

OFFICIAL STATEMENT

Dated May 13, 2015

NEW ISSUES - Book-Entry-Only

Ratings: Moody's: "A1"

Standard & Poor's: "AA-"

Fitch: "AA-"

(See "OTHER RELEVANT INFORMATION – Ratings")

Delivery of the Series 2015A Bonds is subject to the receipt of the opinion of Norton Rose Fulbright US LLP, Bond Counsel, to the effect that, assuming continuing compliance by the City of Austin, Texas (the "City") with certain covenants contained in the Thirteenth Supplement described in this document, interest on the Series 2015A Bonds will be excludable from gross income for purposes of federal income taxation under existing law, subject to the matters described under "TAX MATTERS – Series 2015A Bonds" in this document, including the alternative minimum tax on corporations. Interest on the Taxable Series 2015B Bonds will be included in gross income for federal income tax purposes. See "TAX MATTERS – TAXABLE SERIES 2015B BONDS" in this document.



CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)

\$327,845,000

**Electric Utility System Revenue Refunding
Bonds, Series 2015A**

\$81,045,000

**Electric Utility System Revenue Refunding
Bonds, Taxable Series 2015B**

Dated: May 1, 2015, Interest to accrue from Date of Initial Delivery

Due: As shown on pages (i) and (ii)

The bonds offered in this document are the \$327,845,000 City of Austin, Texas Electric Utility System Revenue Refunding Bonds, Series 2015A (the "Series 2015A Bonds") and the \$81,045,000 City of Austin, Texas Electric Utility System Revenue Refunding Bonds, Taxable Series 2015B (the "Taxable Series 2015B Bonds"). The Series 2015A Bonds and the Taxable Series 2015B Bonds are collectively referred to as the "Bonds". The Bonds are the thirteenth and fourteenth series, respectively, of "Parity Electric Utility Obligations" issued pursuant to the master ordinance governing the issuance of electric utility system indebtedness (the "Master Ordinance") and are authorized and being issued in accordance with two supplemental ordinances pertaining to the Series 2015A Bonds (the "Thirteenth Supplement") and the Taxable Series 2015B Bonds (the "Fourteenth Supplement"). The Master Ordinance provides the terms for the issuance of Parity Electric Utility Obligations and the related covenants and security provisions. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations (defined in this document) and Prior Subordinate Lien Obligations (defined in this document) while they remain outstanding. The Master Ordinance provides that no additional revenue obligations shall be issued on a parity with the Prior First Lien Obligations or Prior Subordinate Lien Obligations. Commercial Paper Obligations (defined in this document) currently authorized, having a combined pledge of Electric Light and Power System and Water and Wastewater System revenues, may continue to be issued on a subordinate lien basis to the Parity Electric Utility Obligations. The Bonds are special obligations of the City, payable as to both principal and interest solely from, and together with the outstanding Parity Electric Utility Obligations and Prior Subordinate Lien Bonds, equally and ratably secured only by a lien on and pledge of the Net Revenues of the City's Electric Utility System as provided in the Master Ordinance, the Thirteenth Supplement and the Fourteenth Supplement. **The taxing powers of the City and the State of Texas are not pledged as security for the Bonds.** See "Security for the Bonds" in this document.

The definitive Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will accrue from the date of initial delivery and shall be payable on November 15, 2015 and each May 15 and November 15 thereafter until maturity or prior redemption. The Bonds will be registered in the name Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). The City reserves the right to discontinue such book-entry system. See "Description of the Bonds" in this document. Wilmington Trust, National Association, Dallas, Texas, will serve as the initial paying agent/ registrar (the "Paying Agent/Registrar") for the Bonds.

MATURITY SCHEDULE

See "Maturity Schedule" on the Inside Cover Page

The City reserves the right, at its option, to redeem the Bonds prior to their scheduled maturity. (See "DESCRIPTION OF THE BONDS - Optional Redemption of the Series 2015A Bonds" and "- Optional Redemption of the Taxable Series 2015B Bonds".) Certain of the bonds are subject to mandatory sinking fund redemption prior to their scheduled maturities. (See "DESCRIPTION OF THE BONDS – Mandatory Sinking Fund Redemption of the Series 2015A Bonds" and "-Mandatory Sinking Fund Redemption of the Taxable Series 2015B Bonds".)

The Bonds are offered for delivery when, as, and if issued and subject, among other things, to the opinions of the Attorney General of the State of Texas and Norton Rose Fulbright US LLP, Bond Counsel for the City, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. The opinion of Bond Counsel will be printed on or attached to the Bonds. (See APPENDIX E – "Forms of Bond Counsel's Opinions"). Certain legal matters will be passed on for the Underwriters by their counsel, Haynes and Boone, LLP, Houston, Texas.

It is expected that the Bonds will be delivered through the facilities of DTC on or about June 2, 2015.

Goldman Sachs

J.P. Morgan

Raymond James

Jefferies

Mesirow Financial, Inc.

Ramirez & Co., Inc.

Stifel, Nicolaus & Company, Inc.

CITY OF AUSTIN, TEXAS
\$327,845,000 Electric Utility System Revenue Refunding Bonds, Series 2015A
Base CUSIP No. 052414 (1)

MATURITY SCHEDULE

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix (1)</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix (1)</u>
11-15-2021	\$21,540,000	5.000%	2.100%	PC7	11-15-2029	\$14,825,000	5.000%	3.270% ⁽²⁾	PL7
11-15-2022	20,420,000	5.000%	2.310%	PD5	11-15-2030	7,290,000	5.000%	3.350% ⁽²⁾	PM5
11-15-2023	11,305,000	5.000%	2.540%	PE3	11-15-2031	7,595,000	5.000%	3.420% ⁽²⁾	PN3
11-15-2024	11,890,000	5.000%	2.710%	PF0	11-15-2032	7,895,000	5.000%	3.480% ⁽²⁾	PP8
11-15-2025	12,380,000	5.000%	2.840%	PG8	11-15-2033	8,295,000	5.000%	3.520% ⁽²⁾	PQ6
11-15-2026	12,995,000	5.000%	2.970% ⁽²⁾	PH6	11-15-2034	8,700,000	5.000%	3.560% ⁽²⁾	PR4
11-15-2027	13,620,000	5.000%	3.070% ⁽²⁾	PJ2	11-15-2035	9,090,000	5.000%	3.600% ⁽²⁾	PS2
11-15-2028	14,165,000	5.000%	3.170% ⁽²⁾	PK9					

\$15,755,000 5.000% Series 2015A Term Bond due November 15, 2038, Initial Yield 3.690%⁽²⁾, CUSIP 052414PT0

\$130,085,000 5.000% Series 2015A Term Bond due November 15, 2045, Initial Yield 3.800%⁽²⁾, CUSIP 052414PU7

(Interest to accrue from Date of Initial Delivery)

Optional Redemption of the Series 2015A Bonds

The City reserves the right, at its option, to redeem the Series 2015A Bonds maturing on or after November 15, 2026, in whole or in part in the principal amount of \$5,000 or any integral multiple thereof, on November 15, 2025, or any date thereafter pursuant to the terms stated in this document under “DESCRIPTION OF THE BONDS – Optional Redemption of the Series 2015A Bonds”.

Mandatory Sinking Fund Redemption of the Series 2015A Bonds

The Series 2015A Bonds having stated maturities of November 15, 2038 and November 15, 2045, respectively, are subject to mandatory redemption prior to maturity in part, in the manner described in this document under “DESCRIPTION OF THE BONDS – Mandatory Sinking Fund Redemption of the Series 2015A Bonds”.

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

(2) Initial yield calculated based upon the assumption that the Bonds maturing after November 15, 2025 will be called on the first optional call date (November 15, 2025) at a redemption price of par plus accrued interest to the redemption date.

CITY OF AUSTIN, TEXAS
\$81,045,000 Electric Utility System Revenue Refunding Bonds, Taxable Series 2015B
Base CUSIP No. 052414 (1)

MATURITY SCHEDULE

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix (1)</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix (1)</u>
11-15-2017	\$ 8,690,000	1.108%	1.108%	PV5	11-15-2024	\$ 1,055,000	3.312%	3.312%	QC6
11-15-2018	8,935,000	1.704%	1.704%	PW3	11-15-2025	1,035,000	3.362%	3.362%	QD4
11-15-2019	10,945,000	2.075%	2.075%	PX1	11-15-2026	1,030,000	3.712%	3.712%	QE2
11-15-2020	15,655,000	2.475%	2.475%	PY9	11-15-2027	1,035,000	3.812%	3.812%	QF9
11-15-2021	4,880,000	2.794%	2.794%	PZ6	11-15-2028	1,025,000	3.962%	3.962%	QG7
11-15-2022	1,170,000	2.994%	2.994%	QA0	11-15-2031	975,000	4.162%	4.162%	QJ1
11-15-2023	1,320,000	3.262%	3.262%	QB8	11-15-2032	970,000	4.262%	4.262%	QK8

\$1,930,000 4.012% Taxable Series 2015B Term Bond due November 15, 2030, Initial Yield 4.012%, CUSIP 052414QH5

\$20,395,000 4.663% Taxable Series 2015B Term Bond due November 15, 2037, Initial Yield 4.663%, CUSIP 052414QL6

(Interest to accrue from Date of Initial Delivery)

Optional Redemption of the Taxable Series 2015B Bonds

The City reserves the right, at its option, to redeem the Taxable Series 2015B Bonds pursuant to the terms stated in this document under “DESCRIPTION OF THE BONDS – Optional Redemption of the Taxable Series 2015B Bonds”.

Mandatory Sinking Fund Redemption of the Taxable Series 2015B Bonds

The Taxable Series 2015B Bonds having stated maturities of November 15, 2030 and November 15, 2037, respectively, are subject to mandatory redemption prior to maturity in part, in the manner described in this document under “DESCRIPTION OF THE BONDS – Mandatory Sinking Fund Redemption of the Taxable Series 2015B Bonds”.

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

CITY OF AUSTIN

Elected Officials

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

Appointed Officials

Marc A. Ott.....	City Manager
Robert Goode.....	Assistant City Manager
Sue Edwards	Assistant City Manager
Bert Lumbreras.....	Assistant City Manager
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
Anne Morgan	Interim City Attorney
Jannette Goodall.....	City Clerk

BOND COUNSEL

Norton Rose Fulbright US LLP
Austin and Dallas, Texas

DISCLOSURE COUNSEL FOR THE CITY

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

FINANCIAL ADVISOR

Public Financial Management, Inc.
Austin, Texas

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Austin, Texas

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SELECTED FINANCIAL INFORMATION

Combined Electric, Water and Wastewater Systems

The selected financial information below presents selected historical information related to the Electric Utility System and the Water and Wastewater System of the City, presented on a combined basis. The financial information for the years ended September 30, 2011 through 2014 is derived from the City's audited financial statements. This information should be read in conjunction with the audited financial statements included in APPENDIX B – "Audited Financial Statements".

Operating Summary

	(000's)				
	Fiscal Year Ended September 30 (2)				
	12 Months Ended <u>12-31-2014(2)</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Combined Gross Revenues	\$1,854,610	\$1,848,012	\$1,772,129	\$1,633,826	\$1,707,338
Combined Maintenance and Operating Expenses	<u>1,237,041</u>	<u>1,246,865</u>	<u>1,137,184</u>	<u>1,054,566</u>	<u>1,084,484</u>
Combined Net Revenues	<u>\$617,569</u>	<u>\$601,147</u>	<u>\$634,945</u>	<u>\$579,260</u>	<u>\$622,854</u>
Principal and Interest on Revenue Bonds (1)	\$21,347	\$16,137	\$76,067	\$116,773	\$122,169
Debt Service Coverage on Revenue Bonds (1)	28.93x	37.25x	8.35x	4.96x	5.10x

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

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

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Electric Utility System Only

The selected financial information below presents selected historical information related to the Electric Utility System of the City. The financial information for the years ended September 30, 2011 through 2014 is derived from the City's audited financial statements. This information should be read in conjunction with the audited financial statements included in APPENDIX B – "Audited Financial Statements."

Operating Summary

	(000's)				
	Fiscal Year Ended September 30				
	12 Months Ended 12-31-2014 ⁽¹⁾	2014	2013	2012	2011
Gross Revenues	\$1,373,979	\$1,375,294	\$1,295,116	\$1,190,798	\$1,258,871
Maintenance and Operating Expenses	<u>1,021,119</u>	<u>1,028,794</u>	<u>927,294</u>	<u>875,675</u>	<u>912,651</u>
Net Revenues	<u>\$ 352,860</u>	<u>\$ 346,500</u>	<u>\$ 367,822</u>	<u>\$ 315,123</u>	<u>\$ 346,220</u>
Principal and Interest on Prior First Lien/Prior Subordinate Lien Revenue Obligations	10,637	7,663	45,350	72,388	76,153
Net Revenues available for Separate Lien Obligations	342,223	338,837	322,472	242,735	270,067
Principal and Interest on Parity Electric Utility Obligations	\$ 118,312	\$ 135,589	\$ 130,793	\$ 96,343	\$ 96,478
Debt Service Coverage (Parity Electric Utility Obligations)	2.89	2.50	2.47	2.52	2.80

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

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

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

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

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

CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau, and neither the City, Public Financial Management, Inc. nor the Underwriters are responsible for the selection or correctness of CUSIP numbers.

None of the City, Public Financial Management, Inc., or the Underwriters make any representation regarding the information contained in this Official Statement regarding DTC or its book-entry-only system, as such information has been furnished by DTC.

This Official Statement contains “forward-looking” statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance and achievements expressed or implied by such forward-looking statements. **Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.** See “OTHER RELEVANT INFORMATION – Forward-Looking Statements” in this document.

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

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

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

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OFFICIAL STATEMENT

Relating to
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)

\$327,845,000	\$81,045,000
Electric Utility System Revenue Refunding Bonds, Series 2015A	Electric Utility System Revenue Refunding Bonds, Taxable Series 2015B

INTRODUCTION

This Official Statement is being furnished in connection with the proposed issuance by the City of Austin, Texas (the “City”) of its \$327,045,000 Electric Utility System Revenue Refunding Bonds, Series 2015A (the “Series 2015A Bonds”) and its \$81,045,000 Electric Utility System Revenue Refunding Bonds, Taxable Series 2015B (the “Taxable Series 2015B Bonds”). The Series 2015A Bonds and the Taxable Series 2015B Bonds are collectively referred to as the “Bonds”. The Bonds are to be issued pursuant to authority conferred by the laws of the State of Texas, a master ordinance of the City Council (the “Master Ordinance”) providing the terms for the issuance of Parity Electric Utility Obligations and the related covenant and security provisions, and two supplemental ordinances of the City Council pertaining to the Series 2015A Bonds (the “Thirteenth Supplement”) and the Taxable Series 2015B Bonds (the “Fourteenth Supplement”), providing for the specific terms relating to the issuance of the Bonds in accordance with the Master Ordinance. A summary of certain provisions of the Master Ordinance is attached to this document as APPENDIX C. As noted under “PLAN OF FINANCING” below, the City will not issue any additional Prior First Lien Obligations or Prior Subordinate Lien Obligations but must comply with the covenants contained in the ordinances (collectively, the “Bond Ordinance”), authorizing their issuance while such obligations are outstanding. A summary of certain provisions of the Bond Ordinance is attached as APPENDIX D. **Capitalized terms not otherwise defined in this document have the meanings assigned in the Master Ordinance as modified by the Thirteenth Supplement, Fourteenth Supplement or the Bond Ordinance, as applicable (see APPENDICES C and D).** All descriptions of documents contained in this document are only summaries and are qualified in their entirety by reference to each such document. References to web site addresses presented in this document are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless otherwise specified, references to web sites and the information or links contained therein are not incorporated into, and are not a part of, this document.

PLAN OF FINANCING

General

The Series 2015A Bonds are being issued as tax-exempt bonds pursuant to the provisions of the Thirteenth Supplement (see “TAX MATTERS - SERIES 2015A BONDS” in this Official Statement), and the Taxable Series 2015B Bonds are being issued as taxable bonds pursuant to the provisions of the Fourteenth Supplement (see “TAX MATTERS – TAXABLE SERIES 2015B BONDS” in this Official Statement).

A portion of the Series 2015A Bonds are being issued to refund a portion of the City’s outstanding Parity Electric Utility System Obligations as described in SCHEDULE I attached to this Official Statement (the “Series 2015A Refunded Bonds”) for debt service savings, and a portion of the Taxable Series 2015B Bonds are being issued to refund a portion of the City’s outstanding Parity Electric Utility System Obligations as described in SCHEDULE I attached to this Official Statement (the “Series 2015B Refunded Bonds” and, together with the Series 2015A Refunded Bonds, the “Refunded Bonds”), for debt service savings.

Additionally, a portion of the Series 2015A Bonds will be issued to refund \$160,000,000 of the City's outstanding tax-exempt commercial paper notes issued for the Electric Utility System (the “Tax-Exempt Refunded Notes”), and a portion of the Series 2015B Bonds will be issued to refund \$32,700,000 of the City's outstanding taxable commercial paper notes issued for the Electric Utility System (the “Taxable Refunded Notes”), enabling the City to restore the available capacity of \$160,000,000 under its tax-exempt commercial paper note program and \$32,700,000 under its taxable commercial paper note program, respectively. The Tax-Exempt Refunded Notes and the Taxable Refunded Notes are hereafter collectively referred to in this document as the “Refunded Notes”. Any interest on the Refunded

Notes due is expected to be paid from available Electric Utility System Revenues. Proceeds from the Bonds will also be used to pay costs of issuance. The Bonds represent the thirteenth and fourteenth encumbrances to be issued or incurred as Parity Electric Utility Obligations under the Master Ordinance. The City has issued certain Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations secured by a joint and several pledge of the net revenues of the City's Water and Wastewater System and Electric Utility System. Pursuant to the Master Ordinance, no additional Prior First Lien Obligations or Prior Subordinate Lien Obligations may be issued. When the Prior First Lien Obligations, Prior Subordinate Lien Obligations, and the Commercial Paper Obligations have been fully paid or discharged so that such obligations are no longer deemed to be outstanding under the terms of their respective ordinances and by law, all outstanding Electric Utility System revenue obligations shall be Parity Electric Utility Obligations, or obligations subordinate to the outstanding Parity Electric Utility Obligations, and shall be payable only from and secured only by a lien on, and pledge of, the Net Revenues of the Electric Utility System and the revenues deposited to the credit of the accounts and funds established and maintained as required by the ordinances providing for their issuance. The Master Ordinance governs the issuance of Parity Electric Utility Obligations and contains related covenants and security provisions. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations and Prior Subordinate Lien Obligations while any such obligations remain outstanding.

The City has also issued revenue obligations secured solely by the net revenues of the Water and Wastewater System pursuant to a master ordinance, the terms and provisions of which differ substantially from those of the Master Ordinance. As noted under "DEBT PAYABLE FROM SYSTEMS REVENUES" in this document, approximately \$29.5 million of Prior First Lien Obligations (with maturities extending through May 15, 2019) and \$148.1 million of Prior Subordinate Lien Obligations (with maturities extending through May 15, 2028) were outstanding as of September 30, 2014 and no assurances can be given as to when or if such obligations will be defeased or paid prior to their stated maturity so as to allow the Parity Electric Utility Obligations (including the Bonds) to be first lien obligations of the Net Revenues of the Electric Utility System.

Series 2015A Refunded Bonds

The Series 2015A Refunded Bonds, and interest due on the Series 2015A Refunded Bonds, are to be paid on their scheduled interest payment dates and the maturity or redemption dates of such Series 2015A Refunded Bonds from funds to be deposited pursuant to a certain Special Escrow Agreement (the "2015A Escrow Agreement") between the City and Wilmington Trust, National Association., Dallas, Texas (the "Escrow Agent"). The Thirteenth Supplement provides that proceeds of the sale of the Series 2015A Bonds, together with other lawfully available funds of the City, if any, will be deposited with the Escrow Agent in an amount necessary to accomplish the discharge and final payment of the Series 2015A Refunded Bonds. Such funds will be held by the Escrow Agent in a special escrow account (the "2015A Escrow Fund") and used to purchase direct obligations of the United States of America (the "2015A Escrowed Securities") to be held in the 2015A Escrow Fund. Under the 2015A Escrow Agreement, the 2015A Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Series 2015A Refunded Bonds.

The Arbitrage Group, Inc. (the "Verification Agent"), a nationally recognized accounting firm, will verify at the time of delivery of the Series 2015A Bonds the mathematical accuracy of the schedules that demonstrate that the 2015A Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the 2015A Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Series 2015A Refunded Bonds. Such maturing principal of and interest on the 2015A Escrowed Securities, and other uninvested funds in the 2015A Escrow Fund, will not be available to pay the debt service on the Bonds. See "OTHER RELEVANT INFORMATION – Verification of Arithmetical and Mathematical Calculations" in this document.

By the deposit of the 2015A Escrowed Securities and cash with the Escrow Agent pursuant to the 2015A Escrow Agreement, the City will have entered into firm banking and financial arrangements for the discharge and final payment of the Series 2015A Refunded Bonds, in accordance with applicable law. As a result of such firm banking and financial arrangements, the Series 2015A Refunded Bonds will be outstanding only for the purpose of receiving payments from the 2015A Escrowed Securities and cash held for such purpose by the Escrow Agent, and such Series 2015A Refunded Bonds will not be deemed outstanding for the purpose of any limitation on debt or the pledge of Net Revenues.

Series 2015B Refunded Bonds

The Series 2015B Refunded Bonds, and interest due on the Series 2015B Refunded Bonds, are to be paid on their scheduled interest payment dates and the maturity or redemption dates of such Series 2015B Refunded Bonds from funds to be deposited pursuant to a certain Special Escrow Agreement (the “2015B Escrow Agreement”) between the City and the Escrow Agent. The Fourteenth Supplement provides that proceeds of the sale of the Taxable Series 2015B Bonds, together with other lawfully available funds of the City, if any, will be deposited with the Escrow Agent in an amount necessary to accomplish the discharge and final payment of the Series 2015B Refunded Bonds. Such funds will be held by the Escrow Agent in a special escrow account (the “2015B Escrow Fund”) and used to purchase direct obligations of the United States of America (the “2015B Escrowed Securities”) to be held in the 2015B Escrow Fund. Under the 2015B Escrow Agreement, the 2015B Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Series 2015B Refunded Bonds.

The Verification Agent will verify at the time of delivery of the Series 2015B Bonds the mathematical accuracy of the schedules that demonstrate that the 2015B Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the 2015B Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Series 2015B Refunded Bonds. Such maturing principal of and interest on the 2015B Escrowed Securities, and other uninvested funds in the 2015B Escrow Fund, will not be available to pay the debt service on the Bonds. See “OTHER RELEVANT INFORMATION – Verification of Arithmetical and Mathematical Calculations” in this document.

By the deposit of the 2015B Escrowed Securities and cash with the Escrow Agent pursuant to the 2015B Escrow Agreement, the City will have entered into firm banking and financial arrangements for the discharge and final payment of the Series 2015B Refunded Bonds, in accordance with applicable law. As a result of such firm banking and financial arrangements, the Series 2015B Refunded Bonds will be outstanding only for the purpose of receiving payments from the 2015B Escrowed Securities and cash held for such purpose by the Escrow Agent, and such Series 2015B Refunded Bonds will not be deemed outstanding for the purpose of any limitation on debt or the pledge of Net Revenues.

Refunded Notes

The Thirteenth Supplement provides that from the proceeds of the sale of the Series 2015A Bonds, and the Fourteenth Supplement provides that from the proceeds of the sale of the Series 2015B Bonds, in each case, together with other available funds of the City, the City will deposit or cause to be deposited with U.S. Bank National Association, in its capacity as the issuing and paying agent for the Refunded Notes (the “CP Issuing and Paying Agent”), the amount necessary to accomplish the discharge, defeasance and final payment of the Refunded Notes in accordance with the terms of the respective ordinances authorizing the issuance thereof. The principal of and interest on all of the Refunded Notes will be paid on the date of delivery of the Bonds, which is the scheduled maturity date of the Refunded Notes, from amounts deposited with the CP Issuing and Paying Agent.

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SOURCES AND USES OF FUNDS

The estimated sources and uses of funds for the Bonds are as follows.

	<u>Series 2015A Bonds</u>	<u>Taxable Series 2015B Bonds</u>
Sources:		
Par Amount of Bonds	\$327,845,000.00	\$81,045,000.00
Net Premium	<u>45,023,262.80</u>	<u>-</u>
Total Sources of Funds	\$372,868,262.80	\$81,045,000.00
Uses:		
Commercial Paper Refunding	\$ 160,000,000.00	\$ 32,700,000.00
Deposit to 2015A Escrow Fund (1)	210,705,082.80	-
Deposit to the 2015B Escrow Fund (1)	-	47,728,277.60
Underwriters' Discount	1,437,177.62	313,567.85
Cost of Issuance	<u>726,002.38</u>	<u>303,154.55</u>
Total Uses of Funds	\$ 372,868,262.80	\$ 81,045,000.00

(1) Amount to pay principal and interest on the Refunded Bonds at maturity or prior redemption.

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DEBT PAYABLE FROM SYSTEMS REVENUES

(As of May 13, 2015)

<u>Combined Utility Systems Obligations</u>	
Prior First Lien Obligations	\$29,542,584
Prior Subordinate Lien Obligations	148,104,711
Sub-Total	\$177,647,295
<u>Parity Electric Utility Obligations</u> (a)	\$1,224,145,000
<u>Water and Wastewater System Separate Lien Obligations</u> (b)	
Parity Water and Wastewater Obligations	\$2,238,475,000
<u>Commercial Paper</u> (c)	\$105,286,000 (f)
<u>General Obligation Bonds</u> (d)	\$12,170,464
<u>Assumed Bonds and Obligations</u>	
Assumed District Bonds (e)	\$5,643,359
TOTAL (e)	\$3,763,367,118

See "SECURITY FOR THE BONDS" in this document.

- (a) Includes the Bonds, but excludes the Refunded Bonds.
- (b) The Water and Wastewater System Separate Lien Obligations are payable from the Net Revenues of the Water and Wastewater System only.
- (c) The City has a Tax-Exempt Commercial Paper Program in place for the Combined Utility Systems in an amount not to exceed \$400,000,000 and a Taxable Commercial Paper Program for the Combined Utility Systems in an amount not to exceed \$50,000,000. The obligations issued pursuant to each such program are referred to herein collectively as the "Commercial Paper Notes." The outstanding amount shown above excludes the Refunded Notes. The Commercial Paper Notes and the reimbursement obligations to the respective banks providing the direct-pay letter of credit supporting the Commercial Paper Notes are payable from the Net Revenues of both the Electric Utility System and the Water and Wastewater System after providing for the payment of the Prior First Lien Obligations, the Prior Subordinate Lien Obligations, the Parity Electric Utility Obligations and the Water and Wastewater System Separate Lien Obligations. The City's current Financial Policy provides that the proceeds of Commercial Paper Notes issued for the Electric Utility System can only be utilized (i) to finance capital improvements required for normal business operation for Electric Utility System additions, extensions, and improvements or improvements to comply with local, state and federal mandates or regulations without prior voter authorization; however, this shall not apply to new nuclear or conventional coal generation, or (ii) for voter-authorized projects (although such voter authorization is not required by State law).
- (d) Contractual Obligations and Public Improvement Bonds are secured by City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Electric Utility System and Water and Wastewater System.
- (e) Such bonds are secured by City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.
- (f) Excludes the refunded commercial paper.

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DEBT SERVICE REQUIREMENTS (a)

Fiscal Year Ending 09/30	Outstanding Prior Lien Bonds	Outstanding Subordinate Lien Bond	Total Prior & Subordinate Lien Bond Requirements	The Series 2015A Bonds		The Taxable Series 2015B Bonds		Electric Utility System Obligations (b)	Water & WW Separate Lien Obligation Bonds	Assumed MUD Obligations (c)	Total Separate Lien and Combined Utility Systems Requirements
				Principal	Interest	Principal	Interest				
				2015	0	0	0				
2016	6,045,000	27,822,713	33,867,713	0	15,618,172	0	2,263,753	90,106,847	185,983,190	727,005	328,566,679
2017	42,150,000	18,148,438	60,298,438	0	16,392,250	0	2,375,951	73,987,081	185,115,277	645,526	338,814,522
2018	62,050,000	18,383,013	80,433,013	0	16,392,250	8,690,000	2,327,808	58,759,518	156,291,696	648,483	323,542,768
2019	31,735,000	18,491,838	50,226,838	0	16,392,250	8,935,000	2,203,540	59,800,836	156,945,771	659,459	295,163,693
2020	0	21,090,425	21,090,425	0	16,392,250	10,945,000	2,013,859	59,976,019	173,958,444	661,645	285,037,642
2021	0	14,963,350	14,963,350	0	16,392,250	15,655,000	1,706,574	53,088,777	181,140,512	669,724	283,616,187
2022	0	20,964,250	20,964,250	21,540,000	15,853,750	4,880,000	1,444,670	44,115,580	177,395,005	663,681	286,856,935
2023	0	19,950,225	19,950,225	20,420,000	14,804,750	1,170,000	1,358,981	45,752,584	173,261,485	666,568	277,384,593
2024	0	19,666,450	19,666,450	11,305,000	14,011,625	1,320,000	1,319,937	56,315,468	179,339,111	664,896	283,942,487
2025	0	15,834,863	15,834,863	11,890,000	13,431,750	1,055,000	1,280,937	56,412,362	174,231,783	668,673	274,805,367
2026	0	0	0	12,380,000	12,825,000	1,035,000	1,246,068	59,165,281	166,910,447	604,005	254,165,800
2027	0	0	0	12,995,000	12,190,625	1,030,000	1,209,553	70,352,296	165,250,781	0	263,028,255
2028	0	0	0	13,620,000	11,525,250	1,035,000	1,170,709	70,211,352	165,621,609	0	263,183,920
2029	0	0	0	14,165,000	10,830,625	1,025,000	1,130,677	57,505,968	154,979,799	0	239,637,068
2030	0	0	0	14,825,000	10,105,875	970,000	1,090,913	44,237,766	146,836,580	0	218,066,135
2031	0	0	0	7,290,000	9,553,000	960,000	1,052,197	52,267,377	106,550,162	0	177,672,736
2032	0	0	0	7,595,000	9,180,875	975,000	1,012,650	42,789,483	92,201,621	0	153,754,629
2033	0	0	0	7,895,000	8,793,625	970,000	971,690	42,640,147	92,198,320	0	153,468,782
2034	0	0	0	8,295,000	8,388,875	960,000	928,636	38,510,005	92,129,563	0	149,212,080
2035	0	0	0	8,700,000	7,964,000	1,025,000	882,356	38,345,549	91,975,856	0	148,892,761
2036	0	0	0	9,090,000	7,519,250	1,280,000	828,615	38,180,450	92,227,415	0	149,125,730
2037	0	0	0	0	7,292,000	10,785,000	547,320	38,030,248	92,042,222	0	148,696,789
2038	0	0	0	4,975,000	7,167,625	6,345,000	147,934	37,877,495	83,028,892	0	139,541,945
2039	0	0	0	10,780,000	6,773,750	0	0	37,716,506	74,403,184	0	129,673,440
2040	0	0	0	0	6,504,250	0	0	24,990,001	74,846,829	0	106,341,080
2041	0	0	0	0	6,504,250	0	0	24,838,785	61,378,177	0	92,721,212
2042	0	0	0	25,070,000	5,877,500	0	0	0	50,110,000	0	81,057,500
2043	0	0	0	23,675,000	4,658,875	0	0	0	35,935,375	0	64,269,250
2044	0	0	0	25,995,000	3,417,125	0	0	0	24,246,375	0	53,658,500
2045	0	0	0	26,945,000	2,093,625	0	0	0	0	0	29,038,625
2046	0	0	0	28,400,000	710,000	0	0	0	0	0	29,110,000

(a) Debt outstanding as of 05/15/15.

(b) Excludes the Refunded Bonds.

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

SECURITY FOR THE BONDS

Pledges of Net Revenues

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

As of April 15, 2015, there was \$29,542,584 in aggregate principal amount of Prior First Lien Obligations outstanding, with the final maturity of the outstanding Prior First Lien Obligations occurring on May 15, 2019. As of April 15, 2015, there was \$148,104,711 in aggregate principal amount of Prior Subordinate Lien Obligations outstanding, with the final maturity of the outstanding Prior Subordinate Lien Obligations occurring on May 15, 2025.

Parity Electric Utility Obligations. . . . The Bonds are "Separate Lien Obligations" under the terms of the Bond Ordinance, and represent the thirteenth and fourteenth issuances, or series, of Separate Lien Obligations of the City's Electric Utility System. The Master Ordinance, the Thirteenth Supplement and the Fourteenth Supplement pledge the Net Revenues of the Electric Utility System to the payment of the "Parity Electric Utility Obligations" (the Outstanding Parity Electric Utility Obligations, the Bonds and additional parity obligations issued or incurred subsequent to the issuance of the Bonds) and the Parity Electric Utility Obligations, together with the Prior Subordinate Lien Obligations, are equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Electric Utility System, subject to the prior claim and lien on the Net Revenues of the Electric Utility System to the payment and security of the Prior First Lien Obligations currently Outstanding, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations.

Additionally, the Parity Electric Utility Obligations are secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund, any special fund or funds created and maintained for the payment and security of the Parity Electric Utility Obligations pursuant to a Supplemental Ordinance and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Electric Utility Obligations pending expenditure in accordance with the terms of the Master Ordinance and any Supplemental Ordinance. The Thirteenth Supplement and the Fourteenth Supplement affirm that a Reserve Fund will be created and established only when the "Pledged Net Revenues" of the Electric Utility System for a Fiscal Year (the Net Revenues of the Electric Utility System in a Fiscal Year remaining after deducting the amounts, if any, expended to pay the annual debt service requirements for Prior First Lien Obligations and Prior Subordinate Lien Obligations in such Fiscal Year) are less than one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations due and payable in such Fiscal Year. When a Reserve Fund is required to be maintained, the amount to be accumulated is to be based on the amount of the shortfall of the Pledged Net Revenues below 150% of the annual Debt Service Requirements for the Parity Electric Utility Obligations and ranges from a maximum amount of 50% of the Maximum Debt Service Requirement when the Pledged Net Revenues for a Fiscal Year are less than 110% of the annual Debt Service Requirement for the Fiscal Year, to a minimum of 10% of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 150% of the annual Debt Service Requirement for that Fiscal Year, but greater than or equal to 140% of the annual Debt Service Requirement for that Fiscal Year. Currently, the Pledged Net Revenues are in excess of 150% of the Annual Debt Service Requirements, and therefore the City is not required, and currently does not intend, to fund a reserve fund for the Bonds (see "No Reserve Fund for Parity Electric Utility Obligations" below).

Rate Covenant Required By Prior First Lien Obligations and Prior Subordinate Lien Obligations

The City has agreed to establish rates and charges for the facilities and services of the Electric Utility System and the Water and Wastewater System to provide Gross Revenues in each Fiscal Year sufficient (i) to pay the Maintenance and Operating Expenses, (ii) to fund the reserves required for Prior First Lien Obligations, Prior Subordinate Lien

Obligations, Separate Lien Obligations and other obligations or evidences of indebtedness payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems, and (iii) to produce Net Revenues (after satisfaction of the amount required in (ii) above) equal to at least (a) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior First Lien Obligations and Separate Lien Obligations plus (b) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Prior Subordinate Lien Obligations and all other indebtedness, except Prior First Lien Obligations and Separate Lien Obligations, payable only from and secured solely by a lien on and pledge of the Net Revenues of either the Electric Utility System or the Water and Wastewater System, or both.

Rate Covenant Required by Master Ordinance

In the Master Ordinance, the City has agreed to fix, establish, maintain and collect such rates, charges and fees for electric power and energy and services furnished by the Electric Utility System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues each Fiscal Year sufficient: (i) to pay all current Operating Expenses; (ii) to produce Net Revenues, after (x) deducting amounts expended during the Fiscal Year from the Electric Utility System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations and (y) taking into account ending fund balances in the System Fund to be carried forward in a Fiscal Year, equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Electric Utility Obligations; and (iii) to pay, after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Electric Utility System reasonably anticipated to be paid from Gross Revenues.

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

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

A separate reserve fund has been established for the benefit of the Prior First Lien Obligations and Prior Subordinate Lien Obligations. In 2002, the City obtained the consent of the Holders of at least 51% of the principal amount and Maturity Amount of the outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations to amend the provisions of the Bond Ordinance relating to the Reserve Fund to allow for the funding of all or a part of the amount required to be maintained in the Reserve Fund (the "Required Reserve") with Financial Commitments (defined below) and change the Required Reserve to an amount equal to the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations, as determined on (i) the date of the initial deposit of a Financial Commitment to the Reserve Fund or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing the Financial Commitment for the Reserve Fund falls below the minimum requirement, whichever date is the last to occur. The term "Financial Commitments" means an irrevocable and unconditional policy of bond insurance or surety bond in full force and effect issued by an insurance company or association duly authorized to do business in the State of New York and the State of Texas and with financial strength rated in the highest rating category by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and Fitch Ratings ("Fitch") and, if rated, by A.M. Best on the date the Financial Commitment is deposited to the credit of the Reserve Fund.

