,003 | 178,918 |
| Current liabilities | 315,474 | 273,024 | 538,045 | 537,372 | 853,519 | 810,396 |
| Noncurrent liabilities | 1,564,198 | 1,423,424 | 5,719,578 | 5,585,886 | 7,283,776 | 7,009,310 |
| Total liabilities | 1,879,672 | 1,696,448 | 6,257,623 | 6,123,258 | 8,137,295 | 7,819,706 |
| Deferred inflows of resources | 1,752 | -- | 2,783 | 8,645 | 4,535 | 8,645 |
| Net position: | | | | | | |
| Net investment in capital assets | 1,649,431 | 1,666,653 | 2,195,358 | 2,104,623 | 3,844,789 | 3,771,276 |
| Restricted | 103,246 | 82,916 | 535,490 | 554,215 | 638,736 | 637,131 |
| Unrestricted (deficit) | (397,244) | (334,332) | 466,167 | 392,904 | 68,923 | 58,572 |
| Total net position | $ 1,355,433 | 1,415,237 | 3,197,015 | 3,051,742 | 4,552,448 | 4,466,979 |

In the current fiscal year, total assets increased $460.9 million and deferred outflows of the City decreased by $61.9 million. Total liabilities increased $317.6 million and deferred inflows decreased by $4.1 million. Governmental-type total assets increased by $125.2 million and business-type increased by $335.7 million, while governmental-type liabilities increased by $183.2 million and business-type increased by $134.4 million.

The most significant increase in governmental total assets resulted from an increase in capital assets of $77.4 million or 61.9% as the City continues to build out projects from the 2006 and 2010 bond programs. Factors in the increase of governmental-type liabilities include increases in the bonds payable of $67.5 million, related to the 2006 ($52.6 million) and 2010 ($28.4 million) bond programs along with other post-employment benefits of $74.8 million.

The most significant factor in the increase of business-type total assets is a result of an increase in capital assets of $179 million. The primary factors in the increase in total liabilities include an increase of bonds payable of $146.8 million as a result of bonds issued during the year.

As noted earlier, net position may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $4.6 billion at the end of the current fiscal year. However, the largest portion of the City's net position is represented in the net investment in capital assets (e.g. land, building, and equipment offset by related debt), which is $3.8 billion, or 84.5% of the total amount of the City's net position. The City uses these capital assets to provide services to citizens. Capital assets are generally not highly liquid; consequently, they are not considered future available resources. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion, $638.7 million of the City's net position, represents resources that are subject to external restrictions on how they may be used in the future. The remaining balance, $68.9 million of unrestricted net position, may be used to meet the government's future obligations. Unrestricted net position increased $10.4 million in the current fiscal year.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for the government as a whole, as well as for business-type activities. However, governmental activities report a deficit of $397.2 million for unrestricted net position.

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued**

**b -- Changes in net position**

**Condensed Statement of Changes in Net Position**
**September 30**
**(in thousands)**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Program revenues: | | | | | | |
| Charges for services | $ 124,660 | 113,747 | 2,130,307 | 1,960,312 | 2,254,967 | 2,074,059 |
| Operating grants and contributions | 48,567 | 57,818 | 3,749 | 10,950 | 52,316 | 68,768 |
| Capital grants and contributions | 64,781 | 35,880 | 64,124 | 50,064 | 128,905 | 85,944 |
| General revenues: | | | | | | |
| Property tax | 420,000 | 381,582 | -- | -- | 420,000 | 381,582 |
| Sales tax | 176,198 | 164,193 | -- | -- | 176,198 | 164,193 |
| Franchise fees and gross receipts tax | 114,147 | 99,011 | -- | -- | 114,147 | 99,011 |
| Interest and other | 23,888 | 15,884 | 2,269 | 11,529 | 26,157 | 27,413 |
| Total revenues | 972,241 | 868,115 | 2,200,449 | 2,032,855 | 3,172,690 | 2,900,970 |
| Program expenses: | | | | | | |
| General government | 97,675 | 124,735 | -- | -- | 97,675 | 124,735 |
| Public safety | 580,074 | 536,132 | -- | -- | 580,074 | 536,132 |
| Transportation, planning, and sustainability | 78,594 | 64,247 | -- | -- | 78,594 | 64,247 |
| Public health | 73,186 | 75,799 | -- | -- | 73,186 | 75,799 |
| Public recreation and culture | 104,951 | 104,026 | -- | -- | 104,951 | 104,026 |
| Urban growth management | 137,478 | 93,593 | -- | -- | 137,478 | 93,593 |
| Interest on debt | 48,400 | 46,417 | -- | -- | 48,400 | 46,417 |
| Electric | -- | -- | 1,132,476 | 1,133,951 | 1,132,476 | 1,133,951 |
| Water | -- | -- | 231,774 | 223,228 | 231,774 | 223,228 |
| Wastewater | -- | -- | 214,580 | 194,650 | 214,580 | 194,650 |
| Airport | -- | -- | 107,389 | 101,991 | 107,389 | 101,991 |
| Convention | -- | -- | 62,884 | 56,142 | 62,884 | 56,142 |
| Environmental and health services | -- | -- | 81,544 | 87,450 | 81,544 | 87,450 |
| Public recreation | -- | -- | 7,185 | 5,624 | 7,185 | 5,624 |
| Urban growth management | -- | -- | 129,583 | 114,270 | 129,583 | 114,270 |
| Total expenses | 1,120,358 | 1,044,949 | 1,967,415 | 1,917,306 | 3,087,773 | 2,962,255 |
| Excess (deficiency) before transfers | (148,117) | (176,834) | 233,034 | 115,549 | 84,917 | (61,285) |
| Transfers | 87,761 | 101,527 | (87,761) | (101,527) | -- | -- |
| Increase (decrease) in net position | (60,356) | (75,307) | 145,273 | 14,022 | 84,917 | (61,285) |
| Beginning net position, as previously reported | 1,415,237 | 1,490,544 | 3,051,742 | 3,037,720 | 4,466,979 | 4,528,264 |
| Restatement adjustment | 552 | -- | -- | -- | 552 | -- |
| Beginning net position, as restated | 1,415,789 | 1,490,544 | 3,051,742 | 3,037,720 | 4,467,531 | 4,528,264 |
| Ending net position | $ 1,355,433 | 1,415,237 | 3,197,015 | 3,051,742 | 4,552,448 | 4,466,979 |

Total net position of the City increased by $84.9 million in the current fiscal year. Governmental net position decreased by $60.4 million. The decrease is attributable to expenses exceeding revenues by $148.1 million before transfers from other funds of $87.8 million. Business-type net position increased by $145.3 million due to revenues exceeding expenses by $233 million, before transfers to other funds of $87.8 million.

In addition, the City restated beginning net position for governmental activities as a result of the implementation of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. For more information, see Note 18.

## FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

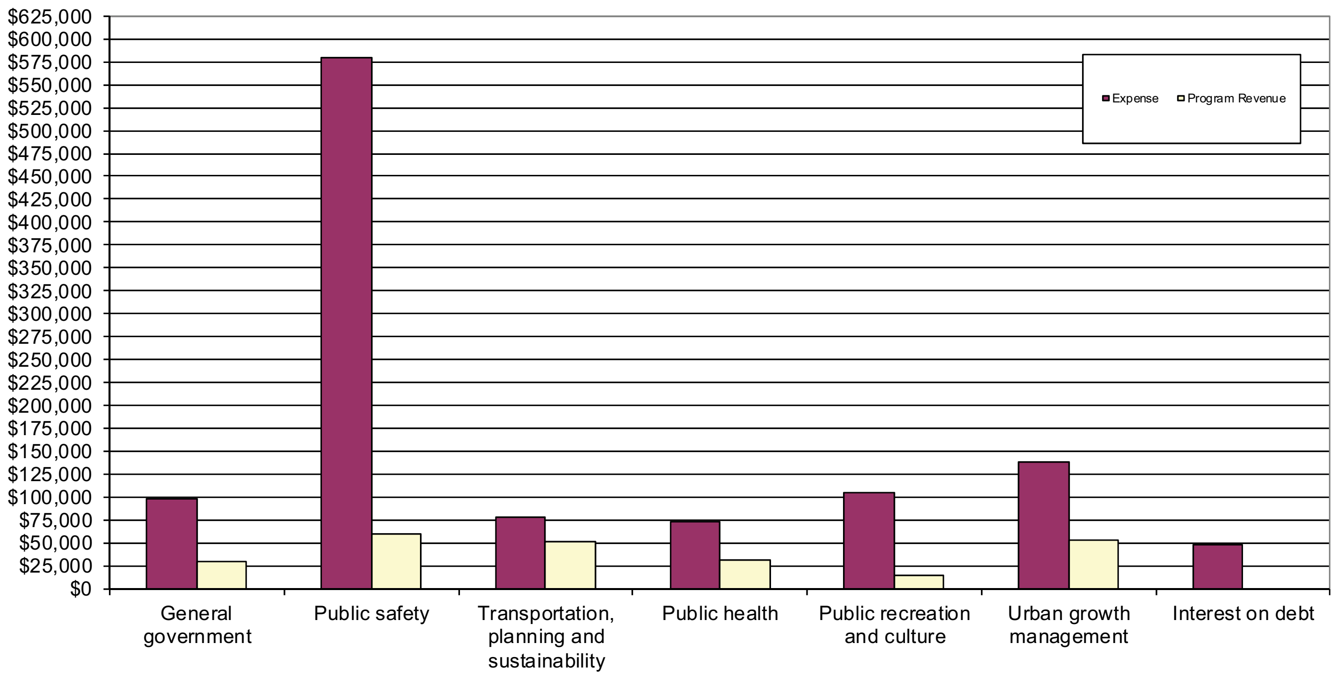
**c -- Program revenues and expenses -- governmental activities**

Governmental activities decreased the City's net position by $60.4 million in fiscal year 2013, a 4.3% decrease of governmental net position from the previous year. Key factors for the change from fiscal year 2012 to 2013 are as follows:

- The City's property tax revenue increased by $38.4 million from the previous year as a result of an increase in assessed property values and an increase in the City's tax rate from 48.11 cents to 50.29 per $100 valuation.
- Sales tax collections for fiscal year 2013 were $12 million more than the prior year as result of the continued improvement of the Austin economy, including the convening of the State Legislature as well as the Formula 1 inaugural race.
- Public safety expenses increased $43.9 million primarily due to increase in other post-employment benefits and salaries, and urban growth management expenses increased $43.9 million primarily due to increased expenditures in the affordable housing program and increased salary expenditures.

The chart below illustrates the City's governmental expense and revenues by function: general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; urban growth management; and interest on debt.

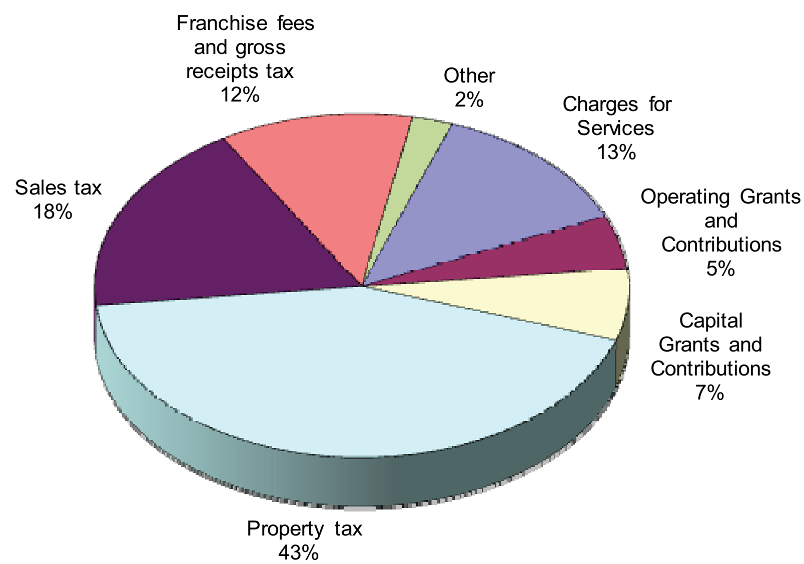
**Government-wide Program Expenses and Revenues – Governmental Activities (in thousands)**



**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued**

General revenues such as property taxes, sales taxes, and franchise fees are not shown by program, but are used to support all governmental activities. Property taxes are the largest source of governmental revenues, followed by sales taxes and charges for goods and services.

**Government-wide Revenues by Source -- Governmental Activities**



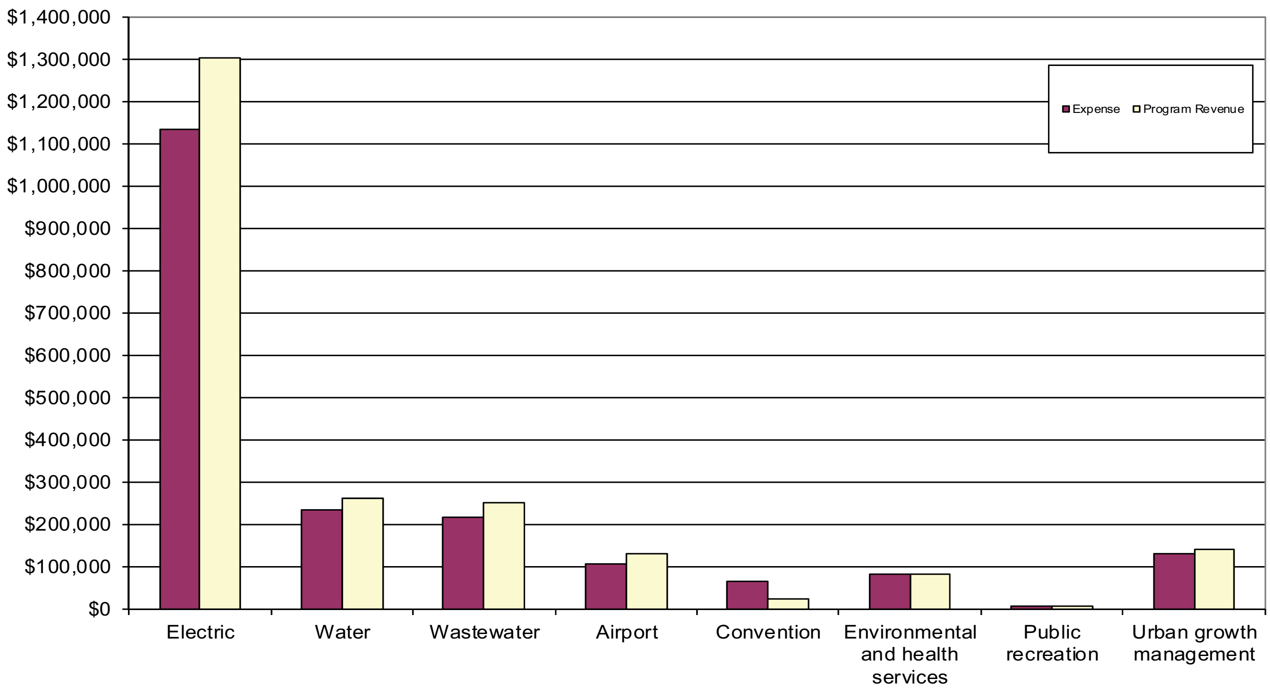

**d -- Program revenues and expenses -- business-type activities**
Business-type activities increased the City's net position by approximately $145.3 million, accounting for a 3.3% increase in the City's total net position. Key factors include:

- Austin Energy net position increased approximately $69.1 million. Revenues increased by approximately 8.5% in fiscal year 2013. This was largely due to the new rate structure implemented in October 2012. Expenses remained relatively constant.
- Austin Water Utility net position increased approximately $29.4 million. Revenues increased 10.6% due to a new rate structure implemented during the year. Expenses increased by 6.8% due to increased operations and maintenance costs.
- Airport net position increased approximately $21 million. Revenues increased 3.4% due to an increase in passenger traffic and higher rental and landing fees. Expenses increased by 5.3%, mainly due to higher personnel and operations costs.
- Convention net position increased approximately $9.7 million. Revenues and transfers from the Hotel Occupancy and Vehicle Rental Tax Funds increased 17.4% due in part to the growth of several large events, the inaugural Formula 1 event, and the convening of the State Legislature during the year. Expenses increased 12% due to increases in operations and maintenance costs.
- Environmental activities are comprised of the Austin Resource Recovery nonmajor enterprise fund. Net assets increased by approximately $0.8 million. Revenues increased by 5.6% due to higher rates and customer growth. Expenses decreased by 6.8% due mainly to fewer landfill and environmental remediation costs recognized during year.
- Urban growth management activities are comprised of nonmajor enterprise funds that include the Drainage Fund and Transportation Fund. Net position increased by approximately $15.7 million. Drainage revenues increased by 12.7% primarily due to a rate increase and customer growth. Drainage expenses remained relatively constant. Transportation revenues increased approximately 6.3% primarily due to a rate increase. Transportation expenses increased by 12.3% primarily due to increased street and right-of-way maintenance costs.

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued**

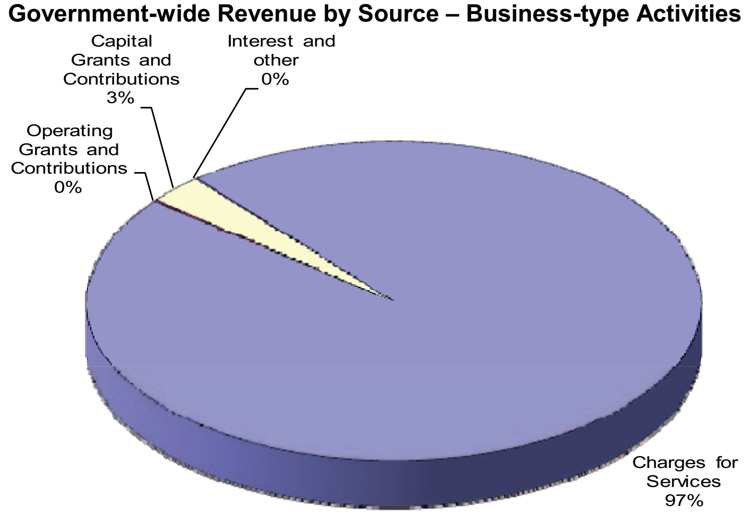
As shown in the following chart, the electric utility, with expenses of $1.1 billion is the City's largest business-type activity, followed by water with $231.8 million, wastewater with $214.6 million, urban growth management with $129.6 million, airport with $107.4 million, environmental and health services with $81.5 million, convention with $62.9 million, and public recreation with $7.2 million. For the fiscal year, operating revenues exceeded operating expenses for all business-type activities except convention and public recreation.

**Government-wide Expenses and Program Revenues -- Business-type Activities**
**(Excludes General Revenues and Transfers)**
**(in thousands)**




For all business-type activities, charges for services provide the largest percentage of revenues (96.8%), followed by capital grants and contributions (2.9%), operating grants and contributions (0.2%), and interest and other revenues (0.1%).

**Government-wide Revenue by Source – Business-type Activities**



## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

In comparison to the government-wide statements, the fund-level statements focus on the key funds of the City. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**a -- Governmental funds**
The City reports the following types of governmental funds: the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and available resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year.

At the end of the fiscal year, the City of Austin's governmental funds reported combined ending fund balances of $364.2 million, a decrease of $5.9 million from the previous year. Approximately $1.8 million is nonspendable, $160.5 million is restricted, $52.1 million is committed, $69.5 million is assigned, and $80.3 million is unassigned.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the General Fund reported nonspendable fund balance of $0.8 million, committed fund balance of $7.1 million, assigned fund balance of $11.3 million, and unassigned fund balance of $127.9 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 17% of total General Fund expenditures of $750.1 million, and total fund balance represents 19.6% of expenditures. The City's financial policies provide that surplus fund balance be indentified for budget stabilization. This amount is a component of unassigned fund balance. The fund balance identified for budget stabilization was $78.3 million. The balance identified for budget stabilization may be appropriated to fund capital or other one-time expenditures in the subsequent fiscal year, but such appropriation will not normally exceed one-third of the total identified amount, with the other two-thirds identified for budget stabilization in future years.

The fund balance of the General Fund increased $16.9 million during the fiscal year. Significant differences from the previous year include:

- Property tax revenues increased $37.1 million due to an increase in assessed property values and the City's property tax rate increased from 48.11 cents to 50.29 cents per $100 valuation.
- Sales tax revenues increased $12 million, and licenses, permits, and inspections increased $6 million.

General Fund expenditures increased $53.4 million, due primarily to an increase in public safety expenditures of $17.5 million, an increase in general government of $14 million, and an increase in public recreation and culture of $9.8 million. The increase in general government, public safety, and public recreation and culture is primarily due to increases in salaries and contractual expenditures.

**b -- Proprietary funds**

The City's proprietary funds provide the same type of information found in the business-type activities of the government-wide financial statements, but in more detail. Overall, net position of the City's enterprise funds increased by $139.6 million before consolidation of the internal service funds activities.

Factors that contributed to the increase in net position are discussed in the business-type activities section of the government-wide section.

## OTHER INFORMATION

**a -- General Fund budgetary highlights**
The original revenue budget of the General Fund was amended during the fiscal year 2013 to increase sales taxes and the transfer in from the Budget Stabilization Reserve. The original expenditure budget of the General Fund was amended during fiscal year 2013 to increase transfers to capital improvement projects as well as increased fire and social services costs.

During the year, revenues were $28.8 million more than budgeted. Sales tax collections were $9.8 million more than budgeted.

Actual budget-basis expenditures were $9.1 million less than budgeted. Public health exceeded budget by $28 thousand; while all other departments were under budget. The total budget-basis fund balance at year-end was $150.3 million.

**OTHER INFORMATION, continued**

**b -- Capital assets**

The City's capital assets for governmental and business-type activities as of September 30, 2013, total $9.7 billion (net of accumulated depreciation and amortization). Capital assets include land, buildings and improvements, equipment, vehicles, electric plant, non-electric plant, infrastructure, construction in progress, nuclear fuel, and water rights. The total increase in the City's capital assets for the current fiscal year was $258 million (2.7%), with an increase of 3.1% for governmental activities and an increase of 2.6% for business-type activities. Additional information on capital assets can be found in Note 5. Capital asset balances are as follows:

**Capital Assets, Net of Accumulated Depreciation**
**(in millions)**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Land and improvements | $ 352 | 345 | 513 | 502 | 865 | 847 |
| Construction in progress | 219 | 163 | 649 | 548 | 868 | 711 |
| Plant held for future use | -- | -- | 23 | 23 | 23 | 23 |
| Other assets not depreciated | 22 | 22 | 2 | 2 | 24 | 24 |
| Building and improvements | 516 | 508 | 1,121 | 1,109 | 1,637 | 1,617 |
| Plant and Equipment | 80 | 87 | 2,243 | 2,235 | 2,323 | 2,322 |
| Vehicles | 42 | 37 | 74 | 65 | 116 | 102 |
| Electric plant | -- | -- | 2,243 | 2,198 | 2,243 | 2,198 |
| Nonelectric plant | -- | -- | 128 | 132 | 128 | 132 |
| Infrastructure | 1,331 | 1,322 | -- | -- | 1,331 | 1,322 |
| Nuclear fuel, net of amortization | -- | -- | 40 | 41 | 40 | 41 |
| Water rights, net of amortization | -- | -- | 86 | 87 | 86 | 87 |
| Total net capital assets | $ 2,562 | 2,484 | 7,122 | 6,942 | 9,684 | 9,426 |

Major capital asset events during the current fiscal year include the following:

- Governmental capital assets increased $78 million primarily due to additions of new facilities and improvements to existing facilities. The Asian American Resource Center, building and course improvements to the Morris Williams Golf Course, a new irrigation system for Hancock Golf Course, improvements to several recreation centers and swimming pools, and Barton Springs Pool dam and general ground improvements were completed. Significant additions and improvements were also made including park land acquisitions, a new Austin Police Department helicopter, pedestrian facility improvements, and street reconstructions across the City.
- Business-type activities purchased or completed construction on capital assets of $180 million. The increase was largely due to plant additions and improvements and land acquisition for Austin Energy, Austin Water, the Airport Fund, and the Drainage Fund. Austin Energy provided facilities for the Domain, Seaholm Development District, the new Central Library, relocated utilities for the 290 toll way, and installed or upgraded various substations and transformers. Austin Water completed renovation of the Walnut Creek Wastewater Treatment Plant's electrical distribution system, made improvements to the water transmission lines, and upgraded various pump stations. The Airport Fund invested in facility and infrastructure improvements. The Drainage Fund relocated the Little Shoal Creek Tunnel and completed a stormwater by-pass for Barton Springs.

**OTHER INFORMATION, continued**

**c -- Debt administration**

At the end of the current fiscal year, the City reported $5.6 billion in outstanding debt. The table below reflects the outstanding debt at September 30. Additional information can be found in Note 6.

**Outstanding Debt**
**General Obligation and Revenue Debt**
**(in millions)**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| General obligation bonds and other tax supported debt, net | $ 1,085 | 1,018 | 131 | 132 | 1,216 | 1,150 |
| Commercial paper notes, net | -- | -- | 194 | 305 | 194 | 305 |
| Revenue bonds, net | -- | -- | 4,204 | 3,945 | 4,204 | 3,945 |
| Capital lease obligations | -- | -- | 1 | 1 | 1 | 1 |
| Total | $ 1,085 | 1,018 | 4,530 | 4,383 | 5,615 | 5,401 |

During fiscal year 2013, the City's total outstanding debt increased by $214 million. The City issued new debt and refinanced portions of existing debt to achieve lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities increased by $67 million. The resulting net increase is a combination of the issuance of $132 million in new debt to be used primarily for street improvements, streets and signals, drainage improvements, Mueller public infrastructure improvements, transportation projects, and the Waller creek tunnel project offset by debt payments during the year.

- Outstanding debt for business-type functions increased by $147 million. The City issued $375.5 million of Electric Utility System separate lien revenue refunding bonds to refund commercial paper, $282.5 million in Water and Wastewater System separate lien revenue refunding bonds to refund commercial paper, and $60 million in Airport revenue bonds.

During the year, utility revenue subordinate lien bonds received a favorable bond rating upgrade from Fitch, Inc from AA- to AA. The City's commercial paper ratings are related to the ratings of the liquidity providers associated with those obligations, and the rating of the provider of the tax exempt commercial paper notes received a favorable rating upgrade from Moody's Investors Service, Inc. from P-2 to P-1. In addition, the rating for Austin Energy utility revenue separate lien bonds was revised by Standard & Poor's from A+ to AA-. All other bond ratings were unchanged. Ratings of the City's obligations for various debt instruments at September 30, 2013 and 2012 are as follows:

| Debt | Moody's Investors Service, Inc. | | Standard & Poor's | | Fitch, Inc. | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| General obligation bonds and other tax supported debt | Aaa | Aaa | AAA | AAA | AAA | AAA |
| Commercial paper notes - tax exempt | P-1 | P-2 | A-1 | A-1 | F1 | F1 |
| Commercial paper notes - taxable | P-1 | P-1 | A-1 | A-1 | F1 | F1 |
| Utility revenue bonds - prior lien | Aa1 | Aa1 | AA | AA | AA | AA- |
| Utility revenue bonds - subordinate lien | Aa2 | Aa2 | AA | AA | AA- | AA- |
| Utility revenue bonds - separate lien: | | | | | | |
| Austin Energy | A1 | A1 | AA- | A+ | AA- | AA- |
| Austin Water Utility | Aa2 | Aa2 | AA | AA | AA- | AA- |
| Airport system revenue bonds | NUR(1) | NUR(1) | A | A | NUR(1) | NUR(1) |
| Airport variable rate notes | NUR(1) | NUR(1) | NUR(1) | NUR(1) | NUR(1) | NUR(1) |
| Convention Center revenue bonds | A1 | A1 | A | A | NUR(1) | NUR(1) |

(1) No underlying rating

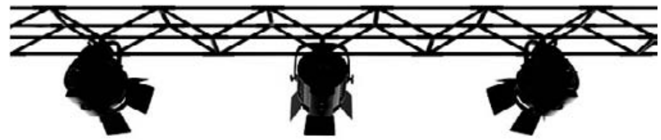
**OTHER INFORMATION, continued**

**d -- Economic factors and next year's budget and rates**
Austin's diverse economic base and national reputation as a great place to work and live continues to attract new employers and talented individuals. Both the Austin and the Texas economies continue to outpace the national economy. Partnerships between the City and the business community have been the key to Austin's economic success. The City's economic development efforts have been successful in attracting new firms and new jobs to Austin. As a result, employment growth is steady and expected to continue well ahead of national levels through at least 2017. All sectors of the real estate market are performing well including the hotel market with a number of new rooms under construction to meet increased demand resulting from both business travel and tourism. In 2013 sales taxes increased 7.3 percent following an 8.6 percent increase in 2012. While the rate of sales tax collections may slow over the next few years, it is expected to remain positive barring any events at the national or international level that would have an adverse impact.

The City's 2014 budget was developed in a manner true to the City Manager's unwavering commitment to openness, transparency, and public engagement. Input from City Council, City employees, and citizens played a major role in the development of a variety of structural applications designed to positively affect our City's fiscal sustainability over the long term and present a balanced budget for City Council's review. The Austin City Council has adopted a comprehensive set of financial policies to provide the foundation for long-range financial sustainability. These financial policies are directly aligned with the Council's priority of budget stability while at the same time maintaining affordability, investment in future economic development, infrastructure needs, and quality of life. These policies are also crucial in maintaining the City's favorable bond ratings. City management continues to monitor the economy and take corrective actions to help mitigate any unfavorable economic events.

The assessed taxable property values within the City increased by 6.3% in 2013 for fiscal year 2014. The property tax rate for fiscal year 2014 is 50.27 cents per $100 valuation, down from 50.29 cents per $100 valuation in 2013. The tax rate consists of 38.56 cents for the General Fund and 11.71 cents for debt service. Each 1 cent of the 2013 (Fiscal Year 2014) property tax rate is equivalent to $8,854,857 of tax levy, as compared to $8,376,270 in the previous year. In Fiscal Year 2014, Austin Water Utility will implement a 4.9% combined system-wide rate increase.

**e -- Requests for Information**
This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Services Department of the City of Austin, P.O. Box 2920, Austin, Texas 78768, or (512) 974-2600 or on the web at: https://www.ci.austin.tx.us/financeonline/finance/index.cfm.



# BASIC FINANCIAL STATEMENTS

(In thousands)

| | Governmental Activities | Business-type Activities | Total (†) | Component Units |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash | $ 71 | 65 | 136 | 5,293 |
| Pooled investments and cash | 383,871 | 297,057 | 680,928 | -- |
| Pooled investments and cash - restricted | 127,536 | 254,940 | 382,476 | -- |
| Total pooled investments and cash | 511,407 | 551,997 | 1,063,404 | -- |
| Investments, at fair value - restricted | 15,591 | 179,653 | 195,244 | -- |
| Cash held by trustee - restricted | 6,596 | -- | 6,596 | -- |
| Working capital advances | -- | 5,115 | 5,115 | -- |
| Property taxes receivable, net of allowance of $5,197 | 10,370 | -- | 10,370 | -- |
| Accounts receivable, net of allowance of $208,192 | 93,462 | 278,522 | 371,984 | 1,998 |
| Receivables from other governments | 13,647 | -- | 13,647 | -- |
| Receivables from other governments - restricted | -- | 941 | 941 | |
| Notes receivable, net of allowance of $14,151 | 21,227 | -- | 21,227 | -- |
| Internal balances | (28,113) | 28,113 | -- | -- |
| Inventories, at cost | 2,206 | 91,005 | 93,211 | 1,011 |
| Real property held for resale | 6,911 | -- | 6,911 | -- |
| Other receivables - restricted | -- | 5,293 | 5,293 | -- |
| Deferred costs and expenses, net of amortization | -- | 45,241 | 45,241 | -- |
| Prepaid items | 280 | 9,204 | 9,484 | 468 |
| Other assets | 1,036 | 32,954 | 33,990 | -- |
| Total current assets | 654,691 | 1,228,103 | 1,882,794 | 8,770 |
| Noncurrent assets: | | | | |
| Cash - restricted | -- | 5,233 | 5,233 | -- |
| Pooled investments and cash - restricted | -- | 183,132 | 183,132 | -- |
| Investments, at fair value - restricted | -- | 187,700 | 187,700 | 65,483 |
| Investments held by trustee - restricted | -- | 207,653 | 207,653 | 1,115 |
| Interest receivable - restricted | -- | 886 | 886 | -- |
| Depreciable capital assets, net of accumulated depreciation | 1,968,790 | 5,935,184 | 7,903,974 | 181,571 |
| Nondepreciable capital assets | 592,821 | 1,186,538 | 1,779,359 | 7,619 |
| Derivative instruments - energy risk management | -- | 2,791 | 2,791 | -- |
| Net pension asset | 10,041 | -- | 10,041 | -- |
| Other long-term assets | -- | 1,072 | 1,072 | 12,834 |
| Deferred costs and expenses, net of amortization | 10,514 | 402,126 | 412,640 | -- |
| Total noncurrent assets | 2,582,166 | 8,112,315 | 10,694,481 | 268,622 |
| **Total assets** | 3,236,857 | 9,340,418 | 12,577,275 | 277,392 |
| **Deferred outflows of resources** | $ -- | 117,003 | 117,003 | -- |

**(†)** After internal receivables and payables have been eliminated.

(Continued)

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

**(In thousands)**

| | Governmental Activities | Business-type Activities | Total (†) | Component Units |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ 59,494 | 76,193 | 135,687 | 7,756 |
| Accounts and retainage payable from restricted assets | 19,766 | 55,986 | 75,752 | -- |
| Accrued payroll | 16,567 | 9,042 | 25,609 | 215 |
| Accrued compensated absences | 52,846 | 22,552 | 75,398 | -- |
| Claims payable | 20,750 | -- | 20,750 | -- |
| Accrued interest payable from restricted assets | -- | 62,701 | 62,701 | 14,351 |
| Interest payable on capital appreciation bonds and other debt | 4,185 | 747 | 4,932 | -- |
| Bonds payable | 47,240 | 15,574 | 62,814 | 42,435 |
| Bonds payable from restricted assets | 15,796 | 212,007 | 227,803 | -- |
| Capital lease obligations payable | -- | 44 | 44 | 22 |
| Customer and escrow deposits payable from restricted assets | 51,507 | 37,162 | 88,669 | -- |
| Accrued landfill closure and postclosure costs | -- | 656 | 656 | -- |
| Deferred credits and other current liabilities | 27,323 | 41,106 | 68,429 | -- |
| Other liabilities payable from restricted assets | -- | 4,275 | 4,275 | -- |
| Total current liabilities | 315,474 | 538,045 | 853,519 | 64,779 |
| Noncurrent liabilities, net of current portion: | | | | |
| Accrued compensated absences | 74,982 | 550 | 75,532 | -- |
| Claims payable | 19,132 | -- | 19,132 | -- |
| Capital appreciation bond interest payable | -- | 104,687 | 104,687 | -- |
| Commercial paper notes payable, net of discount | -- | 193,991 | 193,991 | -- |
| Bonds payable, net of discount and inclusive of premium | 1,022,300 | 4,107,082 | 5,129,382 | 265,726 |
| Pension obligation payable | 64,768 | 63,638 | 128,406 | -- |
| Other post employment benefits payable | 375,956 | 222,731 | 598,687 | -- |
| Capital lease obligations payable | -- | 1,132 | 1,132 | 2 |
| Accrued landfill closure and postclosure costs | -- | 9,654 | 9,654 | -- |
| Decommissioning liability payable from restricted assets | -- | 179,123 | 179,123 | -- |
| Derivative instruments - energy risk management | -- | 55,377 | 55,377 | -- |
| Derivative instruments - interest rate swaps | -- | 61,649 | 61,649 | -- |
| Deferred credits and other liabilities | 7,060 | 719,453 | 726,513 | 36 |
| Other liabilities payable from restricted assets | -- | 511 | 511 | -- |
| Total noncurrent liabilities | 1,564,198 | 5,719,578 | 7,283,776 | 265,764 |
| **Total liabilities** | 1,879,672 | 6,257,623 | 8,137,295 | 330,543 |
| **Deferred inflows of resources** | 1,752 | 2,783 | 4,535 | -- |
| **NET POSITION** | | | | |
| Net investment in capital assets | 1,649,431 | 2,195,358 | 3,844,789 | (112,657) |
| Restricted for: | | | | |
| Debt service | 11,627 | 123,853 | 135,480 | 4,696 |
| Strategic reserve | -- | 105,996 | 105,996 | -- |
| Capital projects | 24,371 | 195,933 | 220,304 | -- |
| Renewal and replacement | -- | 11,110 | 11,110 | -- |
| Bond reserve | -- | 40,873 | 40,873 | -- |
| Passenger facility charges | -- | 42,848 | 42,848 | -- |
| Operating reserve | -- | 14,877 | 14,877 | -- |
| Perpetual care: | | | | |
| Expendable | 411 | -- | 411 | -- |
| Nonexpendable | 1,040 | -- | 1,040 | -- |
| Other purposes | 65,797 | -- | 65,797 | -- |
| Unrestricted (deficit) | (397,244) | 466,167 | 68,923 | 54,810 |
| Total net position | $ 1,355,433 | 3,197,015 | 4,552,448 | (53,151) |

**(†)** After internal receivables and payables have been eliminated.

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

**Statement of Activities**
**For the year ended September 30, 2013**
**(In thousands)**

**City of Austin, Texas**
**Exhibit A-2**

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Primary Government | | | |
| **Functions/Programs** | **Expenses** | **Charges for Services** | **Operating Grants and Contributions** | **Capital Grants and Contributions** | **Governmental Activities** | **Business-type Activities** | **Total** | **Component Units** |
| Governmental activities | | | | | | | | |
| General government | $ 97,675 | 15,223 | 140 | 14,240 | (68,072) | -- | (68,072) | -- |
| Public safety | 580,074 | 53,826 | 6,395 | -- | (519,853) | -- | (519,853) | -- |
| Transportation, planning, and sustainability | 78,594 | 4,431 | 1,485 | 45,179 | (27,499) | -- | (27,499) | -- |
| Public health | 73,186 | 9,510 | 20,797 | -- | (42,879) | -- | (42,879) | -- |
| Public recreation and culture | 104,951 | 8,753 | 788 | 4,802 | (90,608) | -- | (90,608) | -- |
| Urban growth management | 137,478 | 32,917 | 18,962 | 560 | (85,039) | -- | (85,039) | -- |
| Interest on debt | 48,400 | -- | -- | -- | (48,400) | -- | (48,400) | -- |
| Total governmental activities | 1,120,358 | 124,660 | 48,567 | 64,781 | (882,350) | -- | (882,350) | -- |
| Business-type activities | | | | | | | | |
| Electric | 1,132,476 | 1,288,259 | 2,868 | 12,172 | -- | 170,823 | 170,823 | -- |
| Water | 231,774 | 240,081 | -- | 22,131 | -- | 30,438 | 30,438 | -- |
| Wastewater | 214,580 | 236,700 | -- | 12,864 | -- | 34,984 | 34,984 | -- |
| Airport | 107,389 | 123,021 | 682 | 4,598 | -- | 20,912 | 20,912 | -- |
| Convention | 62,884 | 22,783 | -- | 366 | -- | (39,735) | (39,735) | -- |
| Environmental and health services | 81,544 | 81,833 | -- | 1,247 | -- | 1,536 | 1,536 | -- |
| Public recreation | 7,185 | 6,069 | -- | 707 | -- | (409) | (409) | -- |
| Urban growth management | 129,583 | 131,561 | 199 | 10,039 | -- | 12,216 | 12,216 | -- |
| Total business-type activities | 1,967,415 | 2,130,307 | 3,749 | 64,124 | -- | 230,765 | 230,765 | -- |
| Total primary government | $ 3,087,773 | 2,254,967 | 52,316 | 128,905 | (882,350) | 230,765 | (651,585) | -- |
| Component Units | 74,637 | 81,983 | -- | -- | -- | -- | -- | 7,346 |
| General revenues: | | | | | | | | |
| Property tax | | | | | 420,000 | -- | 420,000 | -- |
| Sales tax | | | | | 176,198 | -- | 176,198 | -- |
| Franchise fees and gross receipts tax | | | | | 114,147 | -- | 114,147 | -- |
| Interest and other | | | | | 23,888 | 2,269 | 26,157 | 45 |
| Transfers-internal activities | | | | | 87,761 | (87,761) | -- | -- |
| Total general revenues and transfers | | | | | 821,994 | (85,492) | 736,502 | 45 |
| Change in net position | | | | | (60,356) | 145,273 | 84,917 | 7,391 |
| Beginning net position, as restated (Note 18) | | | | | 1,415,789 | 3,051,742 | 4,467,531 | (60,542) |
| Ending net position | | | | | $ 1,355,433 | 3,197,015 | 4,552,448 | (53,151) |

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

**Governmental Funds**
**Balance Sheet**
**September 30, 2013**
**(In thousands)**

**City of Austin, Texas**
**Exhibit B-1**

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | $ 55 | 4 | 59 |
| Pooled investments and cash | 144,722 | 231,833 | 376,555 |
| Investments, at fair value | -- | 15,591 | 15,591 |
| Cash held by trustee - restricted | -- | 5,362 | 5,362 |
| Property taxes receivable, net of allowance | 6,775 | 3,595 | 10,370 |
| Accounts receivable, net of allowance | 59,178 | 31,448 | 90,626 |
| Receivables from other governments | -- | 13,647 | 13,647 |
| Notes receivable, net of allowance | -- | 21,227 | 21,227 |
| Due from other funds | 227 | 48,505 | 48,732 |
| Advances to other funds | -- | 2,585 | 2,585 |
| Inventories, at cost | 597 | -- | 597 |
| Real property held for resale | -- | 6,911 | 6,911 |
| Prepaid items | 177 | -- | 177 |
| Other assets | 172 | 864 | 1,036 |
| **Total assets** | 211,903 | 381,572 | 593,475 |
| **LIABILITIES AND FUND BALANCES** | | | |
| Accounts payable | 23,640 | 39,979 | 63,619 |
| Accrued payroll | 13,344 | 63 | 13,407 |
| Accrued compensated absences | 876 | -- | 876 |
| Due to other funds | 189 | 48,743 | 48,932 |
| Deferred revenue | 18,294 | 19,551 | 37,845 |
| Advances from other funds | 1,447 | 1,211 | 2,658 |
| Deposits and other liabilities | 7,021 | 54,874 | 61,895 |
| Total liabilities | 64,811 | 164,421 | 229,232 |
| Fund balances | | | |
| Nonspendable: | | | |
| Inventories and prepaid items | 774 | -- | 774 |
| Permanent funds | -- | 1,040 | 1,040 |
| Restricted | -- | 160,483 | 160,483 |
| Committed | 7,130 | 44,960 | 52,090 |
| Assigned | 11,329 | 58,180 | 69,509 |
| Unassigned | 127,859 | (47,512) | 80,347 |
| Total fund balances | 147,092 | 217,151 | 364,243 |
| **Total liabilities and fund balances** | $ 211,903 | 381,572 | 593,475 |

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

**Reconciliation of the Governmental Funds Balance Sheet**
**to the Statement of Net Position**
**September 30, 2013**
**(In thousands)**

| | | |
|---|---|---|
| Total fund balances - Governmental funds | | $ 364,243 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds. | | |
| Governmental capital assets | 3,830,364 | |
| Less: accumulated depreciation | (1,329,066) | |
| | | 2,501,298 |
| Other long-term assets and certain revenues are not available as current-period resources and are not reported in the funds. | | |
| Deferred revenue - accounts and other taxes receivable | 21,274 | |
| Deferred revenue - property taxes and interest | 5,734 | |
| Deferred costs and expenses | 10,504 | |
| Net pension asset | 10,041 | |
| | | 47,553 |
| Long-term liabilities are not payable in the current period and are not reported in the funds. | | |
| Bonds and other tax supported debt payable, net | (1,081,620) | |
| Pension obligation payable | (64,768) | |
| Other post employment benefits payable | (375,956) | |
| Compensated absences | (118,960) | |
| Interest payable | (4,170) | |
| Deferred credits and other liabilities | (13,025) | |
| | | (1,658,499) |
| Internal service funds are used by management to charge the costs of capital project management, combined emergency communication center, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds. | | |
| Certain assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. | | 100,838 |
| Total net position - Governmental activities | | $ 1,355,433 |

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

(In thousands)

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| **REVENUES** | | | |
| Property taxes | $ 315,466 | 104,499 | 419,965 |
| Sales taxes | 176,198 | -- | 176,198 |
| Franchise fees and other taxes | 41,981 | 72,058 | 114,039 |
| Fines, forfeitures and penalties | 16,971 | 4,157 | 21,128 |
| Licenses, permits and inspections | 28,669 | -- | 28,669 |
| Charges for services/goods | 49,579 | 13,989 | 63,568 |
| Intergovernmental | -- | 76,085 | 76,085 |
| Property owners' participation and contributions | -- | 10,167 | 10,167 |
| Interest and other | 6,027 | 18,318 | 24,345 |
| **Total revenues** | 634,891 | 299,273 | 934,164 |
| **EXPENDITURES** | | | |
| Current: | | | |
| General government | 81,847 | 2,657 | 84,504 |
| Public safety | 490,001 | 7,370 | 497,371 |
| Transportation, planning and sustainability | 279 | 15,728 | 16,007 |
| Public health | 48,636 | 20,782 | 69,418 |
| Public recreation and culture | 83,786 | 8,496 | 92,282 |
| Urban growth management | 45,551 | 52,289 | 97,840 |
| Debt service: | | | |
| Principal | -- | 69,625 | 69,625 |
| Interest | -- | 48,199 | 48,199 |
| Fees and commissions | -- | 17 | 17 |
| Capital outlay-capital project funds | -- | 214,294 | 214,294 |
| **Total expenditures** | 750,100 | 439,457 | 1,189,557 |
| Deficiency of revenues over expenditures | (115,209) | (140,184) | (255,393) |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Issuance of tax supported debt | -- | 131,499 | 131,499 |
| Bond premiums | -- | 8,452 | 8,452 |
| Transfers in | 145,764 | 63,397 | 209,161 |
| Transfers out | (13,626) | (86,041) | (99,667) |
| **Total other financing sources (uses)** | 132,138 | 117,307 | 249,445 |
| Net change in fund balances | 16,929 | (22,877) | (5,948) |
| Fund balances at beginning of year | 130,163 | 240,028 | 370,191 |
| **Fund balances at end of year** | $ 147,092 | 217,151 | 364,243 |

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

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities**
**For the year ended September 30, 2013**
**(In thousands)**

| | | |
|---|---|---|
| Net change in fund balances - Governmental funds | | $ (5,948) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | | |
| Capital outlay | 166,879 | |
| Depreciation expense | (122,279) | |
| Loss on disposal of capital assets | (3,958) | |
| | | 40,642 |
| Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds. | | |
| Property taxes | 35 | |
| Charges for services | (1,072) | |
| Interest and other | (437) | |
| Capital assets contribution | 53,764 | |
| | | 52,290 |
| The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | | |
| Issuance of long-term debt | (139,951) | |
| Principal repayment on long-term debt | 69,625 | |
| | | (70,326) |
| Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds. | | |
| Compensated absences | (2,893) | |
| Pension obligation | 6,743 | |
| Other post employment benefits | (74,845) | |
| Interest and other | (21,523) | |
| | | (92,518) |
| A portion of the net revenue (expense) of the internal service funds is reported with the governmental activities. | | 15,504 |
| Change in net position - Governmental activities | | $ (60,356) |

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

**Proprietary Funds**
**Statement of Net Position**
**September 30, 2013**
**(In thousands)**

| | Business-Type Activities | | |
|---|---|---|---|
| | **Austin Energy** | **Austin Water Utility** | **Airport** |
| **ASSETS** | | | |
| Current assets: | | | |
| Cash | $ 21 | 5 | 6 |
| Pooled investments and cash | 119,210 | 23,291 | 6,211 |
| Pooled investments and cash - restricted | 90,888 | 89,275 | 26,326 |
| Total pooled investments and cash | 210,098 | 112,566 | 32,537 |
| Investments, at fair value - restricted | 66,945 | 85,613 | 16,689 |
| Cash held by trustee - restricted | -- | -- | -- |
| Working capital advances | 5,115 | -- | -- |
| Accounts receivable, net of allowance | 175,031 | 72,862 | 6,023 |
| Receivables from other governments-restricted | 941 | -- | -- |
| Due from other funds | 814 | -- | -- |
| Inventories, at cost | 84,386 | 2,156 | 1,627 |
| Deferred costs and expenses, net of amortization | 17,036 | 28,205 | -- |
| Prepaid expenses | 9,127 | 15 | 22 |
| Other receivables - restricted | 4,250 | 134 | 513 |
| Other assets | 32,954 | -- | -- |
| Total current assets | 606,718 | 301,556 | 57,417 |
| Noncurrent assets: | | | |
| Cash - restricted | 5,233 | -- | -- |
| Pooled investments and cash - restricted | -- | -- | 183,132 |
| Advances to other funds | 20,529 | -- | -- |
| Advances to other funds - restricted | -- | -- | 64 |
| Investments, at fair value - restricted | 115,975 | 58,421 | -- |
| Investments held by trustee - restricted | 190,006 | 17,647 | -- |
| Interest receivable - restricted | 886 | -- | -- |
| Depreciable capital assets, net of accumulated depreciation | 2,420,464 | 2,658,434 | 496,340 |
| Nondepreciable capital assets | 166,310 | 731,102 | 124,333 |
| Derivative instruments - energy risk management | 2,791 | -- | -- |
| Other long-term assets | 1,072 | -- | -- |
| Deferred costs and expenses, net of amortization | 235,737 | 159,724 | 2,413 |
| Total noncurrent assets | 3,159,003 | 3,625,328 | 806,282 |
| **Total assets** | 3,765,721 | 3,926,884 | 863,699 |
| | | | |
| **Deferred outflows of resources** | $ 55,354 | 13,122 | 35,978 |

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

| | Business-Type Activities | | Governmental |
|---|---|---|---|
| | Nonmajor Enterprise Funds | Total | Activities- Internal Service Funds |
| **ASSETS** | | | |
| Current assets: | | | |
| Cash | 33 | 65 | 12 |
| Pooled investments and cash | 148,345 | 297,057 | 134,852 |
| Pooled investments and cash - restricted | 48,451 | 254,940 | -- |
| Total pooled investments and cash | 196,796 | 551,997 | 134,852 |
| Investments, at fair value - restricted | 10,406 | 179,653 | -- |
| Cash held by trustee - restricted | -- | -- | 1,234 |
| Working capital advances | -- | 5,115 | -- |
| Accounts receivable, net of allowance | 24,606 | 278,522 | 2,836 |
| Receivables from other governments-restricted | -- | 941 | -- |
| Due from other funds | 287 | 1,101 | 11 |
| Inventories, at cost | 2,836 | 91,005 | 1,609 |
| Deferred costs and expenses, net of amortization | -- | 45,241 | -- |
| Prepaid expenses | 40 | 9,204 | 103 |
| Other receivables - restricted | 396 | 5,293 | -- |
| Other assets | -- | 32,954 | -- |
| Total current assets | 235,400 | 1,201,091 | 140,657 |
| Noncurrent assets: | | | |
| Cash - restricted | -- | 5,233 | -- |
| Pooled investments and cash - restricted | -- | 183,132 | -- |
| Advances to other funds | -- | 20,529 | 160 |
| Advances to other funds - restricted | 734 | 798 | -- |
| Investments, at fair value - restricted | 13,304 | 187,700 | -- |
| Investments held by trustee - restricted | -- | 207,653 | -- |
| Interest receivable - restricted | -- | 886 | -- |
| Depreciable capital assets, net of accumulated depreciation | 359,946 | 5,935,184 | 59,740 |
| Nondepreciable capital assets | 164,793 | 1,186,538 | 573 |
| Derivative instruments - energy risk management | -- | 2,791 | -- |
| Other long-term assets | -- | 1,072 | -- |
| Deferred costs and expenses, net of amortization | 4,252 | 402,126 | 10 |
| Total noncurrent assets | 543,029 | 8,133,642 | 60,483 |
| **Total assets** | 778,429 | 9,334,733 | 201,140 |
| **Deferred outflows of resources** | 12,549 | 117,003 | -- |

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

(Continued)

**Proprietary Funds**
**Statement of Net Position**
**September 30, 2013**
**(In thousands)**



| | Business-Type Activities | | |
|---|---|---|---|
| | **Austin Energy** | **Austin Water Utility** | **Airport** |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable | $ 63,911 | 4,904 | 1,663 |
| Accounts and retainage payable from restricted assets | 7,075 | 40,801 | 4,787 |
| Accrued payroll | 3,825 | 2,033 | 609 |
| Accrued compensated absences | 9,926 | 5,260 | 1,521 |
| Claims payable | -- | -- | -- |
| Due to other funds | -- | -- | 145 |
| Accrued interest payable from restricted assets | 23,127 | 35,900 | 1,987 |
| Interest payable on other debt | 15 | 26 | -- |
| Bonds payable | -- | -- | 26 |
| Bonds payable from restricted assets | 83,282 | 102,365 | 15,610 |
| Capital lease obligations payable | 44 | -- | -- |
| Customer and escrow deposits payable from restricted assets | 23,546 | 9,658 | 462 |
| Accrued landfill closure and postclosure costs | -- | -- | -- |
| Deferred credits and other liabilities | 13,254 | 26,227 | 1,360 |
| Other liabilities payable from restricted assets | -- | -- | -- |
| Total current liabilities | 228,005 | 227,174 | 28,170 |
| Noncurrent liabilities, net of current portion: | | | |
| Accrued compensated absences | 64 | -- | 261 |
| Claims payable | -- | -- | -- |
| Advances from other funds | -- | 2,384 | 1,118 |
| Advances from other funds payable from restricted assets | -- | 17,027 | -- |
| Capital appreciation bond interest payable | 9,071 | 95,616 | -- |
| Commercial paper notes payable, net of discount | 88,541 | 105,450 | -- |
| Bonds payable, net of discount and inclusive of premium | 1,227,256 | 2,309,787 | 299,908 |
| Pension obligation payable | 28,877 | 14,264 | 4,312 |
| Other post employment benefits payable | 92,064 | 55,462 | 14,926 |
| Capital lease obligations payable | 1,132 | -- | -- |
| Accrued landfill closure and postclosure costs | -- | -- | -- |
| Decommissioning liability payable from restricted assets | 179,123 | -- | -- |
| Derivative instruments - energy risk management | 55,377 | -- | -- |
| Derivative instruments - interest rate swaps | -- | 13,122 | 35,978 |
| Deferred credits and other liabilities | 245,308 | 471,236 | -- |
| Other liabilities payable from restricted assets | -- | -- | 56 |
| Total noncurrent liabilities | 1,926,813 | 3,084,348 | 356,559 |
| **Total liabilities** | 2,154,818 | 3,311,522 | 384,729 |
| **Deferred inflows of resources** | $ 2,783 | -- | -- |

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

| | Business-Type Activities | | Governmental |
|---|---|---|---|
| | Nonmajor Enterprise Funds | Total | Activities-Internal Service Funds |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable | 5,715 | 76,193 | 15,641 |
| Accounts and retainage payable from restricted assets | 3,323 | 55,986 | -- |
| Accrued payroll | 2,575 | 9,042 | 3,160 |
| Accrued compensated absences | 5,845 | 22,552 | 7,753 |
| Claims payable | -- | -- | 20,750 |
| Due to other funds | 613 | 758 | 154 |
| Accrued interest payable from restricted assets | 1,687 | 62,701 | -- |
| Interest payable on other debt | 706 | 747 | 15 |
| Bonds payable | 15,548 | 15,574 | 377 |
| Bonds payable from restricted assets | 10,750 | 212,007 | -- |
| Capital lease obligations payable | -- | 44 | -- |
| Customer and escrow deposits payable from restricted assets | 3,496 | 37,162 | -- |
| Accrued landfill closure and postclosure costs | 656 | 656 | -- |
| Deferred credits and other liabilities | 265 | 41,106 | 1,885 |
| Other liabilities payable from restricted assets | 4,275 | 4,275 | -- |
| Total current liabilities | 55,454 | 538,803 | 49,735 |
| Noncurrent liabilities, net of current portion: | | | |
| Accrued compensated absences | 225 | 550 | 239 |
| Claims payable | -- | -- | 19,132 |
| Advances from other funds | 872 | 4,374 | 13 |
| Advances from other funds payable from restricted assets | -- | 17,027 | -- |
| Capital appreciation bond interest payable | -- | 104,687 | -- |
| Commercial paper notes payable, net of discount | -- | 193,991 | -- |
| Bonds payable, net of discount and inclusive of premium | 270,131 | 4,107,082 | 3,339 |
| Pension obligation payable | 16,185 | 63,638 | -- |
| Other post employment benefits payable | 60,279 | 222,731 | -- |
| Capital lease obligations payable | -- | 1,132 | -- |
| Accrued landfill closure and postclosure costs | 9,654 | 9,654 | -- |
| Decommissioning liability payable from restricted assets | -- | 179,123 | -- |
| Derivative instruments - energy risk management | -- | 55,377 | -- |
| Derivative instruments - interest rate swaps | 12,549 | 61,649 | -- |
| Deferred credits and other liabilities | 2,909 | 719,453 | -- |
| Other liabilities payable from restricted assets | 455 | 511 | -- |
| Total noncurrent liabilities | 373,259 | 5,740,979 | 22,723 |
| **Total liabilities** | 428,713 | 6,279,782 | 72,458 |
| **Deferred inflows of resources** | -- | 2,783 | -- |

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

(Continued)

**Proprietary Funds**
**Statement of Net Position**
**September 30, 2013**
**(In thousands)**



| | Business-Type Activities | | |
|---|---|---|---|
| | **Austin Energy** | **Austin Water Utility** | **Airport** |
| **NET POSITION** | | | |
| Net investment in capital assets | $ 1,087,902 | 476,443 | 359,934 |
| Restricted for: | | | |
| Debt service | 43,818 | 49,712 | 18,700 |
| Strategic reserve | 105,996 | -- | -- |
| Capital projects | 59,175 | 38,178 | 86,224 |
| Renewal and replacement | 64 | -- | 10,000 |
| Bond reserve | 9,979 | 20,584 | -- |
| Passenger facility charges | -- | -- | 42,848 |
| Operating reserve | -- | -- | 10,841 |
| Unrestricted | 356,540 | 43,567 | (13,599) |
| **Total net position** | $ 1,663,474 | 628,484 | 514,948 |
| Reconciliation to government-wide Statement of Net Position | | | |
| Adjustment to consolidate internal service activities | 12,445 | 6,486 | 2,350 |
| Total net position - Business-type activities | $ 1,675,919 | 634,970 | 517,298 |

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

| | Business-Type Activities | | Governmental Activities- Internal Service Funds |
|---|---|---|---|
| | Nonmajor Enterprise Funds | Total | |
| **NET POSITION** | | | |
| Net investment in capital assets | 271,079 | 2,195,358 | 56,607 |
| Restricted for: | | | |
| Debt service | 11,623 | 123,853 | -- |
| Strategic reserve | -- | 105,996 | -- |
| Capital projects | 12,356 | 195,933 | 627 |
| Renewal and replacement | 1,046 | 11,110 | -- |
| Bond reserve | 10,310 | 40,873 | -- |
| Passenger facility charges | -- | 42,848 | -- |
| Operating reserve | 4,036 | 14,877 | -- |
| Unrestricted | 51,815 | 438,323 | 71,448 |
| **Total net position** | 362,265 | 3,169,171 | 128,682 |
| Reconciliation to government-wide Statement of Net Position | | | |
| Adjustment to consolidate internal service activities | 6,563 | 27,844 | |
| Total net position - Business-type activities | 368,828 | 3,197,015 | |

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

**Proprietary Funds**
**Statement of Revenues, Expenses, and Changes in Fund Net Position**
**For the year ended September 30, 2013**
**(In thousands)**

| | Business-Type Activities | | |
|---|---|---|---|
| | **Austin Energy** | **Austin Water Utility** | **Airport** |
| **OPERATING REVENUES** | | | |
| Utility services | $ 1,288,259 | 476,781 | -- |
| User fees and rentals | -- | -- | 103,515 |
| Billings to departments | -- | -- | -- |
| Employee contributions | -- | -- | -- |
| Operating revenues from other governments | -- | -- | -- |
| Other operating revenues | -- | -- | -- |
| **Total operating revenues** | 1,288,259 | 476,781 | 103,515 |
| **OPERATING EXPENSES** | | | |
| Operating expenses before depreciation | 937,541 | 216,369 | 70,148 |
| Depreciation and amortization | 150,031 | 97,186 | 21,121 |
| **Total operating expenses** | 1,087,572 | 313,555 | 91,269 |
| **Operating income (loss)** | 200,687 | 163,226 | 12,246 |
| **NONOPERATING REVENUES (EXPENSES)** | | | |
| Interest and other revenues | 1,788 | 88 | 190 |
| Interest on revenue bonds and other debt | (70,918) | (107,164) | (12,801) |
| Interest capitalized during construction | -- | -- | 843 |
| Passenger facility charges | -- | -- | 19,506 |
| Amortization of bond issue cost | (625) | (1,187) | (207) |
| Cost (recovered) to be recovered in future years | 27,780 | (19,227) | -- |
| Other nonoperating revenue (expense) | (810) | (1,446) | (3,704) |
| **Total nonoperating revenues (expenses)** | (42,785) | (128,936) | 3,827 |
| **Income (loss) before contributions and transfers** | 157,902 | 34,290 | 16,073 |
| Capital contributions | 12,172 | 34,995 | 4,598 |
| Transfers in | 1,849 | 87 | -- |
| Transfers out | (105,333) | (41,614) | (72) |
| **Change in net position** | 66,590 | 27,758 | 20,599 |
| **Total net position - beginning** | 1,596,884 | 600,726 | 494,349 |
| **Total net position - ending** | $ 1,663,474 | 628,484 | 514,948 |
| Reconciliation to government-wide Statement of Activities | | | |
| Change in net position | 66,590 | 27,758 | 20,599 |
| Adjustment to consolidate internal service activities | 2,537 | 1,606 | 429 |
| Change in net position - Business-type activities | $ 69,127 | 29,364 | 21,028 |

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

| | Business-Type Activities Nonmajor Enterprise Funds | Business-Type Activities Total | Governmental Activities- Internal Service Funds |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| Utility services | -- | 1,765,040 | -- |
| User fees and rentals | 242,246 | 345,761 | -- |
| Billings to departments | -- | -- | 339,901 |
| Employee contributions | -- | -- | 31,948 |
| Operating revenues from other governments | -- | -- | 3,434 |
| Other operating revenues | -- | -- | 8,933 |
| **Total operating revenues** | 242,246 | 2,110,801 | 384,216 |
| **OPERATING EXPENSES** | | | |
| Operating expenses before depreciation | 240,001 | 1,464,059 | 354,799 |
| Depreciation and amortization | 25,325 | 293,663 | 10,438 |
| **Total operating expenses** | 265,326 | 1,757,722 | 365,237 |
| **Operating income (loss)** | (23,080) | 353,079 | 18,979 |
| **NONOPERATING REVENUES (EXPENSES)** | | | |
| Interest and other revenues | 203 | 2,269 | 40 |
| Interest on revenue bonds and other debt | (11,590) | (202,473) | (201) |
| Interest capitalized during construction | 1,576 | 2,419 | -- |
| Passenger facility charges | -- | 19,506 | -- |
| Amortization of bond issue cost | (363) | (2,382) | 8 |
| Cost (recovered) to be recovered in future years | -- | 8,553 | -- |
| Other nonoperating revenue (expense) | (503) | (6,463) | (11,917) |
| **Total nonoperating revenues (expenses)** | (10,677) | (178,571) | (12,070) |
| **Income (loss) before contributions and transfers** | (33,757) | 174,508 | 6,909 |
| Capital contributions | 12,359 | 64,124 | 24,730 |
| Transfers in | 53,416 | 55,352 | 243 |
| Transfers out | (7,355) | (154,374) | (10,715) |
| **Change in net position** | 24,663 | 139,610 | 21,167 |
| **Total net position - beginning** | 337,602 | 3,029,561 | 107,515 |
| **Total net position - ending** | 362,265 | 3,169,171 | 128,682 |
| Reconciliation to government-wide Statement of Activities | | | |
| Change in net position | 24,663 | 139,610 | |
| Adjustment to consolidate internal service activities | 1,091 | 5,663 | |
| Change in net position - Business-type activities | 25,754 | 145,273 | |

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

**Proprietary Funds**
**Statement of Cash Flows**
**For the year ended September 30, 2013**
**(In thousands)**

| | Business-Type Activities | | |
|---|---|---|---|
| | **Austin Energy** | **Austin Water Utility** | **Airport** |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Cash received from customers | $ 1,321,945 | 467,332 | 103,631 |
| Cash payments to suppliers for goods and services | (743,451) | (111,674) | (42,803) |
| Cash payments to employees for services | (165,338) | (87,703) | (26,959) |
| Cash payments to claimants/beneficiaries | -- | -- | -- |
| Taxes collected and remitted to other governments | (40,508) | -- | -- |
| **Net cash provided by operating activities** | 372,648 | 267,955 | 33,869 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:** | | | |
| Transfers in | 1,849 | 87 | -- |
| Transfers out | (105,333) | (41,614) | (72) |
| Contributions (to) from other funds | -- | (651) | -- |
| Loans to other funds | (821) | -- | -- |
| Loans from other funds | -- | -- | 4 |
| Loan repayments to other funds | -- | (6,072) | (142) |
| Loan repayments from other funds | 6,516 | -- | -- |
| Collections from other governments | 2,981 | -- | 458 |
| **Net cash provided (used) by noncapital financing activities** | (94,808) | (48,250) | 248 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:** | | | |
| Proceeds from the sale of commercial paper notes | 88,539 | 200,680 | -- |
| Proceeds from the sale of general obligation bonds and other tax supported debt | -- | 2,250 | -- |
| Proceeds from the sale of revenue bonds | -- | 1,450 | 60,000 |
| Principal paid on long-term debt | (105,259) | (80,061) | (14,833) |
| Purchased interest received | -- | 6 | -- |
| Interest paid on revenue bonds and other debt | (73,092) | (112,553) | (11,301) |
| Passenger facility charges | -- | -- | 19,506 |
| Acquisition and construction of capital assets | (155,331) | (229,175) | (28,482) |
| Contributions from state and federal governments | -- | 125 | -- |
| Contributions in aid of construction | 12,172 | 11,550 | 4,481 |
| Bond issuance costs | (2,614) | (1,238) | -- |
| Bond premiums | 46,138 | 20,643 | -- |
| Bonds issued for advanced refundings of debt | 375,485 | 284,529 | -- |
| Cash paid for bond refunding escrow | (419,009) | (129,004) | -- |
| Cash paid to payoff commercial paper | -- | (175,000) | -- |
| Cash paid for nuclear fuel inventory | (12,600) | -- | -- |
| **Net cash (used) by capital and related financing activities** | $ (245,571) | (205,798) | 29,371 |

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

| | Business-Type Activities | | Governmental |
|---|---|---|---|
| | Nonmajor Enterprise Funds | Total | Activities- Internal Service Funds |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Cash received from customers | 240,230 | 2,133,138 | 389,538 |
| Cash payments to suppliers for goods and services | (126,034) | (1,023,962) | (99,093) |
| Cash payments to employees for services | (110,225) | (390,225) | (134,415) |
| Cash payments to claimants/beneficiaries | -- | -- | (111,366) |
| Taxes collected and remitted to other governments | -- | (40,508) | -- |
| **Net cash provided by operating activities** | 3,971 | 678,443 | 44,664 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:** | | | |
| Transfers in | 53,416 | 55,352 | 71 |
| Transfers out | (7,119) | (154,138) | (10,674) |
| Contributions (to) from other funds | 651 | -- | -- |
| Loans to other funds | (440) | (1,261) | -- |
| Loans from other funds | 185 | 189 | -- |
| Loan repayments to other funds | (243) | (6,457) | (148) |
| Loan repayments from other funds | -- | 6,516 | -- |
| Collections from other governments | 574 | 4,013 | -- |
| **Net cash provided (used) by noncapital financing activities** | 47,024 | (95,786) | (10,751) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:** | | | |
| Proceeds from the sale of commercial paper notes | -- | 289,219 | -- |
| Proceeds from the sale of general obligation bonds and other tax supported debt | 15,868 | 18,118 | -- |
| Proceeds from the sale of revenue bonds | -- | 61,450 | -- |
| Principal paid on long-term debt | (25,370) | (225,523) | (515) |
| Purchased interest received | 45 | 51 | -- |
| Interest paid on revenue bonds and other debt | (12,092) | (209,038) | (202) |
| Passenger facility charges | -- | 19,506 | -- |
| Acquisition and construction of capital assets | (33,672) | (446,660) | (12,121) |
| Contributions from state and federal governments | -- | 125 | -- |
| Contributions in aid of construction | 2,186 | 30,389 | -- |
| Bond issuance costs | (124) | (3,976) | -- |
| Bond premiums | 1,452 | 68,233 | -- |
| Bonds issued for advanced refundings of debt | -- | 660,014 | -- |
| Cash paid for bond refunding escrow | -- | (548,013) | -- |
| Cash paid to payoff commercial paper | -- | (175,000) | -- |
| Cash paid for nuclear fuel inventory | -- | (12,600) | -- |
| **Net cash (used) by capital and related financing activities** | (51,707) | (473,705) | (12,838) |

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

(Continued)

**Proprietary Funds**
**Statement of Cash Flows**
**For the year ended September 30, 2013**
**(In thousands)**

| | Business-Type Activities | | |
|---|---|---|---|
| | Austin Energy | Austin Water Utility | Airport |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of investment securities | $ (196,788) | (201,486) | (30,757) |
| Proceeds from sale and maturities of investment securities | 239,182 | 204,743 | 29,495 |
| Interest on investments | 3,855 | 88 | 190 |
| **Net cash provided (used) by investing activities** | 46,249 | 3,345 | (1,072) |
| Net increase (decrease) in cash and cash equivalents | 78,518 | 17,252 | 62,416 |
| Cash and cash equivalents, October 1 | 136,834 | 95,319 | 153,259 |
| **Cash and cash equivalents, September 30** | 215,352 | 112,571 | 215,675 |
| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:** | | | |
| Operating income (loss) | 200,687 | 163,226 | 12,246 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation | 150,031 | 96,198 | 21,121 |
| Amortization | -- | 988 | -- |
| Change in assets and liabilities: | | | |
| Decrease in working capital advances | (885) | -- | -- |
| (Increase) decrease in accounts receivable | (17,861) | (4,218) | (959) |
| Increase in allowance for doubtful accounts | 4,724 | 1,450 | 149 |
| Increase in receivables from other governments | -- | -- | -- |
| Decrease in due from other funds | -- | -- | 21 |
| Increase in inventory | (3,421) | (225) | (41) |
| (Increase) decrease in prepaid expenses and other assets | 10,952 | 1 | (13) |
| Decrease in advances to other funds | -- | -- | -- |
| (Increase) decrease in deferred costs and other expenses | 12,294 | 25 | -- |
| Decrease in other long-term assets | -- | 8,609 | -- |
| Increase (decrease) in accounts payable | 6,195 | 1,986 | (507) |
| Increase (decrease) in accrued payroll and compensated absences | (127) | 116 | 138 |
| Increase in claims payable | -- | -- | -- |
| Decrease in pension obligations payable | (1,738) | (879) | (268) |
| Increase in other post employment benefits payable | 11,985 | 7,358 | 1,077 |
| Increase (decrease) in deferred credits and other liabilities | (2,287) | -- | 853 |
| Increase (decrease) in customer deposits | 2,099 | (6,680) | 52 |
| **Total adjustments** | 171,961 | 104,729 | 21,623 |
| **Net cash provided by operating activities** | $ 372,648 | 267,955 | 33,869 |

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

| | Business-Type Activities | | Governmental |
|---|---|---|---|
| | Nonmajor Enterprise Funds | Total | Activities- Internal Service Funds |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of investment securities | (22,815) | (451,846) | -- |
| Proceeds from sale and maturities of investment securities | 19,609 | 493,029 | -- |
| Interest on investments | 203 | 4,336 | 40 |
| **Net cash provided (used) by investing activities** | (3,003) | 45,519 | 40 |
| Net increase (decrease) in cash and cash equivalents | (3,715) | 154,471 | 21,115 |
| Cash and cash equivalents, October 1 | 200,544 | 585,956 | 114,983 |
| **Cash and cash equivalents, September 30** | 196,829 | 740,427 | 136,098 |
| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:** | | | |
| Operating income (loss) | (23,080) | 353,079 | 18,979 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation | 25,325 | 292,675 | 10,438 |
| Amortization | -- | 988 | -- |
| Change in assets and liabilities: | | | |
| Decrease in working capital advances | -- | (885) | -- |
| (Increase) decrease in accounts receivable | (3,756) | (26,794) | 5,098 |
| Increase in allowance for doubtful accounts | 1,566 | 7,889 | -- |
| Increase in receivables from other governments | -- | -- | -- |
| Decrease in due from other funds | -- | 21 | -- |
| Increase in inventory | (351) | (4,038) | (27) |
| (Increase) decrease in prepaid expenses and other assets | 137 | 11,077 | (11) |
| Decrease in advances to other funds | -- | -- | 19 |
| (Increase) decrease in deferred costs and other expenses | (47) | 12,272 | (2) |
| Decrease in other long-term assets | 680 | 9,289 | 2 |
| Increase (decrease) in accounts payable | 529 | 8,203 | 3,575 |
| Increase (decrease) in accrued payroll and compensated absences | 717 | 844 | 527 |
| Increase in claims payable | -- | -- | 5,663 |
| Decrease in pension obligations payable | (1,079) | (3,964) | -- |
| Increase in other post employment benefits payable | 10,369 | 30,789 | -- |
| Increase (decrease) in deferred credits and other liabilities | (7,258) | (8,692) | 403 |
| Increase (decrease) in customer deposits | 219 | (4,310) | -- |
| **Total adjustments** | 27,051 | 325,364 | 25,685 |
| **Net cash provided by operating activities** | 3,971 | 678,443 | 44,664 |

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

**Proprietary Funds**
**Statement of Cash Flows**
**For the year ended September 30, 2013**
**(In thousands)**

| | Business-Type Activities | | |
|---|---|---|---|
| | **Austin Energy** | **Austin Water Utility** | **Airport** |
| **NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:** | | | |
| (Increase) decrease in deferred assets/expenses | $ 34,357 | 7,237 | -- |
| Capital appreciation bonds interest accreted | 878 | 11,429 | -- |
| Capital assets contributed from other funds | -- | 161 | 87 |
| Capital assets contributed to other funds | -- | -- | -- |
| Contributed facilities | -- | 23,159 | 30 |
| (Increase) decrease in the fair value of investments | 5,069 | -- | 1,262 |
| Amortization of bond issue costs | (625) | (1,187) | (207) |
| Amortization of bond (discounts) premiums | 4,304 | 8,761 | 192 |
| Amortization of deferred loss on refundings | (7,560) | (5,829) | (1,086) |
| Loss on disposal of assets | (1,395) | (2,879) | -- |
| Deferred loss on bond refunding | -- | (4,351) | -- |
| Deferred costs to be recovered | -- | (19,227) | -- |
| Increase in deferred credits and other liabilities | 15,907 | 9,975 | -- |
| Transfers (to) from other funds | -- | -- | -- |
| Assets acquired through capital lease | 1,132 | -- | -- |
| Capitalized interest | -- | -- | 843 |

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

| | Business-Type Activities | | Governmental |
|---|---|---|---|
| | Nonmajor Enterprise Funds | Total | Activities- Internal Service Funds |
| **NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:** | | | |
| (Increase) decrease in deferred assets/expenses | 220 | 41,814 | -- |
| Capital appreciation bonds interest accreted | -- | 12,307 | -- |
| Capital assets contributed from other funds | 10,173 | 10,421 | 24,730 |
| Capital assets contributed to other funds | (1,858) | (1,858) | -- |
| Contributed facilities | -- | 23,189 | -- |
| (Increase) decrease in the fair value of investments | -- | 6,331 | -- |
| Amortization of bond issue costs | (363) | (2,382) | (8) |
| Amortization of bond (discounts) premiums | 1,379 | 14,636 | (3) |
| Amortization of deferred loss on refundings | (1,197) | (15,672) | -- |
| Loss on disposal of assets | (943) | (5,217) | (11,917) |
| Deferred loss on bond refunding | | (4,351) | -- |
| Deferred costs to be recovered | -- | (19,227) | -- |
| Increase in deferred credits and other liabilities | -- | 25,882 | -- |
| Transfers (to) from other funds | (236) | (236) | 131 |
| Assets acquired through capital lease | -- | 1,132 | -- |
| Capitalized interest | 1,576 | 2,419 | -- |

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

(In thousands)

| | | Private-purpose Trust | Agency |
|---|---|---|---|
| **ASSETS** | | | |
| Pooled investments and cash | $ | 1,761 | 2,730 |
| Other assets | | 121 | -- |
| **Total assets** | | 1,882 | 2,730 |
| **LIABILITIES** | | | |
| Accounts payable | | 1 | 24 |
| Due to other governments | | -- | 2,078 |
| Deposits and other liabilities | | 1,172 | 628 |
| **Total liabilities** | | 1,173 | 2,730 |
| **NET POSITION** | | | |
| Held in trust | | 709 | |
| **Total net position** | $ | 709 | |

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

**Fiduciary Funds**
**Statement of Changes in Fiduciary Net Position**
**For the year ended September 30, 2013**
**(In thousands)**

**City of Austin, Texas**
**Exhibit D-2**

| | Private-purpose Trust |
|---|---|
| **ADDITIONS** | |
| Contributions | $ 646 |
| Interest and other | 3 |
| **Total additions** | 649 |
| | |
| **DEDUCTIONS** | |
| Benefit payments | 811 |
| **Total deductions** | 811 |
| **Net additions (deductions)** | (162) |
| | |
| **Total net position - beginning** | 871 |
| **Total net position - ending** | $ 709 |

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

## 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Austin, Texas (the City) is a municipal corporation incorporated under Article XI, Section 5 of the Constitution of the State of Texas (Home Rule Amendment). The City operates under a Council-Manager form of government. The City Council is composed of a Mayor and six Councilmembers, all of whom are elected at large for three-year staggered terms and may serve a maximum of two consecutive terms. A petition signed by 5% of the registered voters waives the term limit for a Councilmember.

On November 6, 2012, City of Austin voters approved a charter amendment which provides for the election of City Councilmembers from 10 geographical single-member districts, with the mayor to be elected from the city at large. This new process will be effective with the November 2014 election. A 14-member Citizens Redistricting Commission drew the boundaries for the 10 districts in compliance with federal and state requirements and submitted to Council in November 2013.

The City's major activities or programs include general government; public safety; transportation, planning, and sustainability; public health; public recreation and culture; and urban growth management. In addition, the City owns and operates certain major enterprise activities including an electric utility, water and wastewater utility, airport, and non-major enterprise activities including convention, environmental and health services, public recreation, and urban growth management activities. These activities are included in the accompanying financial statements.

The City of Austin's charter requires an annual audit by an independent certified public accountant. These financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 64. In fiscal year 2013, the City implemented the following GASB Statements:

| GASB Statement | Impact |
|---|---|
| 60 – "*Accounting and Financial Reporting for Service Concession Arrangements*" | Results of the implementation of this standard are discussed in Note 5 and Note 18. |
| 61 – *"The Financial Reporting Entity: Omnibus"* | Results of the implementation of this standard can be found in Note 1a. |
| 62 – *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements"* | The implementation of this standard had no financial statement impact as the City was following the previous guidance. |
| 63 – *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"* | The implementation of this standard resulted in renaming Net Assets to Net Position throughout the CAFR, but had little impact on the amounts reported in the statements. |

The more significant accounting and reporting policies and practices used by the City are described below.

As a local government, the City is not subject to federal income taxes, under the Internal Revenue Code Section 115. Furthermore, it is not subject to state sales tax.

### a -- Reporting Entity

As required by GAAP, these financial statements present the City's primary government, its component units, and other entities for which the City is considered financially accountable. Blended component units, although legally separate entities, are in substance, part of the City's operations; therefore, data from these units are combined with data of the City. Discrete component units are legally separate entities that are not considered part of the City's operations; therefore, data from these units are shown separately from data of the City.

**Blended Component Units –** Following are the City's blended component units.

| *Blended Component Units* | *Brief Description of Activities, Relationship to City, and Key Inclusion Criteria* |
|---|---|
| The Austin Housing Finance Corporation (AHFC) | AHFC was created in 1979 as a public, nonprofit corporation and instrumentality of the City under the provisions of the Texas Housing Finance Corporation Act, Chapter 394, and Local Government Code. The mission of the AHFC is to generate and implement strategic housing solutions for the benefit of low- and moderate- income residents of the City. AHFC is governed by a board composed of the City Councilmembers. Council maintains the ability to impose its will on the organization.<br><br>Reporting Fund: Housing Assistance Fund, a nonmajor special revenue fund |

**1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**
**a -- Reporting Entity, continued**

| *Blended Component Units* | *Brief Description of Activities, Relationship to City, and Key Inclusion Criteria* |
|---|---|
| Austin Industrial Development Corporation (AIDC) | AIDC was created under the Texas Development Corporation Act of 1979 to provide a means of extending tax-exempt financing to projects that are deemed to have substantial social benefit through the creation of commercial, industrial, and manufacturing enterprises, in order to promote and encourage employment in the City. The Austin City Council acts as the board of directors of the corporation and therefore has the ability to impose its will on the organization.<br><br>Reporting Fund: Austin Industrial Development Corporation Fund, a nonmajor special revenue fund |
| Mueller Local Government Corporation (MLGC) | A non-profit local government corporation created by the City under Subchapter D of Chapter 431 of the Texas Transportation Code. MLGC was created for the purpose of financing infrastructure projects required for the development of the former site of Mueller Airport. The Austin City Council acts as the board of directors of the corporation and therefore has the ability to impose its will on the organization. Members of the City staff serve as officers of the corporation.<br><br>Reporting Fund: Mueller Local Government Corporation, a nonmajor special revenue fund |
| Urban Renewal Agency (URA) | URA was created by the City under Chapter 374 of the Texas Local Government Code. The Mayor, with consent of the City Council, appoints the board of commissioners for this agency, whose primary responsibility is to oversee the implementation and compliance of urban renewal plans adopted by the City Council. An Urban Renewal Plan's primary purpose is to eliminate slum and blighting influence within a designated area of the city. Council maintains the ability to impose its will on the organization. URA exclusively receives financial support/benefits from its relationship with the City.<br><br>Reporting Fund: Urban Renewal Agency fund, a nonmajor special revenue fund |
| Austin-Bergstrom International Airport (ABIA) Development Corporation | ABIA Development Corporation is governed by a board composed of the City Councilmembers. The entity has no day-to-day operations. Its existence relates only to the authorization for issuance of industrial revenue bonds or to other similar financing arrangements in accordance with the Texas Development Corporation Act of 1979. To date, none of the bonds issued constitute a liability of ABIA Development Corporation or the City of Austin.<br><br>There is no financial activity to report related to this component unit. |
| Waller Creek Local Government Corporation | WCLGC is a non-profit local government corporation created by the City under Subchapter D of Chapter 431 of the Texas Transportation Code. The purpose of WCLGC is implementing the financing, design, construction, maintenance and operation of certain public improvements located within or around the Waller Creek Redevelopment Project district. The Austin City Council appoints a voting majority of the board of directors of the WCLGC and maintains a contractual ability to remove board members at will.<br><br>There is no financial activity to report related to this component unit. |

**1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**
**a -- Reporting Entity, continued**

**Discretely Presented Component Units –** Following are the City's discretely presented component units. See Note 17 for additional information. Financial statements for these entities can be requested from the addresses located below.

| *Discretely Presented Component Units* | *Brief Description of Activities, Relationship to City, and Key Inclusion Criteria* |
|---|---|
| Austin-Bergstrom Landhost Enterprises, Inc. (ABLE)<br>2716 Spirit of Texas Drive<br>Austin, TX 78719 | ABLE is a legally separate entity that issues revenue bonds for the purpose of financing the cost of acquiring, improving, and equipping a full-service hotel on airport property. City Councilmembers appoint this entity's Board and maintain a contractual ability to remove board members at will. Debt issued by ABLE does not constitute a debt or pledge of the faith and credit of the City. |
| Austin Convention Enterprises, Inc. (ACE)<br>500 East 4th Street<br>Austin, TX 78701 | ACE is a legally separate entity that owns, operates, and finances the Austin Convention Center Hotel. City Councilmembers appoint this entity's Board and maintain a contractual ability to remove board members at will. Debt issued by ACE does not constitute a debt or pledge of the faith and credit of the City. |

**Related Organizations --** The City Council appoints the voting majority of the board members, but the City has no significant financial accountability for the Austin Housing Authority. The Mayor appoints the persons to serve as commissioners of this organization; however, this entity is separate from the operating activities of the City.