The amount on deposit to the credit of the Reserve Fund under the Prior Lien Ordinance as of March 15, 2015 is \$27,020,997.25 and is funded with cash. The City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following such substitution, the cash and securities released from the Reserve Fund shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior First Lien Obligations and

Prior Subordinate Lien Obligations in a manner that reduces the principal amount and Maturity Amount of outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations.

No Reserve Fund for Parity Electric Utility Obligations

The Master Ordinance does not provide for a Reserve Fund for the Parity Electric Utility Obligations. The Thirteenth Supplement and the Fourteenth Supplement, however, affirm that a Reserve Fund shall not be required to be established or maintained by the City for the payment of the Parity Electric Utility Obligations so long as the “Pledged Net Revenues” of the Electric Utility System for a Fiscal Year (the Net Revenues of the Electric Utility System in a Fiscal Year remaining after deducting the amounts, if any, expended to pay the annual debt service requirements for Prior First Lien Obligations and Prior Subordinate Lien Obligations in such Fiscal Year) equal or exceed one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations due and payable in such Fiscal Year. If for any Fiscal Year such “Pledged Net Revenues” do not exceed 150% of the Annual Debt Service Requirements of the Parity Electric Utility Obligations, the City shall be obligated to establish and maintain on the books of the City a separate fund or account designated as the “Electric Utility System Revenue Obligation Reserve Fund” (the “Reserve Fund”). When a Reserve Fund is required to be established, the Required Reserve Amount to be accumulated and maintained in such Fund shall be determined and redetermined as follows:

- (i) ten per cent (10%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 150% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 140% of the annual Debt Service Requirement for such Fiscal Year;
- (ii) twenty per cent (20%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 140% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 130% of the annual Debt Service Requirement for such Fiscal Year;
- (iii) thirty per cent (30%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 130% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 120% of the annual Debt Service Requirement for such Fiscal Year;
- (iv) forty per cent (40%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 120% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 110% of the annual Debt Service Requirement for such Fiscal Year; and
- (v) fifty per cent (50%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 110% of the annual Debt Service Requirement for such Fiscal Year.

When a Reserve Fund is required, the City may deposit cash to the Reserve Fund or acquire and deposit a surety bond to provide the Required Reserve Amount, or deposit a combination of such cash and a surety bond. In funding such Required Reserve Amount, or to increase the Required Reserve Amount pursuant to a Supplement, the Required Reserve Amount or increase in the Required Reserve Amount, as applicable, may be funded in up to twelve (12) substantially equal consecutive monthly deposits commencing not later than the month following the receipt of audited financial statements for the System for the preceding Fiscal Year. See “SELECTED FINANCIAL INFORMATION – Electric Utility System Only”.

Issuance of Additional Prior First Lien Obligations and Prior Subordinate Lien Obligations Precluded

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

Issuance of Parity Electric Utility Obligations

Under the Master Ordinance the City reserves and shall have the right and power to issue or incur Parity Electric Utility Obligations for any purpose authorized by law pursuant to the provisions of the Master Ordinance and any Supplement. The City may issue, incur, or otherwise become liable in respect of any Parity Electric Utility Obligations if a Designated Financial Officer shall certify in writing: (i) the City is in compliance with all covenants contained in the Master Ordinance and any Supplement, is not in default in the performance and observance of any of the terms, provisions and conditions in the Master Ordinance and any Supplement to the Master Ordinance, and the Funds and Accounts established for the payment and security of the Parity Electric Utility Obligations then Outstanding contain the amounts then required to be deposited in those Funds and Accounts, or the proceeds of sale of the Parity Electric Utility Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts, if any; and (ii) the Net Revenues of the Electric Utility System, for the last completed Fiscal Year preceding the date of the then proposed Parity Electric Utility Obligations, or for any twelve (12) consecutive calendar month period ending not more than ninety (90) days before the date of the then proposed Parity Electric Utility Obligations and after deducting amounts expended from the Electric Utility System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, exceed one hundred ten percent (110%) of the maximum Annual Debt Service Requirement of the Parity Electric Utility Obligations to be Outstanding after giving effect to the Parity Electric Utility Obligations then being issued.

For purposes of clause (ii) in the preceding paragraph, if Parity Electric Utility Obligations are issued to refund less than all of the Parity Electric Utility Obligations then Outstanding, the required Designated Financial Officer's certificate described above shall give effect to the issuance of the proposed refunding Parity Electric Utility Obligations (and shall not give effect to the Parity Electric Utility Obligations being refunded following their cancellation or provision being made for their payment).

In making a determination of Net Revenues, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Electric Utility System that became effective at least thirty (30) days before the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Electric Utility System for the period of time covered by such certification based on such change in rates, charges and fees being in effect for the entire period covered.

Short-Term Parity Electric Utility Obligations

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

Special Facilities Debt and Subordinated Debt

The City may incur Special Facilities Debt and Subordinated Debt without limitation.

Credit Agreements

Payments to be made under a Credit Agreement may be treated as Parity Electric Utility Obligations if the City Council makes a finding in the Supplement authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Electric Utility System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Electric Utility Obligations then outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

System Fund

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

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

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

THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable, and (ii) the special Funds and Accounts for the payment of the Parity Electric Utility Obligations.

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

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

DESCRIPTION OF THE BONDS

General

The Bonds will be dated May 1, 2015, and interest will accrue from the date of their initial delivery and will be payable on November 15, 2015 and each May 15 and November 15 thereafter until maturity or prior redemption. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will mature on November 15 in the years and in the principal amounts set forth on the inside cover page hereof of this document. Principal of the Bonds is payable at maturity, subject only to prior redemption as described in this document.

Optional Redemption of the Series 2015A Bonds

The City reserves the right at its option to redeem Series 2015A Bonds maturing on or after November 15, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on November 15, 2025, or any date thereafter, at the par value plus accrued interest to the date fixed for redemption.

Upon any optional redemption of Series 2015A Bonds, if less than all of the Series 2015A 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 is to be redeemed, the Series 2015A Bonds, or portion of the Series 2015A Bonds, within such maturity will be selected at random, by lot or other customary method selected by the Paying Agent/Registrar.

At least forty-five (45) days prior to a redemption date for the Series 2015A Bonds (unless a shorter notification period shall be satisfactory to the Paying Agent/Registrar), the City shall notify the Paying Agent/Registrar of the decision to redeem Series 2015A Bonds, the principal amount of each Stated Maturity to be redeemed, and the date of redemption

therefor. The decision of the City to exercise the right to redeem Series 2015A Bonds shall be entered in the minutes of the governing body of the City.

Optional Redemption of the Taxable Series 2015B Bonds

Prior to November 15, 2025, the Taxable Series 2015B Bonds shall be subject to redemption, at the option of the City, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof (and if within a Stated Maturity by lot by the Paying Agent/Registrar) on any business day at a redemption price equal to the greater of (a) 100% of the principal amount of the Taxable Series 2015B Bonds to be redeemed or (b) the sum of the present value of the remaining scheduled payments of principal and interest on the Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year of twelve 30-day months) at the Treasury Rate (as defined below) plus (i) 15 basis points for Taxable Series 2015B Bonds maturing in the years 2017 through 2021, (ii) 20 basis points for Taxable Series 2015B Bonds maturing in the years 2022 through 2025 and (iii) 25 basis points for Taxable Series 2015B Bonds maturing in the years 2026 through 2037, plus, in each case, accrued and unpaid interest in the Taxable Series 2015B Bonds being redeemed to the redemption date.

“Treasury Rate” means, with respect to any redemption date for a particular Taxable Series 2015B Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (defined below), assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price (defined below), as calculated by the Designated Investment Banker (defined below).

For the purposes of determining the Treasury Rate, the following definitions shall apply:

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Taxable Series 2015B Bond, the United States Treasury security or securities selected by the Designated Investment Banker that has or have an actual or interpolated maturity comparable to the remaining life of the applicable Taxable Series 2015B Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pncmg new issues of debt securities of comparable maturity to the remaining average life of the applicable Taxable Series 2015B Bonds to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Taxable Series 2015B Bond, (1) the average of the Reference Treasury Dealer Quotations (defined below) for such redemption date, after excluding the highest and the lowest Reference Treasury Dealer Quotations, or (2) if the Designated Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the City.

“Reference Treasury Dealer” means three firms, specified by the City from time to time, that are primary U.S. Government securities dealers in the City of New York, New York (each a “Primary Treasury Dealer”); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the City shall substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to the Reference Treasury Dealer and any redemption date for a particular Taxable Series 2015B Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices of the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding such redemption date.

On November 15, 2025, or on any date thereafter, the Taxable Series 2015B Bonds maturing on and after November 15, 2026 shall be subject to redemption prior to maturity, at the option of the City, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof (and if within a Stated Maturity by lot by the Paying Agent/Registrar), on November 15, 2025 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption.

At least forty-five (45) days prior to a redemption date for the Taxable Series 2015B Bonds (unless a shorter notification period shall be satisfactory to the Paying Agent/Registrar), the City shall notify the Paying Agent/Registrar of the

decision to redeem Taxable Series 2015B Bonds, the principal amount of each Stated Maturity to be redeemed, and the date of redemption therefor. The decision of the City to exercise the right to redeem Taxable Series 2015B Bonds shall be entered in the minutes of the governing body of the City.

Mandatory Sinking Fund Redemption of the Series 2015A Bonds

The Series 2015A Bonds having stated maturities of November 15, 2038 and November 15, 2045, respectively (the “Series 2015A 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% Series 2015A Term Bond due November 15, 2038		5.000% Series 2015A Term Bond due November 15, 2045	
<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2037	\$ 4,975,000	2041	\$ 25,070,000
2038*	10,780,000	2042	23,675,000
		2043	25,995,000
		2044	26,945,000
		2045*	28,400,000

*Stated maturity.

Approximately 45 days prior to each mandatory redemption date for the Series 2015A Term Bonds, the Paying Agent/Registrar shall select by lot the numbers of the Series 2015A Term Bonds within the applicable stated maturity to be redeemed on the next following November 15 from moneys set aside for that purpose in the Debt Service Fund. Any Series 2015A Term Bond not selected for prior redemption shall be paid on the date of its Stated Maturity.

The principal amount of the Series 2015A Term Bonds of a stated maturity required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Series 2015A Term Bonds of like maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Series 2015A 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.

Mandatory Sinking Fund Redemption of the Taxable Series 2015B Bonds

The Taxable Series 2015B Bonds having stated maturities of November 15, 2030 and November 15, 2037, respectively (the “Taxable Series 2015B 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:

4.012% Taxable Series 2015B Term Bond due November 15, 2030		4.663% Taxable Series 2015B Term Bond due November 15, 2037	
<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2029	\$ 970,000	2033	\$ 960,000
2030*	960,000	2034	1,025,000
		2035	1,280,000
		2036	10,785,000
		2037*	6,345,000

*Stated maturity.

Approximately 45 days prior to each mandatory redemption date for the Taxable Series 2015B Term Bonds, the Paying Agent/Registrar shall select by lot the numbers of the Taxable Series 2015B Term Bonds within the applicable stated maturity to be redeemed on the next following November 15 from moneys set aside for that purpose in the Debt

Service Fund. Any Taxable Series 2015B Term Bond not selected for prior redemption shall be paid on the date of its Stated Maturity.

The principal amount of the Taxable Series 2015B 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 Taxable Series 2015B 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 Taxable Series 2015B Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption

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

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

Defeasance

The City may defease and discharge its obligation to the Holders of any or all of the Bonds of either series to pay the principal of, redemption premium, if any, and interest owing on the Bonds by depositing with the Paying Agent/Registrar, or other authorized escrow agent, in trust:

- (a) cash in an amount equal to the principal amount of, redemption premium, if any, and interest to become due on the Bonds to the date of maturity or prior redemption; or
- (b) Government Obligations, consisting of:
 - (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; or
 - (ii) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or
 - (iii) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of acquisition by the City are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or
 - (iv) any other than authorized securities or obligations that may be used to defease obligations such as the Bonds under the then applicable laws of the State of Texas.

Deposits of cash and Government Obligations to defease the Bonds shall be held in trust and are required to be affirmed by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to pay the principal of, redemption premium, if any, and interest on such Bonds.

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is Wilmington Trust, National Association, Dallas, Texas. The City retains the right to replace the Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds of either series, the City will promptly cause written notice to be given to each registered owner of the Bonds affected by such change, which notice will also give the address of the new Paying Agent/Registrar. Any Paying Agent/Registrar selected by the City shall be a bank, trust company, financial institution or other entity duly qualified and legally authorized to act as and perform the duties of Paying Agent/Registrar in accordance with the terms of the Thirteenth Supplement or the Fourteenth Supplement, as the case may be.

Interest on the Bonds shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (defined in this document), and such interest shall be paid:

- (i) by check sent by United States Mail, first-class postage prepaid, to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar; or
- (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner.

Principal of the Bonds will be paid to the registered owner at their stated maturity upon their presentation to the designated payment/transfer office of the Paying Agent/Registrar. If a date for making a payment on the Bonds, the taking of any action or the mailing of any notice by the Paying Agent/Registrar shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment, taking of action or mailing of a notice shall be the next day which is not a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and a payment, action or mailing on such date shall have the same force and effect as if made on the original date the payment was due or the action was required to be taken or the mailing was required to be made. As of the date of this document, the office of the Paying Agent/Registrar in Dallas, Texas is its designated payment/transfer office.

Record Date for Interest Payment

The record date (“Record Date”) for the interest payable on any interest payment date for the Bonds means the close of business on the last business day of the month before each interest payment date. In the event of a non-payment of interest on the Bonds on one or more maturities on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment for such maturity or maturities (a “Special Record Date”) will be established by the Paying Agent/Registrar, if any, when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the “Special Payment Date”, which is fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days before the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner of a bond of such maturity or maturities appearing on the books of the Paying Agent/Registrar at the close of business on the last business day before the date the notice is mailed.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, printed certificates will be delivered to the Holders and thereafter the Bonds may be transferred and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar, and such registration shall be at the expense of the City, except for any related tax or other governmental charge. A Bond may be assigned by execution of an assignment form on the Bonds or by other instruments of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds of like series and aggregate principal amount will be delivered by the Paying Agent/Registrar to the last assignee (the new registered owner) in exchange for such transferred and assigned Bonds not more than three (3) days after receipt of the Bonds to be transferred in proper form. Such new Bond or Bonds must be in the denomination of \$5,000 or any integral multiple thereof within a maturity.

Bondholders' Remedies

Neither the Master Ordinance, the Thirteenth Supplement nor the Fourteenth Supplement specify events of default with respect to the Bonds. If the City defaults in the payment of principal, interest or redemption price on the Bonds when due, or the City defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Master Ordinance, the Thirteenth Supplement or the Fourteenth Supplement, as applicable, the registered owners may seek a writ of mandamus to compel the City or City officials to carry out the legally imposed duties with respect to the Bonds of either series if there is no other available remedy at law to compel performance of the Bonds, the Master Ordinance, the Thirteenth Supplement or the Fourteenth Supplement, as applicable, and if the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the courts, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. None of the Master Ordinance, the Thirteenth Supplement or the Fourteenth Supplement provide for the appointment of a trustee to represent the interests of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Thirteenth Supplement or the Fourteenth Supplement, as applicable, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.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 Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or covenants contained in the Master Ordinance, the Thirteenth Supplement or the Fourteenth Supplement. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of 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 creditors' rights 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.

For a more detailed explanation of the various covenants and agreements with the Holders of the Bonds, including provisions for amendments to the Master Ordinance and any supplements thereto, and defeasance of the Bonds, see APPENDIX C attached hereto.

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 obligation of the City is to timely pay the Paying Agent/Registrar the amount due under the Master Ordinance, the Thirteenth Supplement and the Fourteenth Supplement, as applicable. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owner of the Bonds are described in this document.

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC, while the Bonds are registered in its nominee name. 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 the source of such 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 in this document 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 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 MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 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, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Participants.

DTC may discontinue providing its services as depository with respect to the 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, Bond certificates will be printed and delivered, and the Bonds will be subject to the transfer, exchange and registration provisions as set forth in the Thirteenth Supplement and the Fourteenth Supplement and summarized above in this document (see "DESCRIPTION OF THE BONDS – Transfer, Exchange and Registration").

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THE SYSTEMS

The City owns and operates an Electric Utility System (also referred to in this document as “Austin Energy”) and a Water and Wastewater System (also referred to in this document as the “Water and Wastewater Utility” or “Austin Water”) which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and wastewater services. The City owns all the facilities of the Water and Wastewater System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet Electric Utility System demand. The Electric Utility System had approximately 1,672.75 full-time regular employees as of September 30, 2014. The Water and Wastewater System had approximately 1,147 full-time regular employees as of the same date.

ELECTRIC SYSTEM “AUSTIN ENERGY”

Management (as of February 28, 2015)

	<u>Years at City</u>	<u>Additional Years of Experience</u>	<u>Total</u>
General Manager			
Larry Weis	5	29	34
Deputy General Managers			
Cheryl Mele, PE, <i>Chief Operating Officer</i>	23	5	28
Kerry Overton, <i>Chief Administrative Officer</i>	15	11	26
Senior Vice Presidents			
Mark Dombroski, <i>Finance and Corporate Services</i>	0.5	22	22.5
Vice Presidents			
Elaina Ball, <i>Power Production</i>	2	12	14
Mark Dreyfus, Ph.D., <i>Regulatory Affairs and Corporate Communications</i>	17	12	29
Jawana Gutierrez, PMP, <i>Customer Care Services</i>	24	5	29
Elaine Kelly-Diaz, <i>Customer Account Management</i>	7	12	19
Debbie Kimberly, <i>Customer Energy Solutions</i>	2	30	32
Khalil Shalabi, <i>Market Operations and Resources Planning</i>	1	20	21
Dan Smith, PE, <i>Electric Service Delivery</i>	11	15	<u>26</u>
Executive Team Years of Experience			<u>280.5</u>

Service Area

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

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

Real Estate Taxes

Austin Energy pays no real property taxes on facilities inside or outside the City, or payments in lieu of taxes, with respect to Austin Energy.

Customer Base – Average Monthly Number of Customers

<u>For Period ended September 30, 2014</u>	<u>Average Monthly Number of Customers</u>	<u>Percent</u>
Residential	391,410	89.08%
Commercial	45,436	10.34
Industrial	151	0.03
Public Street & Highway	5	0.00
Governmental Authorities	<u>2,401</u>	<u>0.55</u>
Total Service Area Customers	<u>439,403</u>	<u>100.00%</u>

Source: Austin Energy.

Physical Property

The City either owns or has an ownership interest in a diverse mix of generation sources, including coal, nuclear and natural gas facilities. In addition, Austin Energy has renewable energy installations or contracts for purchased power from wind, landfill methane, and biomass projects. See “DESCRIPTION OF PHYSICAL PROPERTY” and “STRATEGIC PLANS, GOALS AND POLICIES – Austin Energy Resource, Generation and Climate Protection Plan to 2025: An Update of the 2020 Plan” in this document.

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Generation Facilities– TABLE ONE

As of September 30, 2014, generation facilities wholly or partially owned by Austin Energy are as follows.

<u>Unit</u>	<u>Year Installed</u>	<u>Nameplate Rating (MW)</u>	<u>Fuel</u>
Fayette Power Project			
Unit No. 1	1979	285.0	Coal
Unit No. 2	1980	285.0	Coal
Decker Power Station			
Unit No. 1	1970	321.0	Gas
Unit No. 2	1977	405.0	Gas
Gas Turbines	1988	200.0	Gas
Sand Hill Energy Center			
Gas Turbines	2001	180.0	Gas
Gas Turbines	2010	90.0	Gas
Combined Cycle	2004	300.0	Gas
MEC CHP (Dell Children’s Hospital)	2006	4.6	Gas
South Texas Project Electric Generating Station			
Unit No. 1	1988	200.0	Nuclear
Unit No. 2	1989	<u>200.0</u>	Nuclear
Total Capacity owned by Austin Energy		2,470.6	
Purchased Power (1)(2):			
Infigen Sweetwater Wind	2005	126.0	Wind
RES North America Whirlwind Energy LLC	2007	59.8	Wind
RES North America Hackberry Wind LLC	2008	165.6	Wind
Iberdrola Penascal Wind Power/Penascal II Wind Project	2011	195.6	Wind
Exelon Whitetail Wind Energy	2012	92.3	Wind
Duke Energy Los Vientos IB	2012	201.6	Wind
Longsol LLC Webberville Solar	2011	30.0	Solar
Sunset Farms Energy, LLC	1994-2003	4.0	Landfill Methane
Energy Developments, Inc.	2002-2003	7.8	Landfill Methane
Nacogdoches Power LLC	2012	<u>100.0</u>	Biomass
Total Capacity from Purchased Power		<u>982.7</u>	
Total Capacity including Purchased Power		3,453.3	

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

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

Source: Austin Energy.

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

Fuel Supply

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

<u>Fuel Type</u>	Percentage of Generation As of September 30,				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Coal	33.3%	28.9%	27.0%	25.9%	27.5%
Natural Gas & Oil ⁽¹⁾	25.9	25.8	20.5	15.7	13.1
Nuclear	23.0	21.3	21.9	22.8	23.1
Renewable Energy	10.0	9.5	14.9	20.7	22.0
Purchased Power	<u>7.8</u>	<u>14.5</u>	<u>15.7</u>	<u>14.9</u>	<u>14.3</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(1) No fuel oil since FY 2013.

Source: Austin Energy.

Fuel Type

Coal . . . Coal supply and rail transportation are procured through a portfolio of contracts designed to minimize cost. Typically, several weeks of coal inventory are maintained to protect against disruptions. Coal inventories are managed within targeted ranges and, depending on the efficiency of railroad performance, train sets are either removed from or added to service to maintain desired inventory levels. Austin Energy’s coal inventory share was 69 days as of March 31, 2015. Austin Energy’s coal inventory is targeted to be 40-70 days.

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

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

DESCRIPTION OF PHYSICAL PROPERTY

Fayette Power Project

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

FPP installed scrubbers on Units 1 and 2 in 2011 to meet SO2 permit levels and to help meet limits of air toxics in the recently finalized federal Mercury and Air Toxics Standards (MATS) rules. See “CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental Regulation Related to Air Emissions – Mercury and Air Toxics Standards (MATS)” in this document. For additional information regarding FPP, see “STRATEGIC PLANS, GOALS AND POLICIES – 2014 Plan Summary” in this document.

Austin Energy Gas Generation Facilities

Austin Energy owns three gas generation facilities located in Austin Energy’s service territory.

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

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

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

South Texas Project

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

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

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

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

STP Units 1 and 2 each have a 40-year Nuclear Regulatory Commission (“NRC”) license that expires in 2027 and 2028, respectively. Under NRC regulations, the STP owners can request a 20-year license renewal. The STP license renewal for Units 1 and 2 is in process and the NRC review of the license renewal application is proceeding on schedule and with no significant challenges. Three hundred requests for additional information were received from the NRC. The NRC is presently preparing draft Supplemental Environmental Impact Statements in support of the new extended license. Contention petitions were denied and are now closed. In 2012, the NRC voted that no final licensing decisions would be made until burial waste issues (Waste Confidence Rule) were resolved. In August 2014, the NRC adopted the final Continued Storage Rule (resolving the Waste Confidence Rule issues) and lifted suspension on all final licensing

decisions for affected applications as of the effective date of the final rule. Several activities and confirmatory items are remaining before the final decision and granting of an extended license. The NRC approval timeline is forecasted to be late 2015/early 2016.

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

Low Pressure turbine upgrades were completed in 2007 for Units 1 and 2. The replacement resulted in an additional 136.9 MW of capacity, of which Austin Energy's share is 21.9 MW.

CUSTOMER RATES

Retail Service Rates

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

State courts have held that the PUCT may apply the same ratemaking standards to the City as are applied to utilities over which the PUCT has original jurisdiction. See "CUSTOMER STATISTICS - Electric Rates" in this document for a link to Austin Energy's approved rate schedules.

In June 2012, following an 18-year period with no change in its base electric rates, the City Council approved a system average 7% rate increase for Austin Energy which was reflected on electric bills beginning in October 2012. It is expected that rates will be reviewed at least every five years. The City Council reaffirmed that future rate increases should not exceed 2% per year and that Austin Energy rates remain in the lower 50% among Texas electric utilities. The rates approved by the City Council in 2012 also include several line item charges that are reviewed and updated annually:

- Power Supply Adjustment: recovers dollar-for-dollar fuel and power supply costs.
- Regulatory Charge: recovers dollar-for-dollar Austin Energy's retail transmission expense and other regulatory expenses, such as ERCOT Administrative Fees. Congestion Revenue Rights are netted against the system regulatory costs.
- Customer Assistance: funds utility bill discounts for low income customers (more than 40,000 customers assisted as of September 2014).
- Service Area Streetlights: maintains and powers the streetlights and traffic signals in the City (outside-the-city customers are not assessed this fee).
- Energy Efficiency Services: funds energy efficiency programs, the least expensive offset to new generation.

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

Residential ratepayers taking service outside the City's corporate limits appealed the 2012 rate change to the PUCT (PUC Docket No. 40627). The parties to the appeal signed a settlement agreement on March 22, 2013, and the settlement was approved by the PUCT on April 29, 2013. The settlement sets rates for the outside City customers and became effective June 1, 2013. See "CUSTOMER STATISTICS – Electric Rates" in this document for a link to Austin Energy's approved rates schedules.

Commercial rates: Commercial rates generally include a customer charge, demand and electric delivery charges (based on demand), energy charges, and the pass-through charges for the Power Supply Adjustment, Regulatory Charge, and the Community Benefit Charge (low income programs, energy efficiency programs, and street lights).

Industrial rates: Industrial rates were approved by the City Council in the 2012 rate review. At the time, most industrial customers were served under long-term contracts which expired by May 2015. In December of 2014, the State of Texas contract was extended until May 2017 and the Fuel Adjustment Clause was replaced with the Power Supply Adjustment. Austin Energy is currently in negotiations with the three largest industrial customers for the terms of new contracts based upon the cost of service for those customers. All remaining industrial customers currently served under contracts are scheduled to be billed under the approved tariffed rates in 2015.

Fuel Adjustment Clause

The City assesses an annually updated Fuel Adjustment Clause charge based on a formula designed to recover the actual cost of fuel, purchased power, and wholesale fees and charges to meet the City's service area obligations. The intent of the fuel formula is to avoid any over or under recovery of costs associated with fuel. This charge was replaced by the Power Supply Adjustment for the vast majority of customers in October 2012. Only customers under contract through May of 2015 continue to be assessed the Fuel Adjustment Clause. The Fuel Adjustment Clause will expire on June 1, 2015.

Typical Residential Electric Bills of Large Texas Cities

<u>City</u>	<u>Electric Bill*</u>
Dallas/Fort Worth	\$ 100.71
San Antonio	102.74
AUSTIN	104.75
Houston	108.83
Corpus Christi	113.07
El Paso	114.42

*Average residential bill for 1,000 KWh during the period October 2013 – September 2014, including fuel costs. The cities shown, other than the City and San Antonio, are served by competitive retail service providers.
Source: Public Utility Commission of Texas and powertochoose.org.

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CUSTOMER STATISTICS

Five Year Electric Customer Statistics – TABLE TWO

TABLE TWO shows service area billed customer sales since the fiscal year ended September 30, 2014. The revenue per year varies in large degree due to the price of fuel which is passed through to customers in the fuel adjustment clause as stated above. MWH sales variances are due to a combination of customer growth and weather.

	Fiscal Year Ended September 30				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<u>Revenue (000's)</u>					
Residential	\$ 407,074	\$ 457,263	\$ 422,195	\$ 458,657	\$ 488,625
Commercial	409,952	433,887	409,330	474,659	496,085
Industrial	122,714	145,553	158,727	184,517	200,340
Public Street & Highway	8,515	8,591	7,881	4,625	3,047
Sales to Government Authorities	<u>81,875</u>	<u>85,447</u>	<u>83,476</u>	<u>61,407</u>	<u>66,990</u>
Total	\$1,030,130	\$1,130,741	\$1,081,609	\$1,183,865	\$1,255,087
<u>MWH</u>					
Residential	4,238,690	4,561,858	4,381,194	4,162,387	4,314,699
Commercial	4,553,866	4,675,615	4,633,557	4,475,629	4,512,469
Industrial	2,038,706	2,342,538	2,648,487	2,735,012	2,850,111
Public Street & Highway	48,078	48,327	46,949	40,549	50,816
Sales to Government Authorities	<u>1,096,986</u>	<u>1,094,965</u>	<u>1,005,961</u>	<u>857,156</u>	<u>871,591</u>
Total	11,976,326	12,723,303	12,716,148	12,270,733	12,599,686
<u>Average Monthly Number of Customers</u>					
Residential	368,700	372,329	376,614	383,257	391,410
Commercial	43,489	43,814	44,006	44,857	45,436
Industrial	80	82	82	138	151
Public Street & Highway	4	4	4	5	5
Sales to Government Authorities	<u>1,597</u>	<u>1,636</u>	<u>1,664</u>	<u>2,325</u>	<u>2,401</u>
Total	413,870	417,865	422,370	430,582	439,403
<u>Average Monthly KWH per Customer</u>					
Residential	958	1,021	969	905	919
Commercial	8,726	8,893	8,774	8,315	8,276
Industrial	2,123,652	2,380,628	2,688,273	1,651,577	1,575,518
Public Street & Highway	1,001,625	1,006,813	978,104	422,388	846,926
Sales to Government Authorities	57,242	55,775	50,376	30,722	30,249
<u>Average Monthly Bill per Customer</u>					
Residential	\$ 92.01	\$ 102.34	\$ 93.42	\$ 99.73	\$ 104.03
Commercial	785.55	825.24	775.14	881.86	909.85
Industrial	127,827.08	147,919.72	161,111.45	111,423.40	110,746.49
Public Street & Highway	177,395.83	178,979.17	164,187.50	48,173.89	50,784.01
Sales to Government Authorities	4,272.33	4,352.43	4,180.24	2,200.98	2,324.92
<u>Average Revenues per KWH</u>					
Residential	\$0.09604	\$0.10024	\$0.09637	\$0.11019	\$0.11325
Commercial	0.09002	0.09280	0.08834	0.10605	0.10994
Industrial	0.06019	0.06213	0.05993	0.06746	0.07029
Public Street & Highway	0.17711	0.17777	0.16786	0.11405	0.05996
Sales to Government Authorities	0.07464	0.07804	0.08298	0.07164	0.07686

Source: Austin Energy.

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Electric Rates

The Power Supply Adjustment (PSA), Regulatory Charge, and Community Benefit Charge are updated each year as of November 1. Austin Energy's approved rates schedules can be found online at www.austinenergy.com.

Transmission Rates

The PUCT has exclusive jurisdiction over rates and terms and conditions for the provision of transmission services by the City. On June 3, 2014, the PUCT approved the City's most recent wholesale transmission rate of \$1.160111/kW. Transmission revenues totaled \$69 million in fiscal year 2014 and are expected to total approximately \$72 million in fiscal year 2015. Austin Energy will continue to manage and review the need for wholesale transmission rate increases as necessitated by its investment and cost to serve.

GreenChoice® Energy Rider

GreenChoice® is Austin Energy's renewable energy program that allows residential and commercial customers to meet their electricity needs by purchasing 100% renewable Texas wind power. Customers who subscribe to the GreenChoice program will pay, in lieu of the PSA, a renewable energy charge as determined by Austin Energy. Austin Energy's GreenChoice program has led all voluntary utility green-pricing programs in the nation in kilowatt-hours of renewable energy sold over the past decade of operation, as ranked by the National Renewable Energy Laboratory. Subscribers see the PSA charge replaced with a GreenChoice charge on their electric bill. Green-e is the nation's leading independent consumer protection program for the sale of renewable energy and greenhouse gas reductions in the retail market.

Green Choice Sales (kWh) by Calendar Year

2004	344,446,101
2005	434,040,739
2006	580,580,401
2007	577,636,840
2008	723,824,901
2009	764,895,830
2010	754,203,479
2011	698,703,263
2012	744,442,709
2013	863,956,193
2014	683,986,607

Power and Energy Sales Contracts

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

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Generation and Use Data – TABLE FOUR

	Fiscal Year Ended September 30									
	2010		2011		2012		2013		2014	
	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		10,275,574,000		10,142,406,000		9,060,948,000		8,271,499,000		10,784,975,000
kWh Received from ERCOT		2,832,001,000		3,433,333,000		4,299,061,000		4,916,439,000		2,496,345,000
Less: kWh Delivered to ERCOT		(390,666,000)		(184,992,000)		(155,105,000)		(160,812,000)		(134,287,000)
Less: kWh Delivered to Other Utilities		<u>(198,682,000)</u>		<u>(30,221,000)</u>		<u>(112,900,000)</u>		<u>(143,496,000)</u>		<u>—</u>
Total kWh Delivered to Service Area		<u>12,518,227,000</u>		<u>13,360,526,000</u>		<u>13,092,004,000</u>		<u>12,883,630,000</u>		<u>13,147,033,000</u>
Service Area Energy Use:										
Residential	368,700	4,238,690,401	372,329	4,561,857,688	376,614	4,381,193,546	383,257	4,162,387,287	391,410	4,314,699,441
General Service (Less UT & ENW)	<u>44,305</u>	<u>7,362,471,563</u>	<u>44,660</u>	<u>7,766,695,257</u>	<u>44,863</u>	<u>7,957,928,155</u>	<u>46,290</u>	<u>7,682,153,871</u>	<u>46,886</u>	<u>7,847,048,954</u>
	<u>413,005</u>	<u>11,601,161,964</u>	<u>416,989</u>	<u>12,328,552,945</u>	<u>421,477</u>	<u>12,339,121,701</u>	<u>429,547</u>	<u>11,844,541,158</u>	<u>438,296</u>	<u>12,161,748,395</u>
Public Street Lighting	4	48,077,910	4	48,327,221	4	46,948,693	8	40,549,265	5	50,815,562
City Utility Departments	177	189,961,003	235	219,180,770	191	198,728,570	345	264,950,503	352	265,731,532
Other City Departments	<u>683</u>	<u>123,407,724</u>	<u>636</u>	<u>113,612,914</u>	<u>697</u>	<u>117,686,130</u>	<u>681</u>	<u>108,493,578</u>	<u>749</u>	<u>105,998,996</u>
	<u>864</u>	<u>361,446,637</u>	<u>875</u>	<u>381,120,905</u>	<u>892</u>	<u>363,363,393</u>	<u>1,034</u>	<u>413,993,346</u>	<u>1,106</u>	<u>422,546,090</u>
Total Service Area Sales	413,869	11,962,608,601	417,864	12,709,673,850	422,369	12,702,485,094	430,581	12,258,534,504	439,402	12,584,294,485
Sales to UT & ENW (Nightwatchman)	1	13,717,834	1	13,629,431	1	13,662,906	1	12,198,496	1	15,391,515
Loss and Unaccounted For	<u>—</u>	<u>541,900,565</u>	<u>—</u>	<u>637,222,719</u>	<u>—</u>	<u>375,856,000</u>	<u>—</u>	<u>612,897,000</u>	<u>—</u>	<u>547,347,000</u>
Total kWh Delivered to Service Area	<u>413,870</u>	<u>12,518,227,000</u>	<u>417,865</u>	<u>13,360,526,000</u>	<u>422,370</u>	<u>13,092,004,000</u>	<u>430,582</u>	<u>12,883,630,000</u>	<u>439,403</u>	<u>13,147,033,000</u>
System Peak Demand (kW)		2,628,000		2,714,000		2,702,000		2,592,000		2,578,000

Source: Austin Energy.

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Energy Risk Management

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

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

Premiums paid for options are deferred until the contract is settled. As of September 30, 2014, \$469,000 in premiums was deferred. As of September 30, 2014, the fair value of Austin Energy's futures, options, swaps, and congestion rights was an unrealized loss of \$26.2 million, of which \$30 million is reported as derivative instruments in liabilities and \$4.2 million is reported as derivative instruments in assets. The fair values of these derivative instruments are deferred until future periods on the balance sheet using deferred outflows and deferred inflows.

Further explanation and historical information at last fiscal year end can be found in the footnotes to the financial statements for the fiscal year ended September 30, 2014 (see APPENDIX B – “Audited Financial Statements – Note 9a – Energy Risk Management Program”).

Power and Energy Purchase Contracts

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

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

In December 1999, Austin Energy signed two contracts for the purchase of energy from landfill methane-recovery projects to be developed by Ecogas Inc. and Energy Developments, Inc. (“EDI”). Ecogas Inc. assigned its rights to EDI in October 2000. In October 2002, EDI brought on the first 5.2 MW of landfill methane generation at its Tessman Road facilities located in San Antonio, Texas. Another 2.6 MW of landfill methane generation was added in 2003, bringing the total capacity to 7.8 MW.

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

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

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

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

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

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

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

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

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

In May 2014, Austin Energy and RE Roserock LLC, a Canadian Solar affiliate, entered into a 20-year Power Purchase Agreement for the purchase and sale of up to 150 MW of solar generated renewable energy from a facility to be constructed in west Texas. Commercial operation is expected in the third quarter of 2016.