Related organizations are not included in the City's reporting entity.

The City of Austin retirement plans (described in Note 7) and the City of Austin Deferred Compensation Plan are not included in the City's reporting entity since the City does not exercise substantial control over these plans.

**b -- Government-wide and Fund Financial Statements**

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all governmental and business-type activities of the primary government and its component units. Fiduciary activities are not included in the government-wide statements. Internal service fund asset and liability balances that are not eliminated in the statement of net position are primarily reported in the governmental activities column on the government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

The accounts of the City are organized on the basis of funds. The fund level statements focus on the governmental, proprietary, and fiduciary funds. Each fund was established to account for specific activities in accordance with applicable regulations, restrictions, or limitations. Major funds are determined by criteria specified by GAAP; the City has elected to present the Airport Fund as a major fund even though it does not meet the minimum criteria. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other funds are aggregated into nonmajor governmental, nonmajor enterprise, or internal service fund groupings. A reconciliation of the fund financial statements to the government-wide statements is provided in the financial statements to explain the differences between the two different reporting approaches.

The City's fiduciary funds are presented in the fund financial statements by type (private-purpose and agency). By definition, fiduciary fund assets are held for the benefit of a third party and cannot be used to address activities or obligations of the primary government; therefore, they are not included in the government-wide statements.

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

**1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**
**c -- Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual (i.e. both measurable and available). Revenues, other than grants, are considered available when they are collectible within the current period or soon enough thereafter to liquidate liabilities of the current period (defined by the City as collected within 60 days of the end of the fiscal year). Revenues billed under a contractual agreement with another governmental entity, including federal and state grants, are recognized when billed or when all eligibility requirements of the provider have been met, and they are considered to be available if expected to be collected within one year. Expenditures generally are recorded when a liability is due. However, expenditures related to compensated absences and arbitrage are recorded when payment is due. Debt service expenditures are recognized when payment is due. The reported fund balance of governmental funds is considered a measure of available spendable resources.

Property taxes, sales taxes, franchise taxes, hotel occupancy taxes, vehicle rental taxes, municipal court fines, development permits and inspections, building safety permits and inspections, public health charges, emergency medical service charges, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available in the fiscal period the City receives cash.

Governmental Funds: Consist of the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.

The City reports the following major governmental fund:

General Fund: The primary operating fund of the City. It is used to account for all financial resources that are not required to be accounted for in another fund. It includes the following activities: general government; public safety; transportation, planning, and sustainability; public health; public recreation and culture; and urban growth management.

In addition, the City reports the following nonmajor governmental funds:

Special Revenue Funds: Account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds: Account for and report financial resources, and the accumulation of those financial resources, that are restricted, committed, or assigned to expenditure for principal and interest of general long-term debt and HUD Section 108 loans.

Capital Projects Funds: Account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those reported within proprietary funds). It is primarily funded by general obligation debt, other tax supported debt, interest income, and other intergovernmental revenues. A 1981 ordinance requires the establishment of a separate fund for each bond proposition approved in each bond election.

Permanent Funds: Account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs.

Proprietary Funds: Consist of enterprise funds and internal service funds. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as providing electric or water-wastewater services. Other revenues or expenses are nonoperating items.

Enterprise Funds: Account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges.

The City reports the following major enterprise funds:

Austin Energy™: Accounts for the activities of the City-owned electric utility.
Austin Water Utility: Accounts for the activities of the City-owned water and wastewater utility.
Airport Fund: Accounts for the operations of the Austin-Bergstrom International Airport (ABIA).

**1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**
**c -- Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued**

The City reports the following nonmajor business-type activities in Exhibit A-2:

Convention: Accounts for convention center and public events activities.
Environmental and health services: Accounts for solid waste services activities.
Public recreation: Accounts for golf activities.
Urban growth management: Accounts for drainage and transportation activities.

Internal Service Funds: Account for the financing of goods or services provided by one city department or agency to other city departments or to other governmental units on a cost-reimbursement basis. These activities include, but are not limited to, capital projects management, combined emergency center operations, employee health benefits, fleet services, information services, liability reserve (city-wide self-insurance) services, support services, wireless communication services, and workers' compensation coverage.

Fiduciary Funds: Account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, or other governments:

Private-purpose Trust Funds: Account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments. Private-purpose trust funds account for various purposes: general government, transportation, public recreation and culture, and urban growth management.

Agency Funds: Account for resources held by the City in a custodial capacity for permit fees; campaign financing donations and fees; Municipal Court service fees; and escrow deposits and payments to loan recipients.

**d -- Budget**

The City Manager is required by the City Charter to present a proposed operating and capital budget to the City Council no later than thirty days before the beginning of the new fiscal year. The final budget shall be adopted no later than the twenty-seventh day of the last month of the preceding fiscal year. During the final adoption process, the City Council passes an appropriation ordinance and a tax-levying ordinance.

Annual budgets are legally adopted for the General Fund, certain special revenue funds, and debt service funds. Additional information related to special revenue funds with legally adopted budgets can be found in Exhibit E-13. Annual budgets are also adopted for enterprise and internal service funds, although they are not legally required. Multi-year budgets are adopted for capital projects and grant funds, where appropriations remain authorized for the life of the projects, irrespective of fiscal year. Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders are treated as expenditures in the year of commitment. Certain payroll accruals, employee training, and other fund-level expenditures are budgeted as general city responsibilities.

Formal budgetary control is employed during the year at the fund and department level as a management control device for annual budgeted funds.

Budgets are modified throughout the year. The City Manager is authorized to transfer appropriation balances within a fund and department of the City. The City Council approves amendments to the budget and transfers of appropriations from one fund and department to another. The original and final budgets for the General Fund are reported in the required supplementary information. Unencumbered appropriations for annual budgets lapse at fiscal year end.

**e -- Financial Statement Elements**

**Pooled Investments and Cash --** Cash balances of all city funds (except for certain funds shown in Note 3 as having non-pooled investments) are pooled and invested. Investments purchased with pooled cash, consisting primarily of U.S. government obligations and U.S. agency obligations, are stated at fair value. Interest earned on investments purchased with pooled cash is allocated monthly to each participating fund based upon the fund's average daily balance. Funds that carry a negative balance in pooled cash and investments are not allocated interest earnings nor charged interest expense.

**Investments** -- Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2013. Investments in local government investment pools are carried at net asset value per share calculated using the amortized cost method which approximates fair value.

**1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**
**e -- Financial Statement Elements, continued**

**Accounts Receivable --** Balances of accounts receivable, reported on the government-wide statement of net position, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2013 (in thousands):

| | Charges for Services | Fines | Taxes | Other Govern-ments | Other | Total |
|---|---|---|---|---|---|---|
| **Governmental activities** | | | | | | |
| General Fund | $ 192,722 | 21,676 | 40,025 | -- | -- | 254,423 |
| Nonmajor governmental funds | 1,121 | -- | 16,038 | 12,163 | 2,386 | 31,708 |
| Internal service funds | 2,836 | -- | -- | -- | -- | 2,836 |
| Allowance for doubtful accounts | (185,221) | (10,024) | -- | (260) | -- | (195,505) |
| Total | $ 11,458 | 11,652 | 56,063 | 11,903 | 2,386 | 93,462 |

Receivables reported in business-type activities are primarily comprised of charges for services.

| | Austin Energy | Austin Water | Airport | Nonmajor Enterprise | Total |
|---|---|---|---|---|---|
| Accounts receivable | $182,340 | 75,082 | 7,091 | 26,696 | 291,209 |
| Allowance for doubtful accounts | (7,309) | (2,220) | (1,068) | (2,090) | (12,687) |
| Total | $175,031 | 72,862 | 6,023 | 24,606 | 278,522 |

**Elimination of Internal Activities --** The elimination of internal service fund activity is needed in order to eliminate duplicate activity in making the transition from the fund level financial statements to the government-wide financial statements. In addition, the elimination of internal service fund activity requires the City to "look back" and adjust the internal service funds' internal charges. A positive change in net position derived from internal service fund activity results in a pro-rata reduction in the charges made to the participatory funds. A deficit change in net position of internal service funds requires a pro-rata increase in the amounts charged to the participatory funds.

**Internal Balances --** In the government-wide statement of net position, internal balances are the receivables and payables between the governmental and business-type activities.

**Interfund Receivables and Payables --** During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund-level statements when they are expected to be liquidated within one year. If receivables or payables are not expected to be liquidated within one year, they are classified as "advances to other funds" or "advances from other funds."

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

| Fund | Inventory Valuation Method |
|---|---|
| General Fund | Average cost; postage first-in, first out |
| Austin Energy | |
| Fuel oil | Last-in, first-out |
| Other inventories | Average cost |
| All others | Average cost |

Inventories for all funds are accounted for using the consumption method and expenditures are recorded when issued. Inventories reported in the General Fund and certain special revenue funds are offset by an equal amount in nonspendable fund balance, which indicates that they do not represent "available spendable resources."

**Restricted assets --** Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Since Austin Energy and Austin Water Utility report in accordance with accounting for regulated operations, enabling legislation also includes restrictions on asset use established by its governing board which is the City Council. Restricted assets used to repay maturing debt and other current liabilities are classified as current.

**1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**
**e -- Financial Statement Elements, continued**

The balances of restricted assets in the enterprise funds are as follows (in thousands)

| | Austin Energy | Austin Water Utility | Airport | Nonmajor Enterprise | Total Restricted Assets |
|---|---|---|---|---|---|
| Capital projects | $ 59,177 | 99,757 | 142,546 | 27,718 | 329,198 |
| Customer and escrow deposits | 23,551 | 7,299 | 462 | 3,193 | 34,505 |
| Debt service | 66,945 | 85,612 | 19,514 | 13,627 | 185,698 |
| Environmental and landfill | -- | -- | -- | 4,638 | 4,638 |
| Federal grants | 6,089 | -- | 513 | 349 | 6,951 |
| Operating reserve account | -- | -- | 10,841 | 9,378 | 20,219 |
| Passenger facility charge account | -- | -- | 42,848 | -- | 42,848 |
| Plant decommissioning | 203,323 | -- | -- | -- | 203,323 |
| Renewal and replacement account | 64 | -- | 10,000 | 1,084 | 11,148 |
| Revenue bond reserve | 9,979 | 58,422 | -- | 13,304 | 81,705 |
| Strategic reserve | 105,996 | -- | -- | -- | 105,996 |
| | $ 475,124 | 251,090 | 226,724 | 73,291 | 1,026,229 |

**Capital assets --** Capital assets, which primarily include land and improvements, buildings and improvements, plant and equipment, vehicles, water rights, and infrastructure assets, are reported in the proprietary funds and the applicable governmental or business-type activity columns of the government-wide statement of net position; related depreciation or amortization is allocated to programs in the statement of activities. Capital assets are defined as assets with an initial individual cost of $5,000 or more and an estimated useful life of greater than one year. Assets purchased, internally generated, or constructed are capitalized at historical cost. Contributed or annexed capital assets are recorded at estimated fair value at the time received. Capital outlay is recorded as an expenditure in the General Fund and other governmental funds and as an asset in the government-wide financial statements and proprietary funds. Maintenance and repairs are charged to operations as incurred. Improvements and betterments that extend the useful lives of capital assets or increase their value are capitalized in the government-wide and proprietary statement of net position and expended in governmental funds.

The City obtains public domain capital assets (infrastructure) through capital improvement projects (CIP) construction or through annexation or developer contribution. Infrastructure assets include streets and roads, bridges, pedestrian facilities, drainage systems, and traffic signal systems acquired after September 30, 1980.

Interest is not capitalized on governmental capital assets. Enterprise funds, with the exception of the Austin Energy and Austin Water Utility, capitalize interest paid on long-term debt when it can be attributed to a specific project and when it materially exceeds the interest revenue generated by the bond proceeds issued to fund the project. Interest is not capitalized on Austin Energy and Austin Water Utility assets in accordance with accounting for regulated operations.

Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives (in years):

| | | Business-type Activities | | | |
|---|---|---|---|---|---|
| Assets | Governmental Activities (1) | Austin Energy | Austin Water Utility | Airport | Nonmajor Enterprise |
| Buildings | 5-40 | -- | 15-50 | 15-40 | 12-40 |
| Plant and equipment | 5-50 | -- | 5-60 | 4-50 | 5-40 |
| Vehicles | 3-20 | 3-15 | 3-20 | 3-20 | 3-30 |
| Electric plant | -- | 3-50 | -- | -- | -- |
| Non-electric plant | -- | 3-30 | -- | -- | -- |
| Communication equipment | 7-15 | -- | 7 | 7 | 7 |
| Furniture and fixtures | 12 | -- | 12 | 12 | 12 |
| Computers and EDP equipment | 3-7 | -- | 3-7 | 3-7 | 3-7 |
| Water rights | -- | -- | 101 | -- | -- |
| Infrastructure | | | | | |
| Streets and roads | 30 | -- | -- | -- | -- |
| Bridges | 50 | -- | -- | -- | -- |
| Drainage systems | 50 | -- | -- | -- | -- |
| Pedestrian facilities | 20 | -- | -- | -- | -- |
| Traffic signals | 25 | -- | -- | -- | -- |

(1) Includes internal service funds

**1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**
**e -- Financial Statement Elements, continued**

Depreciation of assets is classified by functional component. The City considers land, arts and treasures, and library collections to be inexhaustible; therefore, these assets are reported as nondepreciable. The true value of arts and treasures is expected to be maintained over time and, thus, is not depreciated. The initial investment of library collections for each library is capitalized. All subsequent expenditures related to the maintenance of the collection (replacement of individual items) are expensed, with the overall value of the collection being maintained, and therefore, not depreciated.

In the government-wide and proprietary fund statements, the City recognizes a gain or loss on the disposal of assets when it retires or otherwise disposes of capital assets.

Water rights represent the amortized cost of a $100 million contract, net of accumulated amortization, of $13.8 million, between the City and the Lower Colorado River Authority (LCRA) for a fifty-one year assured water supply agreement, with an option to extend another fifty years. The City and the LCRA entered into the contract in 1999. The asset amortization period is 101.25 years.

**Deferred Expenses or Credits --** In accordance with accounting for regulated operations, certain utility expenses that do not currently require funding are deferred to future periods in which they are intended to be recovered by rates. Likewise, certain credits to income are deferred to periods in which they are matched with related costs. These expenses or credits include changes in fair value of investments, contributions, and debt issuance costs, pension, other post-employment benefits, interest, decommission, fuel recovery, etc. Deferred expenses will be recovered in these future periods by setting rates sufficient to provide funds for the requirements. If deferred expenses are not recoverable in future rates, the deferred expenses will be subject to write off. Retail deregulation of electric rates in the future may affect the City's current accounting treatment of its electric utility revenues, expenses, and deferred amounts.

**Deferred (Inflows) Outflows of Resources** -- Derivative instruments are reported in the statement of net position at fair value. Changes in fair value of hedging derivative instruments are recognized through the application of hedge accounting as either deferred inflows or outflows in the statement of net position, as an offset to the related hedging derivative instrument.

Deferred inflows are recognized for the resources related to the service concession arrangements that will be recognized as revenue in future years over the terms of arrangements between the City and the operators.

**Compensated Absences --** The amounts owed to employees for unpaid vacation, exception vacation, and sick leave liabilities, including the City's share of employment-related taxes, are reported on the accrual basis of accounting in the applicable governmental or business-type activity columns of the government-wide statements and in the proprietary activities of the fund financial statements. The liabilities and expenditures are reported on the modified accrual basis in the governmental fund financial statements; the estimated liability for governmental funds is the amount of vacation, exception vacation, and sick leave at termination payable within 60 days of fiscal year-end.

Accumulated leave payouts are limited to the lower of actual accumulated hours or the hours listed below:

| | Work-week | Non-Civil Service Employees (1) | Civil Service Police (2) | Civil Service Fire (3) |
|---|---|---|---|---|
| Vacation | 0-40 | 240 | 240 | 240 |
| | 42 | 270 | N/A | N/A |
| | 48 | 309 | N/A | N/A |
| | 53 | N/A | N/A | 360 |
| Exception vacation (4) | 0-40 | 160 | 160 | 176 |
| | 42 | 160 | N/A | N/A |
| | 48 | 160 | N/A | N/A |
| | 53 | N/A | N/A | 264 |
| Sick leave | 0-40 | 720 | 1,400 | 720 |
| | 42 | 756 | N/A | N/A |
| | 48 | 926 | N/A | N/A |
| | 53 | N/A | N/A | 1,080 |

(1) Non-civil service employees are eligible for accumulated sick leave payout if hired before October 1, 1986.
(2) Civil service police employees with 10 years of actual service are eligible for accumulated sick leave payout.
As of January 1, 2011, officers may be eligible to receive up to 1,700 hours of sick leave if certain criteria are met.
(3) Civil service fire employees are eligible for accumulated sick leave payout regardless of hire date.
(4) Exception vacation hours are hours accumulated by an employee when the employee works on a City holiday.

**1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**
**e -- Financial Statement Elements, continued**

**Other Post-Employment Benefits (OPEB) --** The City provides certain health care benefits for its retired employees and their families as more fully described in Note 8. At September 30, 2013, the City's total actuarial accrued liability for these retiree benefits was approximately $1.4 billion. The City funds the costs of these benefits on a pay-as-you-go basis.

**Long-Term Debt --** The debt service for general obligation bonds and other general obligation debt (including loans), issued to fund general government capital projects, is paid from tax revenues, interfund transfers, and intergovernmental revenues. Such general obligation debt is reported in the government-wide statements under governmental activities.

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

Revenue bonds issued to finance capital projects of certain enterprise funds are to be repaid from select revenues of these funds. Note 6 contains more information about pledged revenues by fund. The corresponding debt is recorded in the applicable fund.

The City has certain contractual commitments with several municipal utility districts (MUDs) for the construction of additions and improvements to the City's water and wastewater system that serve the MUDs and surrounding areas. These additions and improvements are funded by other tax supported debt, whose principal and interest are payable primarily from the net revenues of Austin Water Utility.

For proprietary funds and for governmental activities in the government-wide financial statements, the City defers and amortizes gains and losses realized on refundings of debt and reports both the new debt liability and the related deferred amount on the statement of net position. Austin Energy and Austin Water Utility recognize gains and losses on debt defeasance in accordance with accounting for regulated operations.

**Other Long-Term Liabilities --** Capital appreciation bonds are recorded at net accreted value. Annual accretion of the bonds is recorded as interest expense during the life of the bonds. The cumulative accretion of capital appreciation bonds, net of principal and interest payments on the bonds, is recorded as capital appreciation bond interest payable.

**Landfill Closure and Postclosure Care Costs --** Municipal solid waste landfill costs and the liability for landfill closure and postclosure costs are reported in the Austin Resource Recovery Fund, a nonmajor enterprise fund.

**Operating Revenues --** Revenues are recorded net of allowances, including bad debt, in the government-wide and proprietary fund-level statements. The funds listed below report revenues net of bad debt expense, as follows (in thousands):

| | Bad Debt Expense |
|---|---|
| Austin Energy | $ 17,257 |
| Austin Water Utility | 2,991 |
| Airport | 149 |
| Nonmajor Enterprise | 4,084 |

Electric, water, and wastewater revenue is recorded when earned. Customers' electric and water meters are read and bills rendered on a cycle basis by billing district. Electric rate schedules include a fuel cost adjustment clause that permits recovery of fuel costs in the month incurred or in future months. The City reports fuel costs on the same basis as it recognizes revenue. Unbilled revenue is recorded in Austin Energy by estimating the daily power generation and allocating by each billing district meter read dates as of September 30, 2013. The amount of unbilled revenue recorded, as of September 30, 2013, was $40.4 million. Austin Water Utility records unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2013. The amount of unbilled revenue recorded as of September 30, 2013 was $13.4 million for water and $12.8 million for wastewater.

**1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**
**e -- Financial Statement Elements, continued**

Revenues are also recorded net of discounts in the government-wide and proprietary fund-level statements. Discounts are offered as incentives geared towards generating additional revenue in the form of new or expanded business, or to encourage events with a significant economic impact, as well as expedient event planning. The funds listed below report revenues net of discounts, as follows (in thousands):

| | Discounts |
|---|---|
| Airport | $ 597 |
| Nonmajor Enterprise | 1,036 |

**Interfund Revenues, Expenses, and Transfers --** Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved, such as billing for utility services. Transactions between funds that constitute reimbursements for expenditures or expenses are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. Transfers between funds are reported in the operations of governmental and proprietary funds. In the government-wide statement of activities, the effect of interfund activity has generally been removed from the statements. Exceptions include the chargeback of services, such as utilities or vehicle maintenance, and charges for central administrative costs. Elimination of these charges would distort the direct costs and program revenues of the various functions reported. The City recovers indirect costs that are incurred in the Support Services Fund, which is reported as an internal service fund. Indirect costs are calculated in a citywide cost allocation plan or through indirect cost rates, which are based on the cost allocation plan.

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

**Federal and State Grants, Entitlements, and Shared Revenues --** Grants, entitlements, and shared revenues may be accounted for within any City fund. The purpose and requirements of each grant, entitlement, or shared revenue are analyzed to determine the appropriate fund statement and revenue category in which to report the related transactions. Grants, entitlements, and shared revenues received for activities normally recorded in a particular fund may be accounted for in that fund, provided that applicable legal restrictions can be satisfied.

Revenues received for activities normally accounted for within the nonmajor governmental fund groupings include: Federal grant funds, State grant funds, and other special revenue grant funds. Capital grants restricted for capital acquisitions or construction, other than those associated with proprietary type funds, are accounted for in the applicable capital projects funds. Revenues received for operating activities of proprietary funds or revenues that may be used for either operations or capital expenditures are recognized in the applicable proprietary fund.

**Fund Equity --** Fund balances for governmental funds are reported in classifications that demonstrate the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The governmental fund type classifications are as follows:

Nonspendable: The portion of fund balance that cannot be spent because it is either (a) not in spendable form, such as inventories and prepaid items, or (b) legally or contractually required to be maintained intact.

Restricted: The portion of fund balance that is restricted to specific purposes due to constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitution provisions or enabling legislation.

Committed: The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of a majority vote by City Council. The City Council is the highest level of decision making.

Assigned: The portion of fund balance that is constrained by the City's intent to use for specific purposes, but are neither restricted nor committed. Under the city charter, the City Manager is authorized to assign individual amounts up to $56,000 in fiscal year 2013 to a specific purpose. This amount is updated annually based on the most recently published federal government, Bureau of Labor Statistics Indicator, Consumer Price Index (CPI-W U.S. City Average) U.S. City Average.

Unassigned: The portion of fund balance that is not restricted, committed, or assigned to specific purposes.

**1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**
**e -- Financial Statement Elements, continued**

The constraints placed on the fund balances of the General Fund and the nonmajor governmental funds are presented below (in thousands):

| | General Fund | Nonmajor Governmental | Total |
|---|---|---|---|
| **Nonspendable** | | | |
| General government | $ 102 | 50 | 152 |
| Public safety | 588 | -- | 588 |
| Public health | 2 | -- | 2 |
| Public recreation and culture | -- | 990 | 990 |
| Urban growth management | 82 | -- | 82 |
| Total Nonspendable | 774 | 1,040 | 1,814 |
| **Restricted** | | | |
| General government | -- | 20,070 | 20,070 |
| Public safety | -- | 15,338 | 15,338 |
| Transportation, planning, and sustainability | -- | 27,104 | 27,104 |
| Public health | -- | 296 | 296 |
| Public recreation and culture | -- | 35,586 | 35,586 |
| Urban growth management | -- | 62,089 | 62,089 |
| Total Restricted | -- | 160,483 | 160,483 |
| **Committed** | | | |
| General government | 13 | 10,227 | 10,240 |
| Public safety | 2,800 | 4 | 2,804 |
| Transportation, planning, and sustainability | -- | 4,518 | 4,518 |
| Public health | 3,297 | 1 | 3,298 |
| Public recreation and culture | 677 | 9,481 | 10,158 |
| Urban growth management | 343 | 20,729 | 21,072 |
| Total Committed | 7,130 | 44,960 | 52,090 |
| **Assigned** | | | |
| General government | 56 | 9,398 | 9,454 |
| Public safety | 496 | 2,772 | 3,268 |
| Transportation, planning, and sustainability | -- | 18,041 | 18,041 |
| Public health | 359 | 154 | 513 |
| Public recreation and culture | 216 | 20,500 | 20,716 |
| Urban growth management | 10,202 | 7,315 | 17,517 |
| Total Assigned | 11,329 | 58,180 | 69,509 |
| **Unassigned** | 127,859 | (47,512) | 80,347 |
| **Total Fund Balance** | $ 147,092 | 217,151 | 364,243 |

**Restricted resources --** If both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and unrestricted resources as needed. In governmental funds, unrestricted resources would be utilized in order from committed to assigned and finally unassigned.

**Budget stabilization --** By formal action of City Council, the General Fund maintains 3 reserve funds: a contingency reserve, an emergency reserve, and a budget stabilization reserve. These reserves are part of unassigned fund balance for the General Fund. As of September 30, 2013, the contingency reserve maintains a balance of 1 percent of departmental expenditures, or $6.5 million, the emergency reserve remains fixed with a balance of $40 million, and the budget stabilization reserve reports a balance of $78.3 million. The funds in the budget stabilization reserve may be appropriated to fund capital or other onetime costs, but such appropriation should not exceed one-third of the total amount in the reserve.

**Cash and Cash Equivalents --** For purposes of the statement of cash flows, the City considers cash and cash equivalents to be currency on hand, cash held by trustee, demand deposits with banks, and all amounts included in pooled investments and cash accounts. The City considers the investment pool to be highly liquid, similar to a mutual fund.

**Pension Costs --** State law governs pension contribution requirements and benefits. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and of unfunded prior service cost (see Note 7).

**Risk Management** -- The City is exposed to employee-related risks for health benefits and workers' compensation, as well as to various risks of loss related to torts; theft of, damage to, or destruction of assets; fraud; and natural disasters. The City is self-insured for legal liabilities, workers' compensation claims, and employee health benefits.

**1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**
**e -- Financial Statement Elements, continued**

The City does not participate in a risk pool but purchases commercial insurance coverage for property loss or damage, commercial crime, fidelity bonds, airport operations, and contractors working at selected capital improvement project sites (see Note 13).

Austin Energy has established an energy risk management program. This program was authorized by City Council and led by the risk oversight committee. Under this program, Austin Energy enters into futures contracts, options, and swaps to reduce exposure to natural gas and energy price fluctuations. For additional details see Note 9.

**f -- Comparative Data**

Governments are required to present comparative data only in connection with Management's Discussion and Analysis (MD&A). Comparative data has been utilized within the MD&A to help readers more fully understand the City's financial statements for the current period.

**g -- Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures/expense during the reporting period. Actual results could differ from those estimates.

**2 – POOLED INVESTMENTS AND CASH**

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2013 (in thousands):

| | Pooled Investments and Cash | |
|---|---|---|
| | Unrestricted | Restricted |
| General Fund | $ 144,722 | -- |
| Nonmajor governmental funds | 231,833 | -- |
| Austin Energy | 119,210 | 90,888 |
| Austin Water Utility | 23,291 | 89,275 |
| Airport | 6,211 | 209,458 |
| Nonmajor enterprise funds | 148,345 | 48,451 |
| Internal service funds | 134,852 | -- |
| Fiduciary funds | 4,491 | -- |
| Subtotal pooled investments and cash | 812,955 | 438,072 |
| Total pooled investments and cash | $ 1,251,027 | |

**3 – INVESTMENTS AND DEPOSITS**
**a -- Investments**

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under a written investment policy (the "Investment Policy") that primarily emphasizes safety of principal and liquidity; addresses investment diversification, yield, and maturity; and addresses the quality and capability of investment personnel. The investment policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under Chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the Investment Policy, which is approved annually by the City Council. The Investment Policy includes a list of authorized investment instruments, a maximum allowable stated maturity of any individual investment, and the maximum average dollar weighted maturity allowed for pooled fund groups. In addition, it includes an "Investment Strategy Statement" that specifically addresses each fund's investment options and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification, and yield. Additionally, the soundness of financial institutions in which the City will deposit funds is addressed.

The City Treasurer submits an investment report each quarter to the investment committee. The report details the investment position of the City and the compliance of the investment portfolio as it relates to both the adopted investment strategy statements and Texas state law.

**3 – INVESTMENTS AND DEPOSITS, continued**
**a -- Investments, continued**

The City is authorized to invest in the following investment instruments if they meet the guidelines of the investment policy:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of the State of Texas;
3. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities;
4. Obligations of other states, cities, counties, or other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent;
5. Bankers' acceptances, so long as each such acceptance has a stated maturity of 270 days or less from the date of its issuance, will be liquidated in full at maturity, are eligible collateral for borrowing from a Federal Reserve Bank, and are accepted by a domestic bank whose short-term obligations are rated at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency or which is the largest subsidiary of a bank holding company whose short-term obligations are so rated;
6. Commercial paper with a stated maturity of 270 days or less from the date of its issuance that is either rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies or is rated at least A-1, P-1, or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof;
7. Collateralized repurchase agreements having a defined termination date and described in more detail in the Investment Policy;
8. Certificates of deposit issued by state and national banks domiciled in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or as further described in the Investment Policy;
9. Certificates of deposit issued by savings banks domiciled in Texas;
10. Share certificates issued by a state or federal credit unions domiciled in Texas;
11. Money market mutual funds;
12. Local government investment pools (LGIPs); and
13. Securities lending program.

The City participates in four LGIPs: TexPool, TexasDAILY, TexStar, and Lone Star. The State Comptroller oversees TexPool, with Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Although there is no regulatory oversight over TexasDAILY, an advisory board consisting of participants or their designees maintains oversight responsibility for TexasDAILY. PFM Asset Management LLC manages the daily operations of TexasDAILY under a contract with the advisory board. JPMorgan Investment Management, Inc. and First Southwest Asset Management, Inc. serve as co-administrators for TexStar under an agreement with the TexStar board of directors. First Public, LLC serves as the administrator of Lone Star under an agreement with Lone Star's board of directors.

The City invests in TexPool, TexasDAILY, TexStar, and Lone Star to provide its liquidity needs. TexPool, TexasDAILY, TexStar, and Lone Star are LGIPs that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool, TexasDAILY, TexStar, and Lone Star are 2(a)7-like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of $1.00, although this cannot be fully guaranteed. TexPool, TexasDAILY, TexStar, and Lone Star are rated AAAm and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2013, TexPool, TexasDAILY, TexStar, and Lone Star had a weighted average maturity of 60 days, 49 days, 51 days, and 56 days, respectively. The City considers the holdings in these funds to have a weighted average maturity of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City did not participate in any reverse repurchase agreements or security lending arrangements during fiscal year 2013.

All City investments are insured, registered, or held by an agent in the City's name; therefore, the City is not exposed to custodial credit risk.

**3 – INVESTMENTS AND DEPOSITS, continued**
**a -- Investments, continued**

The following table includes the portfolio balances of all non-pooled and pooled investments of the City at September 30, 2013 (in thousands):

| | Governmental Activities | Business-type Activities | Fiduciary Funds | Total |
|---|---|---|---|---|
| **Non-pooled investments:** | | | | |
| Local Government Investment Pools | $ 15,591 | 282,291 | -- | 297,882 |
| Money Market Funds | -- | 47,164 | -- | 47,164 |
| US Treasury Notes | -- | 31,501 | -- | 31,501 |
| US Agency Bonds | -- | 214,050 | -- | 214,050 |
| Total non-pooled investments | 15,591 | 575,006 | -- | 590,597 |
| **Pooled investments:** | | | | |
| Local Government Investment Pools | 186,125 | 267,425 | 1,634 | 455,184 |
| US Treasury Notes | 4,089 | 5,878 | 36 | 10,003 |
| US Agency Bonds | 319,059 | 458,616 | 2,821 | 780,496 |
| Total pooled investments | 509,273 | 731,919 | 4,491 | 1,245,683 |
| Total investments | $ 524,864 | 1,306,925 | 4,491 | 1,836,280 |

**Concentration of Credit Risk**
At September 30, 2013, the City of Austin was exposed to concentration of credit risk since it held investments with more than five percent of the total investment portfolio balances of the City in securities of the following issuers (in millions): Federal Farm Credit Bank ($160.5 or 9%), Federal Home Loan Bank ($365.3 or 20%), Federal Home Loan Mortgage Corporation ($278.9 or 15%), and Federal National Mortgage Association ($189.8 or 10%).

The risk exposures for governmental and business-type activities, individual major funds, nonmajor funds in the aggregate, and fiduciary fund types of the City are not significantly greater than the deposit and investment risk of the primary government. The Investment Policy segregates the portfolios into strategic categories including:

1. Operating funds excluding special project funds;
2. Debt service funds;
3. Debt service reserve funds
4. Special project funds or special purpose funds.

The City's credit risk is controlled by complying with the Investment Policy, which includes qualification of the brokers and financial institutions with whom the City will transact, sufficient collateralization, portfolio diversification, and maturity limitations.

**Operating Funds**
As of September 30, 2013, the City operating funds had the following investments (in thousands):

| | Fair Value | | | | Weighted |
|---|---|---|---|---|---|
| **Investment Type** | **Governmental Activities** | **Business-type Activities** | **Fiduciary Funds** | **Total** | **Maturity (days)** |
| Local Government Investment Pools | $ 186,125 | 267,425 | 1,634 | 455,184 | 1 |
| US Treasury Notes | 4,089 | 5,878 | 36 | 10,003 | 303 |
| US Agency Bonds | 319,059 | 458,616 | 2,821 | 780,496 | 430 |
| Total | $ 509,273 | 731,919 | 4,491 | 1,245,683 | 272 |

**Credit Risk**
At September 30, 2013, the Operating funds held investments in LGIPs rated AAAm by Standard & Poor's, with the remainder invested in short-to-medium term US Agency and Treasury obligations. Standard & Poor's rated the US Agency Bonds AA+. The remaining securities are direct obligations of the US government.

**3 – INVESTMENTS AND DEPOSITS, continued**
**b -- Investment Categories**

**Concentration of Credit Risk**
At September 30, 2013, the operating funds held investments with more than five percent of the total portfolio in securities of the following issuers (in millions): Federal Farm Credit Bank ($140.1 or 11%), Federal Home Loan Bank ($305.1 or 25%), Federal Home Loan Mortgage Corporation ($220.3 or 18%), and Federal National Mortgage Association ($115.0 or 9%).

**Interest Rate Risk**
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the City's cash flow requirements. Three years is the maximum period before maturity.

At September 30, 2013, less than half of the Investment Pool was invested in AAAm rated LGIPs, with the remainder invested in short-to-medium term US Agency and Treasury obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity of all securities was 272 days, which was less than the threshold of 365 days.

**Debt Service Funds**
As of September 30, 2013, the City's debt service funds had the following investments (in thousands):

| Investment Type | Fair Value<br>Governmental Activities | Business-type Activities | Weighted Average Maturity (days) |
|---|---|---|---|
| **General Obligation Debt Service** | | | |
| Local Government Investment Pools | $ 15,591 | -- | 1 |
| **Enterprise-Utility (1)** | | | |
| Local Government Investment Pools | -- | 152,557 | 1 |
| **Enterprise-Airport** | | | |
| Local Government Investment Pools | -- | 16,410 | 1 |
| **Nonmajor Enterprise-Convention Center** | | | |
| Local Government Investment Pools | -- | 10,406 | 1 |
| Total | $ 15,591 | 179,373 | |

(1) Includes combined pledge debt service

**Credit Risk**
As of September 30, 2013, Standard & Poor's rated TexPool AAAm.

**Interest Rate Risk**
Investment strategies for debt service funds have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. As a means of minimizing risk of loss due to interest rate fluctuations, securities purchased cannot have a stated final maturity date which exceeds the debt service payment date.

**3 – INVESTMENTS AND DEPOSITS, continued**
**b -- Investment Categories, continued**

**Debt Service Reserve Funds**
As of September 30, 2013, the City's debt service reserve funds had the following investments (in thousands):

| Investment Type | Fair Value Business-type Activities | Weighted Average Maturity (days) |
|---|---|---|
| **Enterprise-Utility (1)** | | |
| Local Government Investment Pools | $ 41,394 | 1 |
| **Enterprise-Airport** | | |
| Local Government Investment Pools | 203 | 1 |
| **Nonmajor Enterprise-Convention Center** | | |
| Local Government Investment Pools | 13,304 | 1 |
| Total | $ 54,901 | |

(1) Includes combined pledge debt service

**Credit Risk**
As of September 30, 2013, Standard & Poor's rated TexPool AAAm.

**Interest Rate Risk**
Investment strategies for debt service reserve funds shall have as the primary object the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. Except as may be required by bond ordinance specific to an individual issue, securities should be of high quality, with short- to intermediate-term securities.

**Special Projects or Special Purpose Funds**
**Special Project Funds**
At September 30, 2013, the City's special project funds had the following investments (in thousands):

| | Fair Value | | | |
|---|---|---|---|---|
| | Business-type Activities | | | Weighted |
| Investment Type | Utility Reserve | Airport Construction | Total | Maturity (days) |
| Local Government Investment Pools | $ 27,007 | 76 | 27,083 | 1 |

**Credit Risk**
As of September 30, 2013, Standard & Poor's rated TexPool AAAm.

**Interest Rate Risk**
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities in this category not exceed the anticipated cash flow requirements of the funds.

**Special Purpose Funds - Austin Energy Strategic Reserve Fund**
As of September 30, 2013, the City's Austin Energy Strategic Reserve Fund, a special purpose fund, had the following investments (in thousands):

| Investment Type | Fair Value Business-type Activities | Weighted Average Maturity (days) |
|---|---|---|
| Local Government Investment Pools | $ 20,934 | 1 |
| US Treasury Notes | 11,206 | 1141 |
| US Agency Bonds | 73,856 | 914 |
| Total | $ 105,996 | 752 |

**3 – INVESTMENTS AND DEPOSITS, continued**
**b -- Investment Categories, continued**

**Credit risk**
At September 30, 2013, the Austin Energy Strategic Reserve Fund held an investment in TexPool, an LGIP rated AAAm by Standard & Poor's, with the remainder invested in short-to-medium term US Agency and Treasury obligations. Standard & Poor's rated the US Agency Bonds AA+. The remaining securities are direct obligations of the US government.

**Concentration of Credit Risk**
At September 30, 2013, the Austin Energy Strategic Reserve Fund held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Farm Credit Bank ($10.0 or 9%), Federal Home Loan Bank ($18.7 or 18%), Federal Home Loan Mortgage Corporation ($20.0 or 19%), and Federal National Mortgage Association ($25.1 or 24%).

**Interest Rate Risk**
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities in this category not exceed the anticipated cash flow requirements of the funds.

At September 30, 2013, the portfolios held investments in TexPool, US Treasuries, and US Agencies with maturities that will meet anticipated cash flow requirements and an overall dollar weighted average maturity of 752 days (2.06 years).

**Special Purpose Funds - Austin Energy Nuclear Decommissioning Trust Funds (NDTF)**
At September 30, 2013, the City's Austin Energy NDTF had the following investments (in thousands):

| | Fair Value | |
|---|---|---|
| **Investment Type** | **Business-type Activities** | **Weighted Average Maturity (years)** |
| Money Market Funds | $ 29,517 | 1 day |
| US Treasury Notes | 20,295 | 3.85 |
| US Agency Bonds | 140,194 | 2.85 |
| Total | $ 190,006 | 2.50 |

**Credit Risk**
At September 30, 2013, Standard & Poor's rated the US Agency Bonds AA+ and the Money Market Fund AAAm. The remaining securities are direct obligations of the US government.

**Concentration of Credit Risk**
At September 30, 2013, the NDTF held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Farm Credit Bank ($10.4 or 5%), Federal Home Loan Bank ($41.5 or 22%), Federal Home Loan Mortgage Corporation ($38.7 or 20%), Federal National Mortgage Association ($49.6 or 26%).

**Interest Rate Risk**
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment policy for the NDTF portfolios requires that the dollar weighted average maturity, using final state maturity dates, shall not exceed seven years, although the portfolio's weighted average maturity may be substantially shorter if market conditions so dictate. At September 30, 2013, the dollar weighted average maturity was 2.50 years.

**Special Purpose Funds - Investments Held by Trustee – Public Improvement Districts**
At September 30, 2013, the City's special purpose funds had the following investments (in thousands):

| | Fair Value | |
|---|---|---|
| **Investment Type** | **Business-type Activities** | **Weighted Average Maturity (days)** |
| Money Market Funds | $ 17,647 | 1 |

**Credit Risk**
At September 30, 2013, Standard & Poor's rated the Money Market Fund AAAm.

**3 – INVESTMENTS AND DEPOSITS, continued**
**b -- Investment Categories, continued**

**Interest Rate Risk**
Investment objectives for these special purpose funds have as the primary objective the safety of principal and assurance of liquidity adequate to cover construction expense draws. As a means of minimizing risk of loss due to interest rate fluctuations, funds are being held in overnight money market funds until definitive construction cash flows are established.

**c – Investments and Deposits**

Investments and deposits portfolio balances at September 30, 2013, are as follows (in thousands):

| | Governmental Activities | Business-type Activities | Fiduciary Funds | Total |
|---|---|---|---|---|
| Non-pooled investments and cash | $ 22,258 | 580,304 | -- | 602,562 |
| Pooled investments and cash | 514,867 | 739,960 | 4,491 | 1,259,318 |
| Total investments and cash | 537,125 | 1,320,264 | 4,491 | 1,861,880 |
| | | | | |
| Unrestricted cash | 71 | 65 | -- | 136 |
| Restricted cash | 6,596 | 5,233 | -- | 11,829 |
| Pooled investments and cash | 514,867 | 739,960 | 4,491 | 1,259,318 |
| Investments | 15,591 | 575,006 | -- | 590,597 |
| Total | $ 537,125 | 1,320,264 | 4,491 | 1,861,880 |

A difference of $8.3 million exists between portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

**Deposits**
The September 30, 2013 carrying amount of deposits at the bank and cash on hand are as follows (in thousands):

| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| Cash | | | |
| Unrestricted | $ 71 | 65 | 136 |
| Restricted | -- | 5,233 | 5,233 |
| Cash held by trustee | | | |
| Restricted | 6,596 | -- | 6,596 |
| Pooled cash | 5,594 | 8,041 | 13,635 |
| Total deposits | $ 12,261 | 13,339 | 25,600 |

All bank accounts were either insured or collateralized with securities held by the City or its agents in the City's name at September 30, 2013.

**4 – PROPERTY TAXES**

The City's property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The adjusted assessed value for the roll as of January 1, 2012, upon which the 2013 levy was based, was $83,294,536,493.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2013, 99.36% of the current tax levy (October 1, 2012) was collected. The statutory lien date is January 1.

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

**4 – PROPERTY TAXES, continued**

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

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

The City is permitted by Article XI, Section 5 of the State of Texas Constitution to levy taxes up to $2.50 per $100 of assessed valuation for general governmental services, including the payment of principal and interest on general obligation long-term debt. Under the city charter, a limit on taxes levied for general governmental services, exclusive of payments of principal and interest on general obligation long-term debt, has been established at $1.00 per $100 assessed valuation. A practical limitation on taxes levied for debt service of $1.50 per $100 of assessed valuation is established by state statute and city charter limitations. Through contractual arrangements, Travis, Williamson, and Hays Counties bill and collect property taxes for the City.

The tax rate to finance general governmental functions, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2013, was $.3821 per $100 assessed valuation. The tax rate for servicing the payment of principal and interest on general obligation long-term debt for the fiscal year ended September 30, 2013 was $.1208 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.6179 per $100 assessed valuation, and could levy approximately $514,676,941 in additional taxes from the assessed valuation of $83,294,536,493 before the legislative limit is reached.

The City has reserved a portion of the taxes collected for lawsuits filed by certain taxpayers against the appraisal districts challenging assessed values in the government-wide financial statements.

## 5 – CAPITAL ASSETS AND INFRASTRUCTURE

Governmental Activities

Capital asset activity for the year ended September 30, 2013, was as follows (in thousands):

| | Beginning Balance | Increases (1) | Decreases (1) | Ending Balance |
|---|---|---|---|---|
| Nondepreciable capital assets | | | | |
| Land and improvements | $ 345,466 | 10,557 | (4,027) | 351,996 |
| Arts and treasures | 7,601 | 452 | (32) | 8,021 |
| Library collections | 14,390 | -- | -- | 14,390 |
| Construction in progress | 163,394 | 227,362 | (172,342) | 218,414 |
| Total nondepreciable assets | 530,851 | 238,371 | (176,401) | 592,821 |
| Depreciable capital assets | | | | |
| Building and improvements | 752,218 | 60,769 | (31,620) | 781,367 |
| Plant and equipment | 223,750 | 23,388 | (31,583) | 215,555 |
| Vehicles | 103,010 | 17,057 | (5,370) | 114,697 |
| Infrastructure | 2,172,169 | 72,857 | -- | 2,245,026 |
| Total depreciable capital assets | 3,251,147 | 174,071 | (68,573) | 3,356,645 |
| Less accumulated depreciation for | | | | |
| Building and improvements | (243,743) | (23,257) | 1,471 | (265,529) |
| Plant and equipment | (137,211) | (35,873) | 37,181 | (135,903) |
| Vehicles | (66,252) | (10,000) | 4,032 | (72,220) |
| Infrastructure | (850,617) | (63,586) | -- | (914,203) |
| Total accumulated depreciation | (1,297,823) | (132,716) (2) | 42,684 | (1,387,855) |
| Depreciable capital assets, net of accumulated depreciation | 1,953,324 | 41,355 | (25,889) | 1,968,790 |
| Total capital assets | $ 2,484,175 | 279,726 | (202,290) | 2,561,611 |

(1) Increases and decreases do not include transfers (at net book value) between Governmental Activities.

(2) Depreciation expense was charged to functions as follows (in thousands):

| | |
|---|---|
| Governmental activities: | |
| General government | $ 22,530 |
| Public safety | 14,596 |
| Transportation, planning and sustainability | 52,978 |
| Public health | 1,670 |
| Public recreation and culture | 12,698 |
| Urban growth management | 17,806 |
| Internal service funds | 10,438 |
| Total increases in accumulated depreciation | $ 132,716 |

## 5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Total

Capital asset activity for the year ended September 30, 2013, was as follows (in thousands):

| | Beginning Balance | Increases (1) | Decreases (1) | Ending Balance |
|---|---|---|---|---|
| Nondepreciable capital assets | | | | |
| Land and improvements | $ 502,200 | 27,626 | (16,613) | 513,213 |
| Arts and treasures | 1,595 | 62 | -- | 1,657 |
| Construction in progress | 548,405 | 481,390 | (381,242) | 648,553 |
| Plant held for future use | 23,115 | -- | -- | 23,115 |
| Total nondepreciable assets | 1,075,315 | 509,078 | (397,855) | 1,186,538 |
| Depreciable capital assets | | | | |
| Building and improvements | 1,640,298 | 72,197 | (18,425) | 1,694,070 |
| Plant and equipment | 3,344,320 | 121,410 | (27,585) | 3,438,145 |
| Vehicles | 161,324 | 24,862 | (8,738) | 177,448 |
| Electric plant | 4,268,305 | 190,258 | (19,988) | 4,438,575 |
| Non-electric plant | 173,477 | 2,782 | (102) | 176,157 |
| Nuclear fuel, net of amortization | 40,973 | 11,519 | (12,475) | 40,017 |
| Water rights, net of amortization | 87,160 | -- | (988) (3) | 86,172 |
| Total depreciable capital assets | 9,715,857 | 423,028 | (88,301) | 10,050,584 |
| Less accumulated depreciation for | | | | |
| Building and improvements | (531,076) | (42,468) | 122 | (573,422) |
| Plant and equipment | (1,108,958) | (87,778) | 1,914 | (1,194,822) |
| Vehicles | (96,579) | (15,004) | 7,824 | (103,759) |
| Electric plant | (2,070,719) | (140,430) | 15,837 | (2,195,312) |
| Non-electric plant | (41,123) | (6,995) | 33 | (48,085) |
| Total accumulated depreciation | (3,848,455) | (292,675) (2) | 25,730 | (4,115,400) |
| Depreciable capital assets, net of accumulated depreciation | 5,867,402 | 130,353 | (62,571) | 5,935,184 |
| Total capital assets | $ 6,942,717 | 639,431 | (460,426) | 7,121,722 |

(1) Increases and decreases do not include transfers (at net book value) between business-type activities.

(2) Depreciation expense was charged to functions as follows (in thousands):

| | |
|---|---|
| Business-type activities: | |
| Electric | $ 150,031 |
| Water | 41,133 |
| Wastewater | 55,065 |
| Airport | 21,121 |
| Convention Center | 8,901 |
| Environmental and health services | 6,862 |
| Public recreation | 679 |
| Urban growth management | 8,883 |
| Total increases in accumulated depreciation | 292,675 |

(3) Components of water rights, net of amortization decreases:

| | |
|---|---|
| Current year amortization - Water | $ 988 |

## 5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Austin Energy

Capital asset activity for the year ended September 30, 2013, was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Nondepreciable capital assets | | | | |
| Land and improvements | $ 74,983 | -- | (12,660) | 62,323 |
| Plant held for future use | 23,115 | -- | -- | 23,115 |
| Construction in progress | 111,758 | 155,422 | (186,308) | 80,872 |
| Total nondepreciable assets | 209,856 | 155,422 | (198,968) | 166,310 |
| Depreciable capital assets | | | | |
| Vehicles | 30,592 | 870 | (711) | 30,751 |
| Electric plant | 4,268,305 | 190,258 | (19,988) | 4,438,575 |
| Non-electric plant | 173,477 | 2,782 | (102) | 176,157 |
| Nuclear fuel, net of amortization | 40,973 | 11,519 | (12,475) | 40,017 |
| Total depreciable capital assets | 4,513,347 | 205,429 | (33,276) | 4,685,500 |
| Less accumulated depreciation for | | | | |
| Vehicles | (19,745) | (2,606) | 712 | (21,639) |
| Electric plant | (2,070,719) | (140,430) | 15,837 | (2,195,312) |
| Non-electric plant | (41,123) | (6,995) | 33 | (48,085) |
| Total accumulated depreciation | (2,131,587) | (150,031) (1) | 16,582 | (2,265,036) |
| Depreciable capital assets, net of accumulated depreciation | 2,381,760 | 55,398 | (16,694) | 2,420,464 |
| Total capital assets | $ 2,591,616 | 210,820 | (215,662) | 2,586,774 |

(1) Components of accumulated depreciation increases:

| | |
|---|---|
| Current year depreciation | $ 150,031 |

**5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued**

Business-type Activities: Austin Water Utility

Capital asset activity for the year ended September 30, 2013, was as follows (in thousands):

| | Beginning Balance | Increases (1) | Decreases (1) | Ending Balance |
|---|---|---|---|---|
| Nondepreciable capital assets | | | | |
| Land and improvements | $ 225,684 | 19,127 | (165) | 244,646 |
| Arts and treasures | -- | 62 | -- | 62 |
| Construction in progress | 371,713 | 251,152 | (136,471) | 486,394 |
| Total nondepreciable assets | 597,397 | 270,341 | (136,636) | 731,102 |
| Depreciable capital assets | | | | |
| Building and improvements | 617,393 | 57,455 | (17,915) | 656,933 |
| Plant and equipment | 3,166,291 | 104,344 | (23,943) | 3,246,692 |
| Vehicles | 34,011 | 3,000 | (559) | 36,452 |
| Water rights, net of amortization | 87,160 | -- | (988) (3) | 86,172 |
| Non-electric plant | -- | -- | -- | -- |
| Total depreciable capital assets | 3,904,855 | 164,799 | (43,405) | 4,026,249 |
| Less accumulated depreciation for | | | | |
| Building and improvements | (202,776) | (13,957) | 16 | (216,717) |
| Plant and equipment | (1,046,627) | (79,342) | 324 | (1,125,645) |
| Vehicles | (22,814) | (2,899) | 260 | (25,453) |
| Total accumulated depreciation | (1,272,217) | (96,198) (2) | 600 | (1,367,815) |
| Depreciable capital assets, net of accumulated depreciation | 2,632,638 | 68,601 | (42,805) | 2,658,434 |
| Total capital assets | $ 3,230,035 | 338,942 | (179,441) | 3,389,536 |

(1) Increases and decreases do not include transfers (at net book value) between Austin Water Utility funds.

(2) Components of accumulated depreciation increases:

| | |
|---|---|
| Current year depreciation | |
| Water | $ 41,133 |
| Wastewater | 55,065 |
| Total increases in accumulated depreciation | $ 96,198 |

(3) Components of water rights, net of amortization decreases:

| | |
|---|---|
| Current year amortization - Water | $ 988 |

**5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued**

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2013, was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Nondepreciable capital assets | | | | |
| Land and improvements | $ 95,586 | 416 | (3,615) | 92,387 |
| Arts and treasures | 983 | -- | -- | 983 |
| Construction in progress | 17,069 | 31,175 | (17,281) | 30,963 |
| Total nondepreciable assets | 113,638 | 31,591 | (20,896) | 124,333 |
| Depreciable capital assets | | | | |
| Building and improvements | 697,642 | 12,839 | -- | 710,481 |
| Plant and equipment | 25,340 | 711 | (969) | 25,082 |
| Vehicles | 7,792 | 2,918 | (38) | 10,672 |
| Total depreciable capital assets | 730,774 | 16,468 | (1,007) | 746,235 |
| Less accumulated depreciation for | | | | |
| Building and improvements | (212,161) | (18,907) | -- | (231,068) |
| Plant and equipment | (12,909) | (1,225) | 159 | (13,975) |
| Vehicles | (3,893) | (989) | 30 | (4,852) |
| Total accumulated depreciation | (228,963) | (21,121) (1) | 189 | (249,895) |
| Depreciable capital assets, net of accumulated depreciation | 501,811 | (4,653) | (818) | 496,340 |
| Total capital assets | $ 615,449 | 26,938 | (21,714) | 620,673 |

(1) Components of accumulated depreciation increases:

| | |
|---|---|
| Current year depreciation | $ 21,121 |

**5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued**

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2013, was as follows (in thousands):

| | Beginning Balance | Increases (1) | Decreases (1) | Ending Balance |
|---|---|---|---|---|
| Nondepreciable capital assets | | | | |
| Land and improvements | $ 105,947 | 8,083 | (173) | 113,857 |
| Arts and treasures | 612 | -- | -- | 612 |
| Construction in progress | 47,865 | 43,641 | (41,182) | 50,324 |
| Total nondepreciable assets | 154,424 | 51,724 | (41,355) | 164,793 |
| Depreciable capital assets | | | | |
| Building and improvements | 325,263 | 1,903 | (510) | 326,656 |
| Plant and equipment | 152,689 | 16,355 | (2,673) | 166,371 |
| Vehicles | 88,929 | 18,074 | (7,430) | 99,573 |
| Total depreciable capital assets | 566,881 | 36,332 | (10,613) | 592,600 |
| Less accumulated depreciation for | | | | |
| Building and improvements | (116,139) | (9,604) | 106 | (125,637) |
| Plant and equipment | (49,422) | (7,211) | 1,431 | (55,202) |
| Vehicles | (50,127) | (8,510) | 6,822 | (51,815) |
| Total accumulated depreciation | (215,688) | (25,325) (2) | 8,359 | (232,654) |
| Depreciable capital assets, net of accumulated depreciation | 351,193 | 11,007 | (2,254) | 359,946 |
| Total capital assets | $ 505,617 | 62,731 | (43,609) | 524,739 |

(1) Increases and decreases do not include transfers (at net book value) between nonmajor enterprise funds.

(2) Components of accumulated depreciation increases:

| | |
|---|---|
| Current year depreciation | |
| Convention Center | $ 8,901 |
| Environmental and health services | 6,862 |
| Public recreation | 679 |
| Urban growth management | 8,883 |
| Total increases in accumulated depreciation | $ 25,325 |

**5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued**

**Capitalized Interest**
The City has recorded capitalized interest for fiscal year 2013 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

| Enterprise Funds | |
|---|---|
| Major fund: | |
| Airport | $ 843 |
| Nonmajor enterprise funds: | |
| Convention Center | 1,138 |
| Drainage | 438 |

Interest is not capitalized on governmental capital assets. In accordance with accounting for regulated operations, interest is also not capitalized on electric and water and wastewater capital assets.

**Service Concession Arrangements**
The City has recorded capital assets and deferred inflows of $3.67 million from the effects of implementing GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*.

The City has had an agreement with the Friends of Umlauf Garden, Inc. since 1991 to manage and operate the Umlauf Sculpture Garden and Museum located at 605 Robert E. Lee Road. The agreement extends through 2021 and is for the purpose of displaying the artistic works of Charles Umlauf for the public enjoyment and education. Structures, which are dedicated to the City, have been built on City-owned land and display City-owned artwork.

The City entered into an agreement with the Young Men's Christian Association (YMCA) in 2010 to develop and construct a new joint-use recreational facility for the public use located at 1000 W. Rundberg Lane. The facility was built upon City-owned land and was completed in December 2012.

As of September 30, 2013, the City recorded the following activity in the governmental activities (in thousands):

| Service Concession Arrangement | Asset Construction Cost | Prior Period Depreciation | Current Year Depreciation | Total Depreciation | Net Book Value |
|---|---|---|---|---|---|
| Umlauf Sculpture Garden | $ 2,337 | 1,222 | 58 | 1,280 | 1,057 |
| YMCA Northeast Recreation Center | 1,333 | -- | 28 | 28 | 1,305 |
| | 3,670 | 1,222 | 86 | 1,308 | 2,362 |

| | Deferred Inflows | Prior Period Amortization | Current Year Amortization | Total Amortization | New Deferred Inflows |
|---|---|---|---|---|---|
| Umlauf Sculpture Garden | 2,337 | 1,629 | 78 | 1,707 | 630 |
| YMCA Northeast Recreation Center | 1,333 | 144 | 67 | 211 | 1,122 |
| | $ 3,670 | 1,773 | 145 | 1,918 | 1,752 |

## 6 – DEBT AND NON-DEBT LIABILITIES
### a -- Long-Term Liabilities

Payments on bonds for governmental activities will be made from the general obligation debt service funds. Accrued compensated absences that pertain to governmental activities will be liquidated by the General Fund, special revenue funds, and internal service funds. Claims payable will be liquidated by internal service funds. Deferred revenue and other liabilities that pertain to governmental activities will be liquidated by the General Fund, special revenue funds, general governmental capital improvement projects funds, and internal service funds.

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

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for these funds are included in governmental activities.

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2013, were as follows (in thousands):

| Description | October 1, 2012 | Increases | Decreases | September 30, 2013 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Governmental activities** | | | | | |
| General obligation bonds, net | $ 877,811 | 86,896 | (61,957) | 902,750 | 52,445 |
| Certificates of obligation, net | 95,426 | 24,340 | (4,968) | 114,798 | 4,268 |
| Contractual obligations, net | 44,570 | 28,715 | (5,497) | 67,788 | 6,323 |
| **General obligation bonds and other tax supported debt total** | 1,017,807 | 139,951 | (72,422) | 1,085,336 | 63,036 |
| Capital lease obligations | 159 | -- | (159) | -- | -- |
| **Debt service requirements total** | 1,017,966 | 139,951 | (72,581) | 1,085,336 | 63,036 |
| **Other long-term obligations** | | | | | |
| Accrued compensated absences | 124,349 | 3,623 | (144) | 127,828 | 52,846 |
| Claims payable | 34,219 | 22,094 | (16,431) | 39,882 | 20,750 |
| Pension obligation payable | 68,654 | -- | (3,886) | 64,768 | -- |
| Other post employment benefits | 301,110 | 74,846 | -- | 375,956 | -- |
| Deferred credits and other liabilities | 76,759 | 11,311 | (2,180) | 85,890 | 78,830 |
| **Governmental activities total** | 1,623,057 | 251,825 | (95,222) | 1,779,660 | 215,462 |
| **Total business-type activities** | | | | | |
| General obligation bonds, net | 34,661 | -- | (3,280) | 31,381 | 3,490 |
| Certificates of obligation, net | 34,456 | 1,852 | (2,650) | 33,658 | 2,278 |
| Contractual obligations, net | 52,298 | 17,732 | (14,522) | 55,508 | 13,336 |
| Other tax supported debt, net | 10,605 | -- | (690) | 9,915 | 721 |
| **General obligation bonds and other tax supported debt total** | 132,020 | 19,584 | (21,142) | 130,462 | 19,825 |
| Commercial paper notes, net | 305,026 | 289,245 | (400,280) | 193,991 | -- |
| Revenue bonds, net | 3,944,795 | 773,257 | (513,851) | 4,204,201 | 207,756 |
| Capital lease obligations | 1,218 | -- | (42) | 1,176 | 44 |
| **Debt service requirements total** | 4,383,059 | 1,082,086 | (935,315) | 4,529,830 | 227,625 |
| **Other long-term obligations** | | | | | |
| Accrued compensated absences | 23,258 | 1,221 | (1,377) | 23,102 | 22,552 |
| Accrued landfill closure and postclosure costs | 12,033 | -- | (1,723) | 10,310 | 656 |
| Decommissioning expense payable | 171,608 | 14,885 | (7,370) | 179,123 | -- |
| Pension obligation payable | 67,601 | -- | (3,963) | 63,638 | -- |
| Other post employment benefits | 191,941 | 30,790 | -- | 222,731 | -- |
| Deferred credits and other liabilities | 792,313 | 24,699 | (14,505) | 802,507 | 82,543 |
| **Business-type activities total** | 5,641,813 | 1,153,681 | (964,253) | 5,831,241 | 333,376 |
| **Total liabilities (1)** | $ 7,264,870 | 1,405,506 | (1,059,475) | 7,610,901 | 548,838 |

(1) This schedule excludes select short-term liabilities of $100,012 for governmental activities. For business-type activities, it excludes select short-term liablities of $204,669, capital appreciation bond interest payable of $104,687, and derivative instruments of $117,026.

## 6 – DEBT AND NON-DEBT LIABILITIES, continued

### a -- Long-Term Liabilities, continued

| Description | October 1, 2012 | Increases | Decreases | September 30, 2013 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Business-type activities:** | | | | | |
| **Electric activities** | | | | | |
| General obligation bonds, net | $ 942 | -- | (133) | 809 | 131 |
| **General obligation bonds and other tax supported debt total** | 942 | -- | (133) | 809 | 131 |
| Commercial paper notes, net | 225,256 | 88,565 | (225,280) | 88,541 | -- |
| Revenue bonds, net | 1,185,686 | 413,251 | (289,208) | 1,309,729 | 83,151 |
| Capital lease obligations | 1,218 | -- | (42) | 1,176 | 44 |
| **Debt service requirements total** | 1,413,102 | 501,816 | (514,663) | 1,400,255 | 83,326 |
| **Other long-term obligations** | | | | | |
| Accrued compensated absences | 10,459 | 739 | (1,208) | 9,990 | 9,926 |
| Decommissioning expense payable | 171,608 | 14,885 | (7,370) | 179,123 | -- |
| Pension obligation payable | 30,615 | -- | (1,738) | 28,877 | -- |
| Other post employment benefits | 80,079 | 11,985 | -- | 92,064 | -- |
| Deferred credits and other liabilities | 275,938 | 8,457 | (2,287) | 282,108 | 36,800 |
| **Electric activities total** | 1,981,801 | 537,882 | (527,266) | 1,992,417 | 130,052 |
| **Water and Wastewater activities** | | | | | |
| General obligation bonds, net | 4,815 | -- | (1,181) | 3,634 | 974 |
| Contractual obligations, net | 9,371 | 2,265 | (3,355) | 8,281 | 2,685 |
| Other tax supported debt, net | 6,790 | -- | (442) | 6,348 | 461 |
| **General obligation bonds and other tax supported debt total** | 20,976 | 2,265 | (4,978) | 18,263 | 4,120 |
| Commercial paper notes, net | 79,770 | 200,680 | (175,000) | 105,450 | -- |
| Revenue bonds, net | 2,295,081 | 300,006 | (201,198) | 2,393,889 | 98,245 |
| **Debt service requirements total** | 2,395,827 | 502,951 | (381,176) | 2,517,602 | 102,365 |
| **Other long-term obligations** | | | | | |
| Accrued compensated absences | 5,387 | 4 | (131) | 5,260 | 5,260 |
| Pension obligation payable | 15,143 | -- | (879) | 14,264 | -- |
| Other post employment benefits | 48,104 | 7,358 | -- | 55,462 | -- |
| Deferred credits and other liabilities | 498,686 | 15,116 | (6,681) | 507,121 | 35,885 |
| **Water and Wastewater activities total** | 2,963,147 | 525,429 | (388,867) | 3,099,709 | 143,510 |
| **Airport activities** | | | | | |
| General obligation bonds, net | 199 | -- | (40) | 159 | 26 |
| **General obligation bonds and other tax supported debt total** | 199 | -- | (40) | 159 | 26 |
| Revenue bonds, net | 269,284 | 60,000 | (13,899) | 315,385 | 15,610 |
| **Debt service requirements total** | 269,483 | 60,000 | (13,939) | 315,544 | 15,636 |
| **Other long-term obligations** | | | | | |
| Accrued compensated absences | 1,717 | 65 | -- | 1,782 | 1,521 |
| Pension obligation payable | 4,580 | -- | (268) | 4,312 | -- |
| Other post employment benefits | 13,848 | 1,078 | -- | 14,926 | -- |
| Deferred credits and other liabilities | 973 | 905 | -- | 1,878 | 1,822 |
| **Airport activities total** | 290,601 | 62,048 | (14,207) | 338,442 | 18,979 |
| **Nonmajor activities** | | | | | |
| General obligation bonds, net | 28,705 | -- | (1,926) | 26,779 | 2,359 |
| Certificates of obligation, net | 34,456 | 1,852 | (2,650) | 33,658 | 2,278 |
| Contractual obligations | 42,927 | 15,467 | (11,167) | 47,227 | 10,651 |
| Other tax supported debt, net | 3,815 | -- | (248) | 3,567 | 260 |
| **General obligation bonds and other tax supported debt total** | 109,903 | 17,319 | (15,991) | 111,231 | 15,548 |
| Revenue bonds, net | 194,744 | -- | (9,546) | 185,198 | 10,750 |
| **Debt service requirements total** | 304,647 | 17,319 | (25,537) | 296,429 | 26,298 |
| **Other long-term obligations** | | | | | |
| Accrued compensated absences | 5,695 | 413 | (38) | 6,070 | 5,845 |
| Accrued landfill closure and postclosure costs | 12,033 | -- | (1,723) | 10,310 | 656 |
| Pension obligation payable | 17,263 | -- | (1,078) | 16,185 | -- |
| Other post employment benefits | 49,910 | 10,369 | -- | 60,279 | -- |
| Deferred credits and other liabilities | 16,716 | 221 | (5,537) | 11,400 | 8,036 |
| **Nonmajor activities total** | $ 406,264 | 28,322 | (33,913) | 400,673 | 40,835 |

## 6 – DEBT AND NON-DEBT LIABILITIES, continued

### b -- Governmental Activities Long-Term Liabilities

**General Obligation Bonds** -- General obligation debt is collateralized by the full faith and credit of the City. The City intends to retire its general obligation debt, plus interest, from future ad valorem tax levies and is required by ordinance to create from such tax revenues a sinking fund sufficient to pay the current interest due thereon and each installment of principal as it becomes due. General obligation debt issued to finance capital assets of enterprise funds is reported as an obligation of these enterprise funds, although the funds are not obligated by the applicable bond indentures to repay any portion of principal and interest on outstanding general obligation debt. However, the City intends for the enterprise funds to meet the debt service requirements from program revenues.

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and assumed municipal utility district (MUD) bonds outstanding at September 30, 2013, including those reported in certain proprietary funds (in thousands):

| Series | Fiscal Year | Original Amount Issue | Principal Outstanding | Aggregate Interest Requirements Outstanding | | Interest Rates of Debt Outstanding | Maturity Dates of Serial Debt |
|---|---|---|---|---|---|---|---|
| NW Austin MUD | 2005 | $ 2,630 | 1,460 | 242 | (1)(3) | 3.85 - 4.30% | 9/01/2014-2020 |
| NW Austin MUD | 2006 | 7,995 | 7,015 | 3,327 | (1)(3) | 4.00 - 4.25% | 9/01/2014-2026 |
| NW Austin MUD | 2010 | 2,760 | 1,440 | 123 | (1)(3) | 4.00 - 4.25% | 3/01/2014-2018 |
| Series 2003 Refunding | 2003 | 68,855 | 3,670 | 147 | (1) | 4.00% | 9/1/2014 |
| Series 2003 | 2003 | 4,450 | 220 | 9 | (1) | 4.00% | 9/1/2014 |
| Series 2004 Refunding | 2004 | 67,835 | 42,800 | 11,735 | (1) | 4.00 - 4.55% | 9/1/2014-2024 |
| Series 2004A Refunding | 2004 | 2,430 | 500 | 24 | (1) | 4.75% | 9/1/2014 |
| Series 2004 | 2004 | 25,000 | 5,585 | 1,330 | (1) | 4.63 - 5.00% | 9/1/2014-2024 |
| Series 2005 Refunding | 2005 | 145,345 | 102,505 | 18,547 | (1) | 5.00% | 9/1/2014-2020 |
| Series 2005 Refunding | 2005 | 19,535 | 13,165 | 5,081 | (1) | 4.00 - 4.25% | 9/1/2014-2025 |
| Series 2005 | 2005 | 7,185 | 5,145 | 1,517 | (1) | 3.60 - 4.30% | 9/1/2014-2025 |
| Series 2006 | 2006 | 31,585 | 31,085 | 12,535 | (1) | 4.00 - 5.38% | 9/1/2014-2026 |
| Series 2006 | 2006 | 24,150 | 18,205 | 6,036 | (1) | 4.00 - 5.00% | 9/1/2014-2026 |
| Series 2006 | 2006 | 14,120 | 1,160 | 25 | (2) | 4.25% | 11/1/2013 |
| Series 2006 | 2006 | 12,000 | 9,550 | 3,267 | (1)(4) | 4.00 - 6.00% | 9/1/2014-2026 |
| Series 2007 | 2008 | 97,525 | 93,125 | 45,810 | (1) | 4.64% | 9/1/2014-2027 |
| Series 2007 | 2008 | 3,820 | 3,040 | 1,230 | (1) | 4.88% | 9/1/2014-2027 |
| Series 2007 | 2008 | 9,755 | 3,415 | 242 | (2) | 3.66% | 11/1/2013-2017 |
| Series 2008 Refunding | 2008 | 172,505 | 93,900 | 18,791 | (1) | 5.00% | 9/1/2014-2021 |
| Series 2008 | 2009 | 76,045 | 61,055 | 31,546 | (1) | 3.50 - 5.00% | 9/1/2014-2028 |
| Series 2008 | 2009 | 10,700 | 8,990 | 3,645 | (1) | 3.25 - 5.00% | 9/1/2014-2028 |
| Series 2008 | 2009 | 26,715 | 10,530 | 558 | (2) | 3.25 - 3.50% | 11/1/2013-2015 |
| Series 2009A | 2009 | 20,905 | 8,370 | 683 | (1) | 4.13 - 5.00% | 9/1/2014-2016 |
| Series 2009B | 2009 | 78,460 | 78,460 | 41,001 | (1) | 4.15 - 5.31% | 9/1/2017-2029 |
| Series 2009 | 2009 | 12,500 | 10,025 | 5,496 | (1) | 3.00 - 4.75% | 9/1/2014-2039 |
| Series 2009 | 2009 | 13,800 | 8,265 | 678 | (2) | 2.00 - 3.25% | 11/1/2013-2019 |
| Series 2009 | 2010 | 15,000 | 13,165 | 5,012 | (1)(4) | 3.50 - 4.25% | 9/1/2014-2029 |
| Series 2010A | 2011 | 79,528 | 66,430 | 29,973 | (1) | 2.00 - 4.00% | 9/1/2014-2030 |
| Series 2010B | 2011 | 26,400 | 24,970 | 12,995 | (1) | 3.50 - 4.65% | 9/1/2014-2030 |
| Series 2010 | 2011 | 22,300 | 20,170 | 6,404 | (1) | 2.00 - 3.50% | 9/1/2014-2030 |
| Series 2010 | 2011 | 16,450 | 11,070 | 411 | (2) | 1.00 - 1.75% | 11/1/2013-2017 |
| Series 2010 Refunding | 2011 | 91,560 | 90,250 | 27,952 | (1) | 4.00 - 5.00% | 9/1/2014-2023 |
| Series 2011A | 2012 | 78,090 | 69,690 | 36,577 | (1) | 2.00-4.00% | 9/1/2014-2031 |
| Series 2011B | 2012 | 8,450 | 8,450 | 4,090 | (1) | 2.50-4.50% | 9/1/2014-2031 |
| Series 2011 | 2012 | 51,150 | 50,155 | 31,734 | (1) | 3.00-5.00% | 9/1/2014-2041 |
| Series 2011 | 2012 | 26,725 | 21,700 | 1,220 | (2) | .05-2.00% | 11/1/2013-2018 |
| Series 2011A Refunding | 2012 | 68,285 | 47,895 | 9,725 | (1) | 4.00-5.00% | 9/1/2014-2023 |
| Series 2011B Refunding | 2012 | 3,000 | 1,725 | 47 | (1) | 1.19-1.86% | 9/1/2014-2016 |
| Series 2012A | 2013 | 74,280 | 70,945 | 35,289 | (1) | 3.00-5.00% | 9/1/2014-2032 |
| Series 2012B | 2013 | 6,640 | 5,760 | 2,022 | (1) | 2.00-3.50% | 9/1/2014-2032 |
| Series 2012 | 2013 | 24,645 | 23,920 | 9,301 | (1) | 2.00-4.00% | 9/1/2014-2037 |
| Series 2012 | 2013 | 27,135 | 25,445 | 3,185 | (2) | 2.00-4.00% | 11/1/2013-2019 |
| Series 2012 | 2013 | 16,735 | 16,385 | 6,335 | (1)(4) | 2.00-3.38% | 9/1/2014-2032 |
| | | | $ 1,190,805 | | | | |

(1) Interest is paid semiannually on March 1 and September 1.
(2) Interest is paid semiannually on May 1 and November 1.
(3) Includes Austin Water Utility principal of $6,348 and interest of $2,364 and Drainage Fund principal of $3,567 and interest of $1,328.
(4) Included w ith contractual obligations are Mueller Local Government Corporation contract revenue bonds.

**6 – DEBT AND NON-DEBT LIABILITIES, continued**
**b -- Governmental Activities Long-Term Liabilities, continued**

In October 2012, the City issued $74,280,000 of Public Improvement Bonds, Series 2012A. The net proceeds of $78,980,000 (after issue costs, discounts, and premiums) from the issue will be used as follows: streets and signals ($44,700,000), watershed protection improvements ($5,000,000), parks and recreation ($9,640,000), cultural arts ($5,900,000), central library ($1,300,000), and facility improvements ($12,440,000). These bonds will be amortized serially on September 1 of each year from 2013 to 2032. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2013. Total interest requirements for these bonds, at rates ranging from 3.0% to 5.0%, are $37,944,100.

In October 2012, the City issued $6,640,000 of Public Improvements Bonds, Taxable Series 2012B. The net proceeds of $6,650,000 (after issue costs, discounts, and premiums) from the issue will be used for affordable housing. These bonds will be amortized serially on September 1 of each year from 2013 to 2032. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2013. Total interest requirements for these bonds, at rates ranging from 2.0% to 3.5%, are $2,201,098.

In October 2012, the City issued $24,645,000 of Certificates of Obligation, Series 2012. The net proceeds of $25,890,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: Solid Waste Services Environmental Remediation ($1,830,000), Transportation Projects ($10,000,000), parks and recreation ($4,060,000), and Waller Creek Tunnel ($10,000,000). These certificates of obligation will be amortized serially on September 1 of each year from 2013 to 2037. Interest is payable on March 1 and September 1 of each year, commencing on March 1, 2013. Total interest requirements for these obligations, at rates ranging from 2.0% to 4.0%, are $10,111,213.

In October 2012, the City issued $27,135,000 of Public Property Finance Contractual Obligations, Series 2012. The net proceeds of $29,515,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: water utility capital equipment ($1,210,000), wastewater utility capital equipment ($1,040,000), parks capital equipment ($865,000), police vehicles and equipment ($11,900,000), and solid waste services capital equipment ($14,500,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2013 to 2019. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2013. Total interest requirements for these obligations, at rates ranging from 1.0% to 4.0%, are $3,748,758.

In October 2012, the City issued $16,735,000 of Mueller Local Government Corporation Tax Increment Contract Revenue Bonds, Series 2012. The Mueller Local Government Corporation is a not-for-profit local government corporation acting on behalf of the City of Austin, Texas. The proceeds from the issue will be used to provide funds for certain public infrastructure improvements within the Reinvestment Zone Number Sixteen, City of Austin, Texas, a tax increment reinvestment zone created by the City. These bonds will be amortized serially on September 1 of each year from 2013 to 2032. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2013. The total interest requirements for these bonds, at rates ranging from 2.0% to 3.4%, are $6,841,313.

General obligation bonds authorized and unissued amounted to $487,730,000 at September 30, 2013. Bond ratings at September 30, 2013 were Aaa (Moody's Investors Service, Inc.), AAA (Standard & Poor's), and AAA (Fitch).

**c -- Business-Type Activities Long-Term Liabilities**

**Utility Debt** -- The City has previously issued combined debt for the Austin Energy and Austin Water Utility. The City began issuing separate debt for electric and water and wastewater activities in 2000. The following paragraphs describe both combined and separate debt.

**Combined Utility Systems Debt -- General -** Austin Energy and Austin Water Utility comprise the combined utility systems, which issue combined utility systems revenue bonds to finance capital projects. Principal and interest on these bonds are payable solely from the combined net revenues of Austin Energy and Austin Water Utility.

The total combined utility systems revenue bond obligations at September 30, 2013, exclusive of discounts, premiums, and loss on refundings consists of $31,051,469 prior lien bonds and $163,380,925 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $207,578,319 at September 30, 2013. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2013, for the prior lien and subordinate lien bonds were, respectively, Aa1 and Aa2 (Moody's Investors Service, Inc.), AA and AA (Standard & Poor's), and AA and AA- (Fitch).

**6 – DEBT AND NON-DEBT LIABILITIES, continued**
**c -- Business-Type Activities Long-Term Liabilities, continued**

**Combined Utility Systems Debt -- Revenue Bond Refunding Issues -** The combined utility systems have refunded various issues of revenue bonds, notes, and certificates of obligation through refunding revenue bonds. Principal and interest on these refunding bonds are payable solely from the combined net revenues of Austin Energy and Austin Water Utility Fund. The prior lien bonds are subordinate only to the prior lien revenue bonds outstanding at the time of issuance, while the subordinate lien bonds are subordinate to prior lien revenue bonds and to subordinate lien revenue bonds outstanding at the time of issuance.

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

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

**Combined Utility Systems Debt -- Bonds Issued and Outstanding** - The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2013 (in thousands):

| Series | Fiscal Year | Original Amount Issued | Principal Outstanding | Aggregate Interest Requirements Outstanding | Interest Rates of Debt Outstanding | Maturity Dates of Serial Debt |
|---|---|---|---|---|---|---|
| 1990B Refunding | 1990 | $ 236,009 | 3,668 | 20,502 (1)(2) | 7.35% | 11/15/2014-2017 |
| 1993 Refunding | 1993 | 203,166 | 490 | 15 (1)(2) | 6.00% | 11/15/2013 |
| 1994 Refunding | 1995 | 142,559 | 26,894 | 96,961 (1)(2) | 6.60% | 05/15/2017-2019 |
| 1998 Refunding | 1999 | 139,965 | 131,600 | 53,966 (1) | 5.25% | 5/15/2014-2025 |
| 1998A Refunding | 1999 | 105,350 | 31,780 | 36,134 (1)(2) | 4.25% | 5/15/2014-2028 |
| | | | $ 194,432 | | | |

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest requirements include accreted interest

**Combined Utility Systems Debt – Tax Exempt Commercial Paper Notes -** The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed $350,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2013, were P-1 (Moody's Investors Service, Inc.), A-1 (Standard & Poor's), and F1 (Fitch). The notes are in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of Austin Energy and Austin Water Utility.

At September 30, 2013, Austin Energy had outstanding tax exempt commercial paper notes of $82,535,000 and Austin Water Utility had $105,450,000 of commercial paper notes outstanding. Interest rates on the notes range from 0.1% to 0.2%, which are adjusted daily. Subsequent issues cannot exceed the maximum rate of 15%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt. The associated letter of credit agreements have the following terms (in thousands):

| Note Series | Liquidity Provider | Commitment Fee Rate | Credit Fee Rate | Remarketing | Remarketing Fee Rate | Outstanding | Expiration |
|---|---|---|---|---|---|---|---|
| Various | JPMorgan Chase Bank, NA | 0.85% | 0.90% | Goldman Sachs | 0.075% | $ 101,083 | 10/1/2014 |
| Various | State Street | 0.85% | 0.90% | Goldman Sachs | 0.075% | 86,902 | 10/1/2014 |
| | | | | | | $ 187,985 | |

**6 – DEBT AND NON-DEBT LIABILITIES, continued**
**c -- Business-Type Activities Long-Term Liabilities, continued**

These notes are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by the respective liquidity providers and become bank notes with principal to be paid in 12 equal, quarterly installments. Bank notes bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

**Combined Utility Systems Debt -- Taxable Commercial Paper Notes -** The City is authorized by ordinance to issue taxable commercial paper notes (the "taxable notes") in an aggregate principal amount not to exceed $50,000,000 outstanding at any time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2013, were P-1 (Moody's Investors Service, Inc.), A-1 (Standard & Poor's), and F1 (Fitch).

The taxable notes are issued in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the taxable notes are payable from the combined net revenues of Austin Energy and Austin Water Utility.

At September 30, 2013, the Austin Energy Fund had outstanding taxable notes of $6,008,000 (net of discount of $3,033), and the Austin Water Utility had no taxable notes outstanding. Interest rates on the taxable notes range from 0.21% to 0.22%. The City intends to refinance maturing commercial paper notes by issuing long-term debt. The associated letter of credit agreement has the following terms (in thousands):

| Note Series | Liquidity Provider | Commitment Fee Rate | Remarketing | Remarketing Fee Rate | Outstanding | Expiration |
|---|---|---|---|---|---|---|
| Various | JPMorgan Chase Bank, NA | 0.85% | Goldman Sachs | 0.075% | $ 6,008 | 10/1/2014 |

These taxable notes are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by JPMorgan Chase Bank, NA and become bank notes with principal due immediately. Bank notes bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess note interest or the maximum rate.