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

Electric Transmission and Distribution System Statistics

The transmission and distribution plant statistics of Austin Energy as of March 31, 2015 are as follows:

	<u>Number of Substations</u>	<u>Miles of Lines</u>	<u>Kilovolts</u>
Transmission	14	624	345/138/69
Distribution	60	11,453	35/12.5/7.2
Overhead Primary		2,379	
Overhead Secondary		2,823	
Underground Primary		3,122	
Underground Secondary		3,129	

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

The City has also entered into the STP 345 kV Transmission Line Agreement dated as of January 1, 1976 with the participants in STP, setting forth the duties, obligations and responsibilities with respect to transmission facilities associated with STP. See “DESCRIPTION OF PHYSICAL PROPERTY – South Texas Project.”

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

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

ISO 9001 Registration

Three major business units of Austin Energy have earned their International Organization for Standardization (ISO) 9001 registrations. The Electric Service Delivery (“ESD”) division responsible for the construction, maintenance and operation of the City’s electric system became the first of any utility in the nation to earn ISO 9001:2000 registration. ISO 9000 is a series of international quality standards designed to ensure that all activities related to providing and delivering a product or service are appropriately quality assured. To earn the registration, applicants must develop a Quality Management System that reflects standards of performance for every major process, in this case, related to building, maintaining and repairing the electric system. Auditors from the National Standards Authority of Ireland (“NSAI”), the worldwide entity that certifies ISO quality management program, issued the registration on January 3, 2008. The certification followed a rigorous four-day review in December 2007 of the Electric Service Delivery Quality Management System by NSAI auditors. In June 2012, Austin Energy’s Electric Service Delivery Quality Management System was re-registered under ISO 9001:2008 standard. ESD continues to maintain its ISO certification.

In June 2010 Austin Energy’s Customer Care unit was also registered as an ISO 9001:2008 organization. The Customer Care unit is responsible for receiving customer requests, responding to customer requests, billing customers, processing customer payments, and managing customer accounts. Customer Care continues its ISO Certification.

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

Planning is underway to determine which Austin Energy business unit will be next to pursue ISO registration.

Conventional System Improvements

In September 2014, the 2015-2019 Capital Improvements Spending Plan was approved by the City Council in the amount of \$1,195,990,301. Austin Energy’s five-year spending plan provides continued funding for distribution and street lighting additions including line extensions for new service, system modifications for increased load, and relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for transmission, generation and other general additions. Funding for the total Capital Plan is

expected to be provided from current revenues and the issuance of commercial paper which from time to time will be refinanced with long-term debt.

\$1.2 Billion Five Year Capital Spending Plan

<u>\$ in Millions</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>Total</u>
Distribution	\$ 83	\$ 69	\$ 70	\$ 67	\$ 66	\$ 355
Distribution Substation	10	9	18	11	15	63
Transmission	<u>26</u>	<u>29</u>	<u>21</u>	<u>27</u>	<u>24</u>	<u>127</u>
Electric Service Delivery	119	107	109	105	105	545
Power Production	79	111	156	97	25	468
Customer Service Billing & Metering	7	13	12	1	1	34
Facilities, Technology & Support Services	<u>49</u>	<u>39</u>	<u>38</u>	<u>16</u>	<u>7</u>	<u>149</u>
Total	<u>\$254</u>	<u>\$270</u>	<u>\$315</u>	<u>\$219</u>	<u>\$138</u>	<u>\$1,196</u>

Austin Energy Smart Meter Installation Program

Austin Energy maintains an Advanced Metering Infrastructure (“AMI”) program. A component of the AMI program is the installation of AMI meters, which send and receive consumptive and diagnostic data, including daily meter reads via radio signals. Austin Energy has approximately 444,000 Automated Meter Reading (“AMR”) and AMI meters: 60,000 1-way communicating residential meters; 334,000 2-way communicating residential meters and 46,000 2-way communicating commercial and industrial meters. Austin Energy has begun the replacement of its 1-way AMR meters to 2-way AMI meters. The replacement program is expected to be completed by 2016. Continued improvements in AMI technology has demonstrated to improve customer service and reliability while reducing operating costs.

STRATEGIC PLANS, GOALS AND POLICIES

Strategic Plan

In December 2003, the City Council approved a strategic plan for Austin Energy. The plan identified three strategies to position Austin Energy for continued success. Austin Energy operates under the approved 2003 strategic plan but new initiatives are underway, including the Technology Roadmap Project, the Facilities Master Plan, and the New Generation Plan (mentioned below in “Austin Energy Resource, Generation, and Climate Protection Plan to 2025: An Update of the 2020 Plan”).

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

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

Third, an Energy Resource strategy directs Austin Energy to seek cost-effective renewable energy and conservation solutions to meet customers’ new energy needs before resorting to traditional fossil fuel sources. In keeping with the risk management approach, Austin Energy has developed a Resource, Generation and Climate Protection Plan to 2025 discussed further in the next section.

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

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

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

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

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

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

2014 Plan Summary

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

- Maintaining the current goal of 800 MW of energy efficiency and Demand Response by 2020, and adding an incremental 100 MW of Demand Response to achieve a total of at least 900 MW of Demand Side Management (DSM) by 2025.
- Increase the renewable energy goal from 35% to 55%.
- Increase the solar component of the renewable energy goal by 600 MW.
- Establish a CO₂ reduction goal of 20% below 2005 level in 2020 and beyond with retirement of Austin Energy’s share of FPP by 2023 through creation of a cash reserve fund.
- Develop an implementation plan for distribution connected local storage of at least 10 MW complemented by as much as 20 MW of thermal storage.

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

- 1- An additional 100 MW of Demand Response or energy efficiency to increase the DSM achieved to 1000 MW by 2025.

- 2- Issuing an RFI for 170 MW of large scale storage such as Compressed Air Energy Storage.

Specific resource investments will be evaluated continually by Austin Energy, reinforcing that the goals are adaptable to changing legal/regulatory, market, and economic conditions. As explained further in the 2014 Plan, however, each individual investment will be considered by the City Council and subject to public review.

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

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

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

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

Wind. The 2014 Plan calls for the majority of the Austin Energy renewables goal will be met through wind-generated power. As of September 30, 2014, wind generation totals 840.9 MW of capacity. Austin Energy has executed additional wind contracts for 700.0 MW of capacity which will begin commercial operation in 2015 and 2016. Under the 2025 Plan, Austin Energy will pursue additional wind energy PPAs and ownership opportunities. Austin Energy expects to contract a minimum of 450 MW of additional coastal and western wind resources to reach at least 55 percent renewable energy goal by 2025 totaling the wind capacity by 2025 to 1,503 MW. See "CUSTOMER STATISTICS - Power and Energy Purchase Contracts" in this document.

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

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

The 2014 Plan recommends a new RFP be issued by Austin Energy for up to 600 MW of utility-scale solar in 2015. Austin Energy will contract for up to this amount by 2017, if available and affordable. If not, Austin Energy will continue to pursue the 600 MW of additional utility-scale solar within the 2014 Plan. These additions bring a combined total of 750 MW of utility-scale solar.

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

Financial Policies

The goals of Austin Energy's financial policies are to maintain financial integrity while allowing for flexibility. Some of the more significant financial policies reviewed and approved annually by the City Council during the budget process are:

- Current revenue, which does not include the beginning balance, will be sufficient to support current expenditures (defined as "structural balance"). However, if projected revenue in future years is not sufficient to support projected requirements, the ending balance may be budgeted to achieve structural balance.
- Austin Energy shall maintain operating cash equivalent to 45 days of budgeted operations and maintenance expense, less fuel. As of September 30, 2014, Austin Energy's operating cash was \$151 million.
- Debt Service coverage of a minimum of 2.0x shall be targeted for the Electric Utility Bonds. All short-term debt, including commercial paper, and non-revenue obligations will be included at 1.0x coverage.
- A Strategic Reserve Fund shall be created and established, replacing the Debt Management Fund. It will have three components:
 - An Emergency Reserve with a minimum of 60 days of non-power supply operating requirements. As of September 30, 2014, Austin Energy's emergency reserve was \$81 million.
 - A maximum of 60 days of additional non-power supply operating requirements set aside as a Contingency Reserve. As of September 30, 2014, Austin Energy's contingency reserve was \$26 million.
 - Any additional funds over the maximum 120 days of non-power supply operating requirements may be set aside in a Rate Stabilization Reserve.
- The Emergency Reserve shall only be used as a last resort to provide funding in the event of an unanticipated or unforeseen extraordinary need of an emergency nature, such as costs related to a natural disaster, emergency or unexpected costs created by Federal or State legislation. The Emergency Reserve shall be used only after the Contingency Reserve has been exhausted. The Contingency Reserve shall be used for unanticipated or unforeseen events that reduce revenue or increase obligations such as extended unplanned plant outages, insurance deductibles, unexpected costs created by Federal or State legislation, and liquidity support for unexpected changes in fuel costs or purchased power which stabilize fuel rates for Austin Energy customers. In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted amount within two years. A Rate Stabilization Reserve shall be used to stabilize electric utility rates in future periods. The Rate Stabilization Reserve may provide funding for (1) deferring or minimizing future rate increases, (2) new generation capacity construction and acquisition costs and (3) balancing of annual power supply costs (net power supply/energy settlement cost). The balance shall not exceed 90 days of net power supply costs. Funding may be provided from net revenue available after meeting the General Fund Transfer, capital investment (equity contributions from current revenue), Repair and Replacement Fund, and 45 days of working capital.
- The General Fund Transfer shall not exceed 12% of Austin Energy's three-year average operating revenues, calculated using the current fiscal year estimate and the previous two fiscal years' actual revenues from the City's Comprehensive Annual Financial Report.
- A decommissioning trust shall be established external to the City to hold the proceeds for moneys collected for the purpose of decommissioning the STP. An external investment manager may be hired to administer the trust investments.
- A Non-Nuclear Plant Decommissioning Fund shall be established to fund plant retirement. The amount set aside will be based on a decommissioning study of the plant site. Funding will be set aside over a minimum of four years prior to the expected plant closure.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Rate Regulation

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

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

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

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

ERCOT Wholesale Market Design

The ERCOT wholesale market has been dispatched and settled on a nodal basis since December 1, 2010. The key components of the nodal market include: establishment of a day-ahead energy market; resource-specific bid curves for energy and ancillary services; congestion pricing incorporating direct assignment of all congestion rents to resources causing the congestion; tradable congestion revenue rights ("CRRs") made available through auctions; nodal energy prices for resources; energy trading hubs; and zonal energy prices for load settlement. Austin Energy's service territory is identified as a load zone for settlement purposes.

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

Throughout the past 18 months, the PUCT has considered changes to the ERCOT wholesale market to address some potential resource adequacy challenges. While there is some debate over the existence or severity of a resource adequacy issue, the PUCT has increased the market offer caps and implemented an Operating Reserve Demand Curve to represent the value of operating reserves in the real-time market relative to the probability of loss of load. The PUCT continues to solicit comments on further wholesale market design changes, but there is little expectation any major decisions will be made in the near term.

Federal Rate Regulation

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

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

Environmental Regulation - General

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

Environmental Regulation Related to Air Emissions

CO₂ GHG New Source Performance Standard for new and existing Power Plants

In 2013, the United States Environmental Protection Agency ("USEPA") proposed New Source Performance Standards (NSPS) that set Greenhouse Gas (GHG) limits on any newly built power plants. That rule is not expected to impact Austin Energy. In June 2014, the USEPA proposed a GHG NSPS for all existing power plants, also called the Clean Power Plan. The proposal would require significant reductions in CO₂ emissions in Texas, including via increased energy efficiency and renewable energy, and directed each state to develop their own plan to achieve those reductions from the power sector. The USEPA is expected to finalize both the new and existing source rules in summer 2015, and a statewide plan with specific requirements for utilities is expected by summer 2016. Austin Energy's fleet is less carbon intense than the state-wide fleet as a whole because of investments already made in zero-and-low-carbon generation sources. The existing source rule has the potential to transform the power sector and increase costs for all generation owners; however, provided Austin Energy gets credit for its investments to date, including demand-side energy efficiency, Austin Energy is well-positioned to comply with this rule.

Mercury and Air Toxics Standards (MATS)

Published in February 2012, USEPA's final MATS rule sets new emissions limits for mercury and other toxic air emissions from coal and oil-fired electric utility boilers to be achieved by 2015. For Austin Energy, this rule applies to the FPP units 1 & 2. The flue gas desulphurization ("FGD") units or "scrubbers" that were put in operation in 2011 remove a significant portion of the air toxics to below the new limits. Although the scrubbers remove some mercury,

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

Cross-State Air Pollution Rule and Clean Air Interstate Rule

Austin Energy's large facilities have been complying with the Clean Air Interstate Rule ("CAIR"), a cap-and-trade program for annual NO_x and SO₂ emissions, since 2009. The USEPA finalized a court-mandated replacement for CAIR in 2011, called the Cross-State Air Pollution Rule ("CSAPR"), with compliance to begin in 2012 for annual NO_x, annual SO₂ and ozone season NO_x emissions in 23 eastern- and mid-U.S. states including Texas. A federal court stayed CSAPR in late 2011 pending judicial review of the rule and in August 2012, the court vacated CSAPR holding that the USEPA had exceeded its authority in the way it apportioned cleanup responsibilities among the affected states. The USEPA appealed to the Supreme Court and in May 2014 won a reversal of the lower court decision to vacate the rule. The USEPA has reinstated CSAPR beginning 2015 and officially removed CAIR requirements. Austin Energy holds more allowances relative to expected emissions for all CSAPR trading programs (annual and seasonal NO_x and annual SO₂) for the first Phase of CSAPR (2015, 2016). With scrubbers in place at FPP, Austin Energy owns a large surplus of SO₂ allowances that have the potential to generate revenue if sold to other utilities. Allowance allocations associated with future phases of CSAPR have not yet been determined by EPA. Some remaining legal challenges are in progress at the D.C. Circuit, and it is possible that a final resolution of the litigation could remove or reduce compliance risk for Texas utilities.

Proposed revisions to the federal ozone National Ambient Air Quality Standard

In November 2014, the USEPA proposed to lower the national ambient air quality standards (NAAQS) for ozone from 75 ppb to a value between 65 and 70 ppb, and is expected to finalize a new standard in October 2015. As of the end of 2014, the City's ozone levels were at 69 ppb, and the City could potentially become an ozone non-attainment area depending on whether the final level of the standard is below the City's ozone level. Official non-attainment designations are expected to be final in 2017; if at this point the City is non-attainment, the major risk to Austin Energy would be additional requirements and potential costs for permitting any new local power plants. All Texas power plants including FPP could also be subject to some level of NO_x control if widespread non-attainment occurs in Texas; Austin Energy is similarly positioned to most other generator owners in the state.

Environmental Regulation Related to Water Discharges

Section 316(b) of the Clean Water Act establishes requirements to minimize the impact of cooling water intake structures on aquatic organisms. The USEPA promulgated revised standards in 2014 that require cooling water intake structures to be designed to limit organism impingement and entrainment. All major power plants with once-through cooling will be required to complete studies over the next four years assessing impacts to aquatic organisms and appropriate mitigation measures, and plants with potential impacts could be required to upgrade intake structures to meet the new criteria. The rule applies to Decker Creek Power Station and FPP. However both facilities were built on reservoirs specifically made for cooling, which the rule effectively exempts from some of the major requirements. Overall risk associated with this rule is believed to be low at this time and would likely not be realized until four years from now.

Environmental Regulation Related to Hazardous Wastes and Remediation

In January 2015, the USEPA promulgated a rule that sets new requirements for the storage of Coal Combustion Residuals ("CCRs") and potentially reclassifies those CCRs as a hazardous waste when stored in a landfill. FPP, like all coal burning plants, generates CCRs such as fly ash, bottom ash and gypsum. FPP currently recycles the majority of its CCR for beneficial use, such as for road base or as cement substitutes, with the remaining fractions stored onsite in a landfill for possible future use (recycle rates depend on market demand for the product). In 2011, Austin Energy and LCRA completed a project to permanently close a "wet" ash pond where ash slurry had previously been sent for dewatering before recycle, and converted ash handling to a dry system. The final rule does not designate CCRs as

hazardous and largely minimizes any requirements on existing CCR storage units currently at FPP. Because the ash pond has been closed, Austin Energy does not anticipate any significant future costs associated with this rule at this time.

Environmental - Other

Austin Energy began decommissioning the Holly Street Power Plant in 2011. This project includes the removal of the main power plant and adjacent support structures and the cleanup of historical contamination and site closure approval by the State. This project is expected to be completed by the end of 2015.

Nuclear Regulation

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

STP is protected by provisions of the Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities even though the statutory protections for many non-commercial reactors are different. The Price-Anderson Act expires on December 31, 2025. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants remains at \$13.6 billion per unit per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is \$127.318 million per unit, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at \$18.96 million per year per reactor for each nuclear incident. The City and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of the assessments, STP has two licensed reactors. The participants (including the City) have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

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

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

The owners of STP currently maintain \$2.75 billion of nuclear property insurance, which is above the legally required amount of \$1.06 billion for such losses (\$2.75 billion is the maximum amount available for purchase from Nuclear Electric Insurance Limited (NEIL)). Nuclear property insurance consists of \$1.5 billion in primary property damage insurance and \$1.25 billion of excess property damage insurance, both subject to a retrospective assessment being paid by all members of NEIL. In the event that property losses as a result of an accident at any nuclear plant insured by NEIL exceed the accumulated fund available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is \$62.76 million during any one policy year. This number changes annually and is calculated as 10 times the current premium for each policy.

The NRC regulations set forth minimum amounts required to demonstrate reasonable financial assurance of funds for decommissioning of nuclear reactors. Beginning in 1990, each holder of an operating license is required to submit to the NRC a bi-annual report indicating how reasonable assurance would be provided. The City provides the required report on its share of STP to the NRC which is based on the minimum amount for decommissioning, excluding waste disposal, as required by the NRC regulations of \$105 million per unit (January 1986 dollars). This minimum is required to be adjusted annually in accordance with the adjustment factor formula set forth in the regulations. The 2014 report

provided by the City based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City has established an external irrevocable trust for decommissioning with JPMorgan Chase Bank, N.A. The City has been collecting for its share of anticipated decommissioning activities which may begin as early as 2027 through its rates since Fiscal Year 1989. The decommissioning trust market value on September 30, 2014 was \$196,653,680.03. For Fiscal Year 2015, Austin Energy estimates that it will continue to collect approximately \$5 million for decommissioning expense. In 2007 dollars, the minimum amount for decommissioning the City's share of STP is \$221 million. See "INVESTMENTS – Legal Investments" in this document.

Events Affecting the Nuclear Industry

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

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

The second NRC order applies only to U.S. boiling-water (BWR) reactors that have "Mark I" or "Mark II" containment designs. Mark I reactors must improve installed venting systems that help prevent core damage in the event of an accident; Mark II reactors must install these venting systems. The ISG for this order provides more detailed technical information on the vents, as well as how vent designs and operating procedures should avoid, where possible, relying on plant personnel taking actions under hazardous conditions. The second ISG is available in ADAMS under accession number ML12229A475. Since the STP units are Pressurized Water Reactor's and not BWR's, no changes are required.

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

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THE WATER AND WASTEWATER SYSTEM

Management

<u>Name</u>	<u>Title</u>	<u>Length of Service with City*</u>
Greg Meszaros	Director	8 Years
David Anders	Assistant Director, Finance and Business Services	27 Years
Jane Burazer	Assistant Director, Treatment	21 Years
Rick Coronado, P.E.	Assistant Director, Pipeline Operations	20 Years
Chris Chen, P.E.	Assistant Director, Engineering Services	2 Years
David Juarez, P.E.	Assistant Director, Water Resource Management	24 Years**
Daryl Slusher	Assistant Director, Environmental Affairs and Conservation	19 Years**

*As of March 1, 2015.

**Length of service not continuous.

WATER UTILITY

Service Area

The City supplies treated water to residential and commercial customers within the corporate limits of the City and to a portion of Travis and Williamson Counties. The presently defined service area totals approximately 538 square miles. The City also has contracted to supply treated water on a wholesale basis to five municipal utility districts (“MUDs”), two water control and improvement districts (“WCIDs”), several water supply corporations and private utilities, and the communities of Manor, Rollingwood, Sunset Valley, West Lake Hills, and the Village of San Leanna. In addition, the City has had a Water Reclamation Initiative for more than twenty years to develop facilities and processes to make treated wastewater effluent available for irrigation and cooling processes. The City established operating and capital funds for a Reclaimed Water Utility in addition to the Water and Wastewater operating and capital funds during fiscal year 2013. See “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Reuse Facilities” in this document. The City has previously acquired the systems and assets of eleven WCIDs. The City has paid off and canceled the bonded indebtedness of all of these WCIDs.

The Texas Commission on Environmental Quality (“TCEQ”) is empowered to grant utilities a certificate of convenience and necessity to provide water and wastewater service to retail customers. Since Austin Water is not defined by state statute as a “utility,” and instead is considered a “municipality,” it is not required to obtain such a certificate. References to the TCEQ in this Official Statement are intended to include agencies whose duties and responsibilities have been assumed by the TCEQ.

Water Supply

In 1888, City leaders campaigned successfully for the first Austin Dam across the Colorado River, which was completed early in 1893 and was reported to be the largest dam in the world when originally constructed. In 1934, a \$4,500,000 loan and grant was obtained from the Public Works Administration to complete the Buchanan Dam. The LCRA finished Buchanan Dam—which is 150 feet high and 11,000 feet long—in 1938; the lake it forms is thirty-two miles long and two miles wide, covering 22,137 surface acres at the full conservation pool elevation of 1,020.5 feet mean sea level (“MSL”).

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

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

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

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

1987 – 3,399,000 Acre Feet	1994 – 708,200 Acre Feet	2001 – 1,371,435 Acre Feet	2008 – 623,200 Acre Feet
1988 – 834,000 Acre Feet	1995 – 896,700 Acre Feet	2002 – 1,674,985 Acre Feet	2009 – 584,800 Acre Feet
1989 – 667,900 Acre Feet	1996 – 758,300 Acre Feet	2003 – 1,017,294 Acre Feet	2010 – 798,500 Acre Feet
1990 – 692,300 Acre Feet	1997 – 3,013,512 Acre Feet	2004 – 928,065 Acre Feet	2011 – 670,000 Acre Feet
1991 – 829,700 Acre Feet	1998 – 1,313,831 Acre Feet	2005 – 1,077,031 Acre Feet	2012 – 212,800 Acre Feet
1992 – 5,419,000 Acre Feet	1999 – 803,240 Acre Feet	2006 – 553,200 Acre Feet	2013 – 210,600 Acre Feet
1993 – 978,000 Acre Feet	2000 – 627,370 Acre Feet	2007 – 2,156,000 Acre Feet	2014 – 219,200 Acre Feet

* Data from 2006 to 2013 is referenced from USGS Water-Year Summary Statistics.

Using the last twenty-eight years from 1987–2014, the average flow was 1,179,934 acre-feet per year. (As a result of ongoing drought conditions, the flows in water years 2012, 2013, and 2014 have been lower, in accordance with TCEQ approval, due to LCRA cutting off most Highland Lakes interruptible stored water releases for agricultural irrigation operations). The gauging station referenced above is located on the Colorado River downstream of Longhorn Dam and downstream of the City’s intakes.

Water Rights.

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

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

The City and LCRA entered into a Comprehensive Water Settlement Agreement (the “Settlement Agreement”) in settlement of Cause No. 115,414-A-1 on December 10, 1987. The Settlement Agreement generally improves the independent water rights of both the City and LCRA. Such rights for the City include: the rights to maintain Tom Miller Dam and Lake Austin, Longhorn Dam and Lady Bird Lake, and Decker Dam and Lake Walter E. Long; the right to divert and use 272,403 run of the river acre-feet of water per year from Lake Austin and Lady Bird Lake for municipal purposes; the right to divert and circulate an unlimited amount of water per year from Lady Bird Lake for

industrial purposes so long as consumptive use does not exceed 24,000 acre-feet per year; the right to divert and circulate water from Lake Walter E. Long for industrial (cooling) purposes so long as consumptive use does not exceed 16,156 acre-feet per year; and the right to divert and use water through Tom Miller Dam for the generation of hydroelectric power. LCRA's independent water rights, as determined by the TCEQ, include the rights to maintain Lakes Travis and Buchanan and to divert and use water therefrom. Pursuant to the Settlement Agreement and the final judgment in Cause No. 115,414-A-1, certain other pending water-related disputes between the City and LCRA were settled. LCRA was granted an option to acquire up to a 50% undivided interest in the City's proposed Water Treatment Plant No. 4 (discussed under "Water Treatment Plants" below and referred to as "WTP No. 4"). The District Court issued a final judgment consistent with the Settlement Agreement. Certificates of Adjudication have been issued by the TCEQ.

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

The City and LCRA executed the First Amendment to the Settlement Agreement (the "First Amendment") on October 7, 1999. This First Amendment extends the existing Settlement Agreement through the year 2050, and gives the City an assured water supply throughout its term by providing additional water from the Highland Lakes system, a chain of lakes formed on the Colorado River that includes Lake Travis, Lake Austin and Lady Bird Lake, and other sources. Additionally, the First Amendment includes an option for the City to renew the Settlement Agreement through the year 2100. The City paid a discounted amount of \$100.0 million to the LCRA as part of the First Amendment contract provisions. The \$100.0 million payment to LCRA included compensation for the following terms: (a) pre-paid reservation fee for an additional 75,000 firm acre-feet of water supply, which increased the City's total water supply from 250,000 firm acre-feet to 325,000 firm acre-feet per year for the additional 50-year period, with an option to renew for another additional 50-year period; and (b) pre-paid water use charges that would be paid by the City for water use above 150,000 firm acre-feet up to 201,000 firm acre-feet.

Under the terms of the First Amendment, the Water and Wastewater System will begin annual payments to LCRA for raw water diverted in excess of 150,000 acre-feet once the Water and Wastewater System's average annual diversions for two consecutive years exceed 201,000 acre-feet, which is unlikely to occur prior to 2030. The First Amendment also has numerous other provisions that benefit the City. Also, a legal issue regarding the building of WTP No. 4 was settled. LCRA's option to acquire up to 50% of the WTP No. 4 lapsed on January 1, 2000. All sections of the 1987 Settlement Agreement related to WTP No. 4 were deleted as part of the First Amendment. The First Amendment provides for mutual release of the City and LCRA from any claims or causes of action relating to the delayed construction of WTP No. 4.

Water Treatment Plants

Austin Water has three water treatment plants (Davis, Ullrich, and WTP No. 4), which have a combined rated capacity of 335 million gallons per day ("mgd"). These water treatment plants have a combined clear well storage capacity of 45 million gallons on site.

Austin Water's water distribution system includes approximately 3,714 miles of water mains of varying diameters, 31 major storage facilities with a storage capacity of approximately 170 million gallons, 26,158 City maintained fire hydrants, and 21 major pump stations.

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

The Davis Water Treatment Plant, located at Mount Bonnell Road and West 35th Street, has a rated capacity of 118 mgd. The plant is of conventional design, with rapid mix basins, flocculation basins, sedimentation basins, gravity filters, clearwell storage, raw water, system chlorine disinfection, and finished water pumping stations. The plant was constructed in 1954 and expanded in 1963, 1975 and 1986. The Ullrich Water Treatment Plant, located on a site south of Red Bud Trail and Forest View Drive, has a rated capacity of 167 mgd. The existing plant facilities consist of an intake and raw water pumping station, raw water transmission main, seven upflow-solids contact clarifiers, eighteen

filters, chlorine disinfection, clearwell reservoirs, high service and medium service pumping stations, and sludge handling facilities. A 67 mgd upgrade to the Ullrich Plant was completed in 2006. This expansion increased the rated capacity of the plant from 100 mgd to 167 mgd.

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

Water Use Management Plan

Austin Water has both a water conservation plan and a drought contingency plan, as required in Texas for large municipal water suppliers. The City's Water Conservation Plan details incentive programs, educational efforts and regulations designed to reduce both peak and average day water use. The City's Drought Contingency Plan ("DCP") outlines the City's response to emergency demand or supply conditions. In addition to year-round prohibitions against water waste and a mandatory watering schedule that allows for outdoor irrigation no more than twice per week, the plan calls for more restrictive stages if combined storage levels in the Highland Lakes fall below certain levels, or if daily pumpage exceeds limits established by Austin Water's Director. Watering times and days are further limited, and restrictions are placed on discretionary water uses such as ornamental fountains and vehicle washing. Water use restrictions are codified in the City Charter, Chapter 6-4, which was revised by the City Council on August 16, 2012. Through these strategies, the Water and Wastewater Utility is striving to continue strengthening conservation efforts while also protecting the City's urban landscape and tree canopy.

For the majority of time since September 2011, the City has been in Stage 2 watering restrictions, which, among other measures, limits lawn watering to no more than one day per week. In accordance with the DCP, Stage 2 implementation was triggered in response to the combined storage of water supply in Lakes Travis and Buchanan dropping to 900,000 acre-feet in late summer 2011. If it should become necessary, the City is prepared to implement Stage 3 restrictions, which, in accordance with its DCP, are considered if Lakes Travis and Buchanan reach a combined storage volume of 600,000 acre-feet. In Stage 3, one-day-per-week watering is allowed, but watering hours are further restricted compared to Stage 2 and other restrictions apply.

Inclining block rates, implemented April 1, 1994, are designed to promote water conservation by single family residential customers. Seasonal rates implemented in 2000 for commercial and multifamily customers are also designed to promote water conservation. Also see "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Reuse Facilities" in this document.

Water Storage and Pumping Facilities

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

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<u>North System</u>	<u>Total Storage Capacity (Millions of Gallons)</u>	<u>Firm Pumping Capacity (Gallons per Minute)</u>
Anderson Mill	3	7,600
Anderson Mill NWC (1)	1.5	n/a
Avery Ranch (1)	3	n/a
Capital of Texas (1)	0.5	n/a
East Austin	12	37,800
Forest Ridge	3	8,000
Four Points (1) (Elevated)	1	n/a
Four Points (Ground)	7	7,800
Guildford Cove	0.275	1,000
Howard Lane 1	10	50,000
Howard Lane 2	10	See above
Jollyville	11	49,800
Lookout Lane	0.3	800
Martin Hill (1)	34	n/a
North Austin	10	39,800
Pond Springs (1)	3	n/a
Spicewood Springs	10	58,000
Tanglebriar (1)	0.2	n/a
<u>South System</u>		
Allen Road	n/a	Lost Creek – 2,000 Barclay – 3,300
Barclay Road	0.5	3,000
Center Street	8	31,400
Davis Lane 1	10	39,500
Davis Lane 2	10	See above
LaCrosse (1)	2	n/a
Leuthan Lane	3	SWB – 6,950 SWC - 2,700
Lost Creek	1.25	890
Mt. Larson	0.1	100
Never Bend Cove	0.06	1,599
Pilot Knob	10	15,800
Slaughter Lane	6	SWB - 15,000 SWC - 5,400
Thomas Springs (1) (Elevated)	1.25	n/a
Westlake Drive	0.01	500

(1) Storage only, no pumps.
Source: Austin Water.

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Historical Water Pumpage - TABLE EIGHT

The following table summarizes historical demand and maximum day water pumpage from fiscal years 2005 through 2014.

<u>Fiscal Year</u>	<u>Total Pumpage (Millions of Gallons)</u>	<u>Percent Change</u>	<u>Maximum Day Pumpage (Millions of Gallons)</u>
2005	51,374	----%	247
2006	56,603	10.2%	241
2007	45,868	(19.0)%	180
2008	53,066	15.7%	227
2009	53,331	0.5%	240
2010	43,827	(17.8)%	190
2011	52,824	20.5%	231
2012	47,094	(10.8)%	203
2013	45,902	(2.5)%	183
2014	43,239	(5.8)%	184

Source: Austin Water.

Projected Water Pumpage - TABLE NINE

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

<u>Fiscal Year</u>	<u>Total Pumpage (Millions of Gallons)</u>	<u>Maximum Day Pumpage (Millions of Gallons)</u>
2015	45,290	214
2016	45,650	215
2017	46,068	218
2018	46,476	220
2019	46,898	222

Source: Austin Water.

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Information Concerning Water Sales - TABLE TEN

Fiscal Year Ended September 30										
	<u>2010</u>		<u>2011</u>		<u>2012</u>		<u>2013</u>		<u>2014</u>	
	Average # of <u>Customers</u>	Thousand Gallons	Average # of <u>Customers</u>	Thousand Gallons	Average # of <u>Customers</u>	Thousand Gallons	Average # of <u>Customers</u>	Thousand Gallons	Average # of <u>Customers</u>	Thousand Gallons
Thousand Gallons Pumped		43,827,360		52,823,662		47,094,082		45,901,736		43,239,355
Less: Sales to Other Water Utilities (1)		<u>2,771,880</u>		<u>3,572,029</u>		<u>3,071,606</u>		<u>2,974,131</u>		<u>2,574,163</u>
Thousand Gallons to System		<u>41,055,480</u>		<u>49,251,633</u>		<u>44,022,476</u>		<u>42,927,605</u>		<u>40,665,192</u>
Water Sales: (2)										
Urban	198,437	33,885,594	211,185	44,502,550	212,466	38,974,582	215,328	38,531,557	216,348	35,523,917
Rural	<u>11,215</u>	<u>1,745,697</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	209,652	35,631,291	211,185	44,502,550	212,466	38,974,582	215,328	38,531,557	216,348	35,523,917
City Departments	<u>573</u>	<u>1,240,967</u>	<u>575</u>	<u>1,410,791</u>	<u>498</u>	<u>725,182</u>	<u>554</u>	<u>671,997</u>	<u>549</u>	<u>589,856</u>
Total Sales to Ultimate Consumer	<u>210,225</u>	<u>36,872,258</u>	<u>211,760</u>	<u>45,913,341</u>	<u>212,964</u>	<u>39,699,764</u>	<u>215,882</u>	<u>39,203,554</u>	<u>216,897</u>	<u>36,113,773</u>
Used by Water Utility		90,417		69,262		55,685		56,242		52,023
Other Unmetered Usage		1,288,524		1,553,016		1,384,566		1,349,511		1,271,237
Loss and Unaccounted For		<u>2,804,281</u>		<u>1,716,014</u>		<u>2,882,461</u>		<u>2,318,298</u>		<u>3,228,159</u>
Thousand Gallons to System		<u>41,055,480</u>		<u>49,251,633</u>		<u>44,022,476</u>		<u>42,927,605</u>		<u>40,665,192</u>
Maximum Daily Consumption		193,110		220,552		202,544		182,907		183,990
Average Daily Consumption		108,614		135,532		117,364		115,555		105,994

(1) Includes sales to all wholesale customers.

(2) FY 2011 – FY 2014 water sales include Urban and Rural combined.

Source: Austin Water.

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Large Water Customers - TABLE ELEVEN

**Water and Wastewater Utility
Large Water Customers
Five Year Comparative Data (2010 - 2014)**

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

	<u>2010</u>		<u>2011</u>		<u>2012</u>		<u>2013</u>		<u>2014</u>	
	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>
Samsung	749,103	\$ 3,150	1,212,413	\$ 5,346	1,614,098	\$ 7,608	1,436,772	\$ 7,034	1,547,938	\$ 8,382
The University of Texas at Austin	979,972	3,679	1,147,002	4,424	821,457	4,395	849,204	4,867	827,424	5,022
Water District 10	739,907	2,424	977,849	3,427	856,658	3,350	850,565	3,432	753,777	3,183
Freescal, Inc. (1)	675,872	2,855	690,252	3,044	599,530	2,767	648,085	3,116	689,059	3,544
Wells Branch MUD	454,483	1,312	554,683	1,697	518,536	1,777	469,564	1,798	423,443	1,641
Spanion	614,897	2,005	578,465	1,884	384,288	1,823	389,113	1,919	329,313	1,801
North Austin MUD	367,776	1,187	479,142	1,884	402,928	1,490	387,759	1,405	299,028	1,232
Northtown MUD	254,986	791	310,965	1,029	304,387	1,086	289,610	1,117	276,343	1,081
Lost Creek MUD	242,833	768	318,805	1,075	283,405	1,111	233,886	1,050	207,238	1,001
Shady Hollow MUD	<u>201,921</u>	<u>685</u>	<u>268,087</u>	<u>963</u>	<u>226,256</u>	<u>921</u>	<u>194,496</u>	<u>887</u>	<u>163,243</u>	<u>813</u>
	<u>5,281,750</u>	<u>\$18,854</u>	<u>6,537,663</u>	<u>\$24,773</u>	<u>6,011,543</u>	<u>\$26,329</u>	<u>5,749,054</u>	<u>\$26,625</u>	<u>5,516,806</u>	<u>\$27,702</u>

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

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WASTEWATER SYSTEM

Service Area

Austin Water provides wastewater service to customers within the corporate limits of the City and portions of Travis and Williamson Counties outside of the City. The City has entered into wholesale service contracts with five MUDs, two WCIDs, and the communities of Manor, Rollingwood, Sunset Valley, West Lake Hills, and the Village of San Leanna to provide wastewater service.