The taxable notes are secured by a direct-pay Letter of Credit issued by JPMorgan Chase Bank, NA which permits draws for the payment of the Notes. Draws made under the Letter of Credit are immediately due and payable by the City from the resources more fully described in the Ordinance. No term loan feature is provided by this agreement.

**Electric Utility System Revenue Debt -- General -** The City is authorized by ordinance to issue electric utility system revenue obligations. Proceeds from these obligations are used only to fund electric capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of Austin Energy. Bond ratings at September 30, 2013, were A1 (Moody's Investors Service, Inc.), AA- (Standard & Poor's), and AA- (Fitch).

**Electric Utility System Revenue Debt -- Revenue Bond Refunding Issues –** In December 2012, the City issued $267,770,000 of Electric Utility System Revenue Refunding Bonds, Series 2012A. The net proceeds from the bond refunding were used to refund $181,555,000 of the City's outstanding tax-exempt commercial paper issued for the electric utility system and $127,800,000 of separate lien refunding bonds, series 2003. The debt service requirements on the refunding bonds are $488,264,319, with interest rates ranging from 2.5% to 5.0%. Interest payments are due May 15 and November 15 of each year from 2013 to 2040. Principal payments are due November 15 of each year from 2016 to 2040. An economic gain of $24,186,987 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $25,484,029. An accounting loss of $1,354,733, which will be deferred and amortized, was recorded on this refunding.

**6 – DEBT AND NON-DEBT LIABILITIES, continued**
**c -- Business-Type Activities Long-Term Liabilities, continued**

In December 2012, the City issued $107,715,000 of Electric Utility System Revenue Refunding Bonds, Series 2012B. The net proceeds from the bond refunding were used to refund $43,745,000 of the City's outstanding taxable commercial paper notes issued for the electric utility system; $24,135,000 of separate lien revenue refunding bonds, series 2002A; $3,500,000 of separate lien revenue refunding bonds, series 2006; $29,000,000 of separate lien revenue refunding bonds, series 2007; and $2,570,000 of separate lien revenue refunding bonds, series 2008. The debt service requirements on the refunding bonds are $138,270,727, with interest rates ranging from 0.67% to 3.2%. Interest payments are due May 15 and November 15 of each year from 2013 to 2027. Principal payments are due November 15 of each year from 2015 to 2027. An economic loss of $1,193,260 was recognized on this transaction. The change in net cash flows that resulted from the refunding was an increase of $11,339,873. An accounting loss of $7,806,248, which will be deferred and amortized, was recorded on this refunding.

**Electric Utility System Revenue Debt -- Bonds Issued and Outstanding -** The following table summarizes all electric system original and refunding revenue bonds outstanding at September 30, 2013 (in thousands):

| Series | Fiscal Year | Original Amount Issued | Principal Outstanding | Aggregate Interest Requirements Outstanding | Interest Rates of Debt Outstanding | Maturity Dates of Serial Debt |
|---|---|---|---|---|---|---|
| 2002 Refunding | 2002 | $ 74,750 | 24,335 | 1,026 (1) | 5.50% | 11/15/2013-2014 |
| 2002A Refunding | 2002 | 172,880 | 48,660 | 4,901 (1) | 5.50% | 11/15/2013-2016 |
| 2006 Refunding | 2006 | 150,000 | 130,700 | 89,698 (1) | 5.00% | 11/15/2013-2035 |
| 2006A Refunding | 2007 | 137,800 | 83,870 | 20,218 (1) | 5.00% | 11/15/2013-2022 |
| 2007 Refunding | 2007 | 146,635 | 80,640 | 12,968 (1) | 5.00% | 11/15/2013-2020 |
| 2008 Refunding | 2008 | 50,000 | 42,860 | 33,473 (1) | 4.15 - 6.26% | 11/15/2013-2032 |
| 2008A Refunding | 2008 | 175,000 | 174,400 | 150,111 (1) | 4.00 - 6.00% | 11/15/2013-2038 |
| 2010A Refunding | 2010 | 119,255 | 114,450 | 72,240 (1) | 3.00 - 5.00% | 11/15/2013-2040 |
| 2010B Refunding | 2010 | 100,990 | 100,990 | 104,085 (1) | 4.54 - 5.72% | 11/15/2019-2040 |
| 2012A Refunding | 2013 | 267,770 | 267,770 | 215,483 (1) | 2.50 - 5.00% | 11/15/2016-2040 |
| 2012B Refunding | 2013 | 107,715 | 107,715 | 29,524 (1) | .67 - 3.16% | 11/15/2015-2027 |
| | | | $ 1,176,390 | | | |

(1) Interest is paid semiannually on May 15 and November 15.

**Electric Utility System Revenue Debt – Pledged Revenues -** The net revenue of Austin Energy was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2013 (in thousands):

| Gross Revenue (1) | Operating Expense (2)(3) | Net Revenue | Debt Service Requirement | Revenue Bond Coverage |
|---|---|---|---|---|
| $ 1,295,116 | 927,294 | 367,822 | 176,143 | 208.8% |

(1) Gross revenue includes revenues from operations and interest income.
(2) Excludes depreciation.
(3) Excludes other post employment benefits and pension obligation accruals.

**Water and Wastewater System Revenue Debt -- General** - The City is authorized by ordinance to issue Austin Water Utility revenue obligations. Proceeds from these obligations are used only to fund water and wastewater capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of the Austin Water Utility.

**Water and Wastewater System Revenue Debt -- Revenue Bond Refunding Issues –** In July 2013, the City issued $282,460,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2013. The net proceeds from the bond refunding were used to refund $175,000,000 of the City's outstanding tax-exempt commercial paper issued for the water and wastewater utility system; and $118,645,000 of separate lien revenue refunding bonds, series 2004A. The debt service requirements on the refunding bonds are $511,942,722 with interest rates ranging from 3.0% to 5.0%. Interest payments are due May 15 and November 15 of each year from 2013 to 2043. Principal payments are due November 15 of each year from 2015 to 2043. An economic gain of $6,401,122 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $6,565,024. An accounting loss of $4,351,020, which will be deferred and amortized, was recorded on this refunding.

**6 – DEBT AND NON-DEBT LIABILITIES, continued**
**c -- Business-Type Activities Long-Term Liabilities, continued**

Bond ratings at September 30, 2013, were Aa2 (Moody's Investors Service, Inc.), AA (Standard & Poor's), and AA- (Fitch).

In 2013, the City converted the final $1,450,000 of initial bonds, those authorized but not converted, to definitive Water and Wastewater System Revenue Bonds, Series 2010. With these issuances and the current year principal payment, the outstanding commitment with the Texas Water Development Board (TWDB) is now $30,750,000.

**Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding -** The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2013 (in thousands):

| Series | Fiscal Year | Original Amount Issued | Principal Outstanding | Aggregate Interest Requirements Outstanding | | Interest Rates of Debt Outstanding | Maturity Dates of Serial Debt | |
|---|---|---|---|---|---|---|---|---|
| 2001C Refunding | 2002 | $ 95,380 | 6,621 | 228 | (1) | 4.60 - 5.38% | 11/15/2013-2015 | (3) |
| 2002A Refunding | 2002 | 139,695 | 64,425 | 6,794 | (1) | 5.50% | 11/15/2013-2016 | |
| 2004A Refunding | 2005 | 165,145 | 19,390 | 4,615 | (1) | 5.00% | 11/15/2013-2029 | |
| 2005 Refunding | 2005 | 198,485 | 183,240 | 67,449 | (1) | 4.00 - 5.00% | 11/15/2013-2030 | (3) |
| 2005A Refunding | 2006 | 142,335 | 117,895 | 74,893 | (1) | 4.30 - 5.00% | 11/15/2013-2035 | (3) |
| 2006 Refunding | 2006 | 63,100 | 45,865 | 15,492 | (1) | 5.00% | 11/15/2013-2025 | |
| 2006A Refunding | 2007 | 135,000 | 123,250 | 77,240 | (1) | 3.50 - 5.00% | 11/15/2013-2036 | |
| 2007 Refunding | 2008 | 135,000 | 125,490 | 93,034 | (1) | 4.00 - 5.25% | 11/15/2013-2037 | |
| 2008 Refunding | 2008 | 170,605 | 147,720 | 51,689 | (2) | 0.04 - 0.23% | 11/15/2013-2031 | (3) |
| 2009 Refunding | 2009 | 175,000 | 162,870 | 77,791 | (1) | 4.00 - 5.13% | 11/15/2013-2029 | |
| 2009A Refunding | 2010 | 166,575 | 159,745 | 123,333 | (1) | 4.00 - 5.00% | 11/15/2013-2039 | |
| 2010 | 2010 | 31,815 | 30,750 | -- | (4) | 0.00% | 11/15/2013-2041 | |
| 2010A Refunding | 2011 | 76,855 | 76,855 | 66,594 | (1) | 4.00 - 5.13% | 11/15/2013-2040 | |
| 2010B Refunding | 2011 | 100,970 | 100,970 | 98,637 | (1) | 2.49 - 6.02% | 11/15/2015-2040 | |
| 2011 Refunding | 2012 | 237,530 | 237,530 | 195,081 | (1) | 2.00 - 5.00% | 11/15/2014-2041 | |
| 2011 Revenue | 2012 | 18,485 | 18,485 | 2,535 | (5) | 2.50 - 2.80% | 12/01/2015-2016 | |
| 2011 Revenue | 2012 | 2,332 | 2,332 | 298 | (5) | 2.50 - 2.80% | 12/01/2015-2016 | |
| 2012 Refunding | 2012 | 336,820 | 336,820 | 228,452 | (1) | 1.00 - 5.00% | 11/15/2013-2042 | |
| 2013A Refunding | 2013 | 282,460 | 282,460 | 229,483 | (1) | 3.00 - 5.00% | 11/15/2015-2043 | |
| | | | $ 2,242,713 | | | | | |

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate in effect at the end of the fiscal year.
(3) Series matures on May 15th of the final year.
(4) Zero interest bond placed with TWDB.
(5) Special Assessment Revenue Bonds.

Series 2008 refunding bonds are variable rate demand bonds. The associated letter of credit agreement has the following terms (in thousands):

| Bond Sub-Series | Liquidity Provider | Commitment Fee Rate | Remarketing Agent | Remarketing Fee Rate | Outstanding | Expiration |
|---|---|---|---|---|---|---|
| 2008 | Sumitoma Mitsui Banking Corp./The Bank of Tokyo-Mitsubishi UFJ, Ltd | 0.85% | Goldman Sachs | 0.050% | $ 147,720 | 5/8/2015 |

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by the respective liquidity providers and become bank bonds with principal to be paid in equal semi-annual installments over a 5-year amortization period. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

**6 – DEBT AND NON-DEBT LIABILITIES, continued**
**c -- Business-Type Activities Long-Term Liabilities, continued**

**Water and Wastewater System Revenue Debt -- Pledged Revenues -** The net revenue of Austin Water Utility was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2013 (in thousands):

| Gross Revenue (1) | Operating Expense (2)(3) | Net Revenue | Debt Service Requirement | Revenue Bond Coverage |
|---|---|---|---|---|
| $ 477,013 | 209,890 | 267,123 | 189,012 | 141.3% |

(1) Gross revenue includes revenues from operations and interest income.
(2) Excludes depreciation.
(3) Excludes other post employment benefits and pension obligation accruals.

**Airport -- Revenue Bonds -** The City's Airport Fund issues airport system revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. At September 30, 2013, the total airport system obligation for prior lien bonds is $326,055,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are $87,384,794 at September 30, 2013. Revenue bonds authorized and unissued amount to $735,795,000.

**Airport System Revenue Debt -- Revenue Bond Issue -** In May 2013, the City issued $60,000,000 of Airport System Revenue Bonds, Series 2013. The proceeds from this issue will be used to provide funds for planning, acquiring, establishing, constructing, improving and equipping Airport facilities. The debt service requirements on the revenue bonds are $73,237,650 with interest rate of 2.25%. Interest payments are due May 15 and November 15 of each year from 2013 to 2028, with the first interest payment beginning in November. Principal payments are due November 15 of each year from 2015 to 2027, with the final principal payment due May 15 of 2028.

The bond rating at September 30, 2013, for the revenue bonds is A (Standard & Poor's).

The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2013 (in thousands):

| Series | Fiscal Year | Original Amount Issued | Principal Outstanding | Aggregate Interest Requirements Outstanding | Interest Rates of Debt Outstanding | Maturity Dates of Serial Debt |
|---|---|---|---|---|---|---|
| 2003 Refunding | 2004 | $ 54,250 | 35,880 | 7,610 (1) | 4.00 - 5.25% | 11/15/2013-2018 |
| 2005 Refunding | 2008 (2) | 281,300 | 230,175 | 66,537 (3) | 0.05 - 0.24% | 11/15/2013-2025 |
| 2013 Revenue | 2013 | 60,000 | 60,000 | 13,238 (1) | 2.25% | 11/15/2015-2028 (4) |
| | | | $ 326,055 | | | |

(1) Interest is paid semiannually on May 15 and November 15.
(2) Series was remarketed in 2008.
(3) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate in effect at the end of the fiscal year.
(4) Series matures on May 15th of the final year.

**6 – DEBT AND NON-DEBT LIABILITIES, continued**
**c -- Business-Type Activities Long-Term Liabilities, continued**

The Series 2005 refunding bonds that were remarketed in 2008 are variable rate demand bonds. These bonds are separated into 4 subseries with a total principal amount of $230,175,000. The associated letter of credit agreements have the following terms (in thousands):

**Variable Rate Demand Bonds**

| Bond Sub-Series | Liquidity Provider | Commitment Fee Rate | Remarketing Agent | Remarketing Fee Rate | Outstanding | Expiration |
|---|---|---|---|---|---|---|
| 2005-1 | JPMorgan Chase Bank, NA | 1.35% | Morgan Stanley | 0.10% | $ 57,550 | 6/21/2014 |
| 2005-2 | JPMorgan Chase Bank, NA | 1.35% | Morgan Stanley | 0.10% | 57,500 | 6/21/2014 |
| 2005-3 | State Street Bank and Trust | 1.00% | Morgan Stanley | 0.10% | 57,550 | 6/21/2014 |
| 2005-4 | Royal Bank of Canada | 1.35% | Morgan Stanley | 0.10% | 57,575 | 6/21/2014 |
| | | | | | $ 230,175 | |

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds or if the agreement expires with no new agreement in place, the bonds will be purchased by the respective liquidity provider and become bank bonds with principal to be paid in annual installments over the remaining life of the bond series beginning on the first business day of the month six months following the triggering repayment event. Thus, under any circumstance, no principal payments will be due within a year of September 30, 2013. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

**Airport Revenue Debt -- Pledged Revenues -** The net revenue of the Airport Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding (including revenue bonds and revenue notes). The table below represents the pledged amounts at September 30, 2013 (in thousands):

| Gross Revenue (1) | Other Available Funds (2) | Operating Expense (3)(4) | Net Revenue and Other Available Funds | Debt Service Requirement (5) | Revenue Bond Coverage |
|---|---|---|---|---|---|
| $ 103,705 | 7,778 | 69,338 | 42,145 | 15,221 | 276.9% |

(1) Gross revenue includes revenues from operations and interest income.
(2) Pursuant to bond ordinance, in addition to gross revenue, the Airport is authorized to use "other available funds" in the calculation of revenue bond coverage.
(3) Excludes depreciation.
(4) Excludes other post employment benefits and pension obligation accruals.
(5) Excludes debt service amounts paid w ith passenger facility charge revenues.

**Nonmajor fund:**

**Convention Center—Prior and Subordinate Lien Revenue Refunding Bonds -** The City's Convention Center Fund issues convention center revenue bonds and hotel occupancy tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues and the special motor vehicle rental tax revenues. At September 30, 2013, the total convention center obligation for prior and subordinate lien bonds is $195,825,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $63,279,018 at September 30, 2013. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2013.

Bond ratings at September 30, 2013, for the revenue bonds were A1 (Moody's Investors Service, Inc.), and A (Standard & Poor's).

**6 – DEBT AND NON-DEBT LIABILITIES, continued**
**c -- Business-Type Activities Long-Term Liabilities, continued**

The following table summarizes Convention Center original and refunding revenue bonds outstanding at September 30, 2013 (in thousands):

| Series | Fiscal Year | Original Amount Issued | Principal Outstanding | Aggregate Interest Requirements Outstanding | Interest Rates of Debt Outstanding | Maturity Dates of Serial Debt |
|---|---|---|---|---|---|---|
| 2004 Refunding | 2004 | $ 52,715 | 32,915 | 6,089 (1) | 5.00% | 11/15/2013-2019 |
| 2005 Refunding | 2005 | 36,720 | 34,825 | 16,571 (1) | 4.00 - 5.00% | 11/15/2013-2029 |
| 2008AB Refunding | 2008 | 125,280 | 108,240 | 31,485 (2) | 0.05 - 0.28% | 11/15/2013-2029 |
| 2012 Refunding | 2012 | 20,185 | 19,845 | 9,134 (1) | 2.00 - 5.00% | 11/15/2013-2029 |
| | | | $ 195,825 | | | |

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate in effect at the end of the fiscal year.

The Series 2008 A and B refunding bonds are variable rate demand bonds. The associated letter of credit agreements have the following terms (in thousands):

| Bond Sub-Series | Liquidity Provider | Commitment Fee Rate | Remarketing Agent | Remarketing Fee Rate | Outstanding | Expiration |
|---|---|---|---|---|---|---|
| 2008-A | JPMorgan Chase Bank, NA | 1.10% | Morgan Keegan | 0.06% | $ 54,120 | 7/25/2014 |
| 2008-B | Bank of America, NA | 1.10% | Merrill Lynch, Pierce, Fenner& Smith Inc. | 0.05% | 54,120 | 7/25/2014 |
| | | | | | $ 108,240 | |

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds or if the agreement expires with no new agreement in place, the bonds will be purchased by the respective liquidity provider and become bank bonds with principal to be paid in equal semi-annual installments over a 5-year amortization period beginning six months from the triggering repayment event. Thus, under any circumstance, no principal payments will be due within a year of September 30, 2013. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

**6 – DEBT AND NON-DEBT LIABILITIES, continued**
**d -- Debt Service Requirements**

Governmental Activities
(in thousands)

| Fiscal Year Ended September 30 | General Obligation Bonds Principal | General Obligation Bonds Interest | Certificates of Obligation Principal | Certificates of Obligation Interest | Contractual Obligations Principal | Contractual Obligations Interest |
|---|---|---|---|---|---|---|
| 2014 | $ 52,445 | 39,150 | 4,268 | 4,301 | 6,323 | 2,109 |
| 2015 | 52,746 | 36,749 | 4,317 | 4,166 | 6,986 | 1,953 |
| 2016 | 48,920 | 34,358 | 4,510 | 4,013 | 6,697 | 1,756 |
| 2017 | 55,546 | 32,062 | 4,691 | 3,845 | 6,391 | 1,574 |
| 2018 | 55,659 | 29,410 | 4,910 | 3,680 | 6,371 | 1,388 |
| 2019-2023 | 269,549 | 107,957 | 27,887 | 15,499 | 14,732 | 4,920 |
| 2024-2028 | 257,895 | 50,815 | 29,065 | 9,597 | 11,170 | 2,574 |
| 2029-2033 | 91,295 | 6,571 | 16,265 | 4,960 | 7,935 | 680 |
| 2034-2038 | -- | -- | 10,060 | 2,609 | -- | -- |
| 2039-2043 | -- | -- | 6,395 | 552 | -- | -- |
| | 884,055 | 337,072 | 112,368 | 53,222 | 66,605 | 16,954 |
| Less: Unamortized bond discounts | (530) | -- | -- | -- | (7) | -- |
| Unamortized gain(loss) on bond refundings | (17,223) | -- | -- | -- | -- | -- |
| Add: Unamortized bond premiums | 36,448 | -- | 2,430 | -- | 1,190 | -- |
| Net debt service requirements | 902,750 | 337,072 | 114,798 | 53,222 | 67,788 | 16,954 |

| Fiscal Year Ended September 30 | Total Governmental Debt Service Requirements Principal | Interest | Total |
|---|---|---|---|
| 2014 | 63,036 | 45,560 | 108,596 |
| 2015 | 64,049 | 42,868 | 106,917 |
| 2016 | 60,127 | 40,127 | 100,254 |
| 2017 | 66,628 | 37,481 | 104,109 |
| 2018 | 66,940 | 34,478 | 101,418 |
| 2019-2023 | 312,168 | 128,376 | 440,544 |
| 2024-2028 | 298,130 | 62,986 | 361,116 |
| 2029-2033 | 115,495 | 12,211 | 127,706 |
| 2034-2038 | 10,060 | 2,609 | 12,669 |
| 2039-2043 | 6,395 | 552 | 6,947 |
| | 1,063,028 | 407,248 | 1,470,276 |
| Less: Unamortized bond discounts | (537) | -- | (537) |
| Unamortized gain(loss) on bond refundings | (17,223) | -- | (17,223) |
| Add: Unamortized bond premiums | 40,068 | -- | 40,068 |
| Net debt service requirements | 1,085,336 | 407,248 | 1,492,584 |

**6 – DEBT AND NON-DEBT LIABILITIES, continued**
**d -- Debt Service Requirements, continued**

Business-Type Activities
(in thousands)

| Fiscal Year Ended September 30 | General Obligation Bonds | | Certificates of Obligation | | Contractual Obligations | |
|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2014 | $ 3,490 | 1,444 | 2,278 | 1,242 | 13,336 | 1,317 |
| 2015 | 3,169 | 1,288 | 2,188 | 1,152 | 11,709 | 1,007 |
| 2016 | 3,160 | 1,146 | 2,301 | 1,067 | 9,957 | 709 |
| 2017 | 3,373 | 991 | 1,089 | 977 | 7,644 | 478 |
| 2018 | 3,712 | 822 | 1,135 | 948 | 5,909 | 292 |
| 2019-2023 | 13,791 | 1,807 | 6,593 | 4,204 | 5,523 | 175 |
| 2024-2028 | -- | -- | 10,205 | 2,604 | -- | -- |
| 2029-2033 | -- | -- | 5,275 | 936 | -- | -- |
| 2034-2038 | -- | -- | 1,645 | 332 | -- | -- |
| 2039-2043 | -- | -- | 380 | 18 | -- | -- |
| | 30,695 | 7,498 | 33,089 | 13,480 | 54,078 | 3,978 |
| Less: Unamortized bond discounts | (24) | -- | -- | -- | -- | -- |
| Unamortized gain(loss) on bond refundings | (1,810) | -- | -- | -- | -- | -- |
| Add: Unamortized bond premiums | 2,520 | -- | 569 | -- | 1,430 | -- |
| Net debt service requirements | 31,381 | 7,498 | 33,658 | 13,480 | 55,508 | 3,978 |

| Fiscal Year Ended September 30 | Other Tax Supported Debt | | Commercial Paper Notes (1) | | Revenue Bonds (2)(3) | |
|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2014 | 721 | 400 | 193,993 | 20 | 207,756 | 184,920 |
| 2015 | 744 | 371 | -- | -- | 172,601 | 190,006 |
| 2016 | 795 | 342 | -- | -- | 194,228 | 177,406 |
| 2017 | 539 | 469 | -- | -- | 203,760 | 198,239 |
| 2018 | 545 | 467 | -- | -- | 155,258 | 205,200 |
| 2019-2023 | 3,781 | 1,407 | -- | -- | 869,315 | 685,884 |
| 2024-2028 | 2,790 | 236 | -- | -- | 956,110 | 442,378 |
| 2029-2033 | -- | -- | -- | -- | 603,239 | 256,429 |
| 2034-2038 | -- | -- | -- | -- | 473,480 | 134,659 |
| 2039-2043 | -- | -- | -- | -- | 288,168 | 30,197 |
| 2044-2048 | -- | -- | -- | -- | 11,501 | 287 |
| | 9,915 | 3,692 | 193,993 | 20 | 4,135,416 | 2,505,605 |
| Less: Unamortized bond discounts | -- | -- | (2) | -- | (4,867) | -- |
| Unamortized gain(loss) on bond refundings | -- | -- | -- | -- | (114,155) | -- |
| Add: Unamortized bond premiums | -- | -- | -- | -- | 187,807 | -- |
| Net debt service requirements | $ 9,915 | 3,692 | 193,991 | 20 | 4,204,201 | 2,505,605 |

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.
(2) A portion of these bonds are variable rate bonds w ith rates ranging from 0.05% to 0.28%.
(3) Portions of these bonds are Special Assessment Revenue Bonds.

**6 – DEBT AND NON-DEBT LIABILITIES, continued**
**d -- Debt Service Requirements, continued**

**Business-Type Activities**
**(in thousands)**

| Fiscal Year Ended September 30 | Capital Lease Obligations | | Total Business-Type Activities Debt Service Requirements | | |
|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Total |
| 2014 | 44 | 58 | 421,618 | 189,401 | 611,019 |
| 2015 | 47 | 56 | 190,458 | 193,880 | 384,338 |
| 2016 | 49 | 53 | 210,490 | 180,723 | 391,213 |
| 2017 | 51 | 51 | 216,456 | 201,205 | 417,661 |
| 2018 | 54 | 48 | 166,613 | 207,777 | 374,390 |
| 2019-2023 | 316 | 195 | 899,319 | 693,672 | 1,592,991 |
| 2024-2028 | 405 | 106 | 969,510 | 445,324 | 1,414,834 |
| 2029-2033 | 210 | 12 | 608,724 | 257,377 | 866,101 |
| 2034-2038 | -- | -- | 475,125 | 134,991 | 610,116 |
| 2039-2043 | -- | -- | 288,548 | 30,215 | 318,763 |
| 2044-2048 | -- | -- | 11,501 | 287 | 11,788 |
| | 1,176 | 579 | 4,458,362 | 2,534,852 | 6,993,214 |
| Less: Unamortized bond discounts | -- | -- | (4,893) | -- | (4,893) |
| Unamortized gain(loss) on bond refundings | -- | -- | (115,965) | -- | (115,965) |
| Add: Unamortized bond premiums | -- | -- | 192,326 | -- | 192,326 |
| Net debt service requirements | 1,176 | 579 | 4,529,830 | 2,534,852 | 7,064,682 |

## 6 – DEBT AND NON-DEBT LIABILITIES, continued
### d -- Debt Service Requirements, continued

**Austin Energy Business-Type Activities**
**(in thousands)**

| Fiscal Year Ended September 30 | General Obligation Bonds | | Commercial Paper Notes (1) | | Revenue Bonds | |
|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2014 | $ 131 | 39 | 88,543 | 15 | 83,151 | 60,101 |
| 2015 | 139 | 33 | -- | -- | 47,904 | 59,018 |
| 2016 | 112 | 26 | -- | -- | 65,132 | 56,811 |
| 2017 | 121 | 20 | -- | -- | 53,793 | 54,201 |
| 2018 | 113 | 14 | -- | -- | 39,431 | 52,048 |
| 2019-2023 | 167 | 11 | -- | -- | 238,017 | 213,588 |
| 2024-2028 | -- | -- | -- | -- | 277,164 | 151,356 |
| 2029-2033 | -- | -- | -- | -- | 213,235 | 89,999 |
| 2034-2038 | -- | -- | -- | -- | 176,730 | 42,311 |
| 2039-2043 | -- | -- | -- | -- | 81,845 | 5,700 |
| | 783 | 143 | 88,543 | 15 | 1,276,402 | 785,133 |
| Less: Unamortized bond discount | (1) | -- | (2) | -- | (786) | -- |
| Unamortized gain(loss) on bond refundings | -- | -- | -- | -- | (30,717) | -- |
| Add: Unamortized bond premium | 27 | -- | -- | -- | 64,830 | -- |
| Net debt service requirements | 809 | 143 | 88,541 | 15 | 1,309,729 | 785,133 |

| Fiscal Year Ended September 30 | Capital Lease Obligations | | Total Austin Energy Debt Service Requirements | | |
|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Total |
| 2014 | 44 | 58 | 171,869 | 60,213 | 232,082 |
| 2015 | 47 | 56 | 48,090 | 59,107 | 107,197 |
| 2016 | 49 | 53 | 65,293 | 56,890 | 122,183 |
| 2017 | 51 | 51 | 53,965 | 54,272 | 108,237 |
| 2018 | 54 | 48 | 39,598 | 52,110 | 91,708 |
| 2019-2023 | 316 | 195 | 238,500 | 213,794 | 452,294 |
| 2024-2028 | 405 | 106 | 277,569 | 151,462 | 429,031 |
| 2029-2033 | 210 | 12 | 213,445 | 90,011 | 303,456 |
| 2034-2038 | -- | -- | 176,730 | 42,311 | 219,041 |
| 2039-2043 | -- | -- | 81,845 | 5,700 | 87,545 |
| | 1,176 | 579 | 1,366,904 | 785,870 | 2,152,774 |
| Less: Unamortized bond discounts | -- | -- | (789) | -- | (789) |
| Unamortized gain(loss) on bond refundings | -- | -- | (30,717) | -- | (30,717) |
| Add: Unamortized bond premiums | -- | -- | 64,857 | -- | 64,857 |
| Net debt service requirements | $ 1,176 | 579 | 1,400,255 | 785,870 | 2,186,125 |

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

## 6 – DEBT AND NON-DEBT LIABILITIES, continued
## d -- Debt Service Requirements, continued

**Austin Water Utility Business-Type Activities**
**(in thousands)**

| Fiscal Year Ended September 30 | General Obligation Bonds Principal | General Obligation Bonds Interest | Contractual Obligations Principal | Contractual Obligations Interest | Other Tax Supported Debt Principal | Other Tax Supported Debt Interest |
|---|---|---|---|---|---|---|
| 2014 | $ 974 | 214 | 2,685 | 192 | 461 | 256 |
| 2015 | 1,009 | 174 | 1,607 | 129 | 476 | 238 |
| 2016 | 1,022 | 133 | 1,310 | 93 | 509 | 219 |
| 2017 | 852 | 82 | 1,105 | 59 | 345 | 300 |
| 2018 | 598 | 40 | 755 | 34 | 349 | 299 |
| 2019-2023 | 217 | 18 | 641 | 19 | 2,422 | 901 |
| 2024-2028 | -- | -- | -- | -- | 1,786 | 151 |
| | 4,672 | 661 | 8,103 | 526 | 6,348 | 2,364 |
| Less: Unamortized bond discounts | (1) | -- | -- | -- | -- | -- |
| Unamortized gain(loss) on bond refundings | (1,432) | -- | -- | -- | -- | -- |
| Add: Unamortized bond premiums | 395 | -- | 178 | -- | -- | -- |
| Net debt service requirements | 3,634 | 661 | 8,281 | 526 | 6,348 | 2,364 |

| Fiscal Year Ended September 30 | Commercial Paper Notes (1) Principal | Commercial Paper Notes (1) Interest | Revenue Bonds (2) (3) Principal | Revenue Bonds (2) (3) Interest | Total Austin Water Utility Debt Service Requirements Principal | Total Austin Water Utility Debt Service Requirements Interest | Total |
|---|---|---|---|---|---|---|---|
| 2014 | 105,450 | 5 | 98,245 | 105,314 | 207,815 | 105,981 | 313,796 |
| 2015 | -- | -- | 97,177 | 112,580 | 100,269 | 113,121 | 213,390 |
| 2016 | -- | -- | 99,026 | 103,356 | 101,867 | 103,801 | 205,668 |
| 2017 | -- | -- | 115,837 | 127,997 | 118,139 | 128,438 | 246,577 |
| 2018 | -- | -- | 78,812 | 138,685 | 80,514 | 139,058 | 219,572 |
| 2019-2023 | -- | -- | 446,008 | 423,501 | 449,288 | 424,439 | 873,727 |
| 2024-2028 | -- | -- | 522,631 | 275,589 | 524,417 | 275,740 | 800,157 |
| 2029-2033 | -- | -- | 364,824 | 165,654 | 364,824 | 165,654 | 530,478 |
| 2034-2038 | -- | -- | 296,750 | 92,348 | 296,750 | 92,348 | 389,098 |
| 2039-2043 | -- | -- | 206,323 | 24,497 | 206,323 | 24,497 | 230,820 |
| 2044-2048 | -- | -- | 11,501 | 287 | 11,501 | 287 | 11,788 |
| | 105,450 | 5 | 2,337,134 | 1,569,808 | 2,461,707 | 1,573,364 | 4,035,071 |
| Less: Unamortized bond discounts | -- | -- | (3,244) | -- | (3,245) | -- | (3,245) |
| Unamortized gain(loss) on bond refundings | -- | -- | (57,836) | -- | (59,268) | -- | (59,268) |
| Add: Unamortized bond premiums | -- | -- | 117,835 | -- | 118,408 | -- | 118,408 |
| Net debt service requirements | $105,450 | 5 | 2,393,889 | 1,569,808 | 2,517,602 | 1,573,364 | 4,090,966 |

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.
(2) Portions of these bonds are variable rate bonds with rates of 0.04% to 0.23%.
(3) Portions of these bonds are Special Assessment Revenue Bonds.

**6 – DEBT AND NON-DEBT LIABILITIES, continued**
**d -- Debt Service Requirements, continued**

**Airport Business-Type Activities**
**(in thousands)**

| Fiscal Year Ended September 30 | General Obligation Bonds Principal | General Obligation Bonds Interest | Revenue Bonds (1) Principal | Revenue Bonds (1) Interest |
|---|---|---|---|---|
| 2014 | $ 26 | 8 | 15,610 | 12,049 |
| 2015 | 28 | 6 | 16,345 | 11,393 |
| 2016 | 22 | 5 | 17,985 | 10,697 |
| 2017 | 23 | 4 | 21,575 | 9,999 |
| 2018 | 21 | 3 | 23,965 | 8,939 |
| 2019-2023 | 33 | 2 | 129,240 | 28,729 |
| 2024-2028 | -- | -- | 101,335 | 5,579 |
| | 153 | 28 | 326,055 | 87,385 |
| Less: Unamortized bond discounts | -- | -- | (560) | -- |
| Unamortized gain(loss) on bond refundings | (2) | -- | (11,162) | -- |
| Add: Unamortized bond premiums | 8 | -- | 1,052 | -- |
| Net debt service requirements | 159 | 28 | 315,385 | 87,385 |

| Fiscal Year Ended September 30 | Total Airport Debt Service Requirements Principal | Interest | Total |
|---|---|---|---|
| 2014 | 15,636 | 12,057 | 27,693 |
| 2015 | 16,373 | 11,399 | 27,772 |
| 2016 | 18,007 | 10,702 | 28,709 |
| 2017 | 21,598 | 10,003 | 31,601 |
| 2018 | 23,986 | 8,942 | 32,928 |
| 2019-2023 | 129,273 | 28,731 | 158,004 |
| 2024-2028 | 101,335 | 5,579 | 106,914 |
| | 326,208 | 87,413 | 413,621 |
| Less: Unamortized bond discounts | (560) | -- | (560) |
| Unamortized gain(loss) on bond refundings | (11,164) | -- | (11,164) |
| Add: Unamortized bond premiums | 1,060 | -- | 1,060 |
| Net debt service requirements | $ 315,544 | 87,413 | 402,957 |

(1) Portions of these bonds are variable rate bonds with rates ranging from 0.05% to .24%.

## 6 – DEBT AND NON-DEBT LIABILITIES, continued
### d -- Debt Service Requirements, continued

**Nonmajor Business-Type Activities**
**(in thousands)**

| Fiscal Year Ended September 30 | General Obligation Bonds Principal | General Obligation Bonds Interest | Certificates of Obligation Principal | Certificates of Obligation Interest | Contractual Obligations Principal | Contractual Obligations Interest |
|---|---|---|---|---|---|---|
| 2014 | $ 2,359 | 1,183 | 2,278 | 1,242 | 10,651 | 1,125 |
| 2015 | 1,993 | 1,075 | 2,188 | 1,152 | 10,102 | 878 |
| 2016 | 2,004 | 982 | 2,301 | 1,067 | 8,647 | 616 |
| 2017 | 2,377 | 885 | 1,089 | 977 | 6,539 | 419 |
| 2018 | 2,980 | 765 | 1,135 | 948 | 5,154 | 258 |
| 2019-2023 | 13,374 | 1,776 | 6,593 | 4,204 | 4,882 | 156 |
| 2024-2028 | -- | -- | 10,205 | 2,604 | -- | -- |
| 2029-2033 | -- | -- | 5,275 | 936 | -- | -- |
| 2034-2038 | -- | -- | 1,645 | 332 | -- | -- |
| 2039-2043 | -- | -- | 380 | 18 | -- | -- |
| | 25,087 | 6,666 | 33,089 | 13,480 | 45,975 | 3,452 |
| Less: Unamortized bond discounts | (22) | -- | -- | -- | -- | -- |
| Unamortized gain(loss) on bond refundings | (376) | -- | -- | -- | -- | -- |
| Add: Unamortized bond premiums | 2,090 | -- | 569 | -- | 1,252 | -- |
| Net debt service requirements | 26,779 | 6,666 | 33,658 | 13,480 | 47,227 | 3,452 |

| Fiscal Year Ended September 30 | Other Tax Supported Debt Principal | Other Tax Supported Debt Interest | Revenue Bonds (1) Principal | Revenue Bonds (1) Interest | Total Nonmajor Debt Service Requirements Principal | Total Nonmajor Debt Service Requirements Interest | Total Nonmajor Debt Service Requirements Total |
|---|---|---|---|---|---|---|---|
| 2014 | 260 | 144 | 10,750 | 7,456 | 26,298 | 11,150 | 37,448 |
| 2015 | 268 | 133 | 11,175 | 7,015 | 25,726 | 10,253 | 35,979 |
| 2016 | 286 | 123 | 12,085 | 6,542 | 25,323 | 9,330 | 34,653 |
| 2017 | 194 | 169 | 12,555 | 6,042 | 22,754 | 8,492 | 31,246 |
| 2018 | 196 | 168 | 13,050 | 5,528 | 22,515 | 7,667 | 30,182 |
| 2019-2023 | 1,359 | 506 | 56,050 | 20,066 | 82,258 | 26,708 | 108,966 |
| 2024-2028 | 1,004 | 85 | 54,980 | 9,854 | 66,189 | 12,543 | 78,732 |
| 2029-2033 | -- | -- | 25,180 | 776 | 30,455 | 1,712 | 32,167 |
| 2034-2038 | -- | -- | -- | -- | 1,645 | 332 | 1,977 |
| 2039-2043 | -- | -- | -- | -- | 380 | 18 | 398 |
| | 3,567 | 1,328 | 195,825 | 63,279 | 303,543 | 88,205 | 391,748 |
| Less: Unamortized bond discounts | -- | -- | (277) | -- | (299) | -- | (299) |
| Unamortized gain(loss) on bond refundings | -- | -- | (14,440) | -- | (14,816) | -- | (14,816) |
| Add: Unamortized bond premiums | -- | -- | 4,090 | -- | 8,001 | -- | 8,001 |
| Net debt service requirements | $ 3,567 | 1,328 | 185,198 | 63,279 | 296,429 | 88,205 | 384,634 |

(1) A portion of these bonds are variable rate bonds with rates ranging from 0.05% to 0.28%.

## 6 – DEBT AND NON-DEBT LIABILITIES, continued
### e -- Defeased Bonds

Over time, the City has issued refunding bonds to advance refund certain public improvement bonds, certificates of obligation, and enterprise revenue bonds. The proceeds of the sale of the refunding bonds were deposited with an escrow agent in an amount necessary to accomplish the discharge and final payment of the refunded obligations. These funds are held by the escrow agent in an escrow fund and used to purchase direct obligations of the United States of America to be held in the escrow fund. The escrow fund is irrevocably pledged to the payment of the principal and interest on the refunded obligations.

On September 30, 2013, defeased bonds remaining unredeemed or unmatured are provided below (in thousands):

| Refunded Bonds | Escrow Maturity | Balance (1) |
|---|---|---|
| **General Obligation** | | |
| Public Improvement and Refunding Bonds, Series 2004 | 9/1/2014 | $ 4,980 |
| Certificates of Obligations, Series 2004 | 9/1/2014 | 10,945 |
| HUD 108 Loan, Series 2006A | 8/1/2016 | 655 |
| HUD 108 Loan, Series 2010A | 8/1/2016 | 2,865 |
| **Austin Water Utility** | | |
| Series 2004A | 11/15/2013 | 5,340 |
| Series 2004A | 11/15/2014 | 113,305 |
| | | $ 138,090 |

(1) The balances shown have been escrowed to their respective call dates.

**7 – RETIREMENT PLANS**
**a – Description**

The City participates in funding three contributory, defined benefit retirement plans: the City of Austin Employees' Retirement and Pension Fund, the City of Austin Police Officers' Retirement and Pension Fund, and the Fire Fighters' Relief and Retirement Fund of Austin, Texas. An Independent Board of Trustees administers each plan. These plans are Citywide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 2012. Membership in the plans at December 31, 2012, is as follows:

| | City Employees | Police Officers | Fire Fighters | Total |
|---|---|---|---|---|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them | 5,755 | 648 | 617 | 7,020 |
| Current employees | 8,387 | 1,709 | 998 | 11,094 |
| Total | 14,142 | 2,357 | 1,615 | 18,114 |

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

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

| Plan | Address | Telephone |
|---|---|---|
| Employees' Retirement and Pension Fund | 418 E. Highland Mall Blvd.<br>Austin, Texas 78752<br>www.coaers.org | (512)458-2551 |
| Police Officers' Retirement and Pension Fund | 2520 S. IH 35, Ste. 205<br>Austin, Texas 78704<br>www.ausprs.org | (512)416-7672 |
| Fire Fighters' Relief and Retirement Fund | 4101 Parkstone Heights Dr., Ste. 270<br>Austin, Texas 78746<br>www.afrs.org | (512)454-9567 |

**b -- Funding Policy**

| | City of Austin Employees' Retirement and Pension Fund | City of Austin Police Officers' Retirement and Pension Fund | Fire Fighters' Relief and Retirement Fund |
|---|---|---|---|
| Authority establishing contributions obligation | State Legislation | State Legislation | State Legislation |
| Frequency of contribution | Biweekly | Biweekly | Biweekly |
| Employee's contribution (percent of earnings) | 8.00% | 13.00% | 16.20% (1) |
| City's contribution (percent of earnings) | 18.0% (2) | 21.63% (3) | 21.05% (4) |

(1) A rate of 16.70% was effective October 1, 2013
(2) The City contributes two-thirds of the cost of prior service benefit payments. A rate of 18% was effective October 1, 2012. The City contribution includes an 8% employee match plus a subsidy contribution of 10%.
(3) A rate of 21.63% was effective October 1, 2012.
(4) A rate of 22.05% was effective August 25, 2013.

**7 – RETIREMENT PLANS, continued**
**b -- Funding Policy, continued**

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. Contributions for fiscal year ended September 30, 2013, are as follows (in thousands):

| | City Employees | Police Officers | Fire Fighters | Total |
|---|---|---|---|---|
| City | $ 85,531 | 30,675 | 17,390 | 133,596 |
| Employees | 37,795 | 18,436 | 13,744 | 69,975 |
| Total contributions | $ 123,326 | 49,111 | 31,134 | 203,571 |

**c -- Annual Pension Cost and Net Pension Obligation (Asset)**

The City's annual pension cost of $122,890,000 for the fiscal year ended September 30, 2013, was $10,706,000 less than the City's actual contributions. Three-year trend information is as follows (in thousands):

| | City Employees | Police Officers | Fire Fighters | Total |
|---|---|---|---|---|
| City's Annual Pension Cost (APC) | | | | |
| 2011 | $ 81,615 | 22,306 | 15,649 | 119,570 |
| 2012 | 85,335 | 27,246 | 15,589 | 128,170 |
| 2013 | 77,682 | 27,347 | 17,861 | 122,890 |
| Percentage of APC contributed | | | | |
| 2011 | 79% | 117% | 95% | N/A |
| 2012 | 85% | 102% | 100% | N/A |
| 2013 | 110% | 112% | 97% | N/A |
| Net Pension Obligation (Asset) | | | | |
| 2011 | 123,692 | (4,170) | (2,413) | 117,109 |
| 2012 | 136,255 | (4,733) | (2,451) | 129,071 |
| 2013 | 128,406 | (8,061) | (1,980) | 118,365 |

The Net Pension Obligation (Asset) associated with the City Employees' Retirement and Pension Fund, the Police Officers' Retirement and Pension Fund, and the Fire Fighters' Relief and Retirement Fund is as follows (in thousands):

| | City Employees | Police Officers | Fire Fighters | Total |
|---|---|---|---|---|
| Annual required contribution | $ 75,077 | 27,456 | 17,908 | 120,441 |
| Interest on net pension obligation (asset) | 10,562 | (378) | (190) | 9,994 |
| Adjustment to annual required contribution | (7,957) | 269 | 143 | (7,545) |
| Annual pension cost | 77,682 | 27,347 | 17,861 | 122,890 |
| Employer contributions | (85,531) | (30,675) | (17,390) | (133,596) |
| Change in net pension obligation (asset) | (7,849) | (3,328) | 471 | (10,706) |
| Beginning net pension obligation (asset) | 136,255 | (4,733) | (2,451) | 129,071 |
| Net pension obligation (asset) | $ 128,406 | (8,061) | (1,980) | 118,365 |

**7 – RETIREMENT PLANS, continued**
**c -- Annual Pension Cost and Net Pension Obligation (Asset)**

The latest actuarial valuations for the City Employees' Retirement and Pension Fund, the Police Officers' Retirement and Pension Fund, and the Austin Fire Fighters' Relief and Retirement Fund were completed as of December 31, 2012. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

| | City Employees | Police Officers | Fire Fighters |
|---|---|---|---|
| Actuarial Cost Method | Entry Age | Entry Age | Entry Age |
| Asset Valuation Basis | 5-year smoothed market | 5-year smoothed market | 5-year smoothed market |
| Inflation Rate | 3.25% | 3.75% | 3.5% |
| Projected Annual Salary Increases | 4.5% to 6% | 6.8% average | 8% |
| Post Retirement Benefit Increase | None | None | None |
| Assumed Rate of Return on Investments | 7.75% | 8% | 7.75% |
| Amortization Method | Level percentage of projected payroll, open | Level percentage of projected payroll, open | Level percentage of projected payroll, open |
| Remaining Amortization Period | 27.0 years | 29.4 years | 20.91 years |

**d -- Schedule of funding progress**

Information pertaining to the schedule of funding progress for each plan is as follows (in thousands):

| Valuation Date, December 31 | Actuarial Value of Assets | Actuarial Accrued Liability | UAAL (1) | Funded Ratio | Annual Covered Payroll | Percentage of UAAL to Covered Payroll |
|---|---|---|---|---|---|---|
| City Employees 2012 | $ 1,897,700 | 2,968,400 | 1,070,700 | 63.9% | 470,200 | 227.7% |
| Police Officers 2012 | 558,476 | 856,577 | 298,101 | 65.2% | 141,561 | 210.6% |
| Fire Fighters (2) 2011 | 651,557 | 746,143 | 94,586 | 87.3% | 76,700 | 123.3% |

(1) UAAL - Unfunded Actuarial Accrued Liability
(2) The actuarial study for the Fire Fighters' plan is performed biannually.

The schedule of funding progress, presented as RSI, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

**8 – OTHER POST-EMPLOYMENT BENEFITS**
**a -- Description**

In addition to the contributions made to the three pension systems, the City provides certain other post-employment benefits to its retirees. 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.

**8 – OTHER POST-EMPLOYMENT BENEFITS, continued**
**a – Description, continued**

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 $26.9 million for 3,945 retirees in 2013 and $24.2 million for 3,731 retirees in 2012.

**b -- Annual Other Post-Employment Benefits (OPEB) Cost and Net OPEB Obligation**

The annual OPEB cost associated with the City's retiree benefits for the fiscal year ended September 30, 2013 is as follows (in thousands):

| | OPEB |
|---|---|
| Annual required contribution | $ 139,900 |
| Interest on net OPEB obligation | 20,758 |
| Adjustment to annual required contribution | (28,063) |
| Annual OPEB cost | 132,595 |
| Contributions made | (26,959) |
| Change in net OPEB obligation | 105,636 |
| Beginning net OPEB obligation | 493,051 |
| Net OPEB obligation | $ 598,687 |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year and the two preceding years are as follows (in thousands):

| Year Ended September 30 | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 2011 | $ 135,756 | 17% | 383,192 |
| 2012 | 134,082 | 18% | 493,051 |
| 2013 | 132,595 | 20% | 598,687 |

**c -- Schedule of Funding Progress at September 30, 2013 (in thousands):**

| Actuarial Value of Assets | Actuarial Accrued Liability | UAAL (1) | Funded Ratio | Annual Covered Payroll | Percentage of UAAL to Covered Payroll |
|---|---|---|---|---|---|
| $ -- | 1,384,490 | 1,384,490 | 0% | 696,559 | 198.8% |

(1) UAAL - Unfunded Actuarial Accrued Liability

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI, presents multiyear information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

**d -- Actuarial methods and assumptions**

Projections of benefits are based on the plan in place at the time of the valuation and include the type of benefits provided at the valuation date and the cost sharing pattern between the employer and plan members at that time. The actuarial calculations of the OPEB plan reflect a long-term perspective and utilize actuarial methods and assumptions that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

**8 – OTHER POST-EMPLOYMENT BENEFITS, continued**
**e -- Funding Policy**

The actuarial cost method and significant assumptions underlying the actuarial calculation are as follows:

| | **OPEB** |
|---|---|
| Actuarial Valuation Date | October 1, 2012 |
| Actuarial Cost Method | Projected Unit Credit |
| Amortization Method | Level Percentage Open |
| Remaining Amortization Period | 30 years |
| Asset Valuation Method | N/A |
| Investment Rate of Return | 4.21% |
| Inflation Rate | N/A |
| Salary Increase | None |
| Payroll Increase | None |
| Health Care Cost Trend Rate | 8.0% in 2013, decreasing 0.5% per year for seven years to an ultimate trend of 5.0% in 2019 |

**9 – DERIVATIVE INSTRUMENTS**

The City has derivatives in two hedging programs: Energy Risk Management Program and Variable Rate Debt Management Program.

In accordance with GAAP, the City is required to report the fair value of all derivative instruments on the statement of net position. All derivatives must be categorized into two basis types – (1) hedging derivative instruments and (2) investment derivative instruments. Hedging derivative instruments significantly reduce an identified financial risk by substantially offsetting changes in cash flows or fair values of an associated hedgeable item. Investment derivative instruments are entered into primarily for income or profit purposes or they are derivative instruments that do not meet the criteria of an effective hedging derivative instrument. Changes in fair value of hedging derivative instruments are deferred on the statement of net position, and changes in fair value of investment derivative instruments are recognized as gains or losses on the statement of activities.

**a -- Energy Risk Management Program**

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

**Hedging Derivative Instruments**

Natural Gas Derivatives
Austin Energy purchases financial contracts on the New York Mercantile Exchange (NYMEX) to provide a hedge against the physical delivery price of natural gas from its various hubs. Austin Energy enters into basis swaps to protect delivery price differences between Henry Hub and its natural gas delivery points, Western Area Hub Association (WAHA), Katy, and the Houston Ship Channel (HSC).

The fair value of futures, swaps, and basis swap contracts is determined using the NYMEX closing settlement prices as of the last day of the reporting period. The fair value is calculated by deriving the difference between the closing futures price on the last day of the reporting period and purchase price at the time the positions were established. The fair value of the options are calculated using the Black/Scholes valuation method utilizing implied volatility based on the NYMEX closing settlement prices of the options as of the last day of the reporting period, risk free interest rate, time to maturity, and the NYMEX forward price of the underlier as of the last day of the reporting period.

**9 – DERIVATIVE INSTRUMENTS, continued**
**a -- Energy Risk Management Program, continued**

Premiums paid for options are deferred until the contract is settled. As of September 30, 2013, $736 thousand in premiums was deferred. As of September 30, 2013, the fair value of Austin Energy's futures, options, swaps and congestion rights, was an unrealized loss of $52.6 million, of which $55.4 million is reported as derivative instruments in liabilities and $2.8 million is reported as derivative instruments in assets. The fair values of these derivative instruments are deferred until future periods on the balance sheet using deferred outflows and deferred inflows.

Congestion Revenue Rights Derivatives
Preassigned Congestion Revenue Rights (PCRRs) and Congestion Revenue Rights (CRRs) function as financial hedges against the cost of resolving congestion in the Electric Reliability Council of Texas (ERCOT) market. These instruments allow Austin Energy to hedge expected future congestion that may arise during a certain period. CRRs are purchased at auction, annually and monthly at market value. Municipally owned utilities are granted the right to purchase PCRRs annually at 10-20% of the cost of CRRs. The instruments exhibit all three characteristics - settlement, leverage, and net settlement - to classify them as derivative instruments.

As of September 30, 2013, PCRRs had a fair value of $164 thousand and CRRs had a fair value of $714 thousand and are reported as derivative instruments. The market value for CRRs and PCRRs is calculated using the implied market value (the difference between future proxy sink price and source price) multiplied by the number of open positions. The difference in the prices represents what the expected cost of congestion will be for that given point in time.

On September 30, 2013, Austin Energy had the following outstanding hedging derivative instruments (in thousands):

| | | | | Fair Value | | | | |
|---|---|---|---|---|---|---|---|---|
| Type of Transaction | | Reference Index | Maturity Dates | Notional Volumes | | Fair Value | Change in Fair Value | Premiums Deferred |
| Long | OTC Call Options | Henry Hub | Oct 2013 - Sep 2017 | 6,120,518 | (1) | 1,549 | 662 | 2,152 |
| Long | OTC Put Options | Henry Hub | Oct 2013 - Mar 2014 | 1,820,000 | (1) | 125 | (33) | -- |
| Long | Options | Henry Hub | Oct 2013 | 310,000 | (1) | -- | (55) | -- |
| Long | Basis Swaps | WAHA | Oct 2013 - Dec 2013 | 460,000 | (1) | 231 | 12 | -- |
| n/a | Congestion Rights | ICE (2) | Oct 2013 - Dec 2015 | 26,338,966 | (3) | 878 | (1,403) | -- |
| | | | Derivative instruments (assets) | | | 2,783 | (817) | 2,152 |
| Short | OTC Call Options | Henry Hub | Apr 2016 - Oct 2016 | (1,660,000) | (1) | (807) | (177) | -- |
| Short | OTC Put Options | Henry Hub | Oct 2013 - Sep 2017 | (8,260,000) | (1) | (7,418) | (1,281) | (1,416) |
| Short | Options | Henry Hub | Oct 2013 | (310,000) | (1) | (1,087) | (86) | -- |
| Long | OTC Swaps | Henry Hub | Oct 2013 - Sep 2018 | 47,345,000 | (1) | (46,042) | (9,695) | -- |
| | | | Derivative instruments (liabilities) | | | (55,354) | (11,239) | (1,416) |
| | | | | Total | | $ (52,571) | (12,056) | 736 |

(1) Volume in MMBTUs
(2) IntercontinentalExchange
(3) Volume in MWHs

Austin Energy routinely purchases derivative instruments. The outstanding hedging derivative instruments were purchased at various dates.

The realized gains and losses related to the hedging activity derivative instruments are netted to fuel expense in the period realized.

Risks

*Credit Risk*. Credit risk is the risk of loss due to a counterparty defaulting on its obligations. Austin Energy's fuel derivative contracts expose Austin Energy to custodial credit risk on Exchange Traded derivative positions. In the event of default or nonperformance by brokers or the exchange, Austin Energy's operations will not be materially affected. However, Austin Energy does not expect the brokerages to fail to meet their obligations given their high credit ratings and the strict and deep credit requirements upheld by NYMEX, which these brokerage houses are members. At September 30, 2013, the brokerages had credit ratings of A- and A+.

**9 – DERIVATIVE INSTRUMENTS, continued**
**a -- Energy Risk Management Program, continued**

The over-the-counter agreements expose Austin Energy to credit risk. In the event of default Austin Energy's operations will not be materially affected. However, Austin Energy does not expect the counterparty to fail to meet its obligations given its high credit rating. At September 30, 2013, the counterparty had a credit rating of A. The contractual provisions under the ISDA (International Swaps and Derivatives Association) agreement applied to these contracts include collateral provisions. At September 30, 2013, no collateral was required under these provisions.

The congestion rights expose Austin Energy to custodial credit risk in the event of default or nonperformance by ERCOT. In the event of default of nonperformance, Austin Energy's operations will not be materially affected. However, Austin Energy does not expect ERCOT to fail in meeting their obligations as they are a regulatory entity of the State of Texas.

*Termination Risk*. Termination risk is the risk that a derivative will terminate prior to its scheduled maturity due to a contractual event. Contractual events include illegality, tax and credit events upon merger and other events. Termination risk for exchange-traded instruments is greatly reduced by the strict rules and guidelines set up by the exchange, which is governed by the Commodity Futures Trade Commission. Austin Energy's exposure to termination risk for over-the counter agreements is minimal due to the high credit rating of the counterparties and the contractual provisions under the ISDA (International Swaps and Derivatives Association) agreement applied to these contracts. Termination risk is associated with all of Austin Energy's derivatives up to the fair value of the instrument.

*Netting Arrangements*. Austin Energy enters into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by or owed to the non-defaulting party.

*Basis Risk*. Austin Energy is exposed to basis risk on its fuel hedges because the expected commodity purchases being hedged will price based on a delivery point (WAHA/Katy/HSC) different than that at which the financial hedging contracts are expected to settle NYMEX (Henry Hub). As of September 30, 2013, the NYMEX price was $3.50 per MMBTU, the WAHA Hub price was $3.41 per MMBTU, Katy was $3.64 per MMBTU, and the HSC Hub price was $3.47 per MMBTU.

**Investment Derivative Instruments**

On September 30, 2013, Austin Energy had the following closed out investment derivative instruments (in thousands):

| | | Fair Value | | | |
|---|---|---|---|---|---|
| **Type of Transaction** | **Reference Index** | **Maturity Dates** | **Volumes in MMBTU** | **Fair Value** | **Change in Fair Value** |
| Long OTC Call Options | Henry Hub | Oct 2013 | 620,000 | $ -- | -- |
| Short OTC Call Options | Henry Hub | Oct 2013 | (620,000) | -- | -- |
| Long OTC Swaps | Henry Hub | Dec 2015 | 155,000 | 17 | 55 |
| Short OTC Swaps | Henry Hub | Dec 2015 | (155,000) | (9) | (55) |
| Long Futures | Henry Hub | Oct 2013 | 77,500 | (415) | (30) |
| Short Futures | Henry Hub | Oct 2013 | (77,500) | 392 | 30 |
| | | | | $ (15) | -- |

In fiscal year 2013 Austin Energy sold PCRRs and recorded a gain of $1.2 million. However, this gain was deferred under the accounting requirements for regulated operations. At September 30, 2013, $1.3 million remained deferred.

Risks

As of September 30, 2013, Austin Energy was not exposed to credit, interest, or foreign currency risk on its investment derivative instruments.

**9 – DERIVATIVE INSTRUMENTS, continued**
**b -- Variable Rate Debt Management Program**

**Hedging Derivative Instruments**

The intention of each of the City's swaps is to provide a cash flow hedge for its variable interest rate bonds by providing synthetic fixed rate bonds. As a means to lower its borrowing costs when compared against fixed rate bonds at the time of issuance, the City executed pay-fixed, receive-variable swaps in connection with its issuance of variable rate bonds.

As of September 30, 2013, the City has 3 outstanding swap transactions with initial and outstanding notional amounts totaling $602.1 million and $486.1 million, respectively. The mark-to-market or fair value for each swap is estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the London Interbank Offered Rate (LIBOR) swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

On September 30, 2013, the City had the following outstanding interest rate swap hedging derivative instruments (in thousands):

| Item | Related Variable Rate Bonds | Terms | Effective Date | Maturity Date | Notional Amount | Fair Value |
|---|---|---|---|---|---|---|
| **Business-Type Activities - Hedging derivatives:** | | | | | | |
| WW2 | Water & Wastewater Revenue Refunding Bonds, Series 2008 | Pay 3.600%, receive SIFMA swap index | 5/15/2008 | 5/15/2031 | $ 147,720 | (13,122) |
| AIR1 | Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005 | Pay 4.051%, receive 71% of LIBOR | 8/17/2005 | 11/15/2025 | 230,175 | (35,978) |
| HOT1 | Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008 | Pay 3.251%, receive 67% of LIBOR | 8/14/2008 | 11/15/2029 | 108,240 | (12,549) |
| | | | | | $ 486,135 | (61,649) |

All swaps are pay-fixed interest rate swaps. All were entered into with the objective of hedging changes in the cash flows on the related variable rate debt.

The fair value of the City's interest rate swap hedging derivative instruments is reported as derivative instruments in liabilities with an offsetting adjustment to deferred outflow of resources. The table below provides for the fair value and changes in fair value of the City's interest rate swap agreements as of September 30, 2013 (in thousands):

| | Outstanding | Fair Value and Classification | | Change in fair value | |
|---|---|---|---|---|---|
| Item | Notional Amount | Amount | Classification | Deferred Outflows | Deferred Inflows |
| **Business-Type Activities:** | | | | | |
| **Hedging derivative instruments (cash flow hedges):** | | | | | |
| WW2 | $ 147,720 | (13,122) | Non-current liability | 13,302 | -- |
| AIR1 | 230,175 | (35,978) | Non-current liability | 16,440 | -- |
| HOT1 | 108,240 | (12,549) | Non-current liability | 7,819 | -- |
| | $ 486,135 | (61,649) | | 37,561 | -- |

Due to the continued low interest rate levels during fiscal year 2013, the City's interest rate swap hedging derivative instruments had negative fair values as of September 30, 2013. The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received.

**9 – DERIVATIVE INSTRUMENTS, continued**
**b -- Variable Rate Debt Management Program, continued**

Risks

*Credit risk*. As of September 30, 2013, the City was not exposed to credit risk on any of its outstanding swap agreements because each swap had a negative fair value. However, should interest rates change and the fair value of a swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The counterparty credit ratings for the City's interest rate swap hedging derivative instruments at September 30, 2013 are included in the table below:

| | | | Counterparty Ratings | | |
|---|---|---|---|---|---|
| **Item** | **Related Variable Rate Bonds** | **Counterparty** | **Moody's Investors Service, Inc** | **Standard & Poor's** | **Fitch, Inc** |
| **Business-Type Activities:** | | | | | |
| WW2 | Water & Wastewater Revenue Refunding Bonds, Series 2008 | Goldman Sachs Bank USA | A2 | A- | A |
| AIR1 | Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005 | Morgan Stanley Capital Services, Inc. | Baa1 | A- | A |
| HOT1 | Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008 | Morgan Keegan Financial Products | A2 | A | A+ |

Swap agreements for all three swaps contain collateral agreements with the counterparties. These swap agreements require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreements. For Swap AIR1, the City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/S&P. For Swap HOT1, the credit support provider of MKFP is Deutsche Bank AG, New York Branch (DBAG). This swap requires collateralization of the fair value of the swap should DBAG's credit rating fall below the applicable thresholds in the agreement.

*Swap payments and associated debt*. The net cash flows for the City's interest rate swap hedging derivative instruments for the year ended September 30, 2013, are included in the table below (in thousands):

| | | Counterparty Swap Interest | | | | |
|---|---|---|---|---|---|---|
| **Item** | **Related Variable Rate Bonds** | **Pay** | **Receive** | **Net** | **Interest to Bondholders** | **Net Interest Payments** |
| **Business-Type Activities:** | | | | | | |
| WW2 | Water & Wastewater Revenue Refunding Bonds, Series 2008 | $ (5,358) | 184 | (5,174) | (177) | (5,351) |
| AIR1 | Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005 | (9,347) | 341 | (9,006) | (332) | (9,338) |
| HOT1 | Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008 | (3,523) | 146 | (3,377) | (151) | (3,528) |
| | | $ (18,228) | 671 | (17,557) | (660) | (18,217) |

**9 – DERIVATIVE INSTRUMENTS, continued**
**b -- Variable Rate Debt Management Program, continued**

*Basis and interest rate risk*. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City does not bear basis risk on Swap WW2. At September 30, 2013, the City bears basis risk on the two remaining swaps. These swaps have basis risk since the City receives a percentage of LIBOR to offset the actual variable rate the City pays on the related bonds. The City is exposed to basis risk should the floating rate that it receives on a swap drop below the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

*Tax risk*. Tax risk is a specific type of basis risk. Tax risk is the risk of a permanent mismatch occurring between the interest rate paid on the City's underlying variable rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds. For example, a grandfathering of the elimination of federal tax-exemption on existing tax-exempt bonds, or a tax cut, would result in the yields required by investors on the City's bonds coming close to or being equal to taxable yields. This would result in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 71% of LIBOR on AIR1, and 67% of LIBOR on Swap HOT1 and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

*Termination risk*. The City or the counterparties may terminate any of the swaps if the other party falls to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased swap insurance on the Swap AIR1 to further reduce the possibility of termination risk.

*Rollover risk*. The City is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the City will be re-exposed to the risks being hedged by the hedging derivative instrument. The City is currently not exposed to rollover risk on its hedging derivative instruments.

**Investment Derivative Instruments**

At September 30, 2013, the City did not have any investment derivative instruments related to interest rate swaps.

As of September 30, 2013, debt service requirement of the City's variable rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows (as rates vary, variable rate bond interest payments and net swap payments will vary):

| Fiscal Year Ended September 30 | Variable-Rate Bonds (in thousands) Principal | Interest | Interest Rate Swaps, Net | Total Interest |
|---|---|---|---|---|
| 2014 | $ 42,825 | 40 | 16,996 | 17,036 |
| 2015 | 30,520 | 26 | 15,607 | 15,633 |
| 2016 | 23,820 | 32 | 14,647 | 14,679 |
| 2017 | 12,255 | 32 | 14,107 | 14,139 |
| 2018 | 12,600 | 29 | 13,666 | 13,695 |
| 2019-2023 | 158,365 | 240 | 51,636 | 51,876 |
| 2024-2028 | 149,125 | 304 | 19,556 | 19,860 |
| 2029-2031 | 56,625 | 86 | 2,734 | 2,820 |
| Total | $ 486,135 | 789 | 148,949 | 149,738 |

**10 – DEFICITS IN FUND BALANCES AND NET POSITION**

At September 30, 2013, the following funds reported deficits in fund balances/net position (in thousands). Management intends to recover these deficits through future operating revenues, transfers, or debt issues.

| Nonmajor Governmental | Deficit |
|---|---|
| **Special Revenue Funds:** | |
| Mueller Development | $ 4 |
| Rutherford Lane Facility | 963 |
| Section 108 Family Business Loan | 15 |
| **Capital Projects Funds:** | |
| Street & traffic signals | 8 |
| Parks and recreation facilities | 288 |
| Libraries | 17 |
| Radio Trunking | 47 |
| Transportation 2006 | 920 |
| Central Library | 3,044 |
| Mobility | 13,410 |
| Transportation 2012 | 1,173 |
| Open Space | 1,335 |
| Parks | 222 |
| Public Safety | 14 |
| Health | 136 |
| Library & Cultural | 10 |
| Planning & development improvements | 1 |
| Health projects | 187 |
| Build Austin | 342 |
| Park improvements | 1,905 |
| Police and courts | 2,095 |
| Capital Reserve | 1,128 |
| Public Works | 519 |
| Watershed Protection | 699 |
| City Hall, plaza, parking garage | 7,032 |
| Conservation Land | 15 |
| Waller Creek Tunnel | 11,983 |
| **Nonmajor Enterprise** | |
| Austin Resource Recovery | 12,445 |

**11 – INTERFUND BALANCES AND TRANSFERS**

Interfund receivables, payables, and advances at September 30, 2013, are as follows (in thousands):

| Receivable Fund | Payable Fund | Amount Current | Amount Advances |
|---|---|---|---|
| Governmental funds: | | | |
| General Fund | Nonmajor governmental funds | $ 227 | -- |
| Nonmajor governmental funds | Nonmajor governmental funds | 48,505 | -- |
| | Austin Water Utility | -- | 2,384 |
| | Nonmajor enterprise funds | -- | 201 |
| Internal Service funds | Nonmajor governmental funds | 11 | 160 |
| Enterprise funds: | | | |
| Austin Energy | General Fund | 189 | 1,447 |
| | Nonmajor governmental funds | -- | 253 |
| | Austin Water Utility (restricted) | -- | 17,027 |
| | Airport | 145 | 1,118 |
| | Nonmajor enterprise funds | 326 | 671 |
| | Internal service funds | 154 | 13 |
| Airport (restricted) | Nonmajor governmental funds | -- | 64 |
| Nonmajor enterprise funds (restricted) | Nonmajor governmental funds | -- | 734 |
| Nonmajor enterprise funds | Nonmajor enterprise funds | 287 | -- |
| | | $ 49,844 | 24,072 |

Interfund receivables, payables, and advances reflect loans between funds. Of the above current amount, $12.2 million is an interfund loan from the Fiscal Surety Fund, a special revenue fund, to other special revenue funds (primarily grant funds) to cover deficit pooled investments and cash. The above current amount also includes $36.2 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

Interfund transfers during fiscal year 2013 were as follows (in thousands):

| | Transfers In | | | | | | |
|---|---|---|---|---|---|---|---|
| Transfers Out | General Fund | Nonmajor Governmental | Austin Energy | Austin Water Utility | Nonmajor Enterprise | Internal Service | Total |
| General Fund | $ -- | 12,735 | -- | -- | 851 | 40 | 13,626 |
| Nonmajor governmental funds | -- | 34,406 | -- | -- | 51,635 | -- | 86,041 |
| Austin Energy | 105,333 | -- | -- | -- | -- | -- | 105,333 |
| Austin Water Utility | 39,684 | 175 | 1,755 | -- | -- | -- | 41,614 |
| Airport | -- | -- | 72 | -- | -- | -- | 72 |
| Nonmajor enterprise funds | 747 | 5,497 | 22 | 80 | 840 | 169 | 7,355 |
| Internal service funds | -- | 10,584 | -- | 7 | 90 | 34 | 10,715 |
| Total transfers out | $ 145,764 | 63,397 | 1,849 | 87 | 53,416 | 243 | 264,756 |

Interfund transfers are authorized through City Council approval. Significant transfers include Austin Energy and Austin Water Utility transfers to the General Fund, which are comparable to a return on investment to owners, and the transfer of hotel occupancy and vehicle rental tax collections from the Hotel-Motel Occupancy Tax and the Vehicle Rental Tax Funds to the Convention Center Fund.

## 12 – SELECTED REVENUES
### a -- Major Enterprise Funds

**Austin Energy and Austin Water Utility**

The Texas Public Utility Commission (PUC) has jurisdiction over electric utility wholesale transmission rates. On June 9, 2006, the PUC approved the City's most recent wholesale transmission rate of $1.002466/KW. Transmission revenues totaled approximately $63.4 million in 2013. The City Council has jurisdiction over all other electric utility rates and over all water and wastewater utility rates and other services. The Council determines electric utility and water and wastewater utility rates based on the cost of operations.

Under a bill passed by the Texas Legislature in 1999, municipally-owned electric utilities such as the City's utility system have the option of offering retail competition after January 1, 2002. As of September 30, 2013, City management has elected not to enter the retail market, as allowed by state law.

Electric rates include a fixed-rate component and cost-adjustment factors that allow for recovery of power supply, regulatory, and community benefit costs. If actual power supply costs differ from amounts billed to customers, then deferred or unbilled revenues are recorded by Austin Energy. The power supply factor is reviewed annually or when over- or under-recovery is more than 10% of expected power supply costs. Any over- or under-collections of the power supply, regulatory, or community benefit costs are applied to the respective cost-adjustment factor.

**Airport**

The City has entered into certain lease agreements as the lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In the fiscal year 2013, the Airport fund revenues included minimum concession guarantees of $15,379,661.

The following is a schedule by year of minimum future rentals on noncancelable operating leases with remaining terms of up to ten years for the Airport Fund as of September 30, 2013 (in thousands):

| Fiscal Year Ended September 30 | Enterprise<br>Airport Lease Receipts |
|---|---|
| 2014 | $ 13,889 |
| 2015 | 11,331 |
| 2016 | 3,423 |
| 2017 | 1,761 |
| 2018 | 50 |
| 2019-2023 | 11 |
| Totals | $ 30,465 |

Projection of minimum future rentals for the Austin-Bergstrom Landhost Enterprises, Inc. is based on the current adjusted minimum rent for the period May 1, 2011 through April 30, 2016. The minimum rent is adjusted every five years commensurate with the percentage increase in the Consumer Price Index (CPI) – Urban Wage Earners and Clerical workers, U.S. Owner Average, published by the U.S. Department of Labor Bureau of Labor Statistics over the five-year period.

## 13 – COMMITMENTS AND CONTINGENCIES
### a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with LCRA. Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. A management committee of four members governs FPP; each participant administratively appoints two members. As managing partner, LCRA is responsible for the operation of the project and appoints project management.

Austin Energy's investment is financed through operations, revenue bonds, or commercial paper, which are repaid by Austin Energy (see Note 6), and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's pro-rata interest in FPP was $39 million as of September 30, 2013. The increase in the pro-rata interest from 2012 is primarily due to an increase in coal inventory. The pro-rata interest in the FPP is calculated pursuant to the participation agreement and is reported in various assets and liability accounts within the City's financial statements. The original cost of Austin Energy's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of the City in accordance with its accounting policies.

**13 – COMMITMENTS AND CONTINGENCIES, continued**
**b -- South Texas Project**

Austin Energy is one of three participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are NRG South Texas LP and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2013, Austin Energy's investment in the STP was approximately $404 million, net of accumulated depreciation.

Effective November 17, 1997, the participation agreement among the owners of STP was amended and restated, and the STP Nuclear Operating Company (STPNOC), a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. Each participant is responsible for its STP funding. The City's portion is financed through operations, revenue bonds, or commercial paper, which are repaid by Austin Energy (see Note 6). In addition, each participant has the obligation to finance any deficits that may occur.

Each participant appoints one member to the board of directors of STPNOC, as well as one other member to the management committee. A member of the management committee may serve on the board of directors in the absence of a board member. The City's portion of STP is classified as plant in service, construction in progress, and nuclear fuel inventory. Nuclear fuel includes fuel in the reactor as well as nuclear fuel in process.

STP requested a 20-year license extension for units 1 & 2 with the Nuclear Regulatory Commission (NRC). The current licenses expire in 2027 and 2028, respectively. The NRC decided to stop all licensing activities that rely on the Waste Confidence Decision and Rule until burial waste issues are resolved.

**c -- South Texas Project Decommissioning**

Austin Energy began collecting in rates and accumulating funds for decommissioning STP in 1989 in an external trust. The Decommissioning Trust assets are reported as restricted investments held by trustee. The related liability is reported as a decommissioning liability payable. Excess or unfunded liabilities related to decommissioning STP will be adjusted in future rates so that there are sufficient funds in place to pay for decommissioning. At September 30, 2013, the trust's assets were in excess of the estimated liability by $18.8 million which is reported as part of deferred revenue and other liabilities (in thousands):

| | |
|---|---|
| Decommissioning trust assets | $ 186,477 |
| Pro rata decommissioning liability | (167,632) |
| | $ 18,845 |

STP is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit a certificate of financial assurance to the NRC for plant decommissioning every two years or upon transfer of ownership. The certificate provides reasonable assurance that sufficient funds are being accumulated to provide the minimum requirement for decommissioning mandated by the NRC. The most recent annual calculation of financial assurance filed on December 31, 2012, showed that the trust assets exceeded the minimum required assurance by $25.6 million.

**d -- Purchased Power**

Austin Energy has commitments totaling $5.2 billion to purchase energy and capacity through purchase power agreements. This amount includes provisions for wind power through 2041, landfill power through 2020, biomass through 2032, and solar through 2036.

**e -- Decommissioning and Environmental/Pollution Remediation Contingencies**

Austin Energy may incur costs for environmental/pollution remediation of certain sites including the Holly, Fayette, and Seaholm Power Plants. The financial statements include a liability of approximately $12.2 million at September 30, 2013. Austin Energy anticipates payment of these costs in 2014 and future years. The amount is based on 2013 cost estimates to perform remediation and decommissioning. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Austin Water Utility closed the Green Water Treatment Plant (GWTP) on September 23, 2008. The total decommissioning cost to close the GWTP was $10.6 million. Plant decommissioning reached final completion in fiscal year 2012. During fiscal year 2013, redevelopment activities of the former GWTP site triggered the recognition of an additional $3.1 million in environmental liabilities related to additional remediation of the site.

**13 – COMMITMENTS AND CONTINGENCIES, continued**
**e -- Decommissioning and Environmental/Pollution Remediation Contingencies, continued**

Austin Resource Recovery may incur costs for environmental remediation of certain sites outside of the City's landfill site. The financial statements include a liability of approximately $4.3 million at September 30, 2013, for sites related to Harold Court, Rosewood and Loop 360. Austin Resource Recovery anticipates payment of these costs in 2014 and future years. The amount is based on 2013 cost estimates to perform remediation. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

**f -- Arbitrage Rebate Payable**

The City's arbitrage consultant has determined that the City has not earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. Therefore, the City will not be required to rebate any amounts to the federal government. There are no estimated payables at September 30, 2013.

**g -- Federal and State Financial Assistance Programs**

The City participates in a number of federally assisted and state grant programs, financed primarily by the U.S. Housing and Urban Development (HUD) Department, U.S. Health and Human Services (HHS) Department, and U.S. Department of Transportation (DOT). The City's programs are subject to program compliance audits by the granting agencies. Management believes that no material liability will arise from any such audits.

**h -- Capital Improvement Plan**

As required by charter, the City has a *Capital Improvements Program* plan (capital budget) covering a five-year period which details anticipated spending for projects in the upcoming and future years. The City's 2013 Capital Budget has substantial contractual commitments relating to its capital improvement plan.

The key projects in progress include improvements to and development of the electric system, water and wastewater systems, airport, transportation infrastructure, public recreation and culture activities, and urban growth management activities. Remaining commitments represent current unspent budget and future costs required to complete projects.

| Project (in thousands) | Remaining Commitment |
|---|---|
| Governmental activities: | |
| General government | $ 105,024 |
| Public safety | 9,074 |
| Transportation | 103,323 |
| Public health | 1,978 |
| Public recreation and culture | 121,474 |
| Urban growth management | 51,014 |
| Business-type activities: | |
| Electric | 280,815 |
| Water | 372,472 |
| Wastewater | 91,621 |
| Reclaimed Water | 10,052 |
| Airport | 74,283 |
| Convention | 36,773 |
| Environmental and health services | 11,961 |
| Urban growth management | 74,215 |
| Total | $ 1,344,079 |

**13 – COMMITMENTS AND CONTINGENCIES, continued**
**i -- Encumbrances**

The City utilizes encumbrances to track commitments against budget in governmental funds. The amount of outstanding encumbrances at September 30, 2013, is as follows (in thousands):

| | Encumbrances |
|---|---|
| **General Fund** | $ 8,059 |
| **Nonmajor governmental** | |
| Special Revenue | 12,194 |
| Capital Projects | 132,174 |
| | $ 152,427 |

Significant encumbrances include reservations for the 2000 bond program ($25,359), the 2006 bond program ($27,990), the 2010 bond program ($19,913), and the Waller Creek Tunnel project ($42,468).

**j -- Landfill Closure and Postclosure Liability**

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, a portion of these future closure and postclosure care costs are reported as an operating expense in each period as incurred in the Austin Resource Recovery Fund, a nonmajor enterprise fund. Substantial closure occurred in fiscal year 2011. Drought conditions have delayed final closure, which is expected to occur in fiscal year 2014. While the landfill only reached 99.04% capacity, the City is no longer accepting waste. The amount of costs reported, based on landfill capacity of 100% as of September 30, 2013, is as follows (in thousands):

| | Closure | Postclosure | Total |
|---|---|---|---|
| Total estimated costs | $ 15,457 | 9,654 | 25,111 |
| % capacity used | 100% | 100% | 100% |
| Cumulative liability accrued | 15,457 | 9,654 | 25,111 |
| Costs incurred | (14,801) | -- | (14,801) |
| Closure and postclosure liability | $ 656 | 9,654 | 10,310 |

These amounts are based on the 2013 cost estimates to perform closure and postclosure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

**k -- Risk-Related Contingencies**

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

| Fund Name | Description |
|---|---|
| Employee Benefits | City employees and retirees may choose a self-insured PPO or HMO for health coverage. Approximately 29% of city employees and 36% of retirees use the HMO option; approximately 71% of city employees and 64% of retirees use the PPO option. Costs are charged to city funds through a charge per employee per pay period. |
| Liability Reserve | This self-insured program includes losses and claims related to liability for bodily injury, property damage, professional liability, and certain employment liability. Premiums are charged to other city funds each year based on historical costs. |
| Workers' Compensation | Premium charges for this self-insured program are assessed to other funds each year based on the number of full-time equivalent (FTE) employees per fund. |

**13 – COMMITMENTS AND CONTINGENCIES, continued**
**k -- Risk-Related Contingencies, continued**

The City purchases stop-loss insurance for the City's PPO and HMO. This stop-loss insurance covers individual claims that exceed $500,000 per calendar year, up to a maximum of $5 million. In fiscal year 2013, nine claims exceeded the stop-loss limit of $500,000; during fiscal year 2012, five claims exceeded the stop-loss limit of $500,000, and during fiscal year 2011, six claims exceeded the stop-loss limit of $500,000. City coverage is unlimited for lifetime benefits. The City does not purchase stop-loss insurance for workers' compensation claims.

The City is self-insured for much of its risk exposure; however, the City purchases commercial insurance coverage for loss or damage to real property, theft and other criminal acts committed by employees, and third party liability associated with the airport, owned aircraft, and electric utility operations. There have been no claims settlements in excess of the purchased insurance coverage for the last three years. The City also purchases insurance coverage through a program that provides workers' compensation, employer's liability, and third party liability coverage to contractors working on designated capital improvement project sites.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund. Claims liabilities for the Liability Reserve Fund are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. Possible losses are estimated to range from $39.8 to 52 million. In accordance with GAAP, $39.8 million is recognized as claims payable in the financial statements with $20.7 million recognized as a current liability and $19.1 recognized as long term. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

Changes in the balances of claims liability are as follows (in thousands):

| | Employee Benefits | | Liability Reserve | | Workers' Compensation | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Liability balances, beginning of year | $10,304 | 10,638 | 6,324 | 7,585 | 17,591 | 15,638 |
| Claims and changes in estimates | 9,677 | 8,348 | 5,547 | 803 | 6,870 | 6,608 |
| Claim payments | (9,061) | (8,682) | (1,748) | (2,064) | (5,622) | (4,655) |
| Liability balances, end of year | $10,920 | 10,304 | 10,123 | 6,324 | 18,839 | 17,591 |

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of $3.5 million discounted at 4.85% in 2013 and $3.4 million discounted at 3.99% in 2012.

**l – Redevelopment of Robert Mueller Municipal Airport**

In December 2004, City Council approved a master development agreement with Catellus Development Group (Catellus) to develop approximately 700 acres at the former site of the City's municipal airport into a mixed-use urban village near downtown Austin. Catellus is currently developing and marketing the property. The Mueller Local Government Corporation (MLGC), created by the City for this development, issues debt to fund infrastructure such as streets, drainage facilities, public parks, and greenways, which are supported by taxes generated from this development.

In September 2006, the MLGC issued debt in the amount of $12 million. Proceeds of the debt have been used to reimburse the developer for eligible infrastructure such as streets, drainage, and parks. Debt service payments are funded through an economic development grant from the City of Austin, and supported by sales tax proceeds from the development.