Facilities

Austin Water has two main wastewater treatment plants with a total permitted capacity of 150 mgd, one biosolids treatment and disposal facility, over 2,693 miles of sanitary wastewater mains and lines, and 118 city-owned, in-service lift stations. The two treatment plants are the Walnut Creek Wastewater Treatment Plant, which began operations in 1977, and the South Austin Regional Wastewater Treatment Plant, which started operating in 1986. A third plant, the Govalle Wastewater Treatment Plant, constructed in 1937 with permitted capacity of 10 mgd, was decommissioned in October 2006 after completion of a 25 mgd expansion at the South Austin Regional Wastewater Treatment Plant. The Hornsby Bend Biosolids Treatment Plant operates as a sludge treatment and disposal facility and was placed in operation in 1956. The Hornsby Bend Biosolids Management Plant permit was renewed by TCEQ in October 2012 and will be renewable in 2017. The Walnut Creek Wastewater Treatment Plant permit was renewed in January 2015 and is renewable again in 2019. The City submitted the permit renewal application for the South Austin Regional Wastewater Treatment Plant in 2014 and has received a draft permit from TCEQ which is expected to be issued by July 2015. This permit also will be renewable in 2019.

The Walnut Creek Wastewater Treatment Plant is permitted to discharge an average flow of 75 mgd. During fiscal year 2014, average flows to the plant were approximately 53 mgd. Sludge from this plant is pumped to the anaerobic digesters at Hornsby Bend for stabilization and disposal. A 15 mgd upgrade to this plant (which resulted in the plant's current capacity of 75 mgd) was completed in 2004.

The South Austin Regional Wastewater Treatment Plant began operation in April 1986. The plant is now permitted to discharge at a rate of 75 mgd after a 25 mgd upgrade was completed in August 2006. During fiscal year 2014, average flows to the plant were approximately 49 mgd. Waste sludge is pumped to the Hornsby Bend facility to anaerobic digesters, which were constructed simultaneously with the plant.

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

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

Brushy Creek watershed. In December 2009, the City purchased an operating interest from LCRA for approximately \$12 million.

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

Lift Stations

In addition to the wastewater treatment plants, Austin Water owns and operates numerous lift stations. The following table shows the capacity of the five largest lift stations.

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

Source: Austin Water.

Historical Wastewater Flows - TABLE TWELVE

The following table summarizes the historical influent wastewater flows to the City's wastewater treatment facilities from fiscal years 2005 through 2014.

<u>Fiscal Year</u>	<u>Total Wastewater Flow (Millions of Gallons)</u>	<u>Percent Change</u>
2005	32,624	---
2006	30,324	(7.1)%
2007	37,208	22.7%
2008	32,011	(14.0)%
2009	32,177	0.5%
2010	37,254	15.8%
2011	32,946	(11.6)%
2012	37,756	14.6%
2013	34,813	(7.8)%
2014	37,298	7.1%

Source: Austin Water.

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Projected Wastewater Flows - TABLE THIRTEEN

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

<u>Fiscal Year</u>	<u>Total Wastewater Flow (Millions of Gallons)</u>
2015	36,186
2016	36,565
2017	36,745
2018	37,025
2019	37,305

Source: Austin Water.

COMBINED WATER AND WASTEWATER SYSTEM INFORMATION

Future Capital Improvements for Water and Wastewater System

Based on the proposed FY 2016-2020 capital spending plan, it is anticipated that the Water and Wastewater System will require approximately \$863.0 million for system improvements for such period. Such improvements will include treatment facilities, reservoir, pump station and lift station improvements, and major transmission distribution and collection improvements. It is anticipated that such improvements will be financed as follows: (1) the issuance of \$598.2 million additional Parity Water/Wastewater Obligations (including refunding of commercial paper issued to provide interim financing for such improvements) and (2) the application of \$264.8 million of anticipated transfers from current Water and Wastewater System revenues and amounts on hand.

Services Financed by Utility Districts

On August 19, 1981, the City Council enacted an ordinance establishing the basic requirements for the City's consent to the creation of a district created under State law for the purpose of supplying water and/or wastewater service to land within the extraterritorial jurisdiction or the city limits of the City. That ordinance has been modified, over time, by the City's enactment of its Land Development Code, which contains provisions relating to the City's consent to the creation of districts.

Districts use ad valorem taxes, fees and charges, and water and/or wastewater revenues as a financing mechanism for development of land.

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

Under the consent agreement with the district, the district may be annexed separately and dissolved by the City. Upon annexation and dissolution of a district, the City would assume the district's outstanding debts and other obligations, which pursuant to State law would become payable from ad valorem taxes levied and collected within the City, water and/or wastewater utility revenues and, in some cases, a surcharge fee assessed by the City to utility users within the boundaries of the annexed district. Upon annexation, the City is empowered to issue any authorized but unissued bonds of the district and to use the proceeds for improvements within the annexed district. Alternatively, some types of districts may be annexed, but not dissolved. In those instances, the City would be required only to provide services other than water and wastewater services and not to assume the district's outstanding debt. In December 1997, the City annexed ten MUDs and assumed their outstanding utility system debt.

In February 2011, the City Council approved a resolution establishing a policy and general criteria under which the City Council will consider requests to create MUDs. The policy states that the City Council shall consider the following

criteria: adherence to the comprehensive plan; extension of public infrastructure with MUD or developer financing; affordable housing; environmental improvement; public transportation facilities; open space; green building; development standards; amenities; school and public safety sites; City provision of water and wastewater services; and financial viability.

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

Water Reuse Facilities

The City has implemented a water reclamation initiative to develop facilities and processes to make treated wastewater effluent available for irrigation, manufacturing, toilet flushing, and cooling uses. The water reuse facilities operated as part of the Water and Wastewater System include three pump stations, two pressure zones with a boosted area, three water storage facilities with 4.0 MG in storage, and 51.2 miles of mains. A water storage tank, on which construction just concluded, holds 1.5 MG of the 4.0 MG. Additionally, a 4.0 MG water storage tank with associated pump station is in the final stages of design. An additional 5.3 miles of mains are in design or under construction. The water reuse facilities presently serve a total of seventy-two metered customers. City codes were recently revised to facilitate new customer connections and a mandatory connection ordinance will be implemented effective May 1, 2015.

Customer demand is highly dependent on weather conditions. In 2014, customers used 1,120 billion gallons (BG) of reclaimed water. Efforts to promote the use of reclaimed water focus on existing large-volume commercial and industrial potable water users that can convert a portion of their use of treated potable water to reclaimed water. The water reuse facilities extend from the eastern edge of the City, where the water originates at the wastewater treatment plants, to the center of the City, where most of the reclaimed water customers are located.

Water and Wastewater Rates

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

In fiscal year 2014, the Water and Wastewater System implemented a fixed revenue goal of 20%, new volumetric rates and block intervals, and a Revenue Stability Reserve Fund to help cover costs during extreme weather or economic events. To continue improving the financial position, the Water and Wastewater System implemented a 8.1% combined water and wastewater rate increase for the fiscal year ending September 30, 2015, as well as, continued funding of the Revenue Stability Reserve Fund to strengthen future financial health and stability of the system.

On September 1, 2014, all appellate jurisdiction to determine municipal water and wastewater rates outside the City's boundaries was transferred from TCEQ to the PUCT. The City is not subject to regulation by the PUCT with regard to the rates charged for water and wastewater services to customers within the boundaries of the City. State law does allow water districts to appeal the City's water and wastewater rates to the PUCT.

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

Water Service Rates Effective as of January 1, 2015 – TABLE FOURTEEN

Monthly Customer Charges

<u>Customer Account Charge</u>	<u>Meter Size</u>	<u>Retail Equivalent Meter Charge per Month (1)</u>	<u>Multi-Family Charge per Month (2)</u>	<u>Commercial Charge per Month (2)</u>
Retail Customer Account Charge(\$/Month)	5/8	\$ 7.10	\$ 10.57	\$ 7.67
	3/4	13.00	16.00	12.00
	1	14.00	26.00	19.00
	1¼	16.00	35.00	29.00
	1½	23.00	53.00	38.00
	2	36.00	85.00	61.00
	3	59.00	169.00	123.00
	4	118.00	264.00	192.00
	6	238.00	529.00	383.00
	8	876.00	846.00	613.00
	10	1,036.00	1,216.00	882.00
	12	1,226.00	1,797.00	1,303.00
 Volumetric Surcharge				
		<u>Retail per 1,000 Gals. (3)</u>	<u>Wholesale per 1,000 Gals. (3)</u>	
Water Revenue Stability Reserve Fund Surcharge		\$0.19	\$0.12	
 Residential Monthly Tiered Minimum Charge				
		<u>Min. Charge per Month (4)</u>		
0 – 2,000 Gallons		\$ 1.05		
2,001 – 6,000 Gallons		3.00		
6,001 – 11,000 Gallons		7.60		
11,001 – 20,000 Gallons		23.75		
20,001 – Over Gallons		23.75		
 Large Volume Fixed Minimum Charge				
		<u>Min. Charge per Month (5)</u>		
Freescala		\$ 34,000.00		
Hospira		4,700.00		
Samsung		88,500.00		
Novati (formerly Sematech)		2,850.00		
Spansion		15,000.00		
University of Texas		19,000.00		

(1) Charge is applied to all customer classes.

(2) Fee is charged in addition to the Retail Equivalent Meter Charge.

(3) Fee is charged to all water customers per 1,000 gallons of water billed for the billing period to fund the Revenue Stability Reserve Fund.

(4) Fee is charged in addition to the Retail Equivalent Meter Charge and is applied based on the total billed consumption for the billing period as it falls within the rate block, not as a volumetric charge per 1,000 gallons.

(5) Fee is charged in addition to the Retail Equivalent Meter Charge.

Source: Austin Water.

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Volume Unit Charge (1)

	Charge per 1,000 Gals.
Single-Family Residential (2)	
0 – 2,000 Gallons	\$ 2.93
2,001 – 6,000 Gallons	4.49
6,001 – 11,000 Gallons	7.29
11,001 – 20,000 Gallons	11.03
20,001 – Over Gallons	13.93
Multifamily (3)	
Off Peak	\$ 4.95
Peak	5.45
Commercial (3)	
Off Peak	\$ 5.98
Peak	6.58
Large Volume (3)	
Freescala	
Off Peak	\$ 5.02
Peak	5.52
Hospira	
Off Peak	\$ 5.98
Peak	6.58
Samsung	
Off Peak	\$ 5.41
Peak	5.95
Novati (formerly Sematech)	
Off Peak	\$ 5.36
Peak	5.90
Spancion	
Off Peak	\$ 5.24
Peak	5.76
University of Texas	
Off Peak	\$ 5.98
Peak	6.58

(1) Wholesale unit charges vary between \$3.86 and \$6.77 per 1,000 gallons.

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

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

Source: Austin Water.

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Wastewater Service Rates Effective as of January 1, 2015 – TABLE FIFTEEN

Customer Account Charge

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

Volume Unit Charge (1)

	<u>Unit Cost per 1,000 Gallons (2)</u>
Retail	
Single-Family	
0 - 2,000 Gallons	\$4.51
2,001 - Over Gallons	9.13
Multifamily	\$8.79
Commercial	\$8.82
Large Volume:	
Freescale	\$8.16
Hospira	8.38
Samsung	7.42
Novati (formerly Sematech)	7.32
Spansion	7.51
University of Texas	8.82

(1) Wholesale unit charges vary between \$3.80 and \$5.76 per 1,000 gallons.

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

Source: Austin Water Utility.

The combined water and wastewater minimum charge and volumetric service rates effective as of January 1, 2015 reflect an 8.1% increase over the rates charged in the prior year.

Wholesale and Outside City Rate Challenges

On April 12, 2013, four of the Water and Wastewater Utility’s eighteen wholesale water customers submitted a water rate petition challenging the City’s wholesale water rates to the TCEQ. In their petition, the four wholesale customers (North Austin MUD, Northtown MUD, Travis County Water Control and Improvement District WCID #10 (Westlake), and Wells Branch MUD) allege that the City’s wholesale rates are not just or reasonable. The petition alleges the new rates disproportionately increase the monthly fixed charges; collect for costs unrelated to water service; discourage conservation; and unfairly burden commercial and large volume customers. The petition also asks the TCEQ to set interim rates while the appeal is pending. The TCEQ reviewed the petition and recommended referral to the State Office of Administrative Hearings. The hearing concluded in February 2015 and the City is awaiting a preliminary ruling by the administrative law judges and a final ruling by the PUCT later this year.

Additionally, on December 22, 2014, outside city residents of newly acquired and former River Place MUD submitted a water and wastewater rate petition to the PUCT. The petition alleges the rates adopted by the City are unjust, unreasonable and unfairly burdens customers to pay for City charges unrelated to the cost of service for these customers.

The four wholesale water customers and the outside city customers represent \$10.7 million or 3.9% of the approximate \$276.7 million annual water revenue. Additionally, the petition only challenges a small portion of their revenue or how the Water and Wastewater Utility has designed its rates, and therefore would not be a significant revenue impact to the Water and Wastewater Utility if the appeal was upheld.

Water and Wastewater Capital Recovery Fees

On September 3, 1982, the City Council adopted an ordinance under which all new non-industrial and non-commercial customers of the Water and Wastewater System must pay a Capital Recovery Fee at the time that the customer's new tap is purchased. The fee has been revised a number of times since that date and is currently applied to all connections added to the Water and Wastewater System unless expressly waived by the City Council. In 1989, the City Council appointed an Impact Fee Advisory Committee and reauthorized the Capital Recovery Fee in compliance with procedures and methodology established by State law. The total Water and Wastewater Capital Recovery Fee was implemented August 5, 1999 and revised effective January 1, 2014. The revised fees are shown below. There are a number of express exemptions from payment of these fees. The City's policy is to use Capital Recovery Fee receipts to either service debt, defease debt or finance growth-related capital improvement projects, thus reducing the amount required to be debt financed and saving the Water and Wastewater System the related financing costs. The fees listed below are based on one service unit (5/8" meter).

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

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

Fees for lots that were platted on or after January 1, 2014. For lots platted prior to this date see previous schedule.

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

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Analysis of Water Bills - TABLE SIXTEEN A

	Fiscal Year Ended September 30				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<u>Average Monthly Bill Per Customer - Water</u>					
Residential (1)	\$ 29.52	\$ 46.56	\$ 45.04	\$ 41.89	\$ 38.97
Multifamily (1)	484.96	554.14	591.68	660.89	701.04
Commercial (1)	240.56	302.33	303.72	306.23	324.91
Large Volume	128,925.24	187,302.62	216,445.74	211,176.57	228,692.44
City Departments	504.56	697.92	738.96	598.67	641.05
Average Monthly Bill – Above Customers	\$ 63.07	\$ 86.42	\$ 87.09	\$ 85.53	\$ 85.65
Sales to Other Water Utilities (2)	\$ 41,007.04	\$ 55,663.29	\$ 55,877.81	\$ 55,207.74	\$ 53,960.56
Average Monthly Bill – All Customers	\$ 66.58	\$ 91.14	\$ 91.80	\$ 90.12	\$ 89.87
<u>Average Monthly Use in 1,000 Gallons – Water</u>					
Residential (1)	6.76	8.81	7.62	6.92	6.10
Multifamily (1)	124.29	133.75	126.46	131.78	127.52
Commercial (1)	48.23	60.14	54.87	54.76	48.99
Large Volume	30,260.52	41,983.88	45,339.01	33,551.21	42,919.67
City Departments	179.61	201.22	124.96	100.44	89.81
Average Monthly Use – Above Customers	14.51	17.75	15.96	15.01	13.89
Sales to Other Water Utilities (2)	12,772.62	16,270.57	14,634.11	13,677.20	12,651.94
Average Monthly Use – All Customers	15.61	19.13	17.20	16.15	14.88
<u>Average Revenue Per 1,000 Gallons – Water</u>					
Residential (1)	\$4.37	\$5.28	\$5.91	\$6.05	\$6.39
Multifamily (1)	3.90	4.14	4.68	5.02	5.50
Commercial (1)	4.99	5.03	5.54	5.59	6.63
Large Volume	4.26	4.46	4.77	6.29	5.33
City Departments	2.81	3.47	5.91	5.96	7.14
Average Revenue – Above Customers	\$4.35	\$4.87	\$5.46	\$5.70	\$6.17
Sales to Other Water Utilities (2)	\$3.21	\$3.42	\$3.82	\$4.04	\$4.27
Average Revenue – All Customers	\$4.27	\$4.76	\$5.34	\$5.58	\$6.04

(1) Rural and Urban (Inside and Outside City) customers combined.

(2) Includes all Wholesale customers.

Source: Austin Water.

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Analysis of Wastewater Bills - TABLE SIXTEEN B

	Fiscal Year Ended September 30				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<u>Average Monthly Bill Per Customer – Wastewater</u>					
Residential (1)	\$ 32.49	\$ 35.16	\$ 36.79	\$ 40.93	\$ 37.90
Multifamily (1)	800.32	847.28	895.83	1,058.16	1,096.47
Commercial (1)	314.11	322.84	350.13	367.56	383.79
Large Volume	144,699.09	196,261.93	219,013.24	216,581.48	231,555.45
City Departments	470.68	371.53	352.98	387.69	397.24
<u>Average Monthly Bill – Above Customers</u>	\$ 74.65	\$ 79.46	\$ 83.42	\$ 91.05	\$ 89.91
Sales to Other Utilities (2)	\$ 49,409.22	\$ 49,363.10	\$ 50,635.47	\$ 54,488.52	\$ 58,764.29
Average Monthly Bill – All Customers	\$ 77.15	\$ 81.94	\$ 85.94	\$ 93.73	\$ 92.78
<u>Average Monthly Use in 1,000 Gallons – Wastewater</u>					
Residential (1)	4.16	4.28	4.33	4.53	4.15
Multifamily (1)	110.10	112.22	115.40	128.20	126.49
Commercial (1)	41.66	42.47	43.78	43.58	43.85
Large Volume	22,123.58	29,344.27	31,493.39	29,857.14	30,354.38
City Departments	56.91	47.05	45.07	46.45	45.43
Average Monthly Use – Above Customers	9.97	10.26	10.39	10.69	10.25
Sales to Other Utilities (2)	10,334.83	9,911.86	9,868.40	10,128.19	10,691.69
Average Monthly Use – All Customers	10.49	10.76	10.88	11.19	10.78
<u>Average Revenue Per 1,000 Gallons – Wastewater</u>					
Residential (1)	\$7.81	\$8.21	\$8.50	\$9.03	\$9.13
Multifamily (1)	7.27	7.55	7.76	8.25	8.67
Commercial (1)	7.54	7.60	8.00	8.43	8.75
Large Volume	6.54	6.69	6.95	7.25	7.63
City Departments	8.27	7.90	7.83	8.35	8.74
Average Revenue – Above Customers	\$7.49	\$7.74	\$8.03	\$8.52	\$8.77
Sales to Other Utilities (2)	\$4.78	\$4.98	\$5.13	\$5.38	\$5.50
Average Revenue – All Customers	\$7.35	\$7.61	\$7.90	\$8.38	\$8.61

(1) Rural and Urban (Inside and Outside City) customers combined.

(2) Includes all Wholesale customers.

Source: Austin Water.

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**COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM
AND WATER AND WASTEWATER SYSTEM OPERATIONS
OCTOBER 1, 2010 TO SEPTEMBER 30, 2014**
(in thousands rounded)

	Fiscal Year Ended September 30				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
INCOME					
Revenue	\$ 1,848,012	\$ 1,772,129	\$ 1,633,140	\$ 1,707,190	\$ 1,518,352
Operating Expense	<u>(1,246,865)</u>	<u>(1,137,184)</u>	<u>(1,054,566)</u>	<u>(1,071,056)</u>	<u>(1,026,312)</u>
Balance Available for Debt Service	601,147	634,945	578,574	636,134	492,040
Depreciation and Amortization Expense	<u>(255,892)</u>	<u>(249,029)</u>	<u>(241,884)</u>	<u>(224,995)</u>	<u>(209,019)</u>
Earnings Before Interest Expense	345,255	385,916	336,690	411,139	283,021
Interest Incurred on Debt	(169,567)	(164,692)	(177,954)	(181,665)	(174,497)
Other	<u>(10,367)</u>	<u>(1,908)</u>	<u>4,580</u>	<u>(1,741)</u>	<u>(6,378)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS (a) (b) (c) (d) (e)	<u>\$ 165,321</u>	<u>\$ 219,316</u>	<u>\$ 163,316</u>	<u>\$ 227,733</u>	<u>\$ 102,146</u>
PERCENTAGES					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	<u>(67.47%)</u>	<u>(64.17%)</u>	<u>(64.57%)</u>	<u>(62.74%)</u>	<u>(67.59%)</u>
Balance Available for Debt Service	32.53%	35.83%	35.43%	37.26%	32.41%
Depreciation and Amortization Expense	<u>(13.85%)</u>	<u>(14.05%)</u>	<u>(14.81%)</u>	<u>(13.18%)</u>	<u>(13.77%)</u>
Earnings Before Interest Expense	18.68%	21.78%	20.62%	24.08%	18.64%
Interest Incurred on Debt	(9.18%)	(9.29%)	(10.90%)	(10.64%)	(11.49%)
Other	<u>(0.56%)</u>	<u>(0.11%)</u>	<u>0.28%</u>	<u>(0.10%)</u>	<u>(0.42%)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>8.95%</u>	<u>12.38%</u>	<u>10.00%</u>	<u>13.34%</u>	<u>6.73%</u>

(a) Income before transfers to the General Fund and Other Funds for the 12 months ended September 30, 2014, are as follows (in thousands rounded):

Transfer to General Fund	\$142,909
Transfers to Other Funds	\$ 18,048

(b) Excludes Combined Utility Funds' deferred costs recovered in future years of (\$6,406) for the 12 months ended September 30, 2014.

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

(d) Excludes capital contributions of \$51,270 for the 12 months ended September 30, 2014.

(e) Excludes OPEB accrual of \$20,767 and NPO accrual of (\$1,453) for the 12 months ended September 30, 2014.

Source: City Controller's Office.

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

	Fiscal Year Ended September 30				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
REVENUE					
ELECTRIC UTILITY					
Domestic and Rural Residential	\$ 327,508	\$ 459,211	\$ 414,159	\$ 457,272	\$ 402,597
Commercial General	897,019	705,009	615,588	641,510	592,125
City Utility Departments	-	5	21,356	19,065	15,721
Public Street Lighting	-	-	5,653	6,507	6,396
City General Government Departments	-	-	10,942	7,400	8,152
Sales to Other Utilities	19,305	6,358	4,057	943	7,584
Transmission	68,974	63,333	63,434	59,066	60,746
Rent from Electric Property	1,998	2,070	2,090	3,206	3,255
Customers' Forfeited Discounts and Penalties	6,966	8,185	1,144	5,031	4,898
Miscellaneous	<u>45,385</u>	<u>44,088</u>	<u>41,449</u>	<u>49,139</u>	<u>46,202</u>
Total Electric Utility	<u>\$1,367,155</u>	<u>\$1,288,259</u>	<u>\$1,179,872</u>	<u>\$1,249,139</u>	<u>\$1,147,676</u>
WATER UTILITY					
Water Services	\$ 233,827	\$ 229,300	\$ 211,050	\$ 239,769	\$ 169,055
Miscellaneous Revenue	158	1,644	1,198	3,036	2,002
Revenue Stability Fee	5,722	4,864	16,639	-	-
Reserve Fund Surcharge	-	3,410	-	-	-
Reclaimed Revenue	<u>820</u>	<u>864</u>	<u>567</u>	<u>579</u>	<u>399</u>
Total Water Utility	<u>\$ 240,527</u>	<u>\$ 240,082</u>	<u>\$ 229,454</u>	<u>\$ 243,384</u>	<u>\$ 171,456</u>
WASTEWATER UTILITY					
Wastewater Services	\$ 231,336	\$ 233,984	\$ 210,534	\$ 201,422	\$ 185,866
Miscellaneous Revenue	730	2,715	2,719	3,234	3,323
Reclaimed Revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>8</u>	<u>4</u>
Total Wastewater Utility	<u>\$ 232,066</u>	<u>\$ 236,699</u>	<u>\$ 213,253</u>	<u>\$ 204,664</u>	<u>\$ 189,193</u>
Interest	<u>\$ 8,264</u>	<u>\$ 7,089</u>	<u>\$ 10,561</u>	<u>\$ 10,003</u>	<u>\$ 10,027</u>
TOTAL REVENUE	<u>\$1,848,012</u>	<u>\$1,772,129</u>	<u>\$1,633,140</u>	<u>\$1,707,190</u>	<u>\$1,518,352</u>

Source: City Controller's Office.

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

EXPENSE	Fiscal Year Ended September 30				
	2014	2013	2012	2011	2010
ELECTRIC UTILITY					
Production	\$ 278,893	\$ 242,994	\$ 330,066	\$ 378,484	\$ 339,221
Joint Facility Production	200,373	186,035	189,914	202,217	201,024
System Control	15,286	13,979	17,366	13,663	12,335
Transmission and Distribution	154,556	126,902	116,884	107,035	113,958
Jobbing and Contract Work	998	(204)	181	415	(3)
Customer Accounting and Collection	15,030	12,678	13,454	18,374	14,327
Customer Services	4,138	3,924	20,926	20,163	20,961
Administrative and General	<u>359,520</u>	<u>340,986</u>	<u>186,884</u>	<u>167,173</u>	<u>165,088</u>
Total Electric Utility	<u>\$1,028,794</u>	<u>\$ 927,294</u>	<u>\$ 875,675</u>	<u>\$ 907,524</u>	<u>\$ 866,911</u>
WATER UTILITY					
Treatment	\$ 35,915	\$ 37,306	\$ 33,464	\$ 31,538	\$ 29,597
Pipeline Operations	23,889	23,251	22,317	20,932	19,909
Engineering Services	5,159	5,261	4,926	4,386	4,374
Water Resources Management	3,443	2,216	2,048	1,919	1,958
Environmental Affairs & Conservation	8,464	8,495	6,789	7,766	10,064
Support Services - Utility	12,064	9,843	9,233	8,138	7,817
One Stop Shop	270	226	219	167	157
Reclaimed Water Services	(3,575)	(20,409)	212	-	-
Other Operating Expenses	<u>31,582</u>	<u>50,230</u>	<u>20,134</u>	<u>16,265</u>	<u>14,993</u>
Total Water Utility	<u>\$ 117,211</u>	<u>\$ 117,419</u>	<u>\$ 99,342</u>	<u>\$ 91,111</u>	<u>\$ 88,869</u>
WASTEWATER UTILITY					
Treatment	\$ 37,106	\$ 38,187	\$ 30,301	\$ 28,502	\$ 28,004
Pipeline Operations	16,488	15,646	13,798	13,102	14,158
Engineering Services	5,789	5,955	5,715	5,431	5,382
Water Resources Management	3,779	2,248	2,104	1,987	1,843
Environmental Affairs & Conservation	2,343	2,062	1,877	1,967	1,873
Support Services - Utility	11,482	10,554	9,869	8,810	8,684
One Stop Shop	289	394	348	329	285
Other Operating Expenses	<u>23,584</u>	<u>17,425</u>	<u>15,537</u>	<u>12,293</u>	<u>10,303</u>
Total Wastewater Utility	<u>\$ 100,860</u>	<u>\$ 92,471</u>	<u>\$ 79,549</u>	<u>\$ 72,421</u>	<u>\$ 70,532</u>
TOTAL EXPENSE (1)	<u>\$1,246,865</u>	<u>\$1,137,184</u>	<u>\$1,054,566</u>	<u>\$1,071,056</u>	<u>\$1,026,312</u>
NET REVENUE AVAILABLE FOR DEBT SERVICE	<u>\$ 601,147</u>	<u>\$ 634,945</u>	<u>\$ 578,574</u>	<u>\$ 636,134</u>	<u>\$ 492,040</u>
Electric Customers	446,872	430,582	412,552	418,968	419,353
Water Customers	217,035	217,070	214,971	212,754	210,901
Wastewater Customers	204,482	203,896	202,444	199,818	198,116

(1) Interest expense, depreciation, amortization, other non-operating items, NPO and OPEB accrual are not included in total expense.
Source: City Controller's Office.

DISCUSSION OF OPERATING STATEMENT

Austin Energy Revenues

Variations in total Austin Energy revenues for the fiscal years (“FY”) ended September 30, 2010 through September 30, 2014 were attributable to changes in cost of fuel for power generation and weather variations. Total fuel costs are passed through to consumers.

Water and Wastewater System Revenues

Variations in Water and Wastewater System revenues for the period FY10 through FY14 were largely attributable to weather and system rate changes.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY10 through FY14 were largely attributable to changes in the cost of fuel for power generation and general inflationary increases in other expense categories.

Water and Wastewater System Expenses

Changes in Water and Wastewater System expenses for the period FY10 through FY14 were primarily attributable to inflationary increases in the cost of power and chemicals, along with system growth.

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

	Fiscal Year Ended September 30				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Plant Cost					
Utility Systems					
Electric	\$ 4,980,357	\$4,851,811	\$4,723,203	\$4,585,408	\$4,475,178
Water	2,576,314	2,415,970	2,209,639	2,046,462	1,893,032
Wastewater	<u>2,299,833</u>	<u>2,255,208</u>	<u>2,205,455</u>	<u>2,111,926</u>	<u>2,012,704</u>
Total Cost	<u>\$ 9,856,504</u>	<u>\$9,522,989</u>	<u>\$9,138,297</u>	<u>\$8,743,796</u>	<u>\$8,380,914</u>
Allowance for Depreciation:					
Electric	\$ 2,392,899	\$2,265,036	\$2,131,588	\$1,995,831	\$1,895,660
Water	650,103	607,609	564,937	555,727	517,841
Wastewater	<u>817,485</u>	<u>760,206</u>	<u>707,281</u>	<u>654,436</u>	<u>603,524</u>
Total Depreciation	<u>\$ 3,860,486</u>	<u>\$3,632,851</u>	<u>\$3,403,806</u>	<u>\$3,205,994</u>	<u>\$3,017,025</u>
Cost after Depreciation	<u>\$ 5,996,018</u>	<u>\$5,890,138</u>	<u>\$5,734,491</u>	<u>\$5,537,802</u>	<u>\$5,363,889</u>
Equity in Utility Systems					
Utility Systems	\$ 9,856,504	\$9,522,989	\$9,138,297	\$8,743,796	\$8,380,914
Plus: Inventories, Materials and Supplies (1)	56,649	54,181	56,019	54,204	49,376
Net Construction Assets and Unamortized Bond Issue Cost	<u>106,369</u>	<u>117,790</u>	<u>104,298</u>	<u>79,769</u>	<u>57,826</u>
	<u>\$10,019,522</u>	<u>\$9,694,960</u>	<u>\$9,298,614</u>	<u>\$8,877,769</u>	<u>\$8,488,116</u>
Less:					
Allowance for Depreciation	\$ 3,860,486	\$3,632,852	\$3,403,806	\$3,205,994	\$3,017,025
Construction Contract Payable	-	-	-	-	-
Total	<u>\$ 3,860,486</u>	<u>\$3,632,852</u>	<u>\$3,403,806</u>	<u>\$3,205,994</u>	<u>\$3,017,025</u>
Utility Systems, Net	\$ 6,159,036	\$6,062,108	\$5,894,808	\$5,671,775	\$5,471,091
Revenue Bonds and Other Debt Outstanding (2)	\$ 4,062,603	\$3,917,857	\$3,808,929	\$3,595,807	\$3,366,859
Less: Bond Retirement and Reserve Funds	\$ -	\$ -	\$ -	\$ -	\$ -
Net Debt	<u>\$ 4,062,603</u>	<u>\$3,917,857</u>	<u>\$3,808,929</u>	<u>\$3,595,807</u>	<u>\$3,366,859</u>
Equity in Utility Systems	<u>\$ 2,096,433</u>	<u>\$2,144,251</u>	<u>\$2,085,879</u>	<u>\$2,075,968</u>	<u>\$2,104,232</u>
Percentage of Equity in Utility Systems	34.04%	35.37%	35.39%	36.60%	38.46%

(1) Does not include fuel oil, gas or coal inventories of approximately \$20.12 million at September 30, 2014. Consists primarily of spare parts inventory at South Texas Project, Fayette and other Plants.

(2) Includes Revenue Bonds and Tax and Revenue Bonds of \$3.81 billion (net of discounts, unamortized gains and losses on refundings, and inclusive of premiums); Contract Revenue Bonds of \$0 (net of discounts); Capital Lease Obligations of \$1.1 million; Commercial Paper of \$241 million (net of discounts); General Obligation Bonds of \$4.66 million; and Contractual Obligations of \$8.34 million.

Source: City Controller's Office.

LITIGATION

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

Electric Utility System Litigation

The City has been named in a multi-party lawsuit stemming from the September 4, 2011 wildfire that damaged a number of properties in the Steiner Ranch community. Plaintiff, Ronya Aigner, Individually and as Heir of the Estate of Kevin Lee Aigner, filed suit on November 2, 2012. Plaintiff alleges that the City caused the fire, which allegedly led to the death of Kevin Aigner, a Travis County Constable, who suffered a stroke while working in the Steiner Ranch area six days after the fire. Over 20 insurance companies representing hundreds of property owners intervened in the lawsuit and also alleged that the City caused the fire through its allegedly improper maintenance and operation of power lines. An additional personal injury claimant intervened in the lawsuit alleging that the fires aggravated an individual's pre-existing Tourette syndrome condition. Five underinsured plaintiffs have also intervened. The City has filed a motion challenging jurisdiction that is currently on appeal in the Third Circuit Court of Appeals. The carriers presented property damage claims, including under-insured claims of approximately \$15 million. The appellate court dismissed Plaintiffs' inverse condemnation claims and remanded the case back to the trial court. The parties are currently in the discovery phase and the City anticipates receiving detailed damages claims. If the case is not resolved, trial is anticipated in February of 2016.

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THE CITY

Administration

Incorporated in 1839, the City operates under a Council-Manager form of government under its home rule charter. As a result of an amendment to the Austin City Charter approved at an election held in November, 2012, the configuration of the City Council has changed from a seven member council, comprised of a Mayor and six council members elected at large, to an eleven member council, with the Mayor to be elected at large, and the remaining members to be elected from ten single member districts. The first council election held in accordance with the 2012 amendment to the City Charter was held November 4, 2014. See APPENDIX A – “GENERAL INFORMATION REGARDING THE CITY – General Information”.

By charter, the City Council appoints a City Manager for an indefinite term who acts as the chief administrative and executive officer of the City. The duties include, among others, the supervision of all City departments, the preparation and administration of an annual budget and the preparation of a report on the finances and administrative activities of the City. Marc Ott was appointed City Manager in January 2008.

City Manager – Marc A. Ott

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

Chief Financial Officer – Elaine Hart, CPA

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

Services Provided by the City

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

Employees

Municipal employees are prohibited from engaging in strikes and collective bargaining under State law. An exception allows fire and police employees to engage in collective bargaining (but not the right to strike) after a favorable vote of the electorate. The voters have approved collective bargaining for fire fighters but not for police officers. Approximately 15% of the City’s employees are members of the American Federation of State, County and Municipal Employees, 8% are members of the American Police Association and 7% are members of the International Association of Fire Fighters.

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

Annexation Program

The City annexes territory on a regular basis. Chapter 43 of the Texas Local Government Code regulates annexation of property by Texas municipalities. Before annexing territory, the City must develop a service plan describing the municipal services - police and fire protection, sanitation, provision and maintenance of public facilities such as water and wastewater facilities, roads, streets, and parks - to be provided to the annexed area. Generally, those services may not be at a lower level of service than provided in other areas of the City with similar characteristics. The City is not obligated to provide a uniform level of service to all areas of the City where differing characteristics of population, topography, and land use provide a sufficient basis for different service levels.

Under current State law, there are two processes for the annexation of territory into a city. The three-year Municipal Annexation Plan ("MAP") process applies generally to populated annexation areas, i.e., those that include 100 or more properties with a house on each lot. Unpopulated areas, areas that are annexed by consent, and areas that meet certain other criteria follow the "exempt area process". The processes involve staff review, development of a service plan (or regulatory plan for a limited purpose annexation), property owner notification, publication of a newspaper notice, two public hearings, and ordinance approval. The MAP process also includes an inventory of existing services and a period in which residents appointed by the county commissioners negotiate with City staff on the service plan.

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

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

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

The City Charter and the State's annexation laws provide the City with the ability to undertake two types of annexation. "Full purpose" annexation discussed above, annexes territory into the City for all purposes, including the assessment and collection of ad valorem taxes on taxable property. The second type of annexation is known as "limited purpose" annexation by which territory may be annexed for the limited purposes of "Planning and Zoning" and "Health and Safety." Territory so annexed is subject to ordinances achieving these purposes: chiefly, the City's zoning ordinance, building code, and related ordinances regulating land development. Taxes may not be imposed on property annexed for limited purposes; municipal services are not provided; and residents of the area are restricted to voting only in City elections for City Council and Charter amendments. The City believes that limited purpose annexation is a valuable growth management tool. Since 1999 the City has annexed over 23,000 acres of territory for limited purposes. Strategic

Annexation Programs are developed annually. These programs prioritize areas to be considered for annexation, usually at the end of the calendar year, to minimize the fiscal impact to the City.

The following table sets forth (in acres) the annual results of the City’s annexations since 2005.

<u>Calendar Year</u>	<u>Full Purpose Acres (1)</u>	<u>Limited Purpose Acres</u>
2005	1,914	1,234
2006	351	621
2007	2,466	1,266
2008	2,262	14
2009	295	984
2010	1,129	2,495
2011	726	0
2012	3,387	3,818
2013	3,484	594
2014	897	136

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

Recent Annexation

The City annexed seven areas for full purposes in 2014 including approximately 900 acres of undeveloped land. If developed as anticipated, these areas would include an estimated 1,498 dwelling units and a projected population of 3,747 persons at build-out. The taxable assessed value (“TAV”) for these areas as of January 1, 2015 was approximately \$12.6 million.

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

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

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

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

In accordance with the terms of a SPA between the City and the River Place Municipal Utility District (the “River Place MUD”), all of the territory in the River Place MUD not previously annexed by the City was annexed for limited purposes of planning and zoning in 2009. In addition, the 2009 annual program included full purpose annexation of

three small developed residential areas, a commercial and industrial area, and city owned property. Austin surpassed 300 square miles in incorporated area in 2010 and the City's estimated population grew to 778,560 people.

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

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

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

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

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

Future Annexation

Three area MUDs are scheduled for annexation under approved SPAs with the City. The commercial portion of Lost Creek MUD was annexed in 2008 while annexation of the remaining residential property will take place in 2015. It is anticipated that River Place MUD will be annexed for full purposes in its entirety in December 2017. Shady Hollow MUD is scheduled for full purpose annexation in December 2020.

Pension Plans

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

The following describes the contributions in place as of March 31, 2015. Municipal employees contribute 8.0% and the City contributes 18.0% of payroll. The Firefighters (who are not members of the Social Security System) contribute 17.7% of payroll, and 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 City of Austin Employees Retirement System ("COAERS") was 26.0 years, the Police Officer's Fund was 28.9 years, the Fire Fighters Fund was 10.51 years.

As of December 31, 2013, the actuarial accrued liability for the COAERS was \$2,909,918,000 and the funded ratio was 70.4%. The actuarial accrued liability for the Police Officers' Fund as of December 31, 2013 was \$911,044,000 and the funded ratio was 66.4%. The actuarial accrued liability for the Firefighters' Fund as of December 31, 2013 was \$808,771,000 and the funded ratio was 91.8%.

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

See APPENDIX B – "Audited Financial Statements – Note 7" 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 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.

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 \$33.3 million for 4,189 retirees in 2014 and \$26.9 million for 3,945 retirees in 2013. As of September 30, 2013, the net OPEB obligation is \$690.3 million.

See APPENDIX B – "Audited Financial Statements – Note 8" for additional information of 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 \$10.6 million for claims and damages at the end of fiscal year 2014. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Employee Benefits Fund.

INVESTMENTS

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

Legal Investments

Under State law, the City is authorized to invest in:

- (1) obligations of the United States or its agencies and instrumentalities, including letters of credit;
- (2) direct obligations of the State of Texas or its agencies and instrumentalities;
- (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
- (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by explicit full faith and credit of the United States;
- (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent;
- (6) bonds issued, assumed or guaranteed by the State of Israel;
- (7) certificates of deposit meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by a combination of cash and the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits;
- (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas;
- (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency;
- (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank;
- (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of ninety (90) days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share;
- (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and,
- (13) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than "AAA", "AAA-m" or at an equivalent rating by at least one nationally recognized rating service.

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

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

- (i) the value of securities loaned under the program must not be collateralized at less than 100%, including accrued income, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations

- described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool;
- (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; and
 - (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

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

The City is specifically prohibited from investing in:

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

Investment Policies

Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield and maturity; and also that address the quality and capability of investment personnel. The policy includes a list of the type of authorized investments for City funds, the maximum allowable stated maturity of any individual investment owned by the City, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement must describe the investment objectives for the particular fund using the following priorities:

- (1) understanding of the suitability of the investment to the financial requirements of the City;
- (2) preservation and safety of principal;
- (3) liquidity;
- (4) marketability of each investment;
- (5) diversification of the portfolio; and
- (6) yield.

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

Under State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for

speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” At least quarterly, the investment officers of the City shall submit an investment report detailing:

- (1) the investment position of the City;
- (2) that all investment officers jointly prepared and signed the report;
- (3) the beginning market value and the ending value of each pooled fund group;
- (4) the book value and market value of each separately listed asset at the end of the reporting period;
- (5) the maturity date of each separately invested asset;
- (6) the account or fund or pooled fund group for which each individual investment was acquired; and
- (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) State law.

No person may invest City funds without express written authority of the City Council or the Chief Financial Officer of the City.

Additional Provisions

Under Texas law, the City is additionally required to:

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

Current Investments

As of March 15, 2015 the City’s investable funds were invested in the following categories.

<u>Type of Investment</u>	<u>Percentage</u>
U. S. Treasuries	11.1%
U. S. Agencies	39.7
Money Market Funds	2.0
Local Government Investment Pools	47.2

The dollar weighted average maturity for the combined City investment portfolios is 259 days. The City prices the portfolios weekly utilizing a market pricing service.

TAX MATTERS – SERIES 2015A BONDS

Tax Exemption

The delivery of the Series 2015A Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Series 2015A Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the “Code”), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners of the Series 2015A Bonds who are individuals or, except as described in this document, corporations. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. See APPENDIX E – “Forms of Bond Counsel’s Opinions”.

Interest on the Series 2015A Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit or a financial asset securitization investment trust (FASIT). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Series 2015A Bonds pertaining to the use, expenditure, and investment of the proceeds of the Series 2015A Bonds and will assume continuing compliance by the City with the provisions of the Thirteenth Supplement after the issuance of the Series 2015A Bonds. The Thirteenth Supplement contains covenants by the City with respect to, among other matters, the use of the proceeds of the Series 2015A Bonds and the facilities financed or refinanced with the Series 2015A Bonds by persons other than state or local governmental units, the manner in which the proceeds of the Series 2015A Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Series 2015A Bonds to be includable in the gross income of the owners of the Series 2015A Bonds from the date of the issuance of the Series 2015A Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service ("IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Series 2015A Bonds is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Series 2015A Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Series 2015A Bonds, the City may have different or conflicting interests from the owners of the Series 2015A Bonds. Public awareness of any future audit of the Series 2015A Bonds could adversely affect the value and liquidity of the Series 2015A Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Series 2015A Bonds. Prospective purchasers of the Series 2015A Bonds should be aware that the ownership of tax-exempt obligations such as the Series 2015A Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Series 2015A Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Series 2015A Bonds. Prospective purchasers of the Series 2015A Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Tax Accounting Treatment of Premium Series 2015A Bonds

The initial public offering prices of the Series 2015A Bonds (the "Series 2015A Premium Bonds") are greater than the amount payable on such Series 2015A Bonds at maturity. An amount equal to the difference between the initial public offering price of a Series 2015A Premium Bond (assuming that a substantial amount of the Series 2015A Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Series 2015A Premium Bonds. The basis for federal income tax purposes of a Series 2015A Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium,

although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Series 2015A Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Series 2015A Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Series 2015A Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Series 2015A Premium Bonds.

TAX MATTERS - TAXABLE SERIES 2015B BONDS

The following is a general summary of the United States federal income tax consequences of the purchase and ownership of the Taxable Series 2015B Bonds. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached in this Official Statement. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the Taxable Series 2015B Bonds in light of the investor's particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax-exempt organizations, financial institutions, broker-dealers, and persons who have hedged the risk of owning the Taxable Series 2015B Bonds). The summary is therefore limited to certain issues relating to initial investors who will hold the Taxable Series 2015B Bonds as "capital assets" within the meaning of section 1221 of the Code, and acquire such Taxable Series 2015B Bonds for investment and not as a dealer or for resale. Prospective investors should note that no rulings have been or will be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE TAXABLE SERIES 2015B BONDS.

Payments of Stated Interest on the Taxable Series 2015B Bonds

The stated interest paid on the Taxable Series 2015B Bonds will be included in the gross income, as defined in section 61 of the Code, of the beneficial owners thereof and be subject to U.S. federal income taxation when received or accrued, depending on the tax accounting method applicable to the beneficial owners thereof.

Original Issue Discount

If a substantial amount of the Taxable Series 2015B Bonds of any stated maturity is purchased at original issuance for a purchase price (the "Issue Price") that is less than their face amount by more than one quarter of one percent times the number of complete years to maturity, the Taxable Series 2015B Bonds of such maturity will be treated as being issued with "original issue discount." The amount of the original issue discount will equal the excess of the principal amount payable on such Taxable Series 2015B Bonds at maturity over its Issue Price, and the amount of the original issue discount on the Taxable Series 2015B Bonds will be amortized over the life of the Taxable Series 2015B Bonds using the "constant yield method" provided in the Treasury Regulations. As the original issue discount accrues under the constant yield method, the beneficial owners of the Taxable Series 2015B Bonds, regardless of their regular method of accounting, will be required to include such accrued amount in their gross income as interest. This can result in taxable income to the beneficial owners of the Taxable Series 2015B Bonds that exceeds actual cash distributions to the beneficial owners in a taxable year.

The amount of the original issue discount that accrues on the Taxable Series 2015B Bonds each taxable year will be reported annually to the IRS and to the beneficial owners. The portion of the original issue discount included in each beneficial owner's gross income while the beneficial owner holds the Taxable Series 2015B Bonds will increase the adjusted tax basis of the Taxable Series 2015B Bonds in the hands of such beneficial owner.

Premium

If a beneficial owner purchases a Taxable Series 2015B Bond for an amount that is greater than its stated redemption price at maturity, such beneficial owner will be considered to have purchased the Taxable Series 2015B Bond with “amortizable bond premium” equal in amount to such excess. A beneficial owner may elect to amortize such premium using a constant yield method over the remaining term of the Taxable Series 2015B Bond and may offset interest otherwise required to be included in respect of the Taxable Series 2015B Bond during any taxable year by the amortized amount of such excess for the taxable year. Bond premium on a Taxable Series 2015B held by a beneficial owner that does not make such an election will decrease the amount of gain or increase the amount of loss otherwise recognized on the sale, exchange, redemption or retirement of a Taxable Series 2015B Bond. However, if the Taxable Series 2015B Bond may be optionally redeemed after the beneficial owner acquires it at a price in excess of its stated redemption price at maturity, special rules would apply under the Treasury Regulations which could result in a deferral of the amortization of some bond premium until later in the term of the Taxable Series 2015B Bond. Any election to amortize bond premium applies to all taxable debt instruments held by the beneficial owner on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

Medicare Contribution Tax

Pursuant to section 1411 of the Code, as enacted by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals beginning January 1, 2013. The additional tax is 3.8% of the lesser of (1) net investment income (defined as gross income from interest, dividends, net gain from disposition of property not used in a trade or business, and certain other listed items of gross income), or (ii) the excess of “modified adjusted gross income” of the individual over \$200,000 for unmarried individuals (\$250,000 for married couples filing a joint return and a surviving spouse). Holders of the Taxable Series 2015B Bonds should consult with their tax advisor concerning this additional tax, as it may apply to interest earned on the Taxable Series 2015B Bonds as well as gain on the sale of a Taxable Series 2015B Bond.

Disposition of Taxable Series 2015B Bonds and Market Discount

A beneficial owner of Taxable Series 2015B Bonds will generally recognize gain or loss on the redemption, sale or exchange of a Taxable Series 2015B Bond equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the beneficial owner’s adjusted tax basis in the Taxable Series 2015B Bonds. Generally, the beneficial owner’s adjusted tax basis in the Taxable Series 2015B Bonds will be the beneficial owner’s initial cost, increased by the original issue discount previously included in the beneficial owner’s income to the date of disposition. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the beneficial owner’s holding period for the Taxable Series 2015B Bonds.

Under current law, a purchaser of a Taxable Series 2015B Bonds who did not purchase the Taxable Series 2015B Bonds in the initial public offering (a “subsequent purchaser”) generally will be required, on the disposition of the Taxable Series 2015B Bonds, to recognize as ordinary income a portion of the gain, if any, to the extent of the accrued “market discount.” Market discount is the amount by which the price paid for the Taxable Series 2015B Bonds by a subsequent purchaser is less than the sum of Issue Price and the amount of original issue discount previously accrued on the Taxable Series 2015B Bonds. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire Taxable Series 2015B Bonds with market discount. As an alternative to the inclusion of market discount in income upon disposition, a subsequent purchaser may elect to include market discount in income currently as it accrues on all market discount instruments acquired by the subsequent purchaser in that taxable year or thereafter, in which case the interest deferral rule will not apply. The re-characterization of gain as ordinary income on a subsequent disposition of Taxable Series 2015B Bonds could have a material effect on the market value of the Taxable Series 2015B Bonds.

Backup Withholding

Under section 3406 of the Code, a beneficial owner of the Taxable Series 2015B Bonds who is a United States person, as defined in section 7701(a)(30) of the Code, may, under certain circumstances, be subject to “backup withholding” on payments of current or accrued interest on the Taxable Series 2015B Bonds. This withholding applies if such beneficial owner of Taxable Series 2015B Bonds: (i) fails to furnish to payor such beneficial owner’s social security number or other taxpayer identification number (“TIN”); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly

interest, dividends, or other “reportable payments” as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such beneficial owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain beneficial owners of the Taxable Series 2015B Bonds. Beneficial owners of the Taxable Series 2015B Bonds should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations

Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the rate of 30% on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest received by the beneficial owners of the Taxable Series 2015B Bonds is not treated as effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if: (i) the beneficial owner provides a statement to the payor certifying, under penalties of perjury, that such beneficial owner is not a United States person and providing the name and address of such beneficial owner; (ii) such interest is treated as not effectively connected with the beneficial owner’s United States trade or business; (iii) interest payments are not made to a person within a foreign country which the IRS has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the Taxable Series 2015B Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such beneficial owner is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such beneficial owner is not a bank receiving interest on the Taxable Series 2015B Bonds pursuant to a loan agreement entered into in the ordinary course of the bank’s trade or business.

Assuming payments on the Taxable Series 2015B Bonds are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no backup withholding under section 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to beneficial owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor does not have actual knowledge that such person is a United States person.

Reporting of Interest Payments

Subject to certain exceptions, interest payments made to beneficial owners with respect to the Taxable Series 2015B Bonds will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and TIN of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a Taxable Series 2015B Bond for U.S. federal income tax purposes.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in the main text of the Official Statement within the various tables and in APPENDIX B, and if not provided as part of such financial information and operating data, audited financial statements of the City, when and if available. The City will update and provide this financial information and operating data within six (6) months after the end of each fiscal year, beginning with the fiscal year ending in 2015 and audited financial statements within 12 months of each fiscal year beginning with the fiscal year ending in 2015. If audited financial statements are not available within 12 months after any such fiscal year end, the City will file unaudited financial statements within such 12 month period

and audited financial statements for such fiscal year when and if the audit report on such statements becomes available. The City will provide the updated information to the MSRB through its Electronic Municipal Market Access (“EMMA”) information system.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB’s Internet Web site or filed with the Securities and Exchange Commission (the “SEC”), as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide unaudited financial information by the required time and audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

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

Disclosure Event Notices

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

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

The Bonds, the Thirteenth Supplement or the Fourteenth Supplement do not make any provision for debt service reserves or credit or liquidity enhancement. See “SECURITY FOR THE BONDS - No Reserve Fund for Parity Electric Utility Obligations” in this document. The City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data by the time required by the Thirteenth Supplement or the Fourteenth Supplement.

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

are authorized by law or executive order to close in the City or the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located.

Availability of Information

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

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

OTHER RELEVANT INFORMATION

Pending Texas Legislation

The Texas Legislature currently is in regular session, and by law the regular session shall end on June 1, 2015. Two bills affecting Austin Energy have been filed in the current session, Senate Bill 1945 (“SB 1945”) and House Bill 3958 (“HB 3958”).

SB 1945 would permit a large retail customer or certain other groups of customers to file a petition with the PUCT to have the PUCT review current or proposed rates that apply to the petitioning customers. If the PUCT finds that the rates are not just and reasonable or are not consistent with the rates available to similarly situated customers in competitive areas of the state, the PUCT may choose to set rates for the petitioning customers or set cost-based transmission and distribution rates and allow a petitioning customer or customers to purchase electricity through a retail electric provider.

A committee substitute for SB 1945 (CSSB 1945) was favorably reported out of the Natural Resources & Economic Development committee of the Texas Senate on April 16, 2015, following a public hearing. As of the date of this Official Statement, the bill has not been scheduled to be considered by the full Senate.

HB 3958 would limit the use of revenues from the electric system for the sole purposes of paying the direct costs of operating Austin Energy and transferring sums to the City. Direct costs of operations include operation and maintenance expenses, payments on indebtedness, funding reserves, accumulating a rate stabilization fund, costs of capital improvements or equipment, and required payments to governmental units other than the City.

Annual transfers from Austin Energy revenues to the City’s general fund would be capped to a sum not to exceed twelve percent (12%) of the amount of the annual sales revenues of Austin Energy, which is consistent with, though somewhat higher than, the current total of transfers.

As of the date of this Official Statement, HB 3958 has been left pending in the House Committee on Urban Affairs.

Neither the City nor Austin Energy can predict whether either or both of the bills described above will be passed in their current form, and if enacted into law what effect either or both of the bills would have on the operations of the City or Austin Energy.

Ratings

The Bonds have received ratings of “A1” (stable outlook) by Moody’s, “AA-” (stable outlook) by S&P and “AA-” (stable outlook) by Fitch. An explanation of the significance of such ratings may be obtained from the organization furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating companies, if in the judgment of one or more companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

Registration and Qualification of Bonds

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

Legal Opinions

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the City in accordance with their terms payable solely from and, together with the outstanding Previously Issued Electric Utility Obligations and Prior Subordinate Lien Obligations equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the manner provided in the Thirteenth Supplement and the Fourteenth Supplement and the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on the Series 2015A Bonds will be excludable from gross income for federal income tax purposes, subject to the matters described under “TAX MATTERS – SERIES 2015A BONDS” in this document, including the alternative minimum tax on corporations. The forms of Bond Counsel’s opinions are attached as APPENDIX E. Certain matters will be passed on for the Underwriters by their counsel, Haynes and Boone, LLP, Houston, Texas.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility for this Official Statement or undertaken independently to verify any of the information contained in it, except that, in their capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions, “PLAN OF FINANCING”, “SECURITY FOR THE BONDS,” “DESCRIPTION OF THE BONDS”, “TAX MATTERS – SERIES 2015A BONDS”, “TAX MATTERS – SERIES 2015B BONDS”, “CONTINUING DISCLOSURE OF INFORMATION” (except for the information under the subheading “Compliance with Prior Undertakings”), “OTHER RELEVANT INFORMATION – Registration and Qualification of Bonds,” “OTHER RELEVANT INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas” and “OTHER RELEVANT INFORMATION – Legal Opinions,” and in “APPENDIX C” and “APPENDIX D” to verify that the information relating to the Bonds, the Master Ordinance, the Thirteenth Supplement and the Fourteenth Supplement contained under such captions and in APPENDICES C and D in all respects accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is true and accurate. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the delivery of the Bonds. The opinion of Bond Counsel will accompany the global certificate deposited with DTC in connection with the use of the Book-Entry-Only System.

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

Financial Advisor

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

Underwriting

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Series 2015A Bonds from the City at a price equal to the initial offering prices shown on the inside front cover of this Official Statement, less an underwriting discount of \$1,437,177.62. The Underwriters will be obligated to purchase all of the Series 2015A Bonds if any Series 2015A Bonds are purchased. The Series 2015A Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Taxable Series 2015B Bonds from the City at a price equal to the initial offering prices shown on page ii of this Official Statement, less an underwriting discount of \$313,567.85. The Underwriters will be obligated to purchase all of the Taxable Series 2015B Bonds if any Taxable Series 2015B Bonds are purchased. The Taxable Series 2015B Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the City and to persons and entities with relationships with the City, for which they received or will receive customary fees and expenses.

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

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Forward - Looking Statements

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

The forward-looking statements included in this document are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic,

business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, and competitors, and legislative, judicial, and other governmental authorities and officials.

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

Verification of Arithmetical and Mathematical Calculations

Upon the delivery of the Series 2015A Bonds, the Verification Agent will deliver to the City its report indicating that they have examined (a) the mathematical accuracy of computations prepared by PFM relating to the sufficiency of the proceeds of the Series 2015A Bonds and the City contribution deposited to the credit of the 2015A Escrow Fund to effect the defeasance of the Series 2015A Refunded Bonds and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Series 2015A Bonds will be excluded from gross income for federal income tax purposes.

Upon the delivery of the Taxable Series 2015B Bonds, the Verification Agent will deliver to the City its report indicating that they have examined the mathematical accuracy of computations prepared by PFM relating to the sufficiency of the proceeds of the Taxable Series 2015B Bonds and the City contribution deposited to the credit of the 2015B Escrow Fund to effect the defeasance of the Series 2015B Refunded Bonds.

Such verification will be relied upon by Bond Counsel in rendering its opinions with respect to the exclusion from gross income of interest on the Series 2015A Bonds for federal income tax purposes and with respect to defeasance of the Refunded Bonds. The report of the Verification Agent will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

Independent Auditors

The financial data as of and for the 12 months ended December 31, 2014 herein has been derived from the unaudited internal records of the City. The City's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information nor the forward-looking financial information, nor have they expressed any opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited financial information. The unaudited information is preliminary and is subject to change as a result of the audit and may differ from the audited financial statements when they are released.

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

Miscellaneous Information

The financial data and other information contained in this document have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained in this document will be realized. All of the summaries of the statutes, documents and ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects. The Thirteenth Supplement and the Fourteenth Supplement will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the offering of the Bonds by the Underwriters.

Steve Adler

Mayor
City of Austin, Texas

ATTEST:
Jannette S. Goodall

City Clerk
City of Austin, Texas

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SCHEDULE I

SUMMARY OF REFUNDED BONDS

<u>Series 2015A Refunded Bonds</u>							
	<u>Maturity Type</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>	
Electric Utility System Revenue Refunding Bonds, Series 2006	Serial	11/15/2016	5.000%	\$ 4,000,000			(2)
	Serial	11/15/2017	5.000%	4,100,000	11/15/2016		(1)
	Serial	11/15/2018	5.000%	4,300,000	11/15/2016		(1)
	Serial	11/15/2019	5.000%	4,500,000	11/15/2016		(1)
	Serial	11/15/2020	5.000%	4,700,000	11/15/2016		(1)
	Serial	11/15/2021	5.000%	4,900,000	11/15/2016		(1)
	Serial	11/15/2022	5.000%	5,100,000	11/15/2016		(1)
	Serial	11/15/2023	5.000%	5,300,000	11/15/2016		(1)
	Serial	11/15/2024	5.000%	5,600,000	11/15/2016		(1)
	Serial	11/15/2025	5.000%	5,800,000	11/15/2016		(1)
	Serial	11/15/2026	5.000%	6,100,000	11/15/2016		(1)
	Serial	11/15/2027	5.000%	6,400,000	11/15/2016		(1)
	Serial	11/15/2028	5.000%	6,600,000	11/15/2016		(1)
	Serial	11/15/2029	5.000%	6,900,000	11/15/2016		(1)
	Term	11/15/2032	5.000%	22,800,000	11/15/2016		(1)
	Term	11/15/2035	5.000%	<u>26,100,000</u>	11/15/2016		(1)
				\$ 123,200,000			
Electric Utility System Revenue Refunding Bonds, Series 2008A	Serial	11/15/2016	6.000%	\$ 4,195,000			(2)
	Serial	11/15/2020	5.500%	5,100,000	11/15/2018		(1)
	Serial	11/15/2021	5.500%	5,355,000	11/15/2018		(1)
	Serial	11/15/2022	5.250%	5,620,000	11/15/2018		(1)
	Serial	11/15/2023	5.250%	5,905,000	11/15/2018		(1)
	Serial	11/15/2024	5.250%	6,200,000	11/15/2018		(1)
	Serial	11/15/2025	5.250%	6,510,000	11/15/2018		(1)
	Serial	11/15/2026	5.250%	6,835,000	11/15/2018		(1)
	Serial	11/15/2027	5.250%	7,175,000	11/15/2018		(1)
	Serial	11/15/2028	5.250%	7,535,000	11/15/2018		(1)
	Serial	11/15/2029	5.250%	<u>7,910,000</u>	11/15/2018		(1)
				\$ 68,340,000			
Electric Utility System Revenue Refunding Bonds, Series 2010A	Serial	11/15/2016	4.000%	\$ 1,320,000			(2)
<u>Total Series 2015A Refunded Bonds</u>				<u>\$ 192,860,000</u>			
<u>Series 2015B Refunded Bonds</u>							
	<u>Maturity Type</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>	
Electric Utility System Revenue Refunding Bonds, Series 2006A	Serial	11/15/2017	5.000%	\$ 4,645,000	11/15/2016		(1)
	Serial	11/15/2018	5.000%	4,935,000	11/15/2016		(1)
	Serial	11/15/2019	5.000%	5,140,000	11/15/2016		(1)
	Serial	11/15/2020	5.000%	5,440,000	11/15/2016		(1)
	Serial	11/15/2021	5.000%	14,930,000	11/15/2016		(1)
	Serial	11/15/2022	5.000%	<u>9,610,000</u>	11/15/2016		(1)
				\$ 44,700,000			
<u>Total Series 2015B Refunded Bonds</u>				<u>\$ 44,700,000</u>			
<u>Total of Refunded Bonds</u>				<u>\$ 237,560,000</u>			

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

(2) Bonds are escrowed to maturity.

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information has been presented for informational purposes only.

General Information

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

The City, which is the capital of Texas, is the fourth largest city in the state (behind Houston, Dallas, and San Antonio) and the eleventh largest in the nation with a September 2014 population of 878,002 according to the City’s estimates. Over the past ten years, Austin’s population has increased by approximately 26.2%, or 182,121 residents. Geographically, the City consists of approximately 321 square miles. The current estimated median household income for residents of the City is \$49,227 according to Public Financial Management, Inc. The City’s per capita income is estimated to be \$46,990 based on analysis of the Bureau of Economic Analysis information.

The City is nationally recognized as a great place to live due in part to its diverse and eclectic population, as well as its promotion of a year-round outdoor active lifestyle. The City draws its special character from its physical setting along the Balcones Escarpment, a city wedged between coastal plains and dramatic cliffs, canyons, and juniper-carpeted rolling hills. Austin’s quality of life has become its biggest economic development engine, and the City’s diverse demographic structure serves to support and enrich its quality of life.

The City offers several broad-ranged educational opportunities for those individuals with a desire to learn. Austin is a highly educated city, with 45.6% of adults twenty-five years or older holding a bachelor’s or advanced degree, compared to 28.8% for the U.S. as a whole. Higher education is a significant aspect of life in the Austin area, which is host to six universities, a robust community college system, and numerous other institutions of higher learning. The University of Texas at Austin (UT), the sixth largest public university in the nation, is known as a world-class center of education and research and was ranked 17th among public universities in the 2015 *U.S. News and World Report* survey of undergraduate programs.

Local Economy

The Austin metropolitan area is consistently recognized among the most inventive, creative, wired, educated, fit, and loved cities in which to live and work. The Milken Institute ranked the Austin metropolitan area number 2 in its *2014 Best-Performing Cities* report, which ranks U.S. metropolitan areas by how well they are creating and sustaining jobs and economic growth. The index “was designed to measure objectively which U.S. metropolitan areas are promoting economic vitality based on job creation and retention, the quality of new jobs, and other criteria.” In its report the Institute noted that, “Austin is the most consistent Top 5 finisher in the history of our Best-Performing Cities index”.

From job growth to population growth to real estate, the Austin metropolitan area continues to boom and the trends reflect it. The Brookings *Metro Monitor* ranks Austin’s economic performance from the recession until the second quarter of 2014 as the best in the nation based on an analysis of jobs, unemployment, gross product, and home prices. Austin’s overall growth is expected to continue into the future. During 2014, *U.S. Metro Economies*, which is prepared by IHS Global Insight for the US Conference of Mayors, projected that the City will have the highest level of growth in real gross metro product in the country through 2020, growing at an average annual rate of 4.4%.

In January 2015, Forbes confirmed Austin's popularity as a great place to live and work as the City was ranked second on its list of "America's Fastest-Growing Cities 2015". Austin has ranked first or second on this list for the last five years. During 2014, the City's demographer estimated that the population was growing at the rate of 110 people per day.

The Texas economy has been strong for well over a decade, adding 2.1 million jobs since 2000, or 30% of total jobs added in the United States during that period. Moody's Analytics economic research firm expects Texas job growth to continue to lead the nation over the next five years, expanding at an annual rate of 2.7%. In November 2014, Forbes listed Texas as the Best State for Job Growth. Forbes has indicated that Texas "ranks first for both its current economic climate and growth prospects in our annual study on the Best States for Business." Texas is home to 5 of the top 10 best-performing large cities and 3 of the top 10 best-performing small cities according to the Milken Institute index.

Employment - Virtually all Texas metro areas had more jobs in December 2014 than in December 2013. Texas' employment growth at 4% continues to outpace the nation at 2.2%. The Austin metro area employment is also growing faster than the national rate at 2.9%. Austin's unemployment rate was at 3.4% in December 2014, down from 4.5% in December 2013. The State and National unemployment rates in December 2014 were 4.6% and 5.6%, respectively.

Over the last five years, the Austin metro area has created more than 151,000 new jobs, an increase of over 18%. This growth has been shared by all levels of wage earners. During fiscal year 2014, Forbes listed the Austin area at or near the top of several lists: "Best Cities for Future Job Growth 2014"; "Cities Creating the Most Middle Class Jobs" (7.6% since 2007); "Blue Collar Hot Spots" (10% since 2010); and "Cities Creating the Most Tech Jobs" (over 41% 2001 – 2013). According to the Milken *2014 Best-Performing Cities* report, the Austin MSA is a technology center that benefits from "an employment multiplier of close to 5 (meaning one tech position generates four other jobs), among the highest of all sectors."

This growth is expected to continue through 2017 according to *America's Job Outlook* published by Careerbuilder and Economic Modeling Services, Inc. (EMSI). This report projects total job growth of 9.7% in the Austin metro area, well ahead of the national level of 4.4% for the period 2013 through 2017. In addition, high-wage jobs are expected to grow at a rate of 9.4%, the second highest level in the nation. The report states, "Austin's position as one of the strongest markets for high-wage job growth, and job growth overall, has been fueled by its diverse industry mix."

Economic Development - The City's economic development efforts have greatly contributed to job growth. In early 2014, City Council approved several economic incentive agreements which will result in 1,247 new full-time jobs. The combined economic impact of such agreements since the beginning of 2012 is over 6,700 direct jobs and \$396 million in capital investment.

Over the next several years, a medical school will be constructed at the University of Texas at Austin. The University is partnering with the Seton Healthcare Family, who will build a teaching hospital, and Central Health (the Travis County Healthcare District), who will purchase services from the medical school for the population it serves. The plan is supported by a broad cross-section of the community, including the voters who approved a tax increase for Central Health to help fund these initiatives. In 2014, the first dean of the medical school was selected, long-term affiliation agreements between the parties were approved, and construction of both the Dell Medical School and the teaching hospital, Seton Medical Center at the University of Texas, was begun. The school is scheduled to accept its first class in 2016 and the hospital will open in 2017.

An economic analysis by TXP, Inc. estimates the economic impact of the medical school to be almost \$1 billion in direct annual spending and 6,900 direct jobs. In December 2014, City Council directed the City Manager to explore creation of an innovation zone in the northeast quadrant of downtown to leverage the economic potential created by the medical school. Such zones have been successful economic engines in other major U.S. cities such as Seattle and Raleigh-Durham.

Tourism - The City continues to be a destination for both business and recreational activities. It is known around the world as the "Live Music Capital of the World," with over 250 live music venues. In March 2015, South by Southwest (SXSW) hosted its 29th annual festival, conference, and trade show, providing a unique convergence of original music, independent films, and emerging technologies as well as, more recently, education and sustainability. According to an economic impact analysis prepared by Greyhill Advisors, SXSW was responsible for injecting more than \$315 million

into the Austin economy. In October 2013, the Austin City Limits Music Festival expanded to two weekends, increasing opportunities for attendance. As a result, the economic impact of that festival increased from \$102 million in 2012 to \$182 million in 2013.

During 2014 the Circuit Of The Americas™ (COTA) complex in southeast Austin, a state-of-the-art motorsports and entertainment venue, generated \$897 million in economic impact to the Austin area according to Greyhill Advisors. The major event at this facility continues to be the United States Formula One™ Grand Prix race (F1), which drew a total attendance of over 237,000 in the fall of 2014. Other major events hosted at the facility throughout the year included MotoGP Grand Prix of the Americas, the ESPN X Games (year one of four), the Lone Star Lemans and numerous national touring bands.

The growing local economy in the City relies on quality air service to foster business, government, and leisure travel. During 2014, the City's airport, ABIA, set a new record for annual traffic for the fourth consecutive year, a 7% increase over the previous year's record. In 2014 over 10.7 million passengers passed through ABIA, enjoying over 1,100 live music performances, 62 tons of brisket and 600,000 breakfast tacos. A milestone was reached in July when, for the first time, over a million passengers traveled through the airport in a single month. Air carriers continue to add direct flights to Austin, and in March 2014, British Airways offered the first transatlantic air service between London and Austin, facilitating connections with over 70 countries throughout Europe, Africa, the Middle East, and Asia. To accommodate this growth, ABIA is expanding the east terminal to provide up to a 30% increase in aircraft operational capacity. The lower level of this project was completed in December 2014 and includes a new Customs Facility, which more than doubles the capacity to process international arrivals.

Hotel motel tax revenues continue to grow and in 2014 were 15% greater than the previous year. High occupancy rates have spurred construction of new hotels across the Austin metro area. The greatest concentration is downtown where over 3,000 rooms are currently under construction by hoteliers such as JW Marriott, Fairmont, Westin, Kimpton and several others.

Real Estate - All sectors of the real estate market are performing well. Austin area home sales for 2014 were up 2% over 2013 and set a record for annual single-family home sales. As of the end of December, the market featured 2.2 months of housing inventory, slightly higher than last year but below the levels considered to represent a balanced housing market. As a result, the median price for a single family home continues to rise, up about 8% over the previous year from \$223,890 to \$242,500. According to the National Association of Home Builders, despite housing price increases Austin has the second most affordable housing of the major Texas cities when median family income is factored into the equation.

Opinions about the City's real estate market are mixed. Both Fitch and Trulia.com believe that Austin's real estate market is overpriced by up to 20%. However, an analysis by Forbes Inc. and Local Market Monitor indicated Austin as the "Best Buy City", a place to invest in housing in 2015. The study indicated that in the Austin market, prices are slightly "overheated" but investment was "still a safe bet" given other economic factors. The City considers affordability a prime consideration when making decisions that impact its citizens and the businesses that operate here. Whether setting taxes or utility rates, taking actions that provide affordable housing, or providing services and programs to the underprivileged members of the community, affordability is always part of the discussion.

As the result of over 9,000 new apartments coming on the market in 2014, multifamily occupancy rates are near 94%, down from the 2013 high of 97%. With occupancy rates still strong, rents per square foot are at an all-time high. In June 2014 these rates were at \$1.25, having risen over 3% in six months. The office market is also strong, with an average occupancy rate of over 91% at the end of 2014. The retail market ended 2014 with occupancy at almost 96%, the highest overall occupancy rate in a decade. According to *Emerging Trends in Real Estate 2015* co-published by PricewaterhouseCoopers US and the Urban Land Institute, the City will be one of the two top markets to watch in 2015 along with Houston. Among other things, those interviewed for this survey were attracted by Austin's appeal to the millennial generation, diverse employee base, and the lower cost of doing business here.

Sales Taxes - Sales tax revenue has shown positive growth over the past five fiscal years. Fiscal year 2014 experienced a robust 7.5% increase over fiscal year 2013, which was a 7.3 % increase over 2012.

Recognition - In addition to the rankings mentioned above, the City has ranked at the top of lists such as Jones Lang LaSalle, NerdWallet, WalletHub, and others in regards to career choice, recreation opportunities, income, and business opportunities:

#1 Small Business Vitality <i>WalletHub</i> – May 2014	#3 America’s Coolest Cities 2014 <i>Forbes</i> – August 2014	#6 Top 10 U.S. Labor Markets <i>Career Builder & EMSI</i> – February 2015
#2 Best Cities for Millennials <i>Niche.com</i> – Spring 2014	#4 America’s Most Creative Cities <i>Forbes</i> – July 2014	# 8 Best Run Cities in America <i>24/7 Wall St.</i> - January 2014
#2 Baby Boomtowns: The U.S. Cities Attracting the Most Families <i>Forbes</i> – September 2014	#3 Cities Stealing Jobs from Wall Street <i>Newgeography.com</i> – June 2014	#2 Best Large Cities for Women in the Workforce <i>NerdWallet.com</i> – June 2014
#7 World’s 20 Most Dynamic Cities <i>City Momentum Index</i> <i>Jones Lang LaSalle</i> - January 2014	#1 Metro Areas with Most Economic Momentum Going Into 2014 <i>Forbes</i> – December 2013	#3 Top US Cities for Tech Acquisitions (since 2012) <i>CBInsights.com</i> – October 2014

Major Initiatives

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

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

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

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

Being “best managed” means everyone in the organization is providing the best service possible to the community. Reflecting the PRIDE that the City’s employees take in their work, Austin ranks 26 percentage points above the national average for customer service and is at or above the national average in 34 of 46 of the City’s benchmark indicators.