In October 2009, the MLGC issued debt in the amount of $15 million. Proceeds of the debt have been used to reimburse the developer for additional eligible infrastructure . Debt service payments are funded by property tax proceeds from the Mueller Tax Increment Reinvestment Zone.

In October 2012, the MLGC issued debt in the amount of $16,735,000. Proceeds from the debt have been used to reimburse the developer for additional eligible infrastructure. Debt service payments are funded by property tax proceeds from the Mueller Tax Increment Reinvestment Zone.

## 13 – COMMITMENTS AND CONTINGENCIES, continued
### l – Redevelopment of Robert Mueller Municipal Airport, continued

The development contains over 1.15 million square feet of institutional and Class A office space and approximately 500,000 square feet of retail space. Over 50 employers provide approximately 4,000 jobs at Mueller. From the start of home sales in 2007, the community has been well received. As of September 30, 2013, approximately 1,023 single-family homes and 1,222 multi-family units were either complete or under construction. Catellus has also started the infrastructure for an additional 334 single-family homes.

### m -- No-Commitment Special Assessment Debt

In November 2011, the City issued $15,500,000 of Special Assessment Revenue Bonds, Senior Series 2011 related to the Whisper Valley Public Improvement District. The bonds are special obligations of the City payable solely from the assessments levied against parcels within the Public Improvement District and other pledged funds held under the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. The City is acting as an agent for the property owners within the district in collecting the future assessments, forwarding collections to trustees, approving bond proceed disbursements, and initiating any future foreclosures. No assessments were levied in the year ended September 30, 3013. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2013 are $15,500,000 and $11,945,594, respectively.

In November 2011, the City issued $2,860,000 of Special Assessment Revenue Bonds, Senior Series 2011 related to the Indian Hills Public Improvement District. The bonds are special obligations of the City payable solely from the assessments levied against parcels within the Public Improvement District and other pledged funds held under the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. The City is acting as an agent for the property owners within the district in collecting the future assessments, forwarding collections to trustees, approving bond proceed disbursements, and initiating any future foreclosures. No assessments were levied in the year ended September 30, 3013. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2013 are $2,860,000 and $2,202,719, respectively.

In July 2013, the City issued $12,590,000 of Special Assessment Revenue Bonds, Series 2013 related to the Estancia Hill Country Public Improvement District. The bonds are special obligations of the City payable solely from the assessments levied against parcels within the Public Improvement District and other pledged funds held under the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. The City is acting as an agent for the property owners within the district in collecting the future assessments, forwarding collections to trustees, approving bond proceed disbursements, and initiating any future foreclosures. No assessments were levied in the year ended September 30, 3013. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2013 are $12,590,000 and $7,157,734, respectively.

### n -- Other Commitments and Contingencies

The City is committed under various leases for building and office space, tracts of land and rights-of-way, and certain equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2013 was $29.5 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

The City has entered into a lease agreement to finance equipment for business-type activities. This lease agreement qualifies as a capital lease for accounting purposes and has been recorded at the present value of the future minimum lease payments at their inception date. The lease agreement ends in 2031. Refer to Note 6 for the debt service requirements on this lease.

The following summarizes capital assets recorded at September 30, 2013, under capital lease obligations (in thousands):

| | Business-type Activities |
|---|---|
| **Capital Assets** | **Austin Energy** |
| Building and improvements | $ 1,405 |
| Accumulated depreciation | (386) |
| Net capital assets | $ 1,019 |

## 14 – LITIGATION

A number of claims and lawsuits against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and city management are of the opinion that settlement of these claims and lawsuits will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2013. These liabilities, reported in the government-wide statement of net position, include amounts for claims and lawsuits settled subsequent to year-end.

## 15 – CONDUIT DEBT

The City has issued several series of housing revenue bonds to provide for low cost housing. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. The City has issued $110.5 million in various series of housing revenue bonds that have an outstanding balance of $105.2 million as of September 30, 2013.

Revenue bonds have been issued by various related entities to provide for facilities located at the international airport and convention center. These bonds are special limited obligations payable solely from and secured by a pledge of revenue to be received from agreements between the entities and various third parties. As of September 30, 2013, $158.9 million in revenue and revenue refunding bonds were outstanding with an original issue value of $164.7 million. Included in these amounts is $143.8 million in taxable revenue bonds issued during Fiscal Year 2013 for the Austin Bergstrom International Airport Consolidated Rental Car Facility. These funds are to be used for the construction of a 1.6 million square foot parking complex, consolidating all rental car operations and providing 900 new public parking spaces. These bonds are payable by revenues collected through a customer facility charge.

The above bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements.

## 16 – SEGMENT INFORMATION – CONVENTION CENTER

The Convention Center provides event facilities and services to its customers. Below are the condensed financial statements for this segment (in thousands):

**Condensed Statement of Net Position**

| | |
|---|---|
| **ASSETS** | |
| Current assets | $ 63,202 |
| Capital assets | 255,513 |
| Other assets | 16,869 |
| **Total assets** | 335,584 |
| **Deferred outflows of resources** | 12,549 |
| **LIABILITIES** | |
| Due to other funds | 326 |
| Other current liabilities | 19,368 |
| Advances from other funds | 671 |
| Other noncurrent liabilities | 220,482 |
| **Total liabilities** | 240,847 |
| **NET POSITION** | |
| Net investment in capital assets | 55,668 |
| Restricted | 26,323 |
| Unrestricted | 25,295 |
| **Total net position** | $ 107,286 |

## 16 – SEGMENT INFORMATION – CONVENTION CENTER, continued

**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

| | |
|---|---|
| **OPERATING REVENUES** | |
| User fees and rentals | $ 22,783 |
| **Total operating revenues** | 22,783 |
| **OPERATING EXPENSES** | |
| Operating expenses before depreciation | 45,641 |
| Depreciation and amortization | 8,901 |
| **Total operating expenses** | 54,542 |
| **Operating income (loss)** | (31,759) |
| Nonoperating revenues (expenses) | (10,104) |
| Capital contributions | 366 |
| Transfers | 50,877 |
| **Change in net position** | 9,380 |
| **Total net position - beginning** | 97,906 |
| **Total net position - ending** | $ 107,286 |

**Condensed Statement of Cash Flows**

| | |
|---|---|
| **Net cash provided (used) by:** | |
| Operating activities | $ (20,697) |
| Noncapital financing activities | 50,560 |
| Capital and related financing activities | (24,918) |
| Investing activities | (3,148) |
| **Net increase (decrease) in cash and cash equivalents** | 1,797 |
| **Cash and cash equivalents, October 1** | 50,055 |
| **Cash and cash equivalents, September 30** | $ 51,852 |

## 17 – DISCRETELY PRESENTED COMPONENT UNITS

Condensed financial information is included below for the discretely presented component units of the City. See Note 1 for the additional information about how to obtain the complete financial statements of these organizations. Subsequent to the issuance of the City's 2012 financial statements, the City's management determined that these discretely presented component units were incorrectly classified as related organizations of the City. As a result, the discretely presented component units are now presented in the City's Government-wide Statement of Net Position and Statement of Activities. The most recently available financial statements for these organizations are for the year ended December 31, 2012 (in thousands):

**Condensed Combining Statement of Net Position**

| | Austin Bergstrom Landhost Enterprises, Inc. | Austin Convention Enterprises, Inc. | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Cash, receivable, and other current assets | $ 805 | 7,965 | 8,770 |
| Noncurrent assets | 1,760 | 85,291 | 87,051 |
| Depreciable capital assets, net of accumulated depreciation | 26,793 | 154,778 | 181,571 |
| **Total assets** | 29,358 | 248,034 | 277,392 |
| **LIABILITIES** | | | |
| Current Liabilities | 46,719 | 18,060 | 64,779 |
| Noncurrent liabilities | 2 | 36 | 38 |
| Bonds payable, net of discount and inclusive of premium | 15,373 | 250,353 | 265,726 |
| **Total liabilities** | 62,094 | 268,449 | 330,543 |
| **NET POSITION** | | | |
| Net investment in capital assets | (26,320) | (86,337) | (112,657) |
| Restricted for debt service | -- | 4,696 | 4,696 |
| Unrestricted (deficit) | (6,416) | 61,226 | 54,810 |
| Total net position | $ (32,736) | (20,415) | (53,151) |

**Condensed Combining Statement of Revenues, Expenses, and Changes in Net Position**

| | Austin Bergstrom Landhost Enterprises, Inc. | Austin Convention Enterprises, Inc. | Total |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| User fees and rentals | $ 14,259 | 67,724 | 81,983 |
| **Total operating revenues** | 14,259 | 67,724 | 81,983 |
| **OPERATING EXPENSES** | | | |
| Operating expenses before depreciation | 11,785 | 36,932 | 48,717 |
| Depreciation and amortization | 1,308 | 6,053 | 7,361 |
| **Total operating expenses** | 13,093 | 42,985 | 56,078 |
| **Operating income (loss)** | 1,166 | 24,739 | 25,905 |
| **NONOPERATING REVENUES (EXPENSES)** | | | |
| Nonoperating revenues (expenses) | (4,048) | (14,466) | (18,514) |
| **Change in net position** | (2,882) | 10,273 | 7,391 |
| **Total net position - beginning** | (29,854) | (30,688) | (60,542) |
| **Total net position - ending** | $ (32,736) | (20,415) | (53,151) |

**18 – RESTATEMENT AS A RESULT OF THE IMPLEMENTATION OF A NEW ACCOUNTING STANDARD**

During fiscal year 2013, the City implemented a new accounting standard, GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (SCAs), which established standards of accounting and reporting for SCAs between a government and an operator. GASB Statement No. 60 requires a restatement of prior financial statements for prior period impacts of implementation. The statement also requires the City to report the activities for certain public-private partnerships as SCAs in the financial statements, including the recognition, measurement, and disclosure of information regarding those SCAs. As described in Note 5, the City identified two SCAs as a result of the implementation of this standard.

The City has restated the beginning net position in 2012 for the governmental activities to reflect this implementation as follows (in thousands):

| | Exhibit A-2 | |
|---|---|---|
| **September 30, 2012** | **Governmental Activities** | **Business-Type Activities** |
| Net assets, as previously reported | $ 1,415,237 | 3,051,742 |
| Adjustments to properly record: | | |
| Implementation of GASB Statement No. 60 | 552 | -- |
| Net assets, as restated | $ 1,415,789 | 3,051,742 |

**19 – SUBSEQUENT EVENTS**
**a – Halloween Flood Event**

On October 31, 2013, a record flood occurred on Onion Creek within the City of Austin. Preliminary estimates indicate 825 homes were damaged, and four people died in the City of Austin/Travis County area. Implementation of an emergency buyout program is underway to purchase homes in the flood plain area utilizing funds identified from the Drainage Fund, existing bond funds designated for flood property buyouts, and the Regional Stormwater Management Program. In addition, the City expects to receive additional buyout funding from the U.S. Army Corps of Engineers buyout program.

In addition to private property losses, the City of Austin experienced damage to public property. The City is assessing impairments to City assets and submitting insurance claims. As a result of the significant impact to the area, the City anticipates receiving several grants from the Federal Emergency Management Agency in 2014 to assist with restoration and cleanup of public property.

**b -- General Obligation Bond Issue**

In October 2013, the City issued $104,665,000 of Public Improvement Bonds, Series 2013. The net proceeds of $113,250,000 (after issue costs, discounts, and premiums) from the issue will be used as follows: streets and signals ($50,335,000), watershed protection improvements ($35,000,000), parks and recreation ($1,425,000), central library ($20,000,000), and facility improvements ($6,490,000). These bonds will be amortized serially on September 1 of each year from 2014 to 2033. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2014. Total interest requirements for these bonds, at rates ranging from 2.0% to 5.0%, are $63,690,050.

In October 2013, the City issued $25,355,000 of Certificates of Obligation, Series 2013. The net proceeds of $25,355,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: solid waste services environmental remediation ($355,000) and Waller Creek Tunnel ($25,000,000). These certificates of obligation will be amortized serially on September 1 of each year from 2016 to 2038. Interest is payable on March 1 and September 1 of each year, commencing on March 1, 2014. Total interest requirements for these obligations, at rates ranging from 3.25% to 5.0%, are $16,526,625.

In October 2013, the City issued $50,150,000 of Public Property Finance Contractual Obligations, Series 2013. The net proceeds of $51,240,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: water utility capital equipment ($1,245,000), wastewater utility capital equipment ($1,760,000), public safety radio replacements ($5,355,000), general government and support services capital equipment ($13,425,000), police capital equipment ($3,745,000), public works capital equipment ($9,210,000), fire capital equipment ($2,865,000), transportation capital equipment ($635,000) and solid waste services capital equipment ($13,000,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2014 to 2020. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2014. Total interest requirements for these obligations, at rates ranging from 0.5% to 3.0%, are $4,487,556.

**19 – SUBSEQUENT EVENTS, continued**

**c -- Public Improvement Refunding Bond Issue**

In October 2013, the City issued $43,250,000 of Public Improvement Refunding Bonds, Series 2013A. The net proceeds of $49,640,369 (after issue costs, discounts, and premiums) from the refunding were used to refund $3,670,000 of Public Improvement Refunding Bonds, Series 2003; $220,000 of Certificates of Obligation, Series 2003; $4,405,000 of Certificates of Obligation, Series 2004; and $39,435,000 of Public Improvement Refunding Bonds, Series 2004. The refunding resulted in future interest requirements to service the debt of $13,047,317 with interest rates ranging from 2.0% to 5.0%. Interest is payable March 1 and September 1 of each year from 2014 to 2024, commencing on March 1, 2014. Principal payments are due September 1 of each year from 2014 to 2021, and 2023 to 2024. An economic gain of $3,773,236 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $4,286,744.

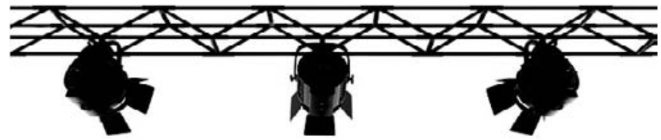
In October 2013, the City issued $71,455,000 of Public Improvement Refunding Bonds, Taxable Series 2013B. The net proceeds of $71,252,539 (after issue costs, discounts, and premiums) from the refunding were used to refund $66,475,000 of Public Improvement Refunding Bonds, Series 2005. The refunding resulted in future interest requirements to service the debt of $6,190,387 with interest rates ranging from 0.20% to 2.72%. Interest is payable March 1 and September 1 of each year from 2014 to 2020, commencing on March 1, 2014. Principal payments are due September 1 of each year from 2014 to 2020. An economic gain of $3,993,908 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $4,325,025.

**d -- Convention Center – Revenue Refunding Bond Issue**

In December 2013, the City issued $26,485,000 of Hotel Occupancy Tax Revenue Refunding Bonds, Series 2013. The net proceeds of $29,154,825 (after issue costs, discounts, and premiums) from the refunding were used to refund $28,890,000 of the City's outstanding Hotel Occupancy Tax Revenue Refunding Bonds, Series 2004. The debt service requirements on the refunding bonds are $30,852,642, with interest rates ranging from 2.0% to 5.0%. Interest is payable May 15 and November 15 of each year from 2014 to 2019, commencing on May 15, 2014. Principal payments are due November 15 of each year from 2014 to 2019. An economic gain of $3,013,625 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $3,166,933.

**e -- Airport – Revenue Refunding Bond Issue**

In October 2013, the City issued $35,620,000 of Airport System Revenue Refunding Bonds, Series 2013A. The net proceeds of $36,868,542 (after issue costs, discounts, and premiums) from the refunding were used to refund $35,880,000 of the City's outstanding Airport System Prior Lien Revenue Refunding Bonds, Series 2003. The debt service requirements on the refunding bonds are $37,590,793, with an interest rate of 1.56%. Interest is payable May 15 and November 15 of each year from 2014 to 2018, commencing on May 15, 2014. Principal payments are due November 15 of each year from 2014 to 2018. An economic gain of $5,698,670 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $5,899,132.



# REQUIRED SUPPLEMENTARY INFORMATION

(In thousands)

| General Fund | Actual | Adjustments (1) (2) | Actual-Budget Basis | Budget Original | Budget Final | Variance (3) Positive (Negative) |
|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | |
| Taxes | 498,605 | 100 | 498,705 | 483,261 | 485,461 | 13,244 |
| Franchise fees | 35,040 | 16 | 35,056 | 33,300 | 33,300 | 1,756 |
| Fines, forfeitures and penalties | 16,971 | -- | 16,971 | 17,910 | 17,910 | (939) |
| Licenses, permits and inspections | 28,669 | 8 | 28,677 | 20,000 | 20,000 | 8,677 |
| Charges for services/goods | 49,579 | (164) | 49,415 | 44,291 | 44,571 | 4,844 |
| Interest and other | 6,027 | (1,668) | 4,359 | 3,149 | 3,149 | 1,210 |
| **Total revenues** | 634,891 | (1,708) | 633,183 | 601,911 | 604,391 | 28,792 |
| **EXPENDITURES** | | | | | | |
| General government | | | | | | |
| Municipal Court | 13,926 | (38) | 13,888 | 14,292 | 14,260 | 372 |
| Public safety | | | | | | |
| Police | 280,954 | 359 | 281,313 | 284,416 | 284,717 | 3,404 |
| Fire | 138,676 | 619 | 139,295 | 138,337 | 139,366 | 71 |
| Emergency Medical Services | 54,350 | 195 | 54,545 | 57,923 | 56,382 | 1,837 |
| Transportation, planning, and sustainability | | | | | | |
| Transportation, planning, and sustainability | 9 | (9) | -- | -- | -- | -- |
| Public health | | | | | | |
| Health | 48,232 | 841 | 49,073 | 48,360 | 49,045 | (28) |
| Public recreation and culture | | | | | | |
| Parks and Recreation | 51,910 | 299 | 52,209 | 51,875 | 52,397 | 188 |
| Austin Public Library | 29,983 | 114 | 30,097 | 30,304 | 30,254 | 157 |
| Urban growth management | | | | | | |
| Neighborhood Planning and Zoning | 25,022 | 78 | 25,100 | 25,186 | 25,199 | 99 |
| Other Urban Growth Management | 19,912 | (3,808) | 16,104 | 17,770 | 17,820 | 1,716 |
| General city responsibilities (4) | 87,126 | (73,796) | 13,330 | 26,590 | 14,625 | 1,295 |
| **Total expenditures** | 750,100 | (75,146) | 674,954 | 695,053 | 684,065 | 9,111 |
| Excess (deficiency) of revenues over expenditures | (115,209) | 73,438 | (41,771) | (93,142) | (79,674) | 37,903 |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Transfers in | 145,764 | 27,992 | 173,756 | 163,532 | 174,050 | (294) |
| Transfers out | (13,626) | (89,406) | (103,032) | (82,629) | (103,576) | 544 |
| **Total other financing sources (uses)** | 132,138 | (61,414) | 70,724 | 80,903 | 70,474 | 250 |
| Excess (deficiency) of revenues and other sources over expenditures and other uses | 16,929 | 12,024 | 28,953 | (12,239) | (9,200) | 38,153 |
| Fund balance at beginning of year | 130,163 | (8,819) | 121,344 | 65,411 | 84,991 | 36,353 |
| **Fund balance at end of year** | 147,092 | 3,205 | 150,297 | 53,172 | 75,791 | 74,506 |

(1) Includes adjustments to expenditures for current year encumbrances, payments against prior year encumbrances, accrued payroll, compensated absences, and amounts budgeted as operating transfers.
(2) Includes adjustments to revenues/transfers required for adjusted budget basis presentation.
(3) Variance is actual-budget basis to final budget.
(4) Actual expenditures include employee training costs and amounts budgeted as fund-level expenditures or operating transfers. Actual-budget basis expenditures include employee training costs, budgeted payroll accrual, and amounts budgeted as fund-level

## BUDGET BASIS REPORTING

### a -- General

The City of Austin prepares its annual operating budget based on the modified accrual basis. Encumbrances constitute the equivalent of expenditures for budgetary purposes. In order to provide a meaningful comparison of actual results to the budget, the Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual-Budget Basis for the General Fund presents the actual and actual-budget basis amounts in comparison with original and final budgets.

The General Fund, as reported in the financial statements is comprised of five separately budgeted funds: the General Fund, as budgeted by the City plus the Economic Incentives Reserve, Music Venue Assistance Program, Neighborhood Housing and Community Development, and Sustainability activities.

The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The expenditure budget for these general city requirements includes the following: tuition reimbursement ($340,000), accrued payroll ($1,942,337), expenditures for workers' compensation ($6,420,101), liability reserve ($2,100,000), public safety ($2,822,908), and customer service call center ($1,000,000).

### b -- Budget Amendments

The original revenue budget of the General Fund was amended during the fiscal year 2013 to increase sales taxes and the transfer in from the Budget Stabilization Reserve. The original expenditure budget of the General Fund was amended during fiscal year 2013 primarily for the increased transfer to capital improvement projects as well as increased fire and social services costs. The original and final budget is presented in the accompanying schedule.

### c -- Reconciliation of GAAP Basis and Budget Basis Amounts

The primary differences between GAAP-basis and budget-basis reporting for the General Fund are the reporting of encumbrances and the reporting of certain transfers. General Fund accrued payroll is recorded at the department level on a GAAP basis and as an expenditure in the general city responsibilities activity on the budget basis. Adjustments necessary to convert the excess revenues and other sources over expenditures and other uses on a GAAP basis to a budget basis for the activities comprising the General Fund are provided, as follows (in thousands):

| | General Fund |
|---|---|
| Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis | $ 16,929 |
| Adjustments - increases (decreases) due to: | |
| Unbudgeted revenues | (1,144) |
| Net compensated absences accrual | 484 |
| Outstanding encumbrances established in current year | (7,495) |
| Payments against prior year encumbrances | 4,227 |
| Other | 15,952 |
| Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis | $ 28,953 |

**RETIREMENT PLANS-TREND INFORMATION**

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

| Valuation Date, December 31 | Actuarial Value of Assets | Actuarial Accrued Liability | UAAL(1) | Funded Ratio | Annual Covered Payroll | Percentage of UAAL to Covered Payroll |
|---|---|---|---|---|---|---|
| City Employees | | | | | | |
| 2010 | $ 1,711,600 | 2,460,700 | 749,100 | 69.6% | 438,900 | 170.7% |
| 2011 | 1,790,900 | 2,723,800 | 932,900 | 65.7% | 451,800 | 207.0% |
| 2012 | 1,897,700 | 2,968,400 | 1,070,700 | 63.9% | 470,200 | 227.7% |
| Police Officers | | | | | | |
| 2010 | 546,957 | 776,231 | 229,274 | 70.5% | 127,732 | 179.5% |
| 2011 | 553,702 | 815,259 | 261,557 | 67.9% | 134,844 | 194.0% |
| 2012 | 558,476 | 856,577 | 298,101 | 65.2% | 141,561 | 210.6% |
| Fire Fighters (2) | | | | | | |
| 2007 | 584,420 | 586,802 | 2,382 | 99.6% | 76,556 | 3.1% |
| 2009 | 589,261 | 664,185 | 74,924 | 88.7% | 78,980 | 94.9% |
| 2011 | 651,557 | 746,143 | 94,586 | 87.3% | 76,700 | 123.3% |

(1) UAAL – Unfunded Actuarial Accrued Liability (Excess)
(2) The actuarial study for the Fire Fighters' plan is performed biannually.

Information on where to obtain financial statements and supplementary information for each plan can be found in Footnote 7.

**OTHER POST-EMPLOYMENT BENEFITS-TREND INFORMATION**

Under GAAP, the City is required to have an actuarial valuation of its other post-employment benefits program every other year. The Schedule of Funding Progress for other post-employment benefits is as follows (in thousands):

| Fiscal Year Ended September 30 | Valuation Date, October 1 | Actuarial Value of Assets | Actuarial Accrued Liability | UAAL(1) | Funded Ratio | Annual Covered Payroll | Percentage of UAAL to Covered Payroll |
|---|---|---|---|---|---|---|---|
| 2011 | 2010 | $ -- | 1,404,692 | 1,404,692 | 0.0% | 668,679 | 210.1% |
| 2012 | 2010 | -- | 1,499,465 | 1,499,465 | 0.0% | 668,679 | 224.2% |
| 2013 | 2012 | -- | 1,384,490 | 1,384,490 | 0.0% | 696,559 | 198.8% |

(1) UAAL – Unfunded Actuarial Accrued Liability (Excess)

Supplementary information for the OPEB plan can be found in Footnote 8.

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## APPENDIX C

## SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

The following constitutes a summary of certain portions of the Ordinance. This summary should be qualified by reference to other provisions of the Ordinance referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Ordinance in this Official Statement are, separately and in whole, qualified by reference to the exact terms of the Ordinance, a copy of which may be obtained from the City.

### Selected Definitions

"Additional Revenue Bonds" means the additional parity revenue bonds permitted to be issued by the City pursuant to the Ordinance.

"Administrative Expense Fund" means the fund so designated in the Ordinance.

"Administrative Expenses" means the fees, expenses, and indemnification liabilities payable to the Persons to whom fees and expenses are due and owing in connection with the Revenue Bonds and Credit Agreement Obligations incurred in connection with a related series of Revenue Bonds, including, but not limited to the fees and expenses of the Paying Agent/Registrars, the Credit Providers, the rebate analysts, the remarketing agents and the tender agents, and of which the City is given actual notice at least thirty (30) days prior to the date payment of these amounts is due.

"Airport" means the air carrier airport developed, constructed and operated by the City pursuant to the city-wide election held within the City on May 1, 1993, and designated as the Austin-Bergstrom International Airport (ABIA).

"Airport Consultant" means a nationally recognized independent firm, person or corporation having a widely known and favorable reputation for special skill, knowledge and experience in methods of developing, operating and financing of airports of approximately the same size as the properties constituting the Airport System.

"Airport System" means all airport, heliport and aviation facilities, now or from time to time owned, operated or controlled in whole or in part by the City, including the Airport, together with all properties, facilities and services of the Airport, and all additions, extensions, replacements and improvements to the Airport, and all services currently provided, or to be provided, by the City in connection with the Airport, but expressly excluding (i) any heliport or heliports operated by City Departments other than the Aviation Department, (ii) the Austin consolidated rental car facility, financed by the issuance of City of Austin, Texas Rental Car Special Facility Revenue Bonds, Taxable Series 2013, as Special Facilities, and (iii) the Mueller Airport Property.

"Aviation Director" means the Executive Director of the City's Department of Aviation, or any successor or person acting in that capacity.

"Bond Insurer" means Assured Guaranty Municipal Corp. (the successor to Financial Security Assurance, Inc., a New York stock insurance company), or any successor to or assigned of Assured Guaranty Municipal Corp.

"Bonds" means the City of Austin, Texas, Airport System Revenue Bonds, Series 2014 (AMT), authorized by the Ordinance.

"Business Day" means any day other than a Saturday, Sunday or legal holiday or other day on which banking institutions in the City, or in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are generally authorized or obligated by law or executive order to close.

"Capital Fund" means the fund so designated in the Ordinance.

"Capitalized Interest Account" means the account so designated in the Ordinance.

"Code" means the Internal Revenue Code of 1986.

"Construction Fund" means the fund so designated in the Ordinance.

"Credit Agreement" means (i) any agreement of the City entered into in connection with and for the purpose of (A) enhancing or supporting the creditworthiness of a series of Revenue Bonds or (B) providing liquidity with respect to Revenue Bonds which by their terms are subject to tender for purchase, and which, by its terms, creates a liability on the part of the City on a parity with the Revenue Bonds to which it relates, and (ii) a Swap Agreement.

"Credit Agreement Obligations" means any amounts payable by the City under and pursuant to a Credit Agreement other than amounts payable as an Administrative Expense.

"Currently Outstanding Revenue Bonds" means the Series 2005 Bonds, the Series 2013 Bonds and the Series 2013A Bonds.

"Debt Service" means (i) with respect to a series of Revenue Bonds, an amount equal to the Principal Installment, redemption premium, if any, and interest on such Revenue Bonds, (ii) with respect to a Credit Agreement other than a Swap Agreement, amounts payable as Credit Agreement Obligations, and (iii) with respect to a Swap Agreement, regularly scheduled amounts payable by the City under a Swap Agreement, so long as the counterparty is not in default (specifically excluding Termination Payments, which shall constitute Subordinate Obligations).

"Debt Service Fund" means the fund so designated in the Ordinance.

"Debt Service Requirements" means for any particular period of time, an amount equal to the sum of the following for such period with respect to all or any portion of Revenue Bonds or Credit Agreement Obligations, as applicable, then Outstanding:

A. That portion of interest which would accrue with respect to Revenue Bonds during such period if interest were deemed to accrue only during the 6 month period prior to its payment (12 month period in the case of capital appreciation or compound interest bonds), plus

B. That portion of the principal amount of Revenue Bonds which would accrue during such period if principal was deemed to accrue only during the 12 month period prior to its scheduled payment date (either at maturity or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory Revenue Bond redemptions),

less and except any such interest or principal for the payment of which provision has been made by: (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest or principal either from proceeds of bonds, from interest earned or to be earned thereon, from Airport System funds other than Net Revenues, or from any combination of such sources; and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a dedicated fund or account (including, without limitation, the Capitalized Interest Account), the proceeds of which are required to be transferred as needed into the Debt Service Fund or directly to the Paying Agent/Registrar for the Revenue Bonds.

"Debt Service Reserve Fund" means the fund so designated in the Ordinance.

"Debt Service Reserve Fund Requirement" means the amount required to be maintained in the Debt Service Reserve Fund. This amount shall be computed and recomputed annually as a part of the City's budget process and upon the issuance of each series of Revenue Bonds to be the arithmetic average of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Revenue Bonds then Outstanding including the series of Revenue Bonds then being issued. In no event, however, will the amount deposited in the Debt Service Reserve Fund that is allocable to the Revenue Bonds or Additional Revenue Bonds, in accordance with section 1.148-6 of the regulations promulgated under the Code, exceed the least of: (a) 10% of the stated principal amount of each issue of which such Revenue Bonds or Additional Revenue Bonds are a part; (b) the maximum annual principal and interest requirements of the issue; or (c) 125% of the average annual principal and interest requirements of the issue, unless there is received an opinion of nationally recognized bond counsel to the effect that such additional amount will not cause the Revenue Bonds and any Additional Revenue Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code and the related regulations promulgated from time to time.

"Debt Service Reserve Fund Surety Bond" means any surety bond or insurance policy having a rating in the highest respective rating categories by Moody's and Standard & Poor's issued to the City for the benefit of the Owners of the Revenue Bonds to satisfy any part of the Debt Service Reserve Fund Requirement as provided in the Ordinance.

"Defeasance Obligations" means: (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States; (ii) 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, on the date of their purchase, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date council adopts or approves the proceedings authorizing the financial arrangements, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

"Federal Payments" means those funds received by the Airport System from the federal government or any agency of the federal government as payments for the use of any facilities or services of the Airport System.

"Fiscal Year" means the City's fiscal year as from time to time designated by the City, which is currently October 1 to September 30.

"General Obligation Airport Bonds" means those bonds or other obligations of the City secured by a levy of ad valorem taxes from time to time issued or to be issued by the City for Airport System purposes.

"Gross Revenues" means all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to all or any part of the Airport System, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport System, or otherwise, and includes, except to the extent expressly excluded below, all revenues received by the City from the Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport System, or for any service rendered by the City in the operation of the Airport System, interest and other income realized from the investment or deposit of amounts required to be transferred or credited to the Revenue Fund. Gross Revenues **expressly excludes**:

(a) proceeds of any Revenue Bonds and Subordinate Obligations;

(b) interest or other investment income derived from Revenue Bonds and Subordinate Obligation proceeds deposited to the credit of a construction fund, and all other interest or investment income not required to be transferred or credited to the Revenue Fund;

(c) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport System facilities, except to the extent any such monies shall be received as payments for the use of the Airport System facilities;

(d) any revenues derived from any Special Facilities (e.g. customer facility charges) which are pledged to the payment of Special Facilities Bonds;

(e) insurance proceeds other than loss of use or business interruption insurance proceeds;

(f) the proceeds of the passenger facility charge (PFC) currently imposed by the City and any other per-passenger charge as may be lawfully authorized;

(g) sales and other taxes collected by the Airport System on behalf of the State of Texas and any other taxing entities;

(h) Federal Payments received by the Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Bonds to be includable within the gross income of the Owners thereof for federal income tax purposes;

(i) the proceeds received by the City from the sale or other disposition of Airport System property, except amounts representing interest or finance charges in a deferred sale or other similar method of conveyance where a portion of the sale price is payable on a deferred basis, in which case any interest or finance charges shall be considered Gross Revenues; and

(j) Other Available Funds transferred to the Revenue Fund as provided in the Ordinance.

"Interest Payment Date" means each May 15 and November 15, commencing May 15, 2015, until maturity or prior redemption of the Bonds.

"Minimum Capital Reserve" means an amount, designated by the Aviation Director not less frequently than annually at the end of each Fiscal Year, but in any event not more than $100,000 each Fiscal Year, necessary to accumulate or to reaccumulate in the Capital Fund a reserve in an amount not less than $1,000,000.

"Moody's" means Moody's Investors Service, Inc., its successors and assigns, and if this corporation shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall refer to any other nationally recognized securities rating agency designated by the City.

"Mueller Airport Property" means the property and facilities that comprised the former Robert Mueller Municipal Airport, located within the City. The Mueller Airport Property is not part of the Airport System.

"Net Revenues" means that portion of the Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses of the Airport System.

"Operation and Maintenance Expenses" means all reasonable and necessary current expenses of the City, paid or accrued, of operating, maintaining and repairing the Airport System, including, without limitation, those reasonably allocated City overhead expenses relating to the administration, operation and maintenance of the Airport System; insurance and fidelity bond premiums; payments to pension and other funds and to any self-insurance fund; any general and excise taxes or other governmental charges imposed by entities other than the City; any required rebate of any portion of interest income to the federal government which is payable from Gross Revenues or the Revenue Fund; costs of contractual and professional services, labor, materials and supplies for current operations, including the costs of direct City services rendered to the Airport System as are requested from the City by the Airport System and as are reasonably necessary for the operation of the Airport System; costs of issuance of Revenue Bonds and Subordinate Obligations for the Airport System (except to the extent paid from the proceeds); fiduciary costs; costs of collecting and refunding Gross Revenues; utility costs; any lawful refunds of any Gross Revenues; and all other administrative, general and commercial expenses, but **excluding**:

(a) any allowance for depreciation;

(b) costs of capital improvements;

(c) reserves for major capital improvements, Airport System operations, maintenance or repair;

(d) any allowance for redemption of, or payment of interest or premium on, Revenue Bonds and Subordinate Obligations;

(e) any liabilities incurred in acquiring or improving properties of the Airport System;

(f) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases;

(g) any charges or obligations incurred in connection with any lawful Airport System purpose, including the lease, acquisition, operation or maintenance of any facility or property benefiting the Airport System, provided that the payment of such charges or obligations is expressly agreed by the payee to be payable solely from proceeds of the Capital Fund;

(h) liabilities based upon the City's negligence or other ground not based on contract; and

(i) so long as Federal Payments are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

"Operation and Maintenance Reserve Fund" means the fund so designated and created within the Revenue Fund in the Ordinance.

"Other Available Funds" means any amount of unencumbered funds accumulated in the Capital Fund in excess of the Minimum Capital Reserve which, before the beginning of any Fiscal Year, are designated by the City as Other Available Funds and transferred at the beginning of such Fiscal Year to the Revenue Fund, but in no event may this amount exceed twenty-five percent (25%) of the Debt Service Requirements for the Revenue Bonds for such Fiscal Year for purposes of Sections 5.03 (Rate Covenant) and 6.01 (Additional Revenue Bonds) of the Ordinance.

"Outstanding" when used with reference to any Revenue Bonds or Subordinate Obligations means, as of a particular date, all those obligations Revenue Bonds or Subordinate Obligations delivered except: (a) any obligation paid, discharged or cancelled by or on behalf of the City at or before that date; (b) any obligation defeased pursuant to the defeasance provisions of the ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any obligation in lieu of or in substitution for which another obligation was delivered pursuant to the ordinance authorizing the issuance of the obligation.

"Owner" or "Registered Owner"," when used with respect to any Revenue Bond means the person or entity in whose name the Revenue Bond is registered in the Register. Any reference to a particular percentage or proportion of the Owners means the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Revenue Bonds then Outstanding under the Ordinance.

"Paying Agent/Registrar" means, for the Bonds, Wilmington Trust, National Association, Dallas, Texas, and its successors in that capacity.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision of the government.

"Qualified Put" means any agreement, however denominated, provided by a qualifying financial institution (as described in the next sentence) which contractually commits to purchase, upon no more than seven days' notice, for not less than a stated price any class or amount of investment securities or other authorized investments of the City at any time that such investment securities or investments must be liquidated in order to make cash transfers from the fund or account that holds such investments. A Qualified Put may be entered into only with a qualifying financial institution which is (a) a domestic bank the long-term debt of which is rated at least "AA" by Standard & Poor's and "Aa" by Moody's , or (b) a foreign bank the long-term debt of which is rated "AAA" by Standard & Poor's and at least "Aa" by Moody's , or at least "AA" by Standard & Poor's and "Aaa" by Moody's , or (c) a financial institution the long-term debt of which is rated at least "A" by both Standard & Poor's and Moody's and agrees to collateralize its obligations under such agreement by lodging with a third party trustee, escrow agent, custodian or other financial third party direct obligations of the United States of America or its agencies with a market value equal to 102% of the difference between the face amount of its purchase obligation under the agreement and the market value of the investment securities to which the agreement relates (based upon periodic market valuations at least monthly). A Qualified Put may be integrated into any investment authorized under Texas law, such as a repurchase agreement.

"Renewal and Replacement Fund" means the fund so designated in the Ordinance.

"Renewal and Replacement Fund Requirement" means the amount required to be maintained in the Renewal and Replacement Fund pursuant to the Ordinance, or any greater amount required by any ordinance authorizing any series of Additional Revenue Bonds.

"Revenue Bond Ordinances" means the ordinances authorizing the issuance of the Series 2005 Bonds, the Series 2013 Bonds, the Series 2013A Bonds, this Ordinance and any ordinances pursuant to which Additional Revenue Bonds are issued.

"Revenue Bonds" means the Currently Outstanding Revenue Bonds, the Bonds and each series of bonds, notes or other obligations, other than Credit Agreement Obligations, which the City has reserved the right to issue or incur from time to time pursuant to the Ordinance, payable from and secured by a first lien on and pledge of Net Revenues.

"Revenue Fund" means the fund so designated in the Ordinance.

"Series 2005 Bonds" means the City of Austin, Texas, Airport System Refunding Revenue Bonds, Series 2005 (AMT), outstanding, as of November 15, 2014, in the aggregate principal amount of $214,100,000.

"Series 2013 Bonds" means the City of Austin, Texas, Airport System Revenue Bonds, Series 2013, outstanding, as of November 15, 2014, in the aggregate principal amount of $60,000,000.

"Series 2013A Bonds" means the City of Austin, Texas, Airport System Revenue Bonds, Series 2013A, outstanding, as of November 15, 2014, in the aggregate principal amount of $35,320,000.

"Special Facilities" means structures, hangars, aircraft overhaul, maintenance or repair shops, heliports, hotels, storage facilities, garages, inflight kitchens, training facilities and any and all other facilities and appurtenances being a part of or related to the Airport System, the cost of the construction or other acquisition of which is financed with the proceeds of Special Facilities Bonds.

"Special Facilities Bonds" means those bonds from time to time hereafter issued by the City pursuant to the appropriate provisions of the Ordinance.

"Special Facilities Lease" means any lease or agreement pursuant to which a Special Facility is leased by the City to the lessee in consideration for which the lessee agrees to pay (i) all debt service on the Special Facilities Bonds issued to finance the Special Facility (which payments are pledged to secure the Special Facilities Bonds) and (ii) the operation and maintenance expenses of the Special Facility.

"Standard & Poor's" or "S&P" means Standard & Poor Ratings Services, a Standard & Poor's Financial Services LLC business, its successors and assigns, and if such entity shall for any reason no longer perform the functions of a securities rating agency, "Standard & Poor's" and "S&P" shall refer to any other nationally recognized securities rating agency designated by the City.

"Subordinate Obligations" means each series of bonds, notes or other obligations, including reimbursement obligations and obligations pursuant to credit agreements and interest rate hedges, which the City has reserved the right to issue or incur from time to time pursuant to the Ordinance as Subordinate Obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Revenue Bonds.

"Swap Agreement" means a Credit Agreement, approved (if required) in writing by the Bond Insurer, with respect to a series of Revenue Bonds pursuant to which the City has entered into an interest rate exchange agreement or other interest rate hedge agreement for the purpose of converting in whole or in part the City's fixed or variable interest rate liability on all or a portion of the Revenue Bonds to a fixed or variable rate liability (including converting a variable rate liability to a different variable rate liability). For the purpose of this definition, a counterparty is not qualified unless it holds, on the date of execution of a Swap Agreement, a current rating by at least two of the following three rating agencies: Moody's, and by Standard & Poor's, and by Fitch Ratings, or their respective successors, at least equal to the rating of each such rating agency assigned to the Revenue Bonds without reference to any Credit Agreement.

"Termination Payment" means an amount owed by the City to a counterparty pursuant to a Swap Agreement incurred in connection with the termination of the Swap Agreement and which, on the date of execution of the Swap Agreement, is not an amount representing a regularly scheduled payment under the Swap Agreement. "Termination Payment" shall not include any amount representing an Administrative Expense.

## Funds and Flow of Funds

**Funds**. The Ordinance creates the Revenue Fund, including the Operation and Maintenance Reserve Fund therein, the Debt Service Fund, the Debt Service Reserve Fund, the Administrative Expense Fund, the Renewal and Replacement Fund, the Capital Fund, including a Capital Improvement Account therein, and the Construction Fund, including the Capitalized Interest Account and the Series 2014 Project Account therein. The City may create additional accounts and subaccounts in any of the funds, including accounts or subaccounts for accumulating rebatable arbitrage payable to the federal government, so long as they are not inconsistent with the Ordinance.

The Revenue Fund, including the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund, the Capital Fund and the Construction Fund (other than any Capitalized Interest Account in the Construction Fund) shall be maintained as separate funds or accounts on the books of the City and all amounts credited to the Funds and Accounts shall be maintained in an official depository bank of the City. The Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund shall be maintained at an official depository bank of the City or in a trustee bank designated by the City separate and apart from all other funds and accounts of the City. The Debt Service Fund and the Debt Service Reserve Fund shall constitute trust funds which shall be held in trust for the owners of the Revenue Bonds and the proceeds of which shall be pledged, as herein provided, to the payment of the Revenue Bonds. The Administrative Expense Fund shall constitute trust funds which shall be held in trust for the payment of Administrative Expenses to Persons entitled to those Administrative Expenses.

**Flow of Funds.** Gross Revenues shall be deposited as received by the City into the Revenue Fund. In addition, the City may deposit into the Revenue Fund any Federal Payments not restricted for capital purposes, provided that, so long as the Federal Payments are excluded from the definition of Gross Revenues, the Federal Payments shall be applied solely to the payment of Operation and Maintenance Expenses or capital expenditures and never constitute Net Revenues. Other Available Funds may also be deposited into the Revenue Fund. Moneys from time to time credited to the Revenue Fund shall be applied as follows in the following order of priority:

(a) First, to provide for all payments of Operation and Maintenance Expenses required by the Revenue Bond Ordinances.

(b) Second, to transfer all amounts to the Debt Service Fund required by the Revenue Bond Ordinances and any related Credit Agreement Obligations.

(c) Third, to transfer all amounts to the Administrative Expense Fund required to pay Administrative Expenses to the Persons entitled to payment when due.

(d) Fourth, to transfer all amounts to the Debt Service Reserve Fund required by the Revenue Bond Ordinances.

(e) Fifth, to transfer all amounts necessary to provide for the payment of Subordinate Obligations, or to provide reserves for payment, as may be required by any ordinance authorizing Subordinate Obligations and related credit agreement obligations.

(f) Sixth, to transfer all amounts necessary to provide for the payment of principal of and interest on General Obligation Airport Bonds.

(g) Seventh, to transfer all amounts to the Operation and Maintenance Reserve Fund required by the Revenue Bond Ordinances.

(h) Eighth, to transfer all amounts to the Renewal and Replacement Fund required by the Revenue Bond Ordinances.

(i) Ninth, the balance shall be transferred to the Capital Fund.

**Debt Service Fund**. On the date of initial delivery of the Bonds, there shall be transferred from the Capitalized Interest Account to the Debt Service Fund the amount necessary to pay interest coming due on the Bonds on their first Interest Payment Date. Thereafter, to the extent moneys remain on deposit in the Capitalized Interest Account, on the Business Day immediately following an Interest Payment Date, there shall be transferred from the Capitalized Interest Account to the Debt Service Fund amounts available to pay the interest coming due on the Bonds on the next succeeding Interest Payment Date.

On or before the last Business Day of each month so long as any Revenue Bonds remain Outstanding, after making all required payments of Operation and Maintenance Expenses, there shall be transferred into the Debt Service Fund from the Revenue Fund the amount to cause the balance in the Debt Service Fund to equal the Debt Service on all Revenue Bonds and Credit Agreement Obligations accrued, but unpaid, through the end of the current month on all Revenue Bonds and Credit Obligations reasonably expected to accrue and be payable on or before the last Business Day of the next succeeding month.

**Debt Service Reserve Fund.** The City shall establish and maintain a balance in the Debt Service Reserve Fund equal to the Debt Service Reserve Fund Requirement. Each increase in the Debt Service Reserve Fund Requirement resulting from the issuance of Additional Revenue Bonds shall be funded at the time of issuance and delivery of the series of Additional Revenue Bonds by depositing to the credit of the Debt Service Reserve Fund either: (A) proceeds of the Additional Revenue Bonds and/or other lawfully appropriated funds in not less than the amount which will be sufficient to fund fully the Debt Service Reserve Fund Requirement; or (B) a Debt Service Reserve Fund Surety Bond sufficient to provide that portion of the Debt Service Reserve Fund Requirement. The City further expressly reserves the right to substitute at any time a Debt Service Reserve Fund Surety Bond for any funded amounts in the Debt Service Reserve Fund and to apply the funds thereby released, to the greatest extent permitted by law, to any of the purposes for which the related Revenue Bonds. The City shall not employ any Debt Service Reserve Fund Surety Bond unless: (i) the City officially finds that the purchase of the Debt Service Reserve Fund Surety Bond is cost effective; (ii) the Debt Service Reserve Fund Surety Bond does not impose upon the City a repayment obligation (in the event the Debt Service Reserve Fund Surety Bond is drawn upon) greater than can be funded in 18 monthly installments as provided below, payable out of Net Revenues on a parity with the monthly deposits that are otherwise required to be made to the Debt Service Reserve Fund; and (iii) that any interest due in connection with the repayment obligations does not exceed the highest lawful rate of interest which may be paid by the City at the time of delivery of the Debt Service Reserve Fund Surety Bond.

In any month in which the Debt Service Reserve Fund contains less than the Debt Service Reserve Fund Requirement for the Revenue Bonds or in which the City is obligated to repay or reimburse any issuer of a Debt Service Reserve Fund Surety Bond (in the event such Debt Service Reserve Fund Surety Bond is drawn upon), then on or before the last Business Day of such month, after making all required transfers to the Debt Service Fund and the Administrative Expense Fund, the City shall transfer into the Debt Service Reserve Fund from the Revenue Fund, in approximately equal monthly installments, amounts sufficient to enable the City within an 18 month period to reestablish in the Debt Service Reserve Fund the Debt Service Reserve Fund Requirement for the Revenue Bonds and satisfy any repayment obligations to the issuer of any Debt Service Reserve Fund Surety Bond. After this amount has been accumulated in the Debt Service Reserve Fund and after satisfying any repayment obligation to any Debt Service Reserve Fund Surety Bond issuer and so long thereafter as the Debt Service Reserve Fund contains this amount and all repayment obligations have been satisfied, no further transfers shall be required to be made, and any excess amounts in such Fund shall be transferred to the Revenue Fund. But if and whenever the balance in the Debt Service Reserve Fund is reduced below such amount or any Debt Service Reserve Fund Surety Bond repayment obligations arise, monthly transfers to the Debt Service Reserve Fund shall be resumed and continued in such amounts as shall be required to restore the Debt Service Reserve Fund to this amount and to pay this reimbursement obligations within an 18 month period.

The City shall use the Debt Service Reserve Fund to pay the principal of and interest on the Revenue Bonds and the Credit Agreement Obligations at any time the amount available in the Debt Service Fund is insufficient for this purpose, and to make any payments required to satisfy repayment obligations to issuers of Debt Service Reserve Fund Surety Bonds. The City may use the Debt Service Reserve Fund to make the final payments for the retirement or defeasance of Revenue Bonds, related Credit Agreement Obligations and Administrative Expenses.

**Funds and Accounts for Subordinate Obligations.** On or before the last Business Day of each month, after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund, the City shall transfer into the funds and accounts as the City may establish pursuant to an ordinance authorizing the issuance or incurrence of Subordinate Obligations, the amounts required pursuant to the ordinance authorizing the issuance or incurrence of Subordinate Obligations to provide for the payment, or to provide reserves for the payment, of the Subordinate Obligations.

**Administrative Expense Fund.** On or before the last Business Day of each month, after making all required transfers to the Debt Service Fund, the City shall transfer to the Administrative Expense Fund an amount equal to the Administrative Expenses expected to be paid to the Persons entitled to payment in the next succeeding month. Amounts on deposit in the Administrative Expense Fund shall be applied solely to the payment of Administrative Expenses.

**General Obligation Airport Bonds.** On or before the last Business Day of each month, so long as any General Obligation Airport Bond remains outstanding, after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund, the Administrative Expense Fund and any other fund and account established by ordinances authorizing the issuance of Revenue Bonds and Subordinate Obligations, the City shall transfer from the Revenue Fund, to the extent amounts are available, the amounts necessary to provide for the payment, when due, of principal of and interest on General Obligation Airport Bonds.

**Operation and Maintenance Reserve Fund.** The City shall fund and maintain a balance of money and investments in the Operation and Maintenance Reserve Fund at least equal to two months current Operation and Maintenance Expenses, which amount shall annually be re-determined by the Aviation Director at the time the recommended budget for the Airport System is submitted to Council, based upon either the Aviation Director's recommended budget for Operation and Maintenance Expenses or the Aviation Director's estimate of actual Operation and Maintenance Expenses for the then current Fiscal Year. On or before the last Business Day of each month, after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund, and any required transfers for Subordinate Obligations or General Obligation Airport Bonds as provided in the Ordinance, there shall be transferred from the Revenue Fund, to the extent amounts are available, to the Operation and Maintenance Reserve Fund an amount equal to 1/12th of the deficiency, if any, in the Operation and Maintenance Reserve Fund as of the last day of the previous Fiscal Year until the required balance in the Operation and Maintenance Reserve Fund is established or reestablished. Amounts from time to time credited to the Operation and Maintenance Reserve Fund may be used at any time: first, to pay for any Operation and Maintenance Expenses for which amounts are not otherwise available in the Revenue Fund; second, to pay any costs or expenses payable from the Renewal and Replacement Fund for which there are insufficient amounts in the Renewal and Replacement Fund; and third, to the extent any amounts are remaining, to be transferred to the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund or any similar fund created to provide for the payment, and reserves for the payment of Subordinate Obligations and General Obligation Airport Bonds to the extent of any deficiency in any of these funds.

**Renewal and Replacement Fund.** The City has established the Renewal and Replacement Fund Requirement to be $5,000,000. On or before the last Business Day of each month, if the Renewal and Replacement Fund contains less than the Renewal and Replacement Fund Requirement, then after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund, the Administrative Expense Fund, and any required transfers for Subordinate Obligations or General Obligation Airport Bonds as hereinabove provided, and to the Operation and Maintenance Reserve Fund, the City shall transfer from the Revenue Fund, to the extent funds are available, to the Renewal and Replacement Fund an amount equal to 1/12th of the deficiency (being the amount by which the Renewal and Replacement Fund Requirement exceeded the unappropriated balance therein) as of the last day of the previous Fiscal Year and, at the discretion of the City, to pay directly from the Revenue Fund any other costs that could be paid from amounts on deposit in the Renewal and Replacement Fund. The City is required to make these transfers into the Renewal and Replacement Fund until such time as the Renewal and Replacement Fund Requirement has again been accumulated in the Renewal and Replacement Fund. Amounts from time to time credited to the Renewal and Replacement Fund may be used at any time: first, to pay for any costs of replacing depreciable property and equipment of the Airport System and making repairs, replacements or renovations of the Airport System; second, to pay any Operation and Maintenance Expenses for which insufficient amounts are available in the Revenue Fund; and third, to the extent any amounts are remaining, to be transferred to the Debt Service Fund, the Debt Service Reserve Fund, the Administrative Expense Fund or any similar fund created to provide for the payment, and reserves for the payment, of Subordinate Obligations and General Obligation Airport Bonds to the extent of any deficiency.

**Capital Fund.** After the City makes all payments and transfers required by the Ordinance, at least annually it shall also transfer all amounts remaining in the Revenue Fund to the Capital Fund; provided, however, that no transfers shall be made to the Capital Fund unless the Debt Service Reserve Fund contains the Debt Service Reserve Fund Requirement and all Administrative Expenses have been paid. Amounts credited to the Capital Improvement Account may be used only for lawful purposes relating to the Airport System, including without limitation, to pay for any capital expenditures or to pay costs of replacing any depreciable property or equipment of the Airport System, to make any major or extraordinary repairs, replacements or renewals of the Airport System, to acquire land or any interest in such land, to pay costs necessary or incident to the closing or disposition of any facility of the Airport System and, at the City's discretion, to be designated as Other Available Funds to be transferred to the Revenue Fund.

**Construction Fund.** From the proceeds of each series of Revenue Bonds (other than any refunding bonds) there shall be deposited into the Capitalized Interest Account (if any) established in the Construction Fund for that series the amount of capitalized interest required by the ordinance authorizing issuance of the series of Revenue Bonds. The amounts may be applied to pay interest on the series of Revenue Bonds as provided in the authorizing ordinance.

From the proceeds of each series of Revenue Bonds (other than any refunding bonds) there shall be deposited into the applicable Project Account established in the Construction Fund the amounts as shall be provided in the ordinance authorizing the series of Revenue Bonds. The amounts may be applied to pay costs of establishing, improving, enlarging, extending, and repairing the Airport System or any project to become part of the Airport System, to reimburse advances made by the City for such costs, to pay costs of issuance of Revenue Bonds and to pay any other capital costs of the Airport System as provided in the ordinance authorizing the series of Revenue Bonds.

The Ordinance establishes within the Construction Fund two accounts, the Series 2014 Project Account and the Capitalized Interest Account. Moneys in the Series 2014 Project Account shall be used to pay costs of constructing the improvements at the Airport consistent with the purpose for which the Bonds are issued. Moneys in the Capitalized Interest Account shall be held for the purpose of paying interest on the Bonds during the construction of the improvements and for one year after the improvements have been constructed, and shall be transferred from time to time to the Debt Service Fund in the manner provided in the Ordinance.

**Mueller Airport Disposition Fund**. The Robert Mueller Municipal Airport was closed for aviation purposes and the Mueller Airport Property was transferred out of the Airport System and is no longer part of the Airport System. In connection with the transfer of the Mueller Airport Property, the City deposited certain funds into the Mueller Disposition Fund. These funds, together with any other amounts deposited into the Mueller Disposition Fund, may be used for the payment or reimbursement of all costs and expenses incurred by the City necessary or incident to the closing of Robert Mueller Municipal Airport to aviation purposes and the disposition of the Mueller Airport Property. Any amounts remaining will be transferred to the City's aviation department.

**Investment of Funds; Transfer of Investment Income.** Money in all Funds and Accounts shall, at the option of the City, be invested in the manner provided by Texas law; provided, that all such deposits and investments shall be made in a manner that the money required to be expended from any Fund will be available at the proper time or times. Moneys in the Funds and Accounts may be subjected to further investment restrictions imposed from time to time by ordinances authorizing the issuance of Revenue Bonds and Subordinate Obligations. All such investments shall be valued no less frequently than once per Fiscal Year at market value, except that: (i) any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount, and (ii) any investments which are subject to a Qualified Put may continuously be valued at the amount at which they can be put or sold under the terms of such Qualified Put. For purposes of maximizing investment returns, money in the Funds may be invested, together with money in other Funds or with other money of the City, in common investments or in a common pool of such investments maintained by the City at an official depository of the City or in any fund or investment vehicle permitted by Texas law, which shall not be deemed to be a loss of the segregation of the money or Funds provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which the money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. If and to the extent necessary, such investments or participations therein shall be promptly sold to prevent any default.

All interest and income derived from deposits and investments credited to any of the following funds and accounts shall be applied as follows, except as provided in the following paragraph.

| Source of Interest or Income | Fund or Account to which such Interest or Income should be Credited |
|---|---|
| Revenue Fund | Remains in Revenue Fund |
| Administrative Fund | Revenue Fund |
| Debt Service Reserve Fund | Remains in fund until the Debt Service Reserve Fund Requirement is satisfied; thereafter to the Revenue Fund |
| Operation and Maintenance Reserve Fund | Remains in fund until fully funded; thereafter, to the Revenue Fund |
| Renewal and Replacement Fund | Remains in fund until Renewal and Replacement Fund Requirement is met; thereafter, to the Revenue Fund |
| Capital Fund - Capital Improvement Account | Remains in the fund or in the appropriate fund or account therein |

Any interest and income derived from deposits and investments of any amounts credited to any Fund or Account may be: (i) transferred into any rebate account or subaccount; and (ii) paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required to comply with any covenant contained in the Ordinance or required in order to prevent interest on any bonds payable from Net Revenues from being includable within the gross income of the Owners thereof for federal income tax purposes.

So long as any Revenue Bond remains Outstanding, all uninvested moneys on deposit in, or credited to, the Funds and Accounts established or confirmed in the Ordinance shall be secured by the pledge of security, as provided by Texas law.

## Additional Bonds

Additional Revenue Bonds. The City reserves the right to issue, for any lawful Airport System purpose, one or more installments of Additional Revenue Bonds payable from and secured on a parity with the Outstanding Revenue Bonds; provided, however, that no series of Additional Revenue Bonds shall be issued unless:

(a) No Default. The City Manager and the Aviation Director certify that, upon the issuance of such Additional Revenue Bonds, the City will not be in default under any term or provision of any Revenue Bonds then Outstanding or any ordinance pursuant to which any Revenue Bonds were issued unless the default will be cured by the issuance of the Additional Revenue Bonds.

(b) Proper Fund Balances. The City's Chief Financial Officer or trustee, if one has been appointed, shall certify that, upon the issuance of Additional Revenue Bonds, the Debt Service Fund will have the required amounts on deposit and that the Debt Service Reserve Fund will contain the applicable Debt Service Reserve Fund Requirement or the amount as is required to be funded at that time.

(c) Projected Coverage for Additional Revenue Bonds. An Airport Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues, together with the estimated Other Available Funds, of the Airport System for each of three consecutive Fiscal Years beginning in the earlier of

(i) the first Fiscal Year following the estimated date of completion and initial use of all revenue producing facilities to be financed with Additional Revenue Bonds, based upon a certified written estimated completion date by the consulting engineer for the facility or facilities, or

(ii) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the Additional Revenue Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of the Additional Revenue Bonds, investment income on such Additional Revenue Bonds or from other appropriated sources (other than Net Revenues),

are equal to at least 125% of the Debt Service Requirements on all Outstanding Revenue Bonds scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the Additional Revenue Bonds to be issued.

(d) Alternate Coverage for Additional Revenue Bonds. In lieu of the certification described in (c) above, the City's Chief Financial Officer may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues, together with Other Available Funds, of the Airport System were equal to at least 125% of the maximum Debt Service Requirements on all Revenue Bonds scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Additional Revenue Bonds proposed to be issued.

(e) Refunding Bonds. If Additional Revenue Bonds are being issued for the purpose of refunding less than all previously issued Revenue Bonds which are then Outstanding, neither of the certifications described in (c) or (d) above are required so long as the maximum annual Debt Service Requirements in any Fiscal Year after the issuance of the Additional Revenue Bonds will not exceed the maximum annual Debt Service Requirements in any Fiscal Year prior to the issuance of the Additional Revenue Bonds.

(f) Bond Ordinance Requirements. Provision is made in the Revenue Bond Ordinances authorizing the Additional Revenue Bonds proposed to be issued for (1) additional payments into the Debt Service Fund sufficient to provide for any principal and interest requirements resulting from the issuance of the Additional Revenue Bonds including, in the event that interest on the additional series of Revenue Bonds is capitalized and/or to be paid from investment earnings, a requirement for the transfer from the capitalized interest fund or account and/or from the construction fund to the Debt Service Fund of amounts fully sufficient to pay interest on such Additional Revenue Bonds during the period specified in the Revenue Bond Ordinance and (2) satisfaction of the Debt Service Reserve Fund Requirement by not later than the date required by the Ordinance or any other Revenue Bond Ordinance authorizing Additional Revenue Bonds.

(g) Special Provisions for Completion Bonds. The provisions of paragraphs (c) and (d) above shall not apply to the issuance of Completion Bonds in accordance with the provisions of the Ordinance.

**Completion Bonds**. The City reserves the right to issue one or more series of Revenue Bonds to pay the cost of completing any Project for which Revenue Bonds have previously been issued.

Prior to the issuance of any series of Completion Bonds the City must provide, in addition to all of the applicable certificates required above for the issuance of Additional Revenue Bonds, the following documents:

(a) a certificate of the consulting engineer engaged by the City to design the Project for which the Completion Bonds are to be issued stating that the Airport Project has not materially changed in scope since the issuance of the most recent series of Revenue Bonds for such purpose (except as permitted in the applicable ordinance authorizing the Revenue Bonds) and setting forth the aggregate cost of the Airport Project which, in the opinion of such consulting engineer, has been or will be incurred; and

(b) a certificate of the Aviation Director (i) stating that all amounts allocated to pay costs of the Airport Project from the proceeds of the most recent series of Revenue Bonds issued in connection with the Airport Project for which the Completion Bonds are being issued were used or are still available to be used to pay costs of the Airport Project; (ii) containing a calculation of the amount by which the aggregate cost of that Airport Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Airport Project paid to such date plus the moneys available at such date within any construction fund or other like account applicable to the Airport Project plus any other moneys which the Aviation Director, in his discretion, has determined are available to pay such costs in any other fund; and (iii) certifying that, in the opinion of the Aviation Director, the issuance of the Completion Bonds is necessary to provide funds for the completion of the Airport Project.

For purposes of this Section, the term "Airport Project" means the Airport or any other Airport System facility or project which shall be defined as an Airport Project in any ordinance authorizing the issuance of Additional Revenue Bonds for the purpose of financing the Airport Project. Any such ordinance may contain such further provisions as the City shall deem appropriate with regard to the use, completion, modification or abandonment of the Project.

**Subordinate Obligations**. The City reserves the right to issue or incur, for any lawful Airport System purpose, Subordinate Obligations and credit agreement obligations related to the Subordinate Obligations, secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the liens on Net Revenues securing payment of the Revenue Bonds.

**Special Facilities Bonds.** The City reserves the right in the Ordinance to issue from time to time, in one or more series, Special Facilities Bonds to finance and refinance the cost of any Special Facilities, including all required reserves , all related costs of issuance and other reasonably related amounts , provided that such Special Facilities Bonds shall be payable solely from payments by lessees under Special Facilities Leases and/or other security not provided by the City. In no event shall Gross Revenues or any other amounts held in any other fund or account maintained by the City as security for the Revenue Bonds or for the construction, operation, maintenance or repair of the Airport System be pledged to the payment of Special Facilities Bonds. Unless expressly provided to the contrary in the Ordinance, no default with respect to a Special Facilities Bond shall constitute a default under the Ordinance.

**Credit Agreements.** To the fullest extent permitted by applicable law, the City expressly reserves the right to purchase and/or enter into Credit Agreements in connection with any series of Revenue Bonds and to pledge to and secure the payment of related Credit Agreement Obligations from Net Revenues and the various funds and accounts established or referred to in the Ordinance to the extent permitted by the Ordinance, and any of the City's other ordinances authorizing the issuance of Additional Revenue Bonds and to enter into credit agreements in connection with any series of Subordinate Obligations.

## Particular Covenants

**Annual Budget.** So long as any Revenue Bond or Credit Agreement Obligation remains Outstanding, the Aviation Director shall, prior to the commencement of each Fiscal Year, prepare and delivery to the chief budget officer of the City, for submission to Council, a recommended annual budget for the Airport System for that Fiscal Year. The City shall adopt annual budgets for the Airport System for each Fiscal Year, containing an estimate of Gross Revenues and only those budgeted expenditures as will produce Net Revenues in an amount not less than the Debt Service and Administrative Expenses when due and make the required deposits to the Debt Service Reserve Fund. After the adoption of the annual Airport System budget by the City, the total expenditures for Operation and Maintenance Expenses will not exceed the total expenditures authorized for the purposes described in the budget, as the budget may from time to time be amended.

**Rate Covenant.** The City covenants that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year the Net Revenues will be at least sufficient to equal the larger of either:

(i) all amounts required to be deposited in the Fiscal Year to the credit of the Debt Service Fund, the Debt Service Reserve Fund, and the Administrative Expense Fund and to any debt service or debt service reserve fund or account for Subordinate Obligations, or

(ii) an amount, together with Other Available Funds, not less than 125% of the Debt Service Requirements for Revenue Bonds for such Fiscal Year plus an amount equal to 100% of anticipated and budgeted Administrative Expenses for the Fiscal Year.

If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for the Fiscal Year, must request an Airport Consultant to make any recommendations to revise the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Airport System in order to satisfy as quickly as practicable the foregoing requirements. Copies of the request and the recommendations of the Airport Consultant shall be filed with the City Clerk. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Ordinance even if the resulting Net Revenues plus Other Available Funds are not sufficient to be in compliance with the covenant set forth above, so long Debt Service is paid when due.

**Sale or Encumbrance of Airport System.** Except for the use of the Airport System or services pertaining to the Airport System in the normal course of business, the City covenants that neither all nor a substantial part of the Airport System will be sold, leased, mortgaged, pledged, encumbered, alienated, or otherwise disposed of until all Revenue Bonds, Credit Agreement Obligations and Administrative Expenses have been paid in full, or unless provision for payment has been made, and the City shall not dispose of its title to the Airport System or to any useful part thereof, including, without limitation, any property necessary to the operation and use of the Airport System, except for the execution of leases, licenses, easements, or other agreements in connection with the operation of the Airport System by the City, or in connection with any Special Facilities, except for any pledges of and liens on revenues derived from the operation and use of all or part of the Airport System, or any Special Facilities, for the payment of Revenue Bonds, Credit Agreement Obligations, Administrative Expenses, Special Facilities Bonds and any other obligations pertaining to the Airport System, and except as otherwise provided in the next two paragraphs.

The City may sell, exchange, lease, or otherwise dispose of, or exclude from the Airport System, any property constituting a part of the Airport System which the Aviation Director certifies: (i) to be no longer useful in the construction or operation of the Airport System; (ii) to be no longer necessary for the efficient operation of the Airport System; or (iii) to have been replaced by other property of at least equal value. The net proceeds of the sale or disposition of any Airport System property (or the fair market value of any property so excluded) pursuant to this paragraph shall be used for the purpose of replacing properties at the Airport System, shall be paid into the Capital Fund - Capital Improvement Account or shall be applied to retire or pay principal of or interest on Revenue Bonds.

Nothing in the Ordinance prevents any transfer of all or a substantial part of the Airport System to another body corporate and politic (including, but not necessarily limited to, a joint action agency or an airport authority) which assumes the City's obligations under the Ordinance and in any ordinance authorizing the issuance of Revenue Bonds, in whole or in part, if: (i) in the written opinion of the Airport Consultant, the ability to meet the rate covenant and other covenants under the Ordinance and in any ordinance authorizing the issuance of Revenue Bonds, are not materially and adversely affected; and (ii) in the written opinion of nationally recognized bond counsel, the transfer and assumption will not cause the interest on any Revenue Bonds that were issued as "tax-exempt bonds" within the meaning of the regulations promulgated under the Code to be includable in gross income of the Owners of the Revenue Bonds for federal income tax purposes. Following the transfer and assumption, all references to the City, City officials, City ordinances, City budgetary procedures and any other officials, actions, powers or characteristics of the City shall be deemed references to the transferee entity and comparable officials, actions, powers or characteristics of the entity. In the event of any transfer and assumption, nothing in the Ordinance shall prevent the retention by the City of any facility of the Airport System if, in the written opinion of the Airport Consultant, the retention will not materially and adversely affect nor unreasonably restrict the transferee entity's ability to comply with the requirements of the rate covenant and the other covenants of the Ordinance and in any Revenue Bond Ordinance.

**Insurance.** The City covenants and agrees that it will keep the Airport System insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties, to the extent that the insurance is available; provided, however, that if any insurance is not commercially available or not available on more favorable economic terms, the City may elect to be self-insured in whole or in part against the risk or loss that would otherwise be covered by insurance, in which case the City will establish reserves for such risk or loss in amounts the City determines to be appropriate. All net proceeds of property or casualty insurance shall be applied to repair or replace the insured property that is damaged or destroyed or to make other capital improvements to the Airport System or to redeem Revenue Bonds. Proceeds of business interruption insurance may be credited to the Revenue Fund.

**Accounts, Records, and Audits**. The City covenants and agrees that it will maintain a proper and complete system of records and accounts pertaining to the Gross Revenues and the operation of the Airport System in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the Gross Revenues and the Airport System. After the close of each Fiscal Year, the City shall cause an audit report of the records and accounts described in the preceding sentence to be prepared by an independent certified public accountant or independent firm of certified public accountants, which may be part of an overall audit report of the City and/or other of its enterprise funds. All expenses of obtaining such reports shall constitute Operation and Maintenance Expenses of the Airport System.

**Bondholders' Remedies**. The Ordinance is a contract between the City and the Owners of the Revenue Bonds and the holders of related Credit Agreement Obligations from time to time outstanding and the Ordinance shall be and remain irrepealable until the Revenue Bonds, the related Credit Agreement Obligations and Administrative Expenses shall be fully paid or discharged or provision for their payment shall have been made as provided in the Ordinance. In the event of a default in the payment of Debt Service on any of the Revenue Bonds or Credit Agreement Obligations or a default in the performance of any duty or covenant provided by law or in the Ordinance, the Owner or Owners of any of the Revenue Bonds, and the holders of any Credit Agreement Obligations and the Persons to whom Administrative Expenses are owed may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Revenue Bonds or holder of Credit Agreement Obligations or Person to whom Administrative Expenses are owed, may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under the Ordinance, including the making of reasonably required rates and charges for the use and services of the Airport System, the deposit of the Gross Revenues into the special funds herein provided, and the application of such Gross Revenues in the manner required in the Ordinance.

Notwithstanding the provisions of the foregoing paragraph: (i) acceleration as a remedy is expressly denied; (ii) no grace period for a default in the performance of any duty or covenant shall exceed 30 days, nor shall any grace period be extended for more than 60 days without the written consent of the Bond Insurer (to the extent consent is required); and (iii) no grace period is permitted with respect to a default in the payment of Debt Service or the payment of Administrative Expenses when due. For purposes of exercising the rights of Owners upon the occurrence of an event of default described in the immediately preceding paragraph, the Bond Insurer shall be deemed to be the sole holder of the Series 2005 Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners are entitled to take pursuant to the Ordinance.

**Legal Holidays.** If any date on which a payment of Debt Service is due is not a Business Day, then such payment need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of scheduled payment of Debt Service.

## Discharge By Deposit

The City may discharge its obligation to the Owners of any or all of the Bonds to pay Debt Service, or any portion by depositing with the Paying Agent/Registrar cash in an amount equal to the Debt Service of the Bonds to the date of maturity or redemption, or any portion of the Bonds to be discharged, or by depositing either with the Paying Agent/Registrar or with any national banking association with capital and surplus in excess of $100,000,000, pursuant to an escrow or trust agreement, cash and/or Defeasance Obligations in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of Debt Service on the Bonds to the date of maturity or redemption or any portion thereof to be discharged. Upon such deposit, the Bonds, or any portion thereof, shall no longer be regarded to be Outstanding or unpaid. In case any Bonds are to be redeemed on any date prior to their maturity, the City shall give to the Paying Agent/Registrar irrevocable instructions to give notice of redemption of Bonds to be so redeemed in the manner required in the Ordinance. Any determination not to redeem Bonds that is made in conjunction with the payment arrangements described above shall not be irrevocable, provided that: (1) in the proceedings providing for the payment arrangements, the City expressly reserves the right to call the Bonds for redemption; (2) the City gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the payment arrangements; and (3) the City directs that notice of the reservation be included in any redemption notices that it authorizes.

Prior to the defeasance of the Bonds: (i) a report of an independent firm of nationally recognized certified public accountants (Accountant) verifying the sufficiency of the escrow established to pay the Bonds in full on the respective maturity or redemption date (Verification) will be obtained by the City; (ii) an escrow agreement will be executed and delivered by the City; and (iii) an opinion of nationally recognized bond counsel to the effect that the Bonds are no longer "Outstanding" under this Ordinance will be obtained by the City. Each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the City.

## Amendments

**Alteration of Rights and Duties**. The rights, duties, and obligations of the City and the Owners of the Bonds and the holders of Credit Agreement Obligations related to the Bonds, and Persons to whom Administrative Expenses are owed, are subject in all respects to all applicable federal and state laws including, without limitation, the provisions of federal law regarding the composition of indebtedness of political subdivisions, as the same now exist or may hereafter be amended.

**Amendment of Ordinance Without Consent**. The City may, without the consent of or notice to any of the Owners of the Bonds, amend the Ordinance for any one or more of the following purposes:

(a) to cure any ambiguity, defect, omission or inconsistent provision in the Ordinance or in the ordinances authorizing the issuance of Revenue Bonds; or to comply with any applicable provision of law or regulation of Federal agencies, or to obtain the approving opinion of the Attorney General of Texas as required by law; provided, however, that such action shall not adversely affect the interests of the Owners of the Revenue Bonds;

(b) to change the terms or provisions of the Ordinance to the extent necessary to prevent the interest on the Revenue Bonds from being includable within the gross income of the Owners thereof for federal income tax purposes;

(c) to grant to or confer upon the Owners of the Revenue Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Revenue Bonds;

(d) to add to the covenants and agreements of the City contained in the Ordinance other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City in the Ordinance;

(e) to amend any provisions of the Ordinance relating to the issuance of Revenue Bonds and Subordinate Obligations, or the incurrence of and security for reimbursement obligations in connection therewith, so long as to do so does not cause any reduction in any rating assigned to the Outstanding Revenue Bonds by any major municipal securities evaluation service then rating any Series of the Revenue Bonds;

(f) to subject to the lien and pledge of the Ordinance additional Net Revenues which may include revenues, properties or other collateral; and

(g) to amend the undertaking relating to continuing disclosure of information in Article Twelve of the Ordinance to the extent permitted in Article Twelve.

**Amendments of Ordinance Requiring Consent**. The City may at any time adopt one or more ordinances amending, modifying, adding to or eliminating any of the provisions of the Ordinance but, if the amendment is not of the character described above, only with the consent of the Owner or Owners given in accordance with the Ordinance of not less than 66-2/3% of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding and affected by such amendment, modification, addition, or elimination; provided, however, that nothing in this paragraph shall permit (a) an extension of the maturity of the principal of or interest on any Revenue Bond issued hereunder, or (b) a reduction in the principal amount of any Revenue Bond or the rate of interest on any Revenue Bond, or (c) a privilege or priority of any Revenue Bond or Revenue Bonds over any other Revenue Bond or Revenue Bonds, or (d) a reduction in the percentage of aggregate principal amount of the Revenue Bonds required for consent to such amendment. See "- Consent to Certain Amendments Given Through Ownership of Bonds", below.

**Consent of Owners.** Any consent required by the preceding paragraph hereof by any Owner shall be in writing, may be in any number of concurrent writings of similar tenor, and may be signed by the Owner or its duly authorized attorney. Proof of the execution of any consent or of the writing appointing any such attorney and of the ownership of Revenue Bonds, if made in the following manner, shall be sufficient for any of the purposes of the Ordinance, and shall be conclusive in favor of the City with regard to any action taken, suffered or omitted to be taken by the City under such instrument, namely:

(a) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within that jurisdiction that the person signing the writing acknowledged its execution before him or her, or by affidavit of any witness to the execution.

(b) The fact of the ownership by any person of any Revenue Bond and the date of the ownership of same may be proved by a certificate executed by an appropriate officer of the Paying Agent/Registrar, stating that on that date the Revenue Bond was registered in the name of that party in the Register.

In lieu of the foregoing the City may accept such other proofs of the foregoing as it shall deem appropriate.

Consents required pursuant to the subsection titled "Amendments of Ordinance Requiring Consent" shall be valid only if given following the giving of notice by or on behalf of the City requesting the consent and setting forth the substance of the amendment of the Ordinance in respect of which such consent is sought and stating that copies thereof are available at the office of the City Clerk for inspection. Such notice shall be given by certified mail to each Registered Owner of the Revenue Bonds affected at the address shown on the Register.

**Revocation of Consent.** Any consent by any Owner of a Revenue Bond shall be irrevocable for a period of 18 months from the date of mailing of the notice provided for in the Ordinance, and shall be conclusive and binding upon all future Owners of the same Revenue Bond and any Revenue Bond delivered on transfer thereof or in exchange for or replacement of the Revenue Bond during this period. The consent may be revoked at any time after 18 months from the date of the first mailing of the notice by the Owner who gave the consent or by a successor in title, by filing notice with the Paying Agent/Registrar, but the revocation shall not be effective if the Owners of a majority in aggregate principal amount of the Revenue Bonds Outstanding as in the Ordinance defined have, prior to the attempted revocation, consented to and approved the amendment.

**Consent to Certain Amendments Given Through Ownership of Bonds.** By acceptance of the Bonds, each Owner of a Bond: (i) irrevocably and specifically consents to and approves the amendments described in (1) and (2) below; (ii) irrevocably appoints the Aviation Director as its true and lawful attorney-in-fact for the limited purpose of executing the written instrument required by Section 9.04 of the Ordinance to evidence the Owner's specific consent to and approval of the amendments described in (1) and (2) below; and (iii) confirms all actions taken by the Aviation Director as attorney-in-fact for the Owner, it being specifically provided that the Aviation Director need not consult with, or provide notice to, an Owner in connection with the actions taken by the Aviation Director under this Section. The power of attorney granted to the Aviation Director shall be limited to effecting the below amendments and is irrevocable for so long as any Bond remains Outstanding.

The amendments are:

(1) Amend Section 6.01(e) of this Ordinance and the Revenue Bond Ordinances to read:

"Refunding Bonds. If Additional Revenue Bonds are being issued for the purpose of refunding less than all previously issued Prior Lien Bonds or Revenue Bonds which are then Outstanding, neither of the certifications described in (c) or (d) above are required so long as the aggregate Debt Service Requirements after the issuance of the Additional Revenue Bonds do not exceed the aggregate Debt Service Requirements prior to the issuance of the Additional Revenue Bonds; provided, that the annual debt service on the refunding bonds in any Fiscal Year will not be more than 10% higher than it is in any other Fiscal Year."

(2) Amend Section 9.03 of this Ordinance and the Revenue Bond Ordinances by changing the phrase "66-2/3% of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding" to "a majority of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding".

The amendment described in clause (1) will become effective once the City determines that the consent of 66-2/3% of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding is received, and the amendment described in clause (2) will become effective once the City determines that the consent of 100% of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding is received. Since the Series 2005 Bonds are insured, the consent of the Insurer will be required to be obtained. Since there are no Prior Lien Bonds (as defined in the Series 2005 Bond Ordinance) now Outstanding, the reference to Prior Lien Bonds in clause (1) above is of no force and effect.

## Use of Passenger Facility Charges

Consistent with the definitions of Debt Service Requirements and Gross Revenues, the City acknowledges and agrees that debt service with respect to the Revenue Bonds paid or to be paid from passenger facility charges is not included in the calculation of Debt Service Requirements. The City covenants and agrees, for the benefit of the Owners of the Revenue Bonds, that during each Fiscal Year the City will set aside from any passenger facility charges imposed by the City on enplaned passengers the lesser of (i) such passenger facility charges imposed and collected by the City or (ii) $4.50 derived from each passenger facility charge ("PFC") so imposed and collected by the City for the payment of PFC-eligible debt service on the Revenue Bonds in the following Fiscal Year, unless the City receives a report from an Airport Consultant showing that an alternative use of all or a portion of the passenger facility charges will not reduce the forecast coverage of Debt Service Requirements with respect to the Revenue Bonds by forecast Net Revenues during the following Fiscal Year (or such longer forecast period as may be covered in the Airport Consultant's Report) to less than 125%.

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APPENDIX D

FORM OF BOND COUNSEL'S OPINION

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**Proposed Form of Opinion of Bond Counsel**

*An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.*

CITY OF AUSTIN, TEXAS
AIRPORT SYSTEM REVENUE BONDS,
SERIES 2014 (AMT)

AS BOND COUNSEL for the City of Austin, Texas (the "City"), the issuer of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which Bonds are issued in the aggregate principal amount of $244,495,000. The Bonds bear interest from their date of delivery and mature in the manner specified on the face of the Bonds, and are subject to redemption prior to maturity on the dates and in the manner specified in the Bonds, all in accordance with the ordinance of the City authorizing the issuance of the Bonds (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the Constitution and Statutes of the State of Texas, the City Charter of the City, certified copies of the proceedings of the City Council of the City, and other proofs authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Number R-1).

IN OUR OPINION, the Bonds have been authorized and issued in accordance with law, and constitute valid and legally binding special obligations of the City; and, except as may be limited by laws applicable to the City relating to bankruptcy, reorganization, and other similar matters affecting creditors' rights, and the exercise of judicial discretion in accordance with general principles of equity, that the interest on and principal of the Bonds, together with outstanding parity bonds, are payable from, and secured by a first lien on and pledge of, the Net Revenues of the City's Airport System. All such revenue bonds are secured ratably by such pledge of revenues in such manner that no one Bond shall have priority of lien over any other Bond so secured. The holder or holders of the Bonds shall never have the right to demand payment out of money raised or to be raised by taxation.

THE CITY reserves the right, subject to the restrictions stated, and adopted by reference, in the Ordinance, to issue Additional Revenue Bonds in all things on parity with the outstanding Revenue Bonds (including the Bonds) and payable from and equally secured by a lien on and pledge of the Net Revenues, as further described in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. The exceptions are as follows:

(1) interest on the Bonds will be includable in the gross income of the holder during any period that such Bonds are held by either a "substantial user" of the facilities financed or refinanced with the proceeds of the Bonds or a "related person" of such user, as provided in section 147(a) of the Internal Revenue Code of 1986 (the "Code"); and

(2) interest on the Bonds will be treated as a "preference item" in calculating the alternative minimum tax imposed on individuals and corporations under section 57(a)(5) of the Code.

In expressing the aforementioned opinions, we have relied on certain representations, including particularly written representations with respect to material facts which are solely within the knowledge of the City, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the construction, use and management of the property financed therewith. We call your attention to the fact that if the representations are determined to be inaccurate or if the City fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to federal, state or local tax consequences arising from the enactment of any pending or future legislation. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the City as to the availability and sufficiency of the Net Revenues.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,

CITY OF AUSTIN, TEXAS (TRAVIS, WILLIAMSON AND HAYS COUNTIES) • AIRPORT SYSTEM REVENUE BONDS, SERIES 2014 (AMT)

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