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

- ❖ Grow as a compact, connected city
- ❖ Integrate nature into the city
- ❖ Provide paths to prosperity for all
- ❖ Develop as an affordable and healthy community
- ❖ Sustainably manage water, energy, and other environmental resources
- ❖ Think creatively and work together

Implementing this vision will take many incremental steps over time. Cross-departmental and cross-jurisdictional action teams have been created for these areas and the 2015 budget and capital plan included funding to support these principles. Further, a number of the initiatives discussed below also directly support Imagine Austin. In 2014, the American Planning Association bestowed its first ever “Sustainable Plan Award” to the City in partnership with the plan consultants, Wallace, Roberts, and Todd, for Imagine Austin for showing exemplary scholarship, leadership, and inspiration in sustainability planning and implementation.

Development – In addition to its economic development efforts, the City has been committed to the redevelopment of a number of its downtown properties. Beginning with the development of six blocks in the warehouse district in the early 2000’s, Austin’s participation in joint public/private partnerships continues to contribute to a vibrant downtown and an enhanced tax base. Current downtown redevelopment focused in the Seaholm District includes:

- Construction of a new 198,000 square-foot central library. This “library for the future” will have advanced sustainable features and is expected to be completed in 2016;
- Extensive improvements to Shoal Creek in the Seaholm area to facilitate bicycle and pedestrian use;
- Construction of a \$130 million mixed-used development that will involve renovation and reuse of the historical and architecturally-significant Seaholm power plant. As the result of one of the City’s economic development agreements, the offices of athenahealth, Inc., a software company, moved into the renovated power plant in February 2015.
- Kick-off of the redevelopment of the Green Water Treatment Plant site with the sale and transfer of the first portion of the site to the development team who will construct a 38-floor mixed-use tower, including affordable living units. The first phase of this project also includes completion of the street grid in the district to enhance connectivity to Seaholm. Ultimately this pivotal waterfront project is slated to add 1.7 million square feet of mixed use development.

In 2015, the City will finalize construction of the Waller Creek Tunnel Project on the eastern edge of downtown. This mile-long stormwater bypass tunnel will address problems of flooding, erosion, and water pollution along lower Waller Creek. By taking nearly 28 acres of prime downtown land out of the 100-year floodplain, the project is expected to spur redevelopment and revitalization in the area. In addition, the City partnered with the Waller Creek Conservancy to create the Waller Creek District along the creek from the mouth of Lady Bird Lake north to the University of Texas. The Conservancy is at work implementing a number of amenities, including pedestrian and bicycle paths, interactive playscapes, and a restored native creek ecology.

Several miles from downtown, the City continues its public/private partnership to redevelop the site of the previous airport, Mueller. This 700 acre, vibrant, mixed-use urban village includes residential neighborhoods, retail and office space, extensive parks, and trails. The development, which is sustainable, transit-oriented, and offers affordable housing opportunities, is more than one-third complete, and has a current assessed value of over \$680 million. Demand for housing at Mueller has been high due to its proximity to downtown and many amenities. In addition to the homes being constructed, recent openings in the development include a new children’s museum, an expansion of the Dell Children’s Hospital, a market district, and the Austin Independent School District’s performing arts center.

Transparency – The City’s ongoing commitment to transparency of financial transactions and processes is exemplified by Austin Finance Online (AFO). Since its inception in 2011, AFO has been recognized by the Texas State Comptroller for achieving the highest standards in financial transparency online. After receiving the Gold Level Leadership Circle Award for four consecutive years, in January 2015 the City received the newly created Platinum Leadership Award. AFO provides a one-stop web-based portal containing an extensive library of budget and financial documents, an online contract catalog, payment register information, and other City financial information.

Innovation - In the summer of 2014, the City received recognition for its technological innovations in several of its geographic information systems (GIS) applications. The Environmental Systems Research Institute awarded the City with a Special Achievement in GIS award for its adoption of the ArcGIS Online configuration to help the City manage water resources while dealing with a major drought and rapid growth in the area. The City also received a 2014 Technology Solutions Award for significant achievement from the Public Technology Institute (PTI) for the Austin

Infrastructure Management, Mapping, Planning and Coordination Tool, which provides key coordination of the mapping of infrastructure projects to identify possible conflicts and opportunities for collaboration, reducing the City's infrastructure repair and rehabilitation costs. PTI recognized the City for five different applications, including, among others, the Strategic Capital Investments Analysis tool and the MetroRapid Traffic Signal Priority project.

The City has also received recognition for its policies. In October, Austin was one of two cities that received the 2014 Robert C. Larson Housing Policy Leadership Award for exceptional public policy from the Urban Land Institute's Terwilliger Center for Housing. The award description states, "the City of Austin is tackling its affordable housing shortage through a variety of mechanisms...securing affordability for more than 18,000 units since focusing on this crucial issue."

Climate Protection - The City has long been a national leader in the climate protection arena through the efforts of City leaders, its City-owned electric utility (Austin Energy), and the participation of customers from residential to other governmental entities and private businesses. As a result of these efforts and partnerships, Austin Energy led all public power utilities in the country for sales of renewable energy in 2013. In 2012, the City became the first large city in America to power all of its City-owned buildings with 100% renewable energy, a goal set five years earlier. In January 2015, the EPA's Green Power Partnership program ranked the City third in the country among all local government program partners using the most renewable energy, and 15th among all participants, including some Fortune 500 companies. Austin Energy also received the EPA's 2014 Energy Star Partner of the Year Award for Sustained Excellence for outstanding contributions to energy efficiency for the tenth consecutive year.

In early 2014, with the approval of a contract to purchase 300 additional megawatts of wind power, Austin Energy is poised to achieve its 35% of renewable energy goal in 2016, four years ahead of schedule. The utility is now focusing on its solar power goals and has awarded a contract to a solar project developer to create a 150 megawatt solar facility that will be Texas' largest.

FINANCIAL INFORMATION

Internal Controls

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

Financial Policies

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

Long-Term Financial Planning

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

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

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

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

Budgetary Control

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

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

Budgetary Information

The 2015 Budget was developed in a manner true to the City's commitment to openness, transparency, and public engagement. The City's Budget is organized around activities and services. The budget development process integrates the City's finances with business planning, performance measurement, and resident input, thereby elevating budget discussions to meaningful conversations about outcomes that impact our residents. Input was gathered and evaluated to address the many issues, concerns, and priorities identified by the City's citizens, employees, and Councilmembers. The result was a budget built around the ideals of livability, affordability and inclusivity that dictate the operations of the City government and form the basis of the budget.

The structurally balanced fiscal year 2015 Approved Budget totals \$3.5 billion and includes \$854 million for the General Fund, providing for the continuation of high-quality public safety, health, library, parks, water, energy, infrastructure, development, and other services to the citizens of the City. The 2015 budget was approved with a decrease to the property tax rate of more than 2 cents, from 50.27 to 48.09 cents per \$100 of taxable value. The approved tax rate balances the tax impact to property owners with the need to invest in our community and continue providing the outstanding services Austinites have come to expect.

Included in the approved budget are a 3.5 % pay increases for non-sworn employees. Sworn EMS employees and Austin Police Association members will receive a base wage increase of 1% as well as step and longevity pay as established in labor contracts in 2013. The City does not have a current contract with the Austin Firefighters'

Association but has included a budget placeholder for potential wage increases at the same levels as Police and EMS. The approved budget enhances public safety by adding 59 new police officers, 21 new 911 dispatcher positions, and 15 civilian positions to address forensics workload issues. Funding was provided to continue a multi-year strategy to better manage demands on service delivery resulting from the City's growth in recent years. Finally, the budget projects growth in General Fund reserves from their current level of 12% to 13.5% in 2015 to ensure the financial health of the municipal government.

The City's largest enterprise department, Austin Energy, is the eighth largest municipal-owned electric utility in the United States in terms of customers served. Austin Energy serves more than 430,000 customers within a service territory of approximately 437 square miles in the Greater Austin area. The approved budget for fiscal year 2015 is \$1.43 billion in annual revenues, including transfers. The utility has a diverse generation mix that includes nuclear, coal, natural gas, and an increasing portfolio of renewable energy sources.

The City's second largest enterprise activity is Austin Water, which provides water and wastewater services to customers within Austin and surrounding areas. The fiscal year 2015 budget projects revenues of \$541.1 million. Growth in revenue is the result of projected customer growth as well as a combined system-wide rate increase of 8.1%. The impact of this increase on customers is expected to be somewhat mitigated by lower water consumption as the on-going drought continues. In December 2014, the utility opened Water Treatment Plant 4. With a capacity of 50 million gallons per day, it provides redundancy in the water system and helps to sustain reliable water services into the future.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its 2013 CAFR. The City has received this award for 7 consecutive years. The certificate is valid for a period of one year only. City management believes that the 2014 CAFR conforms to the Certificate of Achievement Program requirements, and is submitting it to the GFOA for review.

The City also received the GFOA Distinguished Budget Presentation award for the 2014 budget as well as a 2013 Certificate of Excellence in Performance Measurement from the International City/County Management Association (ICMA).

Employment by Industry in the Austin Metropolitan Area (a)

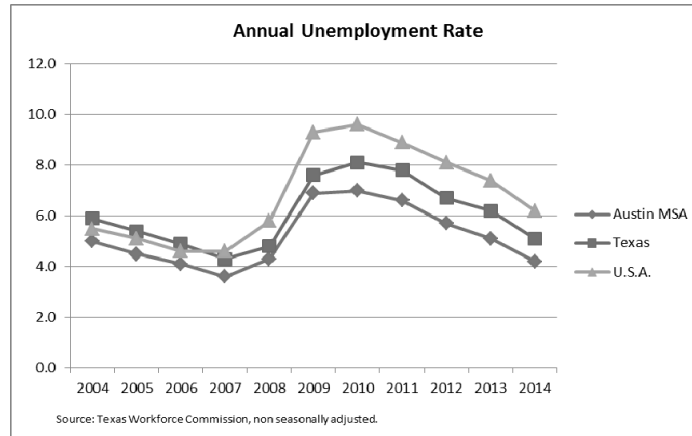
Employment Characteristics

<u>Industrial Classification</u>	<u>2010</u>		<u>2011</u>		<u>2012</u>		<u>2013</u>		<u>2014</u>	
		<u>% of Total</u>		<u>% of Total</u>		<u>% of Total</u>		<u>% of Total</u>		<u>% of Total</u>
Manufacturing	47,300	6.2%	49,500	6.5%	47,300	6.2%	51,200	6.0%	53,600	5.9%
Government	170,500	22.2%	167,900	22.1%	170,500	22.2%	164,100	19.3%	174,400	19.1%
Trade, warehousing, transportation & utilities	134,200	17.5%	152,500	20.1%	134,200	17.5%	151,500	17.8%	165,400	18.1%
Services and miscellaneous	333,200	43.5%	304,000	40.0%	333,200	43.5%	394,000	46.2%	420,300	46.1%
Finance, insurance and real estate	42,300	5.5%	43,900	5.8%	42,300	5.5%	45,400	5.3%	49,700	5.5%
Natural resources, mining & construction	<u>39,000</u>	<u>5.1%</u>	<u>42,000</u>	<u>5.5%</u>	<u>39,000</u>	<u>5.1%</u>	<u>46,100</u>	<u>5.4%</u>	<u>48,200</u>	<u>5.3%</u>
Total	<u>766,500</u>	<u>100.00%</u>	<u>759,800</u>	<u>100.0%</u>	<u>766,500</u>	<u>100.00%</u>	<u>852,300</u>	<u>100.0%</u>	<u>911,600</u>	<u>100.00%</u>

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

Source: Texas Labor Market Review, November 2014, Texas Workforce Commission.

Average Annual Unemployment Rate



	<u>Austin MSA</u>	<u>Texas</u>	<u>U.S.A.</u>
2004	5.0%	5.9%	5.5%
2005	4.5%	5.4%	5.1%
2006	4.1%	4.9%	4.6%
2007	3.6%	4.3%	4.6%
2008	4.3%	4.8%	5.8%
2009	6.9%	7.6%	9.3%
2010	7.0%	8.1%	9.6%
2011	6.6%	7.8%	8.9%
2012	5.7%	6.7%	8.1%
2013	5.1%	6.2%	7.4%
2014	4.2%	5.1%	6.2%

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

Source: Texas Labor Market Review, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>
1-1-10	\$10.215	1-1-11	\$11.492	1-1-12	\$12.189	1-1-13	\$13.126	1-1-14	\$15.123	1-1-15	15.260
2-1-10	15.921 (1)	2-1-11	16.149	2-1-12	16.923	2-1-13	18.079	2-1-14	19.112	2-1-15	21.092
3-1-10	10.736	3-1-11	11.117	3-1-12	11.762	3-1-13	13.324	3-1-14	13.782	3-1-15	14.677
4-1-10	10.290	4-1-11	10.312	4-1-12	11.838	4-1-13	12.727	4-1-14	13.803	4-1-15	14.345
5-1-10	14.145	5-1-11	14.022	5-1-12	15.239	5-1-13	15.962	5-1-14	17.750		
6-1-10	11.533	6-1-11	11.941	6-1-12	12.949	6-1-13	12.869	6-1-14	15.581		
7-1-10	11.569	7-1-11	11.924	7-1-12	13.168	7-1-13	14.699	7-1-14	14.723		
8-1-10	12.799	8-1-11	14.387	8-1-12	15.371	8-1-13	16.088	8-1-14	16.970		
9-1-10	11.427	9-1-11	11.307	9-1-12	14.220	9-1-13	14.119	9-1-14	15.385		
10-1-10	11.562	10-1-11	13.385 (2)	10-1-12	13.960	10-1-13	14.644	10-1-14	15.309		
11-1-10	13.347	11-1-11	13.873	11-1-12	14.570	11-1-13	16.187	11-1-14	17.734		
12-1-10	11.216	12-1-11	12.004	12-1-12	14.373	12-1-13	14.192	12-1-14	15.735		

(1) Collections for 2-1-10 reflect a \$1.5 million one-time sales tax correction.

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

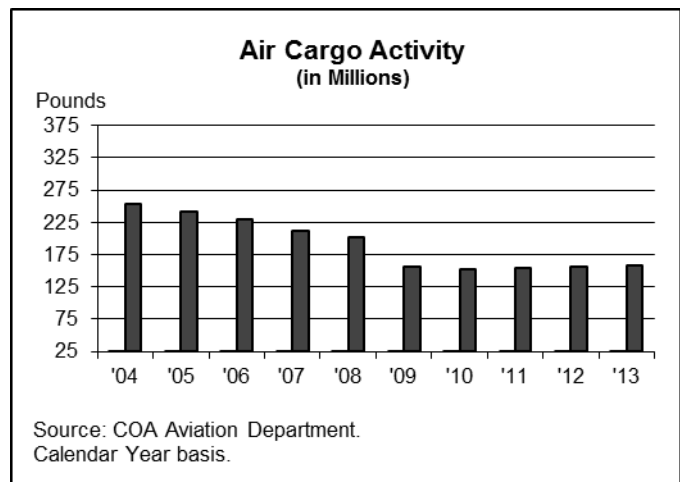
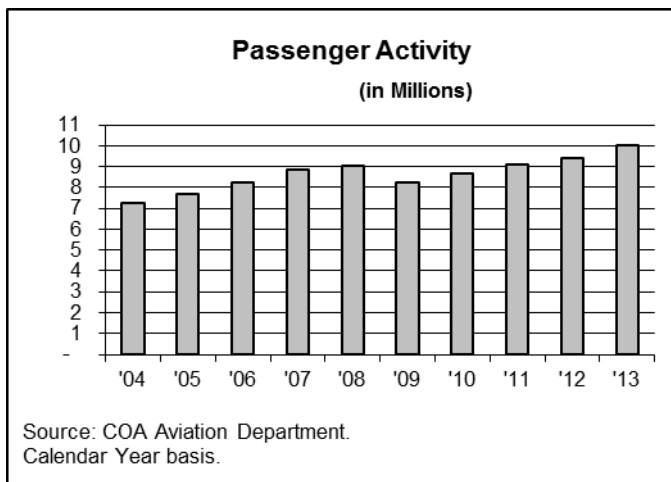
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2014)

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
State Government	Government	37,816
The University of Texas at Austin	Education	24,610
Dell Computer Corporation	Computers	14,000
City of Austin	Government	12,782
Seton Healthcare Network	Healthcare	12,770
Austin Independent School District	Education	11,538
HEB Grocery	Grocery/Retail	11,277
Federal Government	Government	9,700
St. David's Healthcare Partnership	Healthcare	8,100
IBM Corporation	Computers	6,000

Source: 2014 Comprehensive Annual Financial Report.

Transportation



Austin-Bergstrom International Airport

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999 and replaced the Robert Mueller Municipal Airport as the City's commercial passenger service airport, is served by seven signatory airlines: American Airlines, Delta, Frontier, JetBlue, Southwest, United and US Airways. Non-stop service is available to 34 U.S. destinations. On March 3, 2014, British Airways began non-stop service to London Heathrow Airport.

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

Other Forms of Transit

Rail facilities are furnished by Union Pacific and Longhorn Railway Company. Amtrak provides a stop for its passenger train traveling the Mexico City-Kansas City route. Bus service is provided by Greyhound and Kerrville Bus-Coach USA.

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

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

Demographic and Economic Statistics - Last Ten Years

<u>Year</u>	<u>City of Austin Population</u> (1)	<u>Area of Incorporation (Square Miles)</u> (1)	<u>Population MSA (2)</u>	<u>Income (MSA) (thousands of dollars) (2)</u>	<u>Median Household Income MSA (3)</u>	<u>Capita Personal Income MSA (2)</u>	<u>Unemployment Rate (MSA) (4)</u>
2005	695,881	294	1,464,563	51,058,588	40,335	34,863	4.5%
2006	714,237	296	1,528,958	56,105,872	40,888	36,695	4.2%
2007	732,381	297	1,577,856	59,924,200	42,263	37,978	3.7%
2008	746,105	298	1,633,870	65,153,669	46,340	39,877	4.4%
2009	770,296	302	1,682,338	64,383,075	47,520	38,270	6.8%
2010	778,560	306	1,727,661	67,582,224	48,460	39,118	7.1%
2011	805,662	308	1,780,708	74,168,909	46,689	41,651	6.8%
2012	821,012	319	1,834,303	78,695,523	46,436	42,902	5.8%
2013	841,649	321	1,883,051	84,285,529	46,436	44,760	5.2%
2014	878,002	321	1,912,746 (6)	89,879,067 (5)	49,227	46,990 (5)	4.2%
2005-2014 Change	26.17%	9.34%	30.60%	76.03%	22.05%	34.78%	

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

- (1) Source: City Demographer, City of Austin, Neighborhood Planning and Zoning Department based on full purpose area as of September 30.
- (2) Source: Bureau of Economic Analysis for all years except 2014 which will not be available until after first quarter 2015.
- (3) Source: Claritas, a Nielson Company.
- (4) Source: Bureau of Labor Statistics; United States Department of Labor as of September 30.
- (5) Data not available for 2014. Figures are estimated.
- (6) Source: PFM CBK – CBSA 2014.

Connections and Permits

<u>Year</u>	<u>Utility Connections</u>			<u>Building Permits</u>		
	<u>Electric</u>	<u>Water</u>	<u>Gas</u>	<u>Taxable</u>	<u>Federal, State and Municipal</u>	<u>Total</u>
2004	369,458	188,441	203,966	1,280,385,298	20,533,975	1,300,919,273
2005	372,735	192,511	207,686	1,405,871,887	40,484,950	1,446,356,837
2006	380,696	197,511	213,009	2,353,171,746	16,526,040	2,369,697,786
2007	388,626	199,671	188,101	2,529,648,915	14,272,851	2,543,921,766
2008	396,791	206,695	198,718	1,468,699,801	4,099,000	1,472,798,801
2009	407,926	209,994	208,232	834,498,480	6,988,999	841,487,479
2010	419,355	210,901	204,823	1,413,989,503	4,252,978	1,418,242,481
2011	418,968	212,754	213,365	745,909,589	2,812,350	748,721,939
2012	412,552	214,971	217,170	1,088,133,995	23,788,268	1,111,922,263
2013	430,582	217,070	216,688	1,456,541,504	-	1,456,541,504

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

Housing Units

Rental rates in the City averaged \$1.26 per square foot, with an occupancy rate of 94% as of December 2014, per Capitol Market Research.

Residential Sales Data

<u>Year</u>	<u>Number of Sales</u>	<u>Total Volume</u>	<u>Average Price</u>
2004	22,567	\$4,487,464,528	\$198,900
2005	26,905	5,660,934,916	210,400
2006	30,284	6,961,725,607	229,900
2007	28,048	6,910,962,480	246,400
2008	22,440	5,470,518,171	243,800
2009	20,747	4,924,240,373	237,300
2010	19,872	4,906,445,110	246,900
2011	21,208	5,336,642,011	251,600
2012	25,521	6,789,371,785	266,000
2013	30,436	8,718,869,997	286,500
2014	30,921	9,446,362,668	305,500

Note: Information is updated periodically; data contained in this document is latest provided.
Source: Real Estate Center at Texas A&M University.

City-Wide Austin Office Occupancy Rate

<u>Year</u>	<u>Occupancy Rate</u>
2004	80.8%
2005	84.2%
2006	87.5%
2007	85.6%
2008	80.6%
2009	77.7%
2010	80.0%
2011	82.7%
2012	86.8%
2013	89.2%
2014	90.9%

Source: Oxford Commercial.

Education

The Austin Independent School District had an enrollment of 84,591 for the 2014/2015 school year. The District includes 129 campus buildings.

<u>School Year</u>	<u>Average Daily Membership</u>	<u>Average Daily Attendance</u>
2004/05	77,937	73,572
2005/06	79,500	74,860
2006/07	82,063	74,212
2007/08	82,739	74,622
2008/09	83,730	75,606
2009/10	84,996	76,658
2010/11	85,273	80,198
2011/12	86,724	79,087
2012/13	86,732	79,460
2013/14	85,363	77,928

Source: Austin Independent School District.

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

The University of Texas at Austin had a total enrollment of 52,059 for the fall semester of 2013 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

Tourism

The impact of tourism on the City's economy is significant. There are approximately 32,000 hotel rooms available within the Austin Metropolitan Area and year-to-date occupancy through February 2015 is 69.9%.

Existing City convention and meeting facilities include a 881,000 square-foot Convention Center with 369,000 total square feet of exhibit and meeting space, which is supported by hotel/motel occupancy tax collections and revenues of the facility and the Lester E. Palmer Events Center with 70,000 square feet of exhibit space and 5,000 square feet of meeting space. Other facilities in Austin include the Frank Erwin Center, a 17,000-seat arena at The University of Texas, the Texas Exposition and Heritage Center, the Austin Music Hall, and The Long Center for the Performing Arts. The Texas Exposition and Heritage Center offers a 6,000-seat arena and 20,000 square feet of banquet/exhibit hall facilities. The Long Center for the Performing Arts, a \$77 million venue, opened in March 2008. The Center contains two theaters: the 2,400-seat Michael and Susan Dell Hall and the flexible 230-seat Debra and Kevin Rollins Studio Theater. This venue belongs to the City, while a private nonprofit entity operates the building. The Austin City Limits Live at The Moody Theater is a state-of-the-art, 2,700+ person capacity live music venue that also serves as the home of the KLRU-TV produced PBS program Austin City Limits, the longest running music series in American television history. The venue hosts approximately 100 concerts a year. In 2012, the Circuit of the Americas opened its 1,500-acre venue just outside downtown Austin, that is a premier destination for world-class motorsports and entertainment in the United States. The venue includes a 3.41 mile racetrack and the Austin360 Amphitheater, which is the largest permanent outdoor amphitheater in Central Texas. Additionally, the University of Texas Darrel K. Royal-Texas Memorial Stadium has a seating capacity of 100,119.

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APPENDIX B
AUDITED FINANCIAL STATEMENTS

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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, 2014, 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.

Auditor's 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 and net position, and 99.8% of the revenues of the discretely presented component units. Those statements were audited by other auditors whose reports, one of which (Austin Bergstrom Landhost Enterprises) 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 financial statement 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 reports 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, 2014, 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.

Emphasis of Matter

As discussed in Note 18 to the financial statements, beginning net position was restated due to the City's implementation of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* during the year ended September 30, 2014, which established accounting and financial reporting standards that reclassified, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Our opinion is not modified with respect to this matter.

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 24, 2015

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, 2014.

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. 67 and No. 70.

FINANCIAL HIGHLIGHTS

Government-wide financial statements

The assets of the City exceeded its liabilities at the end of the fiscal year 2014, resulting in \$4.6 billion of net position. Net position associated with governmental activities is approximately \$1.3 billion, or 28.2% of the total net position of the City. Net position associated with business-type activities is approximately \$3.3 billion, or 71.8% 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 82.8% of total net position.

Unrestricted net position, which may be used to meet the City's future obligations, is \$156 million, or 3.4% of the City's total net position. Unrestricted net position for governmental activities is a deficit of \$431.3 million, while unrestricted net position for business-type activities is approximately \$587.4 million, or 17.6% of total business-type net position. The deficit in governmental unrestricted net position is largely due to the recognition of \$435.3 million in other post employment benefit liabilities for governmental activities.

During fiscal year 2014, total net position for the City of Austin increased \$99.7 million or 2.2%. Of this amount, governmental activities decreased \$38.3 million, or 2.8% from the previous year and business-type activities increased \$138 million, or 4.3% from the previous year.

Total revenues for the City increased \$187.5 million; revenues for governmental activities increased \$89.3 million; revenues for business-type activities increased \$98.2 million. Total expenses for the City increased \$172.7 million; expenses for governmental activities increased \$41.8 million; expenses for business-type activities increased \$131 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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference 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), Mueller Local Government Corporation (MLGC), Austin-Bergstrom International Airport (ABIA) Development Corporation, and the Urban Renewal Agency (URA). The operations of AHFC, AIDC, MLGC, ABIA, 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 three discretely presented component units: Austin-Bergstrom Landhost Enterprises, Inc. (ABLE), Austin Convention Enterprises, Inc. (ACE), and Waller Creek Local Government Corporation (WCLGC). These entities are legally separate entities that do not meet the GASB reporting requirements for inclusion as part of the City's operations; therefore, data from these units are shown separately from data of the City. More information on these entities can be found in the notes to the financial statements, including how to get a copy of separately audited financial statements for ACE and ABLE. WCLGC activities are recorded in the City's financial system and city staff prepare the financial reports for this entity.

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 EnergyTM, 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.

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

b -- Fund financial statements, continued

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.

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:

<u>Fund Types/Other</u>	<u>Government-wide</u>	<u>Fund Financials</u>
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 five 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	
	2014	2013	2014	2013	2014	2013
Current assets	\$ 645,341	654,691	1,258,553	1,228,103	1,903,894	1,882,794
Capital assets	2,693,200	2,561,611	7,315,956	7,121,722	10,009,156	9,683,333
Other noncurrent assets	10,930	11,646	992,668	983,931	1,003,598	995,577
Total assets	<u>3,349,471</u>	<u>3,227,948</u>	<u>9,567,177</u>	<u>9,333,756</u>	<u>12,916,648</u>	<u>12,561,704</u>
Deferred outflows of resources	<u>17,616</u>	<u>17,225</u>	<u>193,508</u>	<u>233,413</u>	<u>211,124</u>	<u>250,638</u>
Current liabilities	321,500	311,752	481,782	506,193	803,282	817,945
Noncurrent liabilities	1,728,712	1,581,421	5,215,684	5,171,781	6,944,396	6,753,202
Total liabilities	<u>2,050,212</u>	<u>1,893,173</u>	<u>5,697,466</u>	<u>5,677,974</u>	<u>7,747,678</u>	<u>7,571,147</u>
Deferred inflows of resources	<u>8,681</u>	<u>5,476</u>	<u>734,857</u>	<u>698,842</u>	<u>743,538</u>	<u>704,318</u>
Net position:						
Net investment in capital assets	1,621,208	1,649,431	2,216,347	2,195,358	3,837,555	3,844,789
Restricted	118,335	103,246	524,653	535,490	642,988	638,736
Unrestricted (deficit)	(431,349)	(406,153)	587,362	459,505	156,013	53,352
Total net position	<u>\$ 1,308,194</u>	<u>1,346,524</u>	<u>3,328,362</u>	<u>3,190,353</u>	<u>4,636,556</u>	<u>4,536,877</u>

In the current fiscal year, total assets increased \$354.9 million and deferred outflows of the City decreased by \$39.5 million. Total liabilities increased \$176.5 million and deferred inflows increased by \$39.2 million. Governmental-type total assets increased by \$121.5 million and business-type increased by \$233.4 million, while governmental-type liabilities increased by \$157 million and business-type increased by \$19.5 million.

The most significant increase in governmental total assets resulted from an increase in capital assets of \$131.6 million or 5.1% as the City continues to build out projects from the 2006, 2010, and 2012 bond programs. Factors in the increase of governmental-type liabilities include increases in the bonds payable of \$93 million, related to the 2006 (\$48.4 million), 2010 (\$30 million), and 2012 (\$35 million) bond programs along with other post employment benefits of \$59.3 million.

The most significant factor in the increase of business-type total assets is a result of an increase in capital assets of \$194.2 million or 2.7%. The primary factors in the increase in business-type total liabilities of \$19.5 million include an increase in commercial paper notes payable of \$47.5 million and a decrease in derivative instruments of \$26.6 million as a result of adjustments to fair value.

As noted earlier, net position may serve as a useful indicator of a government's financial position. For the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources 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 82.8% 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, \$643 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, \$156 million of unrestricted net position, may be used to meet the government's future obligations. Unrestricted net position increased \$102.7 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 \$431.3 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	
	2014	2013	2014	2013	2014	2013
Program revenues:						
Charges for services	\$ 141,709	124,660	2,225,860	2,130,307	2,367,569	2,254,967
Operating grants and contributions	50,333	48,567	1,489	3,749	51,822	52,316
Capital grants and contributions	66,856	64,781	65,550	64,124	132,406	128,905
General revenues:						
Property tax	448,083	420,000	--	--	448,083	420,000
Sales tax	189,464	176,198	--	--	189,464	176,198
Franchise fees and gross receipts tax	128,032	114,147	--	--	128,032	114,147
Interest and other	21,275	23,888	5,717	2,269	26,992	26,157
Special item - land sale	15,830	--	--	--	15,830	--
Total revenues	<u>1,061,582</u>	<u>972,241</u>	<u>2,298,616</u>	<u>2,200,449</u>	<u>3,360,198</u>	<u>3,172,690</u>
Program expenses:						
General government	118,074	97,675	--	--	118,074	97,675
Public safety	576,118	580,074	--	--	576,118	580,074
Transportation, planning, and sustainability	83,971	78,594	--	--	83,971	78,594
Public health	80,796	73,186	--	--	80,796	73,186
Public recreation and culture	117,441	104,951	--	--	117,441	104,951
Urban growth management	136,110	137,478	--	--	136,110	137,478
Interest on debt	49,617	48,400	--	--	49,617	48,400
Electric	--	--	1,251,599	1,132,476	1,251,599	1,132,476
Water	--	--	240,838	231,774	240,838	231,774
Wastewater	--	--	213,156	214,580	213,156	214,580
Airport	--	--	108,291	107,389	108,291	107,389
Convention	--	--	58,763	62,884	58,763	62,884
Environmental and health services	--	--	92,997	81,544	92,997	81,544
Public recreation	--	--	6,765	7,185	6,765	7,185
Urban growth management	--	--	125,983	129,583	125,983	129,583
Total expenses	<u>1,162,127</u>	<u>1,120,358</u>	<u>2,098,392</u>	<u>1,967,415</u>	<u>3,260,519</u>	<u>3,087,773</u>
Excess (deficiency) before transfers	(100,545)	(148,117)	200,224	233,034	99,679	84,917
Transfers	62,215	87,761	(62,215)	(87,761)	--	--
Increase (decrease) in net position	<u>(38,330)</u>	<u>(60,356)</u>	<u>138,009</u>	<u>145,273</u>	<u>99,679</u>	<u>84,917</u>
Beginning net position, as previously reported	1,355,433	1,415,237	3,197,015	3,051,742	4,552,448	4,466,979
Restatement adjustment	(8,909)	552	(6,662)	--	(15,571)	552
Beginning net position, as restated	<u>1,346,524</u>	<u>1,415,789</u>	<u>3,190,353</u>	<u>3,051,742</u>	<u>4,536,877</u>	<u>4,467,531</u>
Ending net position	<u>\$ 1,308,194</u>	<u>1,355,433</u>	<u>3,328,362</u>	<u>3,197,015</u>	<u>4,636,556</u>	<u>4,552,448</u>

Total net position of the City increased by \$99.7 million in the current fiscal year. Governmental net position decreased by \$38.3 million. The decrease is attributable to expenses exceeding revenues by \$100.5 million before transfers from other funds of \$62.2 million. Business-type net position increased by \$138 million due to revenues exceeding expenses by \$200.2 million, before transfers to other funds of \$62.2 million.

In addition, the City restated beginning net position for governmental and business-type activities as a result of the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. For more information, see Note 18.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

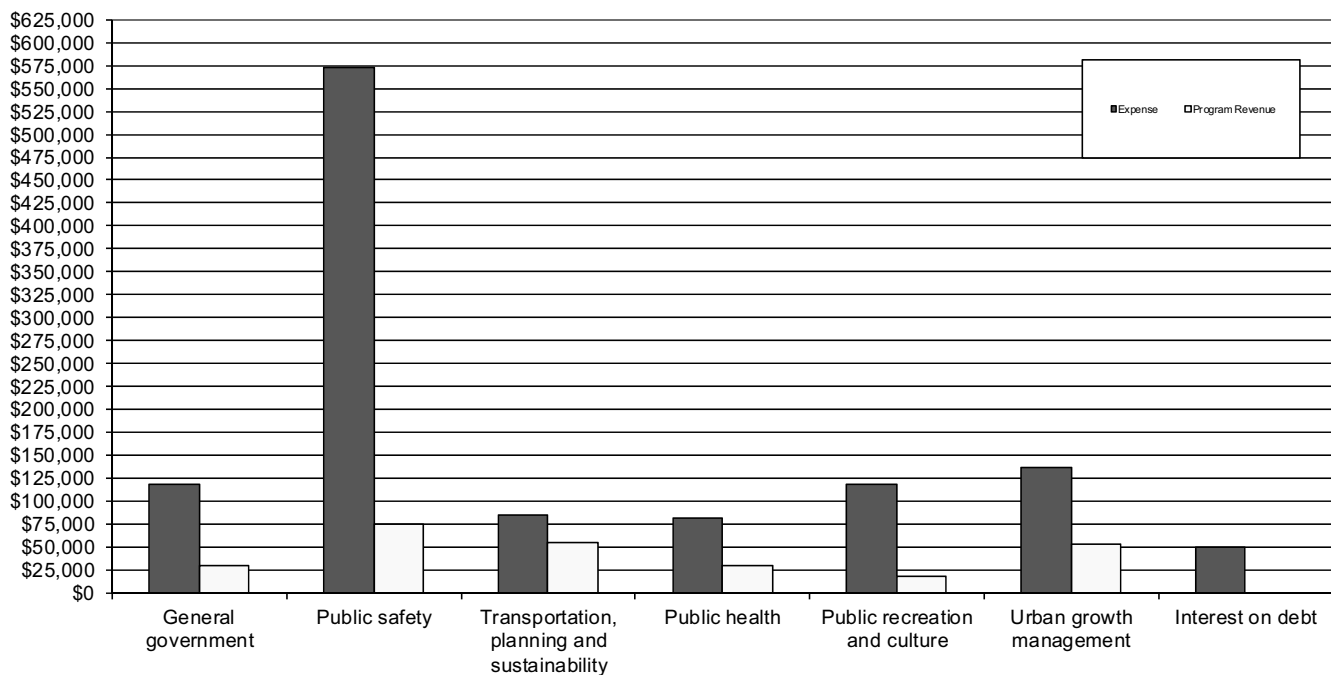
c -- Program revenues and expenses -- governmental activities

Governmental activities decreased the City's net position by \$38.3 million in fiscal year 2014, a 2.8% decrease of governmental net position from the previous year. Key factors for the change from fiscal year 2013 to 2014 are as follows:

- The City's property tax revenue increased by \$28.1 million from the previous year due to an increase in assessed property values of \$5.5 billion, while the property tax rate per \$100 of valuation decreased from 0.5029 to 0.5027.
- Sales tax collections and franchise fees for the year were \$13.3 million and \$13.9, respectively, more than the prior year as result of the continued improvement of the Austin economy.
- The City sold a piece of land for \$15.8 million, which is reported as a special item. See Note 1 for more details.
- General government expenses increased \$20.4 million primarily due to increase in other post employment benefits and salaries. Public health expenses and public recreation and culture expenses increased \$7.6 million and \$12.5 million, respectively, primarily due to increases in salaries. This increase can be attributed to an additional 199 full time equivalents and a 3.5% general wage increase.

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.

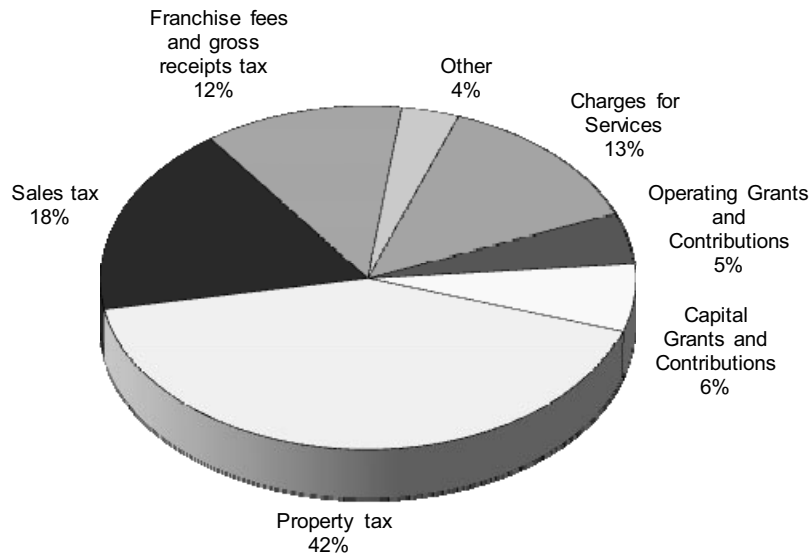
**Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)**



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

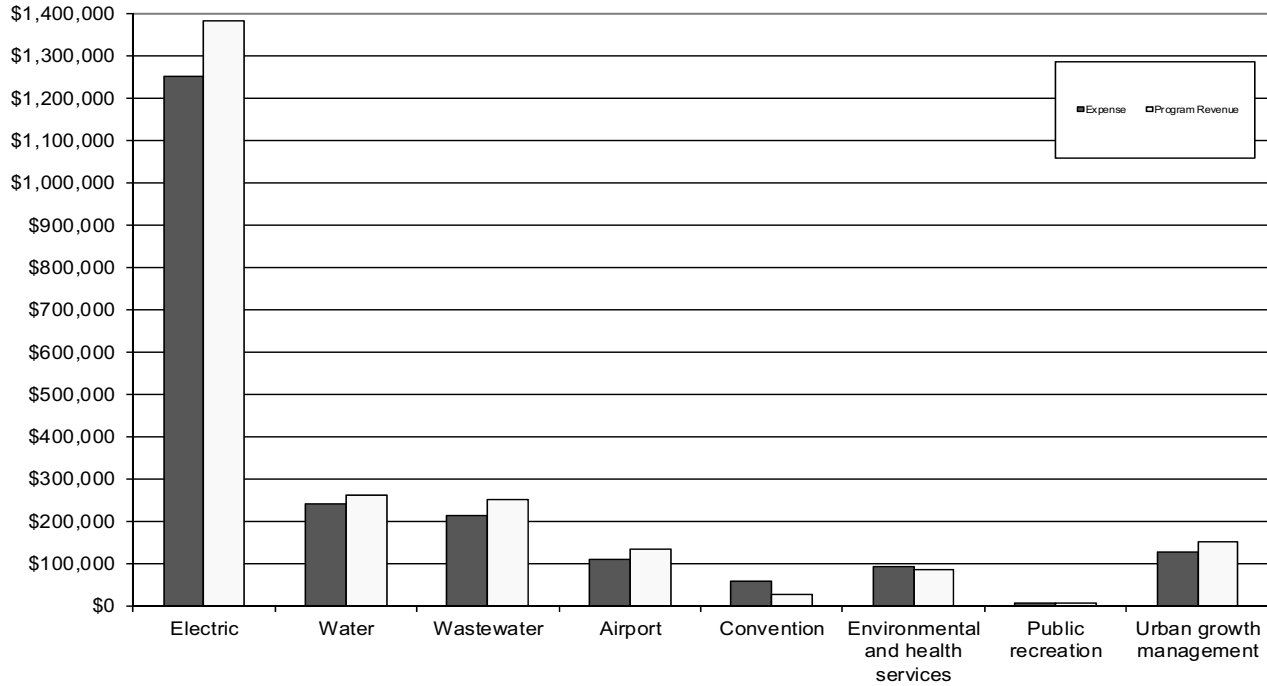
Business-type activities increased the City's net position by approximately \$138 million, accounting for a 3% increase in the City's total net position. Key factors include:

- Austin Energy net position increased approximately \$19.6 million. Revenues increased by approximately 6% in fiscal year 2014 largely due to increases in regulatory revenue and power supply revenue. Expenses increased 10.5% largely due to an increase in transmission costs and power supply costs.
- Austin Water Utility net position increased approximately \$27.9 million. Revenues remained relatively constant. Expenses increased by 1.7% due to increased operations and maintenance costs. Transfers from other funds increased \$17.9 million.
- Airport net position increased approximately \$25.3 million. Revenues increased 4.6% due to an increase in passenger traffic and higher rental and landing fees. Passenger traffic continues to break records with a 7% increase over the previous year. Expenses remained relatively constant.
- Convention Center net position increased approximately \$23.8 million. Revenues and transfers from the Hotel Occupancy and Vehicle Rental Tax Funds increased 8.6% due in part to the growth of several large events, including the Formula 1 event and South by Southwest. Expenses decreased 6.6% due to decreases in operations and maintenance costs.
- Environmental and health services activities are comprised of the Austin Resource Recovery nonmajor enterprise fund. Net position decreased approximately \$7.6 million. Revenues increased by 2.1% due mainly to an increase in the Clean Community Fee of \$0.65 per residential customer account and \$1.30 per commercial customer account. Expenses increased by 14% due mainly to increase operations and support services costs.
- Urban growth management activities are comprised of nonmajor enterprise funds that include the Drainage Fund and Transportation Fund. Net position increased by approximately \$49.3 million. Drainage revenues increased by 5.1% primarily due to a 10% increase in the monthly Drainage Utility Fee. Drainage expenses remained relatively constant. Transportation revenues increased approximately 6.9% primarily due to an increase in population paying the Transportation User Fee. Transportation expenses remained relatively constant.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

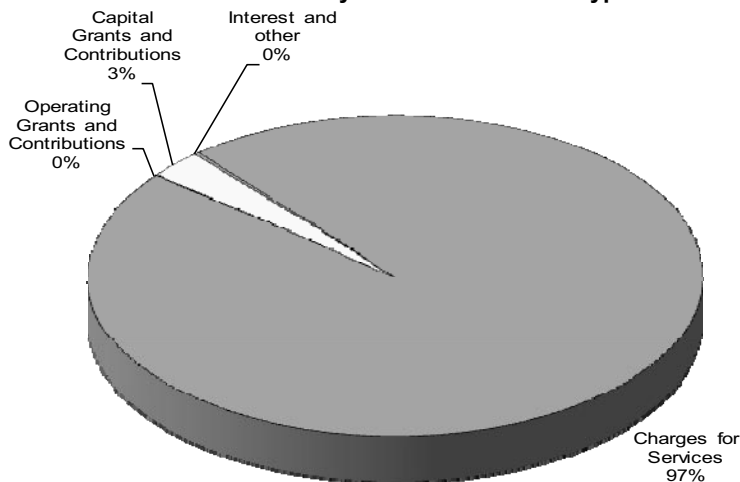
As shown in the following chart, Austin Energy (electric), with expenses of \$1.3 billion is the City's largest business-type activity, followed by water with \$240.8 million, wastewater with \$213.2 million, urban growth management with \$126 million, airport with \$108.3 million, environmental and health services with \$93 million, convention with \$58.8 million, and public recreation with \$6.8 million. For the fiscal year, operating revenues exceeded operating expenses for all business-type activities except convention, environmental and health services 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 (0.05%), and interest and other revenues (0.25%).

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 \$367.6 million, an increase of \$3.4 million from the previous year. Approximately \$2 million is nonspendable, \$162 million is restricted, \$75.6 million is committed, \$41.9 million is assigned, and \$86.1 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 \$1 million, committed fund balance of \$9 million, assigned fund balance of \$16.9 million, and unassigned fund balance of \$156.7 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 19.4% of total General Fund expenditures of \$807.2 million, and total fund balance represents 22.7% of expenditures. The City's financial policies provide that surplus fund balance be identified for budget stabilization. This amount is a component of unassigned fund balance. The fund balance identified for budget stabilization was \$108.2 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 \$36.4 million during the fiscal year. Significant differences from the previous year include:

- Property tax revenues increased \$22.9 million due to an increase in assessed property.
- Sales tax revenues increased \$13.3 million, and licenses, permits, and inspections increased \$5.1 million.
- Additionally, the City sold a piece of land for \$15.8 million, which is reported as a special item. See Note 1 for more details.

General Fund expenditures increased \$57.1 million, due primarily to an increase in public safety expenditures of \$25.4 million, an increase in general government of \$7 million, and an increase in urban growth management of \$12.1 million. The increase 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 \$138.6 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 2014 to increase Emergency Medical Services charges for services. The original expenditure budget of the General Fund was amended during fiscal year 2014 primarily as the result of increased Emergency Medical Services costs. In addition, the transfer from the General Fund to the Economic Incentives Reserve Fund was reduced.

During the year, revenues were \$32.2 million more than budgeted. Tax collections were \$13.2 million more than budgeted; licenses, permits and inspections were \$8.5 million more than budgeted; and charges for services/goods were \$5.1 million more than budgeted.

Actual budget-basis expenditures were \$11.6 million less than budgeted. Fire exceeded budget by \$89 thousand; while all other departments were under budget. The total budget-basis fund balance at year-end was \$190.8 million.

OTHER INFORMATION, continued

b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2014, total \$10 billion (net of accumulated depreciation and amortization). Capital assets include buildings and improvements, equipment, vehicles, electric plant, non-electric plant, nuclear fuel, water rights, infrastructure, land, construction in progress, and plant held for future use. The total increase in the City's capital assets for the current fiscal year was \$325 million (3.4%), with an increase of 5.1% for governmental activities and an increase of 2.7% for business-type activities. Additional information on capital assets can be found in Note 5. Capital asset balances are as follows:

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Building and improvements	\$ 570	516	1,121	1,121	1,691	1,637
Plant and equipment	81	80	2,287	2,243	2,368	2,323
Vehicles	46	42	73	74	119	116
Electric plant	--	--	2,201	2,243	2,201	2,243
Non-electric plant	--	--	135	128	135	128
Nuclear fuel	--	--	40	40	40	40
Water rights	--	--	85	86	85	86
Infrastructure	1,384	1,331	--	--	1,384	1,331
Land and improvements	363	352	555	513	918	865
Construction in progress	226	219	794	649	1,020	868
Plant held for future use	--	--	23	23	23	23
Other assets not depreciated	23	22	2	2	25	24
Total net capital assets	\$ 2,693	2,562	7,316	7,122	10,009	9,684

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

- Governmental capital assets increased \$131 million primarily due to additions of new facilities and improvements to existing facilities. The Boardwalk Trail at Lady Bird Lake, drainage improvements to Williamson Creek, improvements to Bartholomew Pool and other general pool renovations, and the Onion Creek Fire Station were completed. Significant additions and improvements were also made including acquisitions of conservation easements, upgrades to City communication equipment, pedestrian facility improvements, and street reconstructions across the City. Construction on the new Central Library, Seaholm parking garage, and Waller Creek Tunnel has been progressing.
- Business-type activities purchased or completed construction on capital assets of \$194 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 increased the chilled water capacity of the Downtown District Cooling system and upgraded the street light infrastructure throughout the City. Austin Water made improvements to the Jollyville Water Reservoir, completed the Davis Water Treatment Plant Pump Station, completed wastewater lines to the annexed Anderson Mill MUD area, made improvements to water transmission lines around the City, and construction is nearing completion on Water Treatment Plant 4. The Airport Fund invested in terminal improvements, roadways, and a new parking lot. The Drainage Fund acquired properties at risk of flooding in Onion Creek, made improvements to the low water crossing at David Moore Drive, and implemented a work order tracking and management system. In addition, the Golf Fund acquired the Grey Rock Golf Course.

OTHER INFORMATION, continued

c -- Debt administration

At the end of the current fiscal year, the City reported \$5.9 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	
	2014	2013	2014	2013	2014	2013
General obligation bonds and other tax supported debt, net	\$ 1,196	1,103	136	132	1,332	1,235
Commercial paper notes, net	--	--	241	194	241	194
Revenue bonds, net	--	--	4,299	4,318	4,299	4,318
Capital lease obligations	--	--	1	1	1	1
Total	\$ 1,196	1,103	4,677	4,645	5,873	5,748

During fiscal year 2014, the City's total outstanding debt increased by \$125 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 \$93 million. The resulting net increase is a combination of the issuance of \$180.2 million in new debt to be used primarily for street improvements, streets and signals, drainage improvements, capital equipment, transportation projects, and the Waller Creek Tunnel project offset by debt payments during the year.
- Outstanding debt for business-type functions increased by \$32 million. The City issued \$282.2 million in Water and Wastewater System separate lien and subordinate lien debt, \$35.6 million in Airport prior lien revenue refunding bonds to refund prior lien debt, and \$26.5 million of Convention Center subordinate lien revenue refunding bonds to refund prior lien debt.

During the year, Convention Center revenue bonds received favorable bond rating upgrades from Moody's Investors Service and Standard & Poor's from A1 to Aa3 and A to AA-, respectively. The City's commercial paper ratings are related to the ratings of the liquidity providers associated with those obligations; commercial paper ratings were unchanged in the current fiscal year. All other bond ratings were unchanged. Ratings of the City's obligations for various debt instruments at September 30, 2014 and 2013 were as follows:

Debt	Moody's Investors Service, Inc.		Standard & Poor's		Fitch, Inc.	
	2014	2013	2014	2013	2014	2013
General obligation bonds and other tax supported debt	Aaa	Aaa	AAA	AAA	AAA	AAA
Commercial paper notes - tax exempt	P-1	P-1	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-	AA-	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)
Convention Center revenue bonds	Aa3	A1	AA-	A	NUR(1)	NUR(1)
Convention Center revenue bonds - subordinate	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

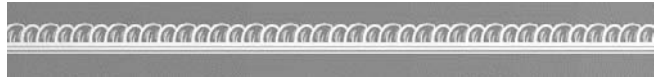
Austin's diverse economic base and national reputation as a great place to work and live continues to attract new employers and talented individuals. Both the Austin and the Texas economies continue to outpace the national economy. Partnerships between the City and the business community have been the 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 2014 sales taxes increased 7.5% following an 7.3% increase in 2013. 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 2015 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 and investing 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 11.4% in 2014 for fiscal year 2015. The property tax rate for fiscal year 2015 is 48.09 cents per \$100 valuation, down from 50.27 cents per \$100 valuation in 2014. The tax rate consists of 36.91 cents for the General Fund and 11.18 cents for debt service. Each 1 cent of the 2014 (Fiscal Year 2015) property tax rate is equivalent to \$9,885,904 of tax levy, as compared to \$8,876,610 in the previous year. In Fiscal Year 2015, Austin Water Utility will implement an 8.1% 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.austintexas.gov>.



**BASIC FINANCIAL
STATEMENTS**

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Statement of Net Position
September 30, 2014
(In thousands)

City of Austin, Texas
Exhibit A-1

	Governmental Activities	Business-type Activities	Total (†)	Component Units
ASSETS				
Current assets:				
Cash	\$ 70	62	132	5,160
Pooled investments and cash	356,659	327,065	683,724	--
Pooled investments and cash - restricted	138,831	291,003	429,834	--
Total pooled investments and cash	495,490	618,068	1,113,558	--
Investments, at fair value - restricted	16,984	175,550	192,534	--
Cash held by trustee - restricted	5,800	--	5,800	--
Working capital advances	--	4,602	4,602	--
Property taxes receivable, net of allowance of \$5,245	11,576	--	11,576	--
Accounts receivable, net	93,240	269,553	362,793	1,765
Receivables from other governments	16,654	--	16,654	--
Receivables from other governments - restricted	--	3,944	3,944	--
Notes receivable, net of allowance of \$14,458	21,687	--	21,687	--
Internal balances	(27,395)	27,395	--	--
Inventories, at cost	2,270	81,019	83,289	973
Real property held for resale	6,631	--	6,631	--
Regulatory assets, net of accumulated amortization	--	58,446	58,446	--
Prepaid expenses	351	6,851	7,202	698
Other receivables - restricted	--	2,803	2,803	--
Other assets	1,983	10,260	12,243	--
Total current assets	645,341	1,258,553	1,903,894	8,596
Noncurrent assets:				
Cash - restricted	--	5,011	5,011	645
Pooled investments and cash - restricted	--	168,020	168,020	--
Investments, at fair value - restricted	--	188,290	188,290	68,455
Investments held by trustee - restricted	--	207,481	207,481	3,161
Interest receivable - restricted	--	756	756	--
Depreciable capital assets, net	2,080,577	5,941,946	8,022,523	176,357
Nondepreciable capital assets	612,623	1,374,010	1,986,633	16,918
Derivative instruments - energy risk management	--	4,249	4,249	--
Net pension asset	9,383	--	9,383	--
Other long-term assets	1,547	4,743	6,290	6,247
Regulatory assets, net of accumulated amortization	--	414,118	414,118	--
Total noncurrent assets	2,704,130	8,308,624	11,012,754	271,783
Total assets	3,349,471	9,567,177	12,916,648	280,379
Deferred outflows of resources	\$ 17,616	193,508	211,124	20,241

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

(Continued)

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

Statement of Net Position
September 30, 2014
(In thousands)

City of Austin, Texas
Exhibit A-1
(Continued)

	Governmental Activities	Business-type Activities	Total (†)	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 59,071	79,072	138,143	9,575
Accounts and retainage payable from restricted assets	7,044	35,837	42,881	--
Accrued payroll	18,419	10,170	28,589	209
Accrued compensated absences	56,693	23,416	80,109	--
Claims payable	23,655	--	23,655	--
Accrued interest payable from restricted assets	--	75,876	75,876	15,488
Interest payable on other debt	6,773	806	7,579	--
Bonds payable	51,449	17,725	69,174	42,934
Bonds payable from restricted assets	17,191	176,366	193,557	--
Capital lease obligations payable	--	46	46	2
Customer and escrow deposits payable from restricted assets	58,990	42,926	101,916	--
Accrued landfill closure and postclosure costs	--	411	411	--
Other liabilities	22,215	9,121	31,336	--
Other liabilities payable from restricted assets	--	10,010	10,010	--
Total current liabilities	321,500	481,782	803,282	68,208
Noncurrent liabilities, net of current portion:				
Accrued compensated absences	75,443	408	75,851	--
Claims payable	20,151	--	20,151	--
Capital appreciation bond interest payable	--	99,707	99,707	--
Commercial paper notes payable, net of discount	--	241,456	241,456	--
Bonds payable, net of discount and inclusive of premium	1,127,080	4,240,534	5,367,614	282,821
Pension obligation payable	64,750	61,871	126,621	--
Other post employment benefits payable	435,263	255,002	690,265	--
Capital lease obligations payable	--	1,089	1,089	--
Accrued landfill closure and postclosure costs	--	9,524	9,524	--
Decommissioning liability payable from restricted assets	--	174,398	174,398	--
Derivative instruments - energy risk management	--	30,502	30,502	--
Derivative instruments - interest rate swaps	--	59,935	59,935	--
Other liabilities	6,025	40,740	46,765	37
Other liabilities payable from restricted assets	--	518	518	--
Total noncurrent liabilities	1,728,712	5,215,684	6,944,396	282,858
Total liabilities	2,050,212	5,697,466	7,747,678	351,066
Deferred inflows of resources	8,681	734,857	743,538	--
NET POSITION				
Net investment in capital assets	1,621,208	2,216,347	3,837,555	(106,225)
Restricted for:				
Debt service	10,431	105,996	116,427	5,181
Strategic reserve	--	106,577	106,577	--
Capital projects	42,364	191,776	234,140	--
Renewal and replacement	--	11,020	11,020	--
Bond reserve	--	43,316	43,316	--
Passenger facility charges	--	50,317	50,317	--
Operating reserve	--	15,651	15,651	--
Perpetual care:				
Expendable	1	--	1	--
Nonexpendable	1,052	--	1,052	--
Housing activities	24,935	--	24,935	--
Tourism	16,277	--	16,277	--
Other purposes	23,275	--	23,275	--
Unrestricted (deficit)	(431,349)	587,362	156,013	50,598
Total net position	\$ 1,308,194	3,328,362	4,636,556	(50,446)

(†) 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, 2014
(In thousands)

City of Austin, Texas
Exhibit A-2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Governmental activities								
General government	\$ 118,074	17,890	256	11,004	(88,924)	--	(88,924)	--
Public safety	576,118	62,832	11,973	--	(501,313)	--	(501,313)	--
Transportation, planning, and sustainability	83,971	5,214	913	49,197	(28,647)	--	(28,647)	--
Public health	80,796	9,720	19,670	--	(51,406)	--	(51,406)	--
Public recreation and culture	117,441	8,205	2,546	6,482	(100,208)	--	(100,208)	--
Urban growth management	136,110	37,848	14,975	173	(83,114)	--	(83,114)	--
Interest on debt	49,617	--	--	--	(49,617)	--	(49,617)	--
Total governmental activities	<u>1,162,127</u>	<u>141,709</u>	<u>50,333</u>	<u>66,856</u>	<u>(903,229)</u>	<u>--</u>	<u>(903,229)</u>	<u>--</u>
Business-type activities								
Electric	1,251,599	1,367,155	855	13,030	--	129,441	129,441	--
Water	240,838	235,893	--	25,377	--	20,432	20,432	--
Wastewater	213,156	236,700	--	12,864	--	36,408	36,408	--
Airport	108,291	128,766	634	4,808	--	25,917	25,917	--
Convention	58,763	25,087	--	51	--	(33,625)	(33,625)	--
Environmental and health services	92,997	84,655	--	152	--	(8,190)	(8,190)	--
Public recreation	6,765	5,849	--	777	--	(139)	(139)	--
Urban growth management	125,983	141,755	--	8,491	--	24,263	24,263	--
Total business-type activities	<u>2,098,392</u>	<u>2,225,860</u>	<u>1,489</u>	<u>65,550</u>	<u>--</u>	<u>194,507</u>	<u>194,507</u>	<u>--</u>
Total primary government	<u>\$ 3,260,519</u>	<u>2,367,569</u>	<u>51,822</u>	<u>132,406</u>	<u>(903,229)</u>	<u>194,507</u>	<u>(708,722)</u>	<u>--</u>
Component Units	<u>80,446</u>	<u>88,412</u>	<u>150</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>8,116</u>
General revenues:								
Property tax					448,083	--	448,083	--
Sales tax					189,464	--	189,464	--
Franchise fees and gross receipts tax					128,032	--	128,032	--
Interest and other					21,275	5,717	26,992	164
Special item - land sale					15,830	--	15,830	--
Transfers-internal activities					62,215	(62,215)	--	--
Total general revenues and transfers					<u>864,899</u>	<u>(56,498)</u>	<u>808,401</u>	<u>164</u>
Change in net position					<u>(38,330)</u>	<u>138,009</u>	<u>99,679</u>	<u>8,280</u>
Beginning net position, as restated (Note 18)					<u>1,346,524</u>	<u>3,190,353</u>	<u>4,536,877</u>	<u>(58,726)</u>
Ending net position					<u>\$ 1,308,194</u>	<u>3,328,362</u>	<u>4,636,556</u>	<u>(50,446)</u>

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



**Governmental Funds
Balance Sheet
September 30, 2014
(In thousands)**

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

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 58	--	58
Pooled investments and cash	180,969	181,362	362,331
Investments, at fair value	--	16,984	16,984
Cash held by trustee - restricted	--	4,349	4,349
Property taxes receivable, net of allowance	7,749	3,827	11,576
Accounts receivable, net of allowance	59,262	30,513	89,775
Receivables from other governments	--	16,654	16,654
Notes receivable, net of allowance	--	21,687	21,687
Due from other funds	227	81,290	81,517
Advances to other funds	--	2,249	2,249
Inventories, at cost	777	--	777
Real property held for resale	--	6,631	6,631
Prepaid items	173	--	173
Other assets	208	1,775	1,983
Total assets	249,423	367,321	616,744
LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND FUND BALANCES			
Accounts payable	23,751	22,052	45,803
Accrued payroll	14,768	73	14,841
Accrued compensated absences	549	--	549
Due to other funds	253	81,468	81,721
Unearned revenue	--	5,092	5,092
Advances from other funds	1,257	999	2,256
Deposits and other liabilities	7,193	63,873	71,066
Total liabilities	47,771	173,557	221,328
Deferred inflows of resources	18,156	9,665	27,821
Fund balances			
Nonspendable:			
Inventories and prepaid items	950	--	950
Permanent funds	--	1,052	1,052
Restricted	--	162,000	162,000
Committed	9,028	66,533	75,561
Assigned	16,859	25,095	41,954
Unassigned	156,659	(70,581)	86,078
Total fund balances	183,496	184,099	367,595
Total liabilities, deferred inflows of resources, and fund balances	\$ 249,423	367,321	616,744

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

Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2014
(In thousands)

City of Austin, Texas
Exhibit B-1.1

Total fund balances - Governmental funds \$ 367,595

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	4,058,495	
Less: accumulated depreciation	<u>(1,427,724)</u>	
		2,630,771

Other long-term assets and certain revenues are not available as current-period resources and are not reported in the funds.

Net pension asset	9,383	
Other assets	<u>1,547</u>	
		10,930

Deferred outflows represent the consumption of net assets that are applicable to a future reporting period.

Gain/loss on debt refundings, net	<u>17,486</u>	
		17,486

Long-term liabilities are not payable in the current period and are not reported in the funds.

Compensated absences	(122,790)	
Interest payable	(6,760)	
Bonds and other tax supported debt payable, net	(1,192,178)	
Pension obligation payable	(64,750)	
Other post employment benefits payable	(435,263)	
Other liabilities	<u>(9,065)</u>	
		(1,830,806)

Deferred inflows is an acquisition of net assets that is applicable to a future reporting period.

Unavailable revenue		
Property taxes and interest	11,441	
Accounts and other taxes receivable	9,474	
Service concession arrangements	<u>(1,607)</u>	
		19,308

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, deferred outflows of resources, liabilities and deferred inflows of resources of the internal service funds are included in governmental activities in the statement of net position.

92,910

Total net position - Governmental activities		<u><u>\$ 1,308,194</u></u>
--	--	----------------------------

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

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended September 30, 2014
(In thousands)

City of Austin, Texas
Exhibit B-2

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 338,319	108,557	446,876
Sales taxes	189,464	--	189,464
Franchise fees and other taxes	46,762	81,270	128,032
Fines, forfeitures and penalties	17,130	5,390	22,520
Licenses, permits and inspections	33,719	--	33,719
Charges for services/goods	57,974	14,950	72,924
Intergovernmental	--	79,407	79,407
Property owners' participation and contributions	--	12,718	12,718
Interest and other	9,335	12,058	21,393
Total revenues	692,703	314,350	1,007,053
EXPENDITURES			
Current:			
General government	88,865	2,803	91,668
Public safety	515,437	13,233	528,670
Transportation, planning and sustainability	249	13,804	14,053
Public health	54,608	19,702	74,310
Public recreation and culture	90,441	9,339	99,780
Urban growth management	57,636	49,079	106,715
Debt service:			
Principal	--	69,768	69,768
Interest	--	49,367	49,367
Fees and commissions	--	6	6
Capital outlay-capital project funds	--	257,420	257,420
Total expenditures	807,236	484,521	1,291,757
Deficiency of revenues over expenditures	(114,533)	(170,171)	(284,704)
OTHER FINANCING SOURCES (USES)			
Issuance of tax supported debt	--	154,444	154,444
Issuance of refunding bonds	--	107,923	107,923
Bond premiums	--	16,212	16,212
Payment to refunding bond escrow agent	--	(113,836)	(113,836)
Transfers in	162,622	59,246	221,868
Transfers out	(27,515)	(86,870)	(114,385)
Total other financing sources (uses)	135,107	137,119	272,226
Net change in fund balances, before special items	20,574	(33,052)	(12,478)
Special item - land sale (See Note 1)	15,830	--	15,830
Net change in fund balances	36,404	(33,052)	3,352
Fund balances at beginning of year	147,092	217,151	364,243
Fund balances at end of year	\$ 183,496	184,099	367,595

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

Governmental Funds
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, 2014
(In thousands)

City of Austin, Texas
Exhibit B-2.1

Net change in fund balances - Governmental funds \$ 3,352

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	228,416	
Depreciation expense	(105,047)	
Loss on disposal of capital assets	<u>(496)</u>	122,873

Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.

Property taxes	1,207	
Charges for services	(697)	
Interest and other	(1,032)	
Capital assets contribution	<u>33,844</u>	33,322

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	(164,743)	
Principal repayment on long-term debt	69,768	
Issuance of refunding bonds	(107,923)	
Refunding bond premiums	(5,913)	
Payment to refunding bond escrow agent	<u>113,836</u>	(94,975)

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	(3,829)	
Pension obligation	(640)	
Other post employment benefits	(59,307)	
Interest and other	<u>(31,209)</u>	(94,985)

A portion of the net revenue (expense) of the internal service funds is reported with the governmental activities. (7,917)

Change in net position - Governmental activities \$ (38,330)

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

Proprietary Funds
Statement of Net Position
September 30, 2014
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water Utility	Airport
ASSETS			
Current assets:			
Cash	\$ 20	5	4
Pooled investments and cash	150,780	21,827	7,885
Pooled investments and cash - restricted	103,607	96,206	24,754
Total pooled investments and cash	254,387	118,033	32,639
Investments, at fair value - restricted	56,217	90,175	18,583
Cash held by trustee - restricted	--	--	--
Working capital advances	4,602	--	--
Accounts receivable, net of allowance	177,427	66,536	3,792
Receivables from other governments-restricted	3,944	--	--
Due from other funds	687	301	--
Inventories, at cost	74,429	1,925	1,733
Regulatory assets, net of accumulated amortization	46,957	11,489	--
Prepaid expenses	6,788	17	--
Other receivables - restricted	2,190	19	300
Other assets	10,260	--	--
Total current assets	637,908	288,500	57,051
Noncurrent assets:			
Cash - restricted	5,011	--	--
Pooled investments and cash - restricted	--	--	168,020
Advances to other funds	19,833	3,006	--
Advances to other funds - restricted	--	--	58
Investments, at fair value - restricted	116,565	58,421	--
Investments held by trustee - restricted	196,654	10,827	--
Interest receivable - restricted	756	--	--
Depreciable capital assets, net	2,384,217	2,685,785	501,303
Nondepreciable capital assets	203,240	807,959	147,872
Derivative instruments - energy risk management	4,249	--	--
Other long-term assets	4,743	--	--
Regulatory assets, net of accumulated amortization	228,638	185,480	--
Total noncurrent assets	3,163,906	3,751,478	817,253
Total assets	3,801,814	4,039,978	874,304
Deferred outflows of resources	\$ 54,421	71,579	41,782

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

	<u>Business-Type Activities</u>		<u>Governmental</u>
	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	<u>Activities- Internal Service Funds</u>
ASSETS			
Current assets:			
Cash	33	62	12
Pooled investments and cash	146,573	327,065	132,617
Pooled investments and cash - restricted	66,436	291,003	542
Total pooled investments and cash	213,009	618,068	133,159
Investments, at fair value - restricted	10,575	175,550	--
Cash held by trustee - restricted	--	--	1,451
Working capital advances	--	4,602	--
Accounts receivable, net of allowance	21,798	269,553	3,465
Receivables from other governments-restricted	--	3,944	--
Due from other funds	8,777	9,765	11
Inventories, at cost	2,932	81,019	1,493
Regulatory assets, net of accumulated amortization	--	58,446	--
Prepaid expenses	46	6,851	178
Other receivables - restricted	294	2,803	--
Other assets	--	10,260	--
Total current assets	257,464	1,240,923	139,769
Noncurrent assets:			
Cash - restricted	--	5,011	--
Pooled investments and cash - restricted	--	168,020	--
Advances to other funds	--	22,839	115
Advances to other funds - restricted	588	646	--
Investments, at fair value - restricted	13,304	188,290	--
Investments held by trustee - restricted	--	207,481	--
Interest receivable - restricted	--	756	--
Depreciable capital assets, net	370,641	5,941,946	61,923
Nondepreciable capital assets	214,939	1,374,010	506
Derivative instruments - energy risk management	--	4,249	--
Other long-term assets	--	4,743	--
Regulatory assets, net of accumulated amortization	--	414,118	--
Total noncurrent assets	599,472	8,332,109	62,544
Total assets	856,936	9,573,032	202,313
Deferred outflows of resources	25,726	193,508	130

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

(Continued)

Proprietary Funds
Statement of Net Position
September 30, 2014
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water Utility	Airport
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 66,991	4,498	1,787
Accounts and retainage payable from restricted assets	8,529	17,672	5,334
Accrued payroll	4,353	2,210	671
Accrued compensated absences	10,067	5,415	1,756
Claims payable	--	--	--
Due to other funds	--	--	149
Accrued interest payable from restricted assets	23,584	49,327	1,468
Interest payable on other debt	3	21	--
Bonds payable	--	--	29
Bonds payable from restricted assets	48,053	100,702	16,681
Capital lease obligations payable	46	--	--
Customer and escrow deposits payable from restricted assets	27,295	10,008	779
Accrued landfill closure and postclosure costs	--	--	--
Other liabilities	4,666	3,126	1,329
Other liabilities payable from restricted assets	8,138	--	--
Total current liabilities	201,725	192,979	29,983
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	14	--	60
Claims payable	--	--	--
Advances from other funds	--	1,879	972
Advances from other funds payable from restricted assets	--	17,028	--
Capital appreciation bond interest payable	7,817	91,890	--
Commercial paper notes payable, net of discount	166,456	75,000	--
Bonds payable, net of discount and inclusive of premium	1,205,019	2,466,238	293,437
Pension obligation payable	27,630	14,058	4,249
Other post employment benefits payable	104,347	63,946	17,209
Capital lease obligations payable	1,089	--	--
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning liability payable from restricted assets	174,398	--	--
Derivative instruments - energy risk management	30,502	--	--
Derivative instruments - interest rate swaps	--	15,027	32,514
Other liabilities	37,831	--	--
Other liabilities payable from restricted assets	--	--	12
Total noncurrent liabilities	1,755,103	2,745,066	348,453
Total liabilities	1,956,828	2,938,045	378,436
Deferred inflows of resources	\$ 217,049	517,436	--

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

(Continued)

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
LIABILITIES			
Current liabilities:			
Accounts payable	5,796	79,072	20,312
Accounts and retainage payable from restricted assets	4,302	35,837	--
Accrued payroll	2,936	10,170	3,578
Accrued compensated absences	6,178	23,416	8,251
Claims payable	--	--	23,655
Due to other funds	9,410	9,559	13
Accrued interest payable from restricted assets	1,497	75,876	--
Interest payable on other debt	782	806	13
Bonds payable	17,696	17,725	352
Bonds payable from restricted assets	10,930	176,366	--
Capital lease obligations payable	--	46	--
Customer and escrow deposits payable from restricted assets	4,844	42,926	--
Accrued landfill closure and postclosure costs	411	411	--
Other liabilities	--	9,121	2,007
Other liabilities payable from restricted assets	1,872	10,010	--
Total current liabilities	66,654	491,341	58,181
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	334	408	546
Claims payable	--	--	20,151
Advances from other funds	3,712	6,563	2
Advances from other funds payable from restricted assets	--	17,028	--
Capital appreciation bond interest payable	--	99,707	--
Commercial paper notes payable, net of discount	--	241,456	--
Bonds payable, net of discount and inclusive of premium	275,840	4,240,534	3,190
Pension obligation payable	15,934	61,871	--
Other post employment benefits payable	69,500	255,002	--
Capital lease obligations payable	--	1,089	--
Accrued landfill closure and postclosure costs	9,524	9,524	--
Decommissioning liability payable from restricted assets	--	174,398	--
Derivative instruments - energy risk management	--	30,502	--
Derivative instruments - interest rate swaps	12,394	59,935	--
Other liabilities	2,909	40,740	--
Other liabilities payable from restricted assets	506	518	--
Total noncurrent liabilities	390,653	5,239,275	23,889
Total liabilities	457,307	5,730,616	82,070
Deferred inflows of resources	372	734,857	168

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

(Continued)

Proprietary Funds
Statement of Net Position
September 30, 2014
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water Utility	Airport
NET POSITION			
Net investment in capital assets	\$ 1,057,719	460,821	379,749
Restricted for:			
Debt service	32,633	40,848	16,205
Strategic reserve	106,577	--	--
Capital projects	78,529	17,180	72,876
Renewal and replacement	64	--	10,000
Bond reserve	9,988	20,584	2,434
Passenger facility charges	--	--	50,317
Operating reserve	--	--	11,334
Unrestricted	396,848	116,643	(5,265)
Total net position	\$ 1,682,358	656,076	537,650
Reconciliation to government-wide Statement of Net Position			
Adjustment to consolidate internal service activities	13,172	6,842	2,583
Total net position - Business-type activities	\$ 1,695,530	662,918	540,233

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

(Continued)

	<u>Business-Type Activities</u>		<u>Governmental Activities- Internal Service Funds</u>
	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	
NET POSITION			
Net investment in capital assets	318,058	2,216,347	58,887
Restricted for:			
Debt service	16,310	105,996	--
Strategic reserve	--	106,577	--
Capital projects	23,191	191,776	542
Renewal and replacement	956	11,020	--
Bond reserve	10,310	43,316	--
Passenger facility charges	--	50,317	--
Operating reserve	4,317	15,651	--
Unrestricted	51,841	560,067	60,776
Total net position	<u>424,983</u>	<u>3,301,067</u>	<u>120,205</u>
Reconciliation to government-wide Statement of Net Position			
Adjustment to consolidate internal service activities	4,698	27,295	
Total net position - Business-type activities	<u>429,681</u>	<u>3,328,362</u>	

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, 2014
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water Utility	Airport
OPERATING REVENUES			
Utility services	\$ 1,367,155	472,593	--
User fees and rentals	--	--	108,960
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	1,367,155	472,593	108,960
OPERATING EXPENSES			
Operating expenses before depreciation	1,039,830	226,349	76,042
Depreciation and amortization	152,450	103,443	21,151
Total operating expenses	1,192,280	329,792	97,193
Operating income (loss)	174,875	142,801	11,767
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	5,191	82	221
Interest on revenue bonds and other debt	(63,288)	(112,214)	(11,794)
Interest capitalized during construction	--	--	1,409
Passenger facility charges	--	--	19,806
Cost (recovered) to be recovered in future years	(5,551)	(13,903)	--
Other nonoperating revenue (expense)	9,483	(1,273)	(312)
Total nonoperating revenues (expenses)	(54,165)	(127,308)	9,330
Income (loss) before contributions and transfers	120,710	15,493	21,097
Capital contributions	13,030	38,241	4,808
Transfers in	1,979	17,980	3
Transfers out	(116,835)	(44,122)	(793)
Change in net position	18,884	27,592	25,115
Total net position - beginning, as restated (See Note 18)	1,663,474	628,484	512,535
Total net position - ending	\$ 1,682,358	656,076	537,650
Reconciliation to government-wide Statement of Activities			
Change in net position	18,884	27,592	25,115
Adjustment to consolidate internal service activities	727	356	233
Change in net position - Business-type activities	\$ 19,611	27,948	25,348

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

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
OPERATING REVENUES			
Utility services	--	1,839,748	--
User fees and rentals	257,373	366,333	--
Billings to departments	--	--	363,335
Employee contributions	--	--	34,654
Operating revenues from other governments	--	--	5,598
Other operating revenues	--	--	7,645
Total operating revenues	257,373	2,206,081	411,232
OPERATING EXPENSES			
Operating expenses before depreciation	245,735	1,587,956	388,866
Depreciation and amortization	27,190	304,234	10,953
Total operating expenses	272,925	1,892,190	399,819
Operating income (loss)	(15,552)	313,891	11,413
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	223	5,717	(19)
Interest on revenue bonds and other debt	(10,186)	(197,482)	(250)
Interest capitalized during construction	1,415	2,824	--
Passenger facility charges	--	19,806	--
Cost (recovered) to be recovered in future years	--	(19,454)	--
Other nonoperating revenue (expense)	(1,269)	6,629	(13,571)
Total nonoperating revenues (expenses)	(9,817)	(181,960)	(13,840)
Income (loss) before contributions and transfers	(25,369)	131,931	(2,427)
Capital contributions	41,336	97,415	10,656
Transfers in	63,031	82,993	5,393
Transfers out	(12,031)	(173,781)	(22,088)
Change in net position	66,967	138,558	(8,466)
Total net position - beginning, as restated (See Note 18)	358,016	3,162,509	128,671
Total net position - ending	424,983	3,301,067	120,205
Reconciliation to government-wide Statement of Activities			
Change in net position	66,967	138,558	
Adjustment to consolidate internal service activities	(1,865)	(549)	
Change in net position - Business-type activities	65,102	138,009	

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2014
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water Utility	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 1,410,947	479,384	111,508
Cash payments to suppliers for goods and services	(827,182)	(124,773)	(44,917)
Cash payments to employees for services	(169,285)	(93,143)	(28,844)
Cash payments to claimants/beneficiaries	--	--	--
Taxes collected and remitted to other governments	(42,140)	--	--
Net cash provided by operating activities	372,340	261,468	37,747
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	1,979	14,300	--
Transfers out	(116,771)	(43,876)	(447)
Contributions (to) from other funds	--	(448)	--
Loans to other funds	--	--	--
Loans from other funds	--	--	4
Loan repayments to other funds	--	(505)	(146)
Loan repayments from other funds	883	301	6
Collections from other governments	3,200	1,768	782
Net cash provided (used) by noncapital financing activities	(110,709)	(28,460)	199
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	77,915	169,550	--
Proceeds from the sale of general obligation bonds and other tax supported debt	--	2,942	--
Proceeds from long-term loans	2,593	--	--
Principal paid on long-term debt	(83,334)	(102,571)	(15,638)
Proceeds from the sale of capital assets	--	--	10
Interest paid on revenue bonds and other debt	(60,317)	(106,126)	(11,308)
Passenger facility charges	--	--	19,806
Acquisition and construction of capital assets	(160,167)	(207,361)	(48,815)
Contributions from state and federal governments	--	214	2,008
Contributions in aid of construction	14,555	14,002	2,800
Bond issuance costs	--	(2,052)	(151)
Bond premiums	--	39,889	--
Bonds issued for advanced refundings of debt	502	279,789	34,757
Cash paid for bond refunding escrow	(482)	(118,157)	(34,754)
Cash paid to payoff commercial paper	--	(200,000)	--
Cash paid for nuclear fuel inventory	(14,755)	--	--
Net cash (used) by capital and related financing activities	\$ (223,490)	(229,881)	(51,285)

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

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	261,515	2,263,354	410,536
Cash payments to suppliers for goods and services	(118,518)	(1,115,390)	(61,185)
Cash payments to employees for services	(120,457)	(411,729)	(143,494)
Cash payments to claimants/beneficiaries	--	--	(179,506)
Taxes collected and remitted to other governments	--	(42,140)	--
Net cash provided by operating activities	22,540	694,095	26,351
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	61,938	78,217	2,850
Transfers out	(8,364)	(169,458)	(19,092)
Contributions (to) from other funds	529	81	--
Loans to other funds	(8,490)	(8,490)	--
Loans from other funds	8,665	8,669	--
Loan repayments to other funds	(636)	(1,287)	(152)
Loan repayments from other funds	146	1,336	--
Collections from other governments	90	5,840	--
Net cash provided (used) by noncapital financing activities	53,878	(85,092)	(16,394)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	247,465	--
Proceeds from the sale of general obligation bonds and other tax supported debt	22,713	25,655	--
Proceeds from long-term loans	--	2,593	--
Principal paid on long-term debt	(27,837)	(229,380)	(381)
Proceeds from the sale of capital assets	--	10	--
Interest paid on revenue bonds and other debt	(11,091)	(188,842)	(175)
Passenger facility charges	--	19,806	--
Acquisition and construction of capital assets	(49,161)	(465,504)	(10,860)
Contributions from state and federal governments	18	2,240	--
Contributions in aid of construction	4,661	36,018	--
Bond issuance costs	(499)	(2,702)	--
Bond premiums	628	40,517	--
Bonds issued for advanced refundings of debt	35,632	350,680	142
Cash paid for bond refunding escrow	(35,323)	(188,716)	(140)
Cash paid to payoff commercial paper	--	(200,000)	--
Cash paid for nuclear fuel inventory	--	(14,755)	--
Net cash (used) by capital and related financing activities	(60,259)	(564,915)	(11,414)

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2014
(In thousands)

	<u>Business-Type Activities</u>		
	<u>Austin Energy</u>	<u>Austin Water Utility</u>	<u>Airport</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	\$ (219,586)	(212,911)	(32,396)
Proceeds from sale and maturities of investment securities	223,902	215,169	30,502
Interest on investments	1,609	82	221
Net cash provided (used) by investing activities	<u>5,925</u>	<u>2,340</u>	<u>(1,673)</u>
Net increase (decrease) in cash and cash equivalents	44,066	5,467	(15,012)
Cash and cash equivalents, October 1	215,352	112,571	215,675
Cash and cash equivalents, September 30	<u>259,418</u>	<u>118,038</u>	<u>200,663</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	174,875	142,801	11,767
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	152,450	102,455	21,151
Amortization	--	988	--
Change in assets and liabilities:			
Decrease in working capital advances	513	--	--
(Increase) decrease in accounts receivable	(6,526)	5,109	2,059
Increase in allowance for doubtful accounts	4,418	1,332	172
(Increase) decrease in inventory	9,957	231	(106)
(Increase) decrease in prepaid expenses and other assets	(2,012)	(2)	22
Decrease in advances to other funds	--	--	--
(Increase) decrease in other long-term assets	15,237	--	--
Increase (decrease) in accounts payable	1,531	(406)	124
Increase in accrued payroll and compensated absences	619	332	96
Increase in claims payable	--	--	--
Decrease in pension obligations payable	(1,247)	(206)	(63)
Increase in other post employment benefits payable	12,283	8,484	2,283
Increase (decrease) in other liabilities	6,493	--	(75)
Increase in customer deposits	3,749	350	317
Total adjustments	<u>197,465</u>	<u>118,667</u>	<u>25,980</u>
Net cash provided by operating activities	<u>\$ 372,340</u>	<u>261,468</u>	<u>37,747</u>

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

(Continued)

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(18,934)	(483,827)	--
Proceeds from sale and maturities of investment securities	18,765	488,338	--
Interest on investments	223	2,135	(19)
Net cash provided (used) by investing activities	54	6,646	(19)
Net increase (decrease) in cash and cash equivalents	16,213	50,734	(1,476)
Cash and cash equivalents, October 1	196,829	740,427	136,098
Cash and cash equivalents, September 30	213,042	791,161	134,622
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	(15,552)	313,891	11,413
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	27,190	303,246	10,953
Amortization	--	988	--
Change in assets and liabilities:			
Decrease in working capital advances	--	513	--
(Increase) decrease in accounts receivable	2,154	2,796	(629)
Increase in allowance for doubtful accounts	640	6,562	--
(Increase) decrease in inventory	(96)	9,986	116
(Increase) decrease in prepaid expenses and other assets	(7)	(1,999)	(75)
Decrease in advances to other funds	--	--	45
(Increase) decrease in other long-term assets	4	15,241	(119)
Increase (decrease) in accounts payable	79	1,328	(789)
Increase in accrued payroll and compensated absences	803	1,850	1,223
Increase in claims payable	--	--	3,924
Decrease in pension obligations payable	(252)	(1,768)	--
Increase in other post employment benefits payable	9,221	32,271	--
Increase (decrease) in other liabilities	(2,992)	3,426	289
Increase in customer deposits	1,348	5,764	--
Total adjustments	38,092	380,204	14,938
Net cash provided by operating activities	22,540	694,095	26,351

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2014
(In thousands)

	<u>Business-Type Activities</u>		
	<u>Austin Energy</u>	<u>Austin Water Utility</u>	<u>Airport</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Capital appreciation bonds interest accreted	\$ (831)	(9,707)	--
Capital assets contributed from other funds	--	249	--
Capital assets contributed to other funds	--	(3,199)	--
Contributed facilities	--	23,776	--
(Increase) decrease in the fair value of investments	(2,859)	--	--
Amortization of bond (discounts) premiums	4,910	9,555	(34)
Amortization of gain/loss on refundings	(6,812)	(5,934)	(939)
Loss on disposal of assets	(8,101)	(1,812)	(795)
Costs (recovered) to be recovered	(5,496)	(16,441)	--
Transfers (to) from other funds	(64)	(173)	(343)
Capitalized interest	--	--	1,409

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

(Continued)

	<u>Business-Type Activities</u>		<u>Governmental Activities- Internal Service Funds</u>
	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Capital appreciation bonds interest accreted	--	(10,538)	--
Capital assets contributed from other funds	36,657	36,906	11,008
Capital assets contributed to other funds	(310)	(3,509)	(352)
Contributed facilities	--	23,776	--
(Increase) decrease in the fair value of investments	--	(2,859)	--
Amortization of bond (discounts) premiums	1,874	16,305	(45)
Amortization of gain/loss on refundings	(1,140)	(14,825)	(32)
Loss on disposal of assets	(845)	(11,553)	(13,571)
Costs (recovered) to be recovered	--	(21,937)	--
Transfers (to) from other funds	1,033	453	(446)
Capitalized interest	1,415	2,824	--

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

Fiduciary Funds
Statement of Fiduciary Net Position
September 30, 2014
(In thousands)

City of Austin, Texas
Exhibit D-1

	<u>Private-purpose</u>	
	<u>Trust</u>	<u>Agency</u>
ASSETS		
Pooled investments and cash	\$ 1,829	3,035
Other assets	120	--
Total assets	<u>1,949</u>	<u>3,035</u>
LIABILITIES		
Accounts payable	24	--
Due to other governments	--	2,330
Deposits and other liabilities	1,191	705
Total liabilities	<u>1,215</u>	<u>3,035</u>
NET POSITION		
Held in trust	734	
Total net position	<u>\$ 734</u>	

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, 2014
(In thousands)

City of Austin, Texas
Exhibit D-2

	<u>Private-purpose</u> <u>Trust</u>
ADDITIONS	
Contributions	\$ 1,190
Interest and other	1
Total additions	<u>1,191</u>
DEDUCTIONS	
Benefit payments	1,166
Total deductions	<u>1,166</u>
Net additions (deductions)	<u>25</u>
Total net position - beginning	<u>709</u>
Total net position - ending	<u>\$ 734</u>

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. 67 and No. 70. In fiscal year 2014, the City implemented the following GASB Statements:

GASB Statement	Impact
65 – <i>“Items Previously Reported as Assets and Liabilities”</i>	This resulted in the movement of items from Assets to Deferred outflows of resources and from Liabilities to Deferred inflows of resources. In addition, several items previously reported as assets are now expensed in the statements, most notably, bond issue costs. Results of the implementation of this standard are discussed in Note 1 and Note 18.
66 – <i>“Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62”</i>	The implementation of this standard had little impact on the amounts reported in the financial statements.
67 – <i>“Financial Reporting for Pension Plans an amendment of GASB Statement No. 25”</i>	This statement is directed at the Pension Plans and did not impact the City of Austin financial reporting. The companion statement for governments, GASB Statement No. 68, <i>“Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27”</i> , is effective for the City in 2015. GASB Statement No. 68 requires governments offering defined benefit pension plans to recognize a long-term obligation for pension benefits as a liability for the first time and adds additional note disclosures and required supplementary information.
70 – <i>“Accounting and Financial Reporting for Nonexchange Financial Guarantees”</i>	The implementation of this standard did not impact the City of Austin financial reporting.

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

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.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
a -- Reporting Entity, continued

Blended Component Units – Following are the City's blended component units.

Blended Component Units
The Austin Housing Finance Corporation (AHFC)

Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
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 Council. In addition, City management has operational responsibilities for this component unit.

Reporting Fund: Housing Assistance Fund, a nonmajor special revenue fund

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. In addition, City management has operational responsibilities for this component unit.

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. Members of the City staff serve as officers of the corporation and have operational responsibilities for this component unit.

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.

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 Council. 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. ABIA Development Corporation is governed by a board composed of the City Council. In addition, City management has operational responsibilities for this component unit.

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.

<u>Discretely Presented Component Units</u>	<u>Brief Description of Activities, Relationship to City, and Key Inclusion Criteria</u>
Austin-Bergstrom Landhost Enterprises, Inc. (ABLE) 2716 Spirit of Texas Drive 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 Council appoints this entity's Board and maintains 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) 500 East 4th Street Austin, TX 78701	ACE is a legally separate entity that owns, operates, and finances the Austin Convention Center Hotel. City Council appoints this entity's Board and maintains 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.
Waller Creek Local Government Corporation (WCLGC) 124 W. 8 th Street Austin, TX 78701	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.

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.

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.

Related organizations are not included in the City's reporting entity.

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, deferred outflow of resources, liability, and deferred inflow of resources 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.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
b -- Reporting Entity, continued

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.

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.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
c -- Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

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).

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.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
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, 2014. Investments in local government investment pools are carried at net asset value per share calculated using the amortized cost method which approximates fair value.

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, 2014 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern- ments	Other	Total
Governmental activities						
General Fund	\$ 209,629	21,097	42,504	--	--	273,230
Nonmajor governmental funds	1,654	--	18,525	7,957	2,636	30,772
Internal service funds	3,465	--	--	--	--	3,465
Allowance for doubtful accounts	(204,505)	(9,463)	--	(259)	--	(214,227)
Total	<u>\$ 10,243</u>	<u>11,634</u>	<u>61,029</u>	<u>7,698</u>	<u>2,636</u>	<u>93,240</u>

Receivables reported in business-type activities are primarily comprised of charges for services.

	Austin Energy	Austin Water	Airport	Nonmajor Enterprise	Total
Accounts receivable	\$ 189,154	70,088	5,032	24,528	288,802
Allowance for doubtful accounts	(11,727)	(3,552)	(1,240)	(2,730)	(19,249)
Total	<u>\$ 177,427</u>	<u>66,536</u>	<u>3,792</u>	<u>21,798</u>	<u>269,553</u>

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."

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

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.

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	\$ 78,531	97,295	118,877	39,530	334,233
Customer and escrow deposits	27,202	9,756	779	4,542	42,279
Debt service	56,217	90,175	17,674	17,929	181,995
Environmental and landfill	--	--	--	1,898	1,898
Federal grants	8,955	--	300	232	9,487
Operating reserve account	--	--	11,334	12,469	23,803
Passenger facility charge account	--	--	50,317	--	50,317
Plant decommissioning	197,410	--	--	--	197,410
Renewal and replacement account	64	--	10,000	1,293	11,357
Revenue bond reserve	9,988	58,422	2,434	13,304	84,148
Strategic reserve	106,577	--	--	--	106,577
	<u>\$ 484,944</u>	<u>255,648</u>	<u>211,715</u>	<u>91,197</u>	<u>1,043,504</u>

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.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Capital assets, except for nuclear fuel, are depreciated or amortized using the straight-line method over the following estimated useful lives (in years):

Assets	Governmental Activities (1)	Business-type Activities			
		Austin Energy	Austin Water Utility	Airport	Nonmajor Enterprise
Buildings and improvements	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
Nuclear fuel	--	(2)	--	--	--
Water rights	--	--	101	--	--
Infrastructure					
Streets and roads	30	--	--	--	--
Bridges	50	--	--	--	--
Drainage systems	50	--	--	--	--
Pedestrian facilities	20	--	--	--	--
Traffic signals	25	--	--	--	--

(1) Includes internal service funds

(2) Nuclear fuel is amortized over units of production

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 \$14.8 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.

Regulatory Assets -- In accordance with accounting for regulated operations, certain utility expenses that do not currently require funding are recorded as assets and amortized over future periods if they are intended to be recovered through future rates. These expenses include unrealized gain/loss on investments, debt issuance costs, pension, other post employment benefits, interest, decommissioning, and pass-through rates, such as the Power Supply Adjustment charge, Community Benefit charge, and Regulatory charge. Regulatory Assets will be recovered in these future periods by setting rates sufficient to provide funds for the requirements. If regulatory assets are not recoverable in future rates, the regulatory asset will be subject to write off. Retail deregulation of electric rates in the future may affect the City's current accounting treatment of its electric utility revenues and expenses.

Deferred Outflows (Inflows) of Resources -- Deferred outflows of resources represent the consumption of net assets that are applicable to a future reporting period. Deferred outflows have a positive effect on net position, similar to assets. Deferred inflows of resources represent the acquisition of net assets that have a negative effect on net position, similar to liabilities.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

In fiscal year 2014, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Prior to this implementation, deferred outflows and inflows were limited to derivative instruments and service concession arrangement transactions. The following chart reflects the activities that are now included in these categories.

Activities	Category and explanation	Deferred Outflows	Deferred Inflows
Derivative instruments	Deferred outflows or inflows. 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 outflows or inflows in the statement of net position, as an offset to the related hedging derivative instrument.	\$90,437	4,242
Gain/loss on debt refundings	Deferred outflows or inflows. When debt is refunded, the associated gains (deferred outflows) or losses (deferred inflows) are recognized as deferred outflows or inflows of resources and amortized over future periods.	120,687	409
Regulated operations	Deferred inflows. In accordance with accounting for regulated operations, certain credits to income are held as deferred inflows of resources until the anticipated matched charge is incurred. These credits include unrealized gain/loss on investments, contributions, interest, decommissioning, and pass-through rates.		729,148
Service concession arrangements	Deferred inflows. 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 are reported as deferred inflows of resources.		1,607
Unavailable revenues	Deferred inflows. In Governmental funds, unavailable revenue is reported as deferred inflows of resources and recognized as inflows of resources in the period that the amounts become available.		8,132

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-Sworn Employees (1)	Sworn Police (2)	Sworn Fire (3)	Sworn EMS (4)
Vacation	0-40	240	240	240	240
	42	N/A	N/A	N/A	270
	48	N/A	N/A	N/A	309
	53	N/A	N/A	360	N/A
Exception vacation (5)	0-40	160	160	176	206
	42	160	N/A	N/A	206
	48	160	N/A	N/A	206
	53	N/A	N/A	264	N/A
Sick leave	0-40	720	1,400	720	720
	42	N/A	N/A	N/A	756
	48	N/A	N/A	N/A	926
	53	N/A	N/A	1,080	N/A
Compensatory time (6)		120	120	120	120

- (1) Non-sworn employees are eligible for accumulated sick leave payout if hired before October 1, 1986.
- (2) Sworn police employees with 12 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) Sworn fire employees are eligible for accumulated sick leave payout regardless of hire date.
- (4) Sworn EMS employees with 12 years of actual service are eligible for accumulated sick leave payout if certain criteria are met.
- (5) Exception vacation hours are hours accumulated by an employee when the employee works on a City holiday.
- (6) Employees may earn compensatory time in lieu of paid overtime; maximum payout is 120 hours for all employees.

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, 2014, the City's total actuarial accrued liability for these retiree benefits was approximately \$1.5 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 as deferred outflows of resources. 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 Austin Resource Recovery, 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	\$ 20,868
Austin Water Utility	6,371
Airport	172
Nonmajor Enterprise	5,207

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, 2014. The amount of unbilled revenue recorded, as of September 30, 2014, was \$37.0 million. Austin Water Utility records unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2014. The amount of unbilled revenue recorded as of September 30, 2014 was \$13.4 million for water and \$12.2 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):

	<u>Discounts</u>
Airport	\$ 748
Nonmajor Enterprise	1,290

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 expenses are recognized in the applicable proprietary fund.

Special item – land sale -- In April 2012, the City Council approved an ordinance authorizing the execution of a master development agreement for the sale and redevelopment of the Green Water Treatment plant land. Under this agreement, the City will sell the land to the developer in four phases. The first payment of \$15.83 million was received by the City in fiscal year 2014. The balance of the sale should occur in three pieces completing in fiscal year 2019, according to the current schedule. The unusual and infrequent occurrence of a sale of City property of this significance and the fact that the transaction is under the control of City management, it is being reported as a special item in the financial statements.

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.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

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 \$57,000 in fiscal year 2014 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.

The constraints placed on the fund balances of the General Fund and the nonmajor governmental funds are presented below (in thousands):

	Nonmajor Governmental					Total
	General Fund	Special Revenue	Debt Service	Capital Projects	Permanent	
Nonspendable						
Inventory	\$ 777	--	--	--	--	777
Prepaid items	173	--	--	--	--	173
Permanent funds	--	--	--	--	1,052	1,052
Total Nonspendable	950	--	--	--	1,052	2,002
Restricted						
Municipal court services	--	3,008	--	--	--	3,008
Police special purpose	--	6,090	--	--	--	6,090
Fire special purpose	--	44	--	--	--	44
Transportation, planning, and sustainability	--	324	--	--	--	324
Public health services	--	264	--	--	--	264
Parks services	--	1,817	--	--	--	1,817
Library services	--	1,258	--	--	1	1,259
Tourism programs	--	18,416	--	--	--	18,416
Affordable housing programs	--	30,006	--	--	--	30,006
Urban growth programs	--	3,260	--	--	--	3,260
Capital construction	--	--	--	79,144	--	79,144
Debt service	--	--	18,368	--	--	18,368
Total Restricted	--	64,487	18,368	79,144	1	162,000
Committed						
Municipal court services	223	--	--	--	--	223
Police special purpose	2,101	--	--	--	--	2,101
Fire special purpose	769	--	--	--	--	769
EMS special purpose	1,172	--	--	--	--	1,172
Public health services	1,874	--	--	--	--	1,874
Parks services	1,253	3,638	--	--	--	4,891
Library services	306	--	--	--	--	306
Affordable housing programs	--	2,729	--	--	--	2,729
Urban growth programs	1,330	21,119	--	--	--	22,449
Capital construction	--	--	--	39,047	--	39,047
Total Committed	9,028	27,486	--	39,047	--	75,561
Assigned						
General government services	6	--	--	--	--	6
Municipal court services	27	--	--	--	--	27
Police special purpose	171	28	--	--	--	199
Fire special purpose	206	--	--	--	--	206
EMS special purpose	125	--	--	--	--	125
Transportation, planning, and sustainability	--	8	--	--	--	8
Public health services	340	27	--	--	--	367
Parks services	211	102	--	--	--	313
Library services	84	6	--	--	--	90
Tourism programs	--	39	--	--	--	39
Affordable housing programs	--	145	--	--	--	145
Urban growth programs	15,689	2,097	--	--	--	17,786
Capital construction	--	--	--	22,643	--	22,643
Total Assigned	16,859	2,452	--	22,643	--	41,954
Unassigned	156,659	(8,248)	--	(62,333)	--	86,078
Total Fund Balance	\$ 183,496	86,177	18,368	78,501	1,053	367,595

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

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, 2014, the contingency reserve maintains a balance of 1 percent of departmental expenditures, or \$6.8 million, the emergency reserve remains fixed with a balance of \$40 million, and the budget stabilization reserve reports a balance of \$108.3 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.

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/expenses 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, 2014 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	Restricted
General Fund	\$ 180,969	--
Nonmajor governmental funds	181,362	--
Austin Energy	150,780	103,607
Austin Water Utility	21,827	96,206
Airport	7,885	192,774
Nonmajor enterprise funds	146,573	66,436
Internal service funds	132,617	542
Fiduciary funds	4,864	--
Subtotal pooled investments and cash	<u>826,877</u>	<u>459,565</u>
Total pooled investments and cash	<u>\$ 1,286,442</u>	

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.

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's position in the pool is the same as the value of the pool shares.

3 – INVESTMENTS AND DEPOSITS, continued
a -- Investments, continued

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 somewhat like 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, 2014, TexPool, TexasDAILY, TexStar, and Lone Star had a weighted average maturity of 48 days, 47 days, 51 days, and 46 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 2014.

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.

The following table includes the portfolio balances of all non-pooled and pooled investments of the City at September 30, 2014 (in thousands):

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Non-pooled investments:				
Local Government Investment Pools	\$ 16,984	269,754	--	286,738
Money Market Funds	--	36,761	--	36,761
US Treasury Notes	--	35,442	--	35,442
US Agency Bonds	--	229,367	--	229,367
Total non-pooled investments	<u>16,984</u>	<u>571,324</u>	<u>--</u>	<u>588,308</u>
Pooled investments:				
Local Government Investment Pools	154,235	246,305	1,524	402,064
US Treasury Notes	65,876	104,510	647	171,033
US Agency Bonds	265,685	421,420	2,693	689,798
Total pooled investments	<u>485,796</u>	<u>772,235</u>	<u>4,864</u>	<u>1,262,895</u>
Total investments	<u>\$ 502,780</u>	<u>1,343,559</u>	<u>4,864</u>	<u>1,851,203</u>

Concentration of Credit Risk

At September 30, 2014, 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 (\$159.9 or 9%), Federal Home Loan Bank (\$344.5 or 19%), Federal Home Loan Mortgage Corporation (\$180.1 or 10%), and Federal National Mortgage Association (\$234.7 or 13%).

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, and
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.

3 – INVESTMENTS AND DEPOSITS, continued
b – Investment Categories

Operating Funds

As of September 30, 2014, the City operating funds had the following investments (in thousands):

Investment Type	Fair Value			Total	Weighted Average Maturity (days)
	Governmental Activities	Business-type Activities	Fiduciary Funds		
Local Government Investment Pools	\$ 154,235	246,305	1,524	402,064	1
US Treasury Notes	65,876	104,510	647	171,033	527
US Agency Bonds	265,685	421,420	2,693	689,798	420
Total	\$ 485,796	772,235	4,864	1,262,895	298

Credit Risk

At September 30, 2014, 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.

Concentration of Credit Risk

At September 30, 2014, 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 (\$159.9 or 13%), Federal Home Loan Bank (\$290.0 or 23%), Federal Home Loan Mortgage Corporation (\$109.9 or 9%), and Federal National Mortgage Association (\$130.0 or 10%).

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, 2014, less than a third 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 298 days, which was less than the threshold of 365 days.

Debt Service Funds

As of September 30, 2014, the City's debt service funds had the following investments (in thousands):

Investment Type	Fair Value		Weighted Average Maturity (days)
	Governmental Activities	Business-type Activities	
General Obligation Debt Service			
Local Government Investment Pools	\$ 16,984	--	1
Enterprise-Utility (1)			
Local Government Investment Pools	--	146,393	1
Enterprise-Airport			
Local Government Investment Pools	--	16,072	1
Nonmajor Enterprise-Convention Center			
Local Government Investment Pools	--	10,575	1
Total	\$ 16,984	173,040	

(1) Includes combined pledge debt service

Credit Risk

At September 30, 2014, the debt service funds held an investment in TexPool, an LGIP rated AAAM by Standard and Poor's.

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, 2014, the City's debt service reserve funds had the following investments (in thousands):

<u>Investment Type</u>	<u>Fair Value Business-type Activities</u>	<u>Weighted Average Maturity (days)</u>
Enterprise-Utility (1)		
Local Government Investment Pools	\$ 41,394	1
Enterprise-Airport		
Local Government Investment Pools	2,434	1
Nonmajor Enterprise-Convention Center		
Local Government Investment Pools	13,306	1
Total	\$ 57,134	

(1) Includes combined pledge debt service

Credit Risk

At September 30, 2014, the debt service reserve funds held an investment in TexPool, an LGIP rated AAAM by Standard and Poor's.

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-term to intermediate-term securities.

Special Projects or Special Purpose Funds

Special Project Funds

At September 30, 2014, the City's special project funds had the following investments (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>			<u>Weighted Average Maturity (days)</u>
	<u>Business-type Activities</u>			
	<u>Utility Reserve</u>	<u>Airport Construction</u>	<u>Total</u>	
Local Government Investment Pools	\$ 27,016	76	27,092	1

Credit Risk

At September 30, 2014, the special project funds held an investment in TexPool, an LGIP rated AAAM by Standard and Poor's.

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, 2014, the City's Austin Energy Strategic Reserve Fund, a special purpose fund, had the following investments (in thousands):

<u>Investment Type</u>	<u>Fair Value Business-type Activities</u>	<u>Weighted Average Maturity (days)</u>
Local Government Investment Pools	\$ 12,489	1
US Treasury Notes	15,763	872
US Agency Bonds	78,325	1035
Total	\$ 106,577	889

3 – INVESTMENTS AND DEPOSITS, continued
b -- Investment Categories, continued

Credit risk

At September 30, 2014, 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, 2014, 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 Home Loan Bank (\$23.5 or 22%), Federal Home Loan Mortgage Corporation (\$20.0 or 19%), and Federal National Mortgage Association (\$34.9 or 33%).

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, 2014, 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 889 days (2.44 years).

Special Purpose Funds - Austin Energy Nuclear Decommissioning Trust Funds (NDTF)

At September 30, 2014, the City's Austin Energy NDTF had the following investments (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	
	<u>Business-type</u>	<u>Weighted Average</u>
	<u>Activities</u>	<u>Maturity (years)</u>
Money Market Funds	\$ 25,934	1 day
US Treasury Notes	19,679	2.85
US Agency Bonds	151,041	2.82
Total	<u>\$ 196,654</u>	<u>2.44</u>

Credit Risk

At September 30, 2014, 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, 2014, the NDTF held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Home Loan Bank (\$31.0 or 16%), Federal Home Loan Mortgage Corporation (\$50.2 or 26%), Federal National Mortgage Association (\$69.8 or 35%).

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, 2014, the dollar weighted average maturity was 2.44 years.

Special Purpose Funds - Investments Held by Trustee – Public Improvement Districts

At September 30, 2014, the City's special purpose funds had the following investments (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	
	<u>Business-type</u>	<u>Weighted Average</u>
	<u>Activities</u>	<u>Maturity (days)</u>
Money Market Funds	\$ 10,827	1

Credit Risk

At September 30, 2014, 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, 2014, are as follows (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments and cash	\$ 22,854	576,397	--	599,251
Pooled investments and cash	501,040	796,420	4,864	1,302,324
Total investments and cash	<u>523,894</u>	<u>1,372,817</u>	<u>4,864</u>	<u>1,901,575</u>
Unrestricted cash	70	62	--	132
Restricted cash	5,800	5,011	--	10,811
Pooled investments and cash	501,040	796,420	4,864	1,302,324
Investments	16,984	571,324	--	588,308
Total	<u>\$ 523,894</u>	<u>1,372,817</u>	<u>4,864</u>	<u>1,901,575</u>

A difference of \$15.9 million exists between portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

Deposits

The September 30, 2014 carrying amount of deposits at the bank and cash on hand are as follows (in thousands):

	Governmental Activities	Business-type Activities	Total
Cash			
Unrestricted	\$ 70	62	132
Restricted	--	5,011	5,011
Cash held by trustee			
Restricted	5,800	--	5,800
Pooled cash	15,244	24,185	39,429
Total deposits	<u>\$ 21,114</u>	<u>29,258</u>	<u>50,372</u>

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, 2014.

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, 2013, upon which the 2014 levy was based, was \$88,766,098,160.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2014, 99.25% of the current tax levy (October 1, 2013) 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, 2014, was \$0.3856 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, 2014 was \$0.1171 per \$100 assessed valuation. The City has a tax margin for general governmental purposes of \$0.6144 per \$100 assessed valuation, and could levy approximately \$545,378,907 in additional taxes from the assessed valuation of \$88,766,098,160 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, 2014, was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u> (1)	<u>Decreases</u> (1)	<u>Ending Balance</u>
Depreciable capital assets				
Building and improvements	\$ 781,367	77,052	(507)	857,912
Plant and equipment	215,555	34,149	(17,686)	232,018
Vehicles	114,697	20,257	(9,936)	125,018
Infrastructure	2,245,026	115,278	--	2,360,304
Total depreciable capital assets	<u>3,356,645</u>	<u>246,736</u>	<u>(28,129)</u>	<u>3,575,252</u>
Less accumulated depreciation for				
Building and improvements	(265,529)	(22,138)	250	(287,417)
Plant and equipment	(135,903)	(19,663)	4,594	(150,972)
Vehicles	(72,220)	(11,169)	4,335	(79,054)
Infrastructure	(914,203)	(63,031)	2	(977,232)
Total accumulated depreciation	<u>(1,387,855)</u>	<u>(116,001)</u> (2)	<u>9,181</u>	<u>(1,494,675)</u>
Depreciable capital assets, net	<u>1,968,790</u>	<u>130,735</u>	<u>(18,948)</u>	<u>2,080,577</u>
Nondepreciable capital assets				
Land and improvements	351,996	37,433	(26,338)	363,091
Arts and treasures	8,021	626	(4)	8,643
Library collections	14,390	--	--	14,390
Construction in progress	218,414	272,607	(264,522)	226,499
Total nondepreciable assets	<u>592,821</u>	<u>310,666</u>	<u>(290,864)</u>	<u>612,623</u>
Total capital assets	<u>\$ 2,561,611</u>	<u>441,401</u>	<u>(309,812)</u>	<u>2,693,200</u>

(1) Increases and decreases do not include transfers (at net book value) between Governmental Activities.

(2) Components of accumulated depreciation/amortization increases:

Governmental activities:

General government	\$ 5,005
Public safety	15,265
Transportation, planning and sustainability	53,241
Public health	1,538
Public recreation and culture	13,169
Urban growth management	16,830
Internal service funds	10,953
Total increases in accumulated depreciation/amortization	<u>\$ 116,001</u>

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities

Capital asset activity for the year ended September 30, 2014, was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u> (1)	<u>Decreases</u> (1)	<u>Ending Balance</u>
Depreciable capital assets				
Building and improvements	\$ 1,694,070	46,444	(1,959)	1,738,555
Plant and equipment	3,438,145	137,841	(6,807)	3,569,179
Vehicles	177,448	16,743	(5,864)	188,327
Electric plant	4,438,575	107,061	(28,434)	4,517,202
Non-electric plant	176,157	16,818	(3,145)	189,830
Nuclear fuel	306,171	56,229	(41,636)	320,764
Water rights	100,000	--	--	100,000
Total depreciable capital assets	<u>10,330,566</u>	<u>381,136</u>	<u>(87,845)</u>	<u>10,623,857</u>
Less accumulated depreciation/amortization for				
Building and improvements	(573,422)	(43,769)	116	(617,075)
Plant and equipment	(1,194,822)	(92,840)	4,229	(1,283,433)
Vehicles	(103,759)	(16,603)	5,347	(115,015)
Electric plant	(2,195,312)	(142,593)	21,956	(2,315,949)
Non-electric plant	(48,085)	(7,441)	1,050	(54,476)
Nuclear fuel	(266,155)	(14,993)	--	(281,148)
Water rights	(13,827)	(988)	--	(14,815)
Total accumulated depreciation/amortization	<u>(4,395,382)</u>	<u>(319,227)</u> (2)	<u>32,698</u>	<u>(4,681,911)</u>
Depreciable capital assets, net	<u>5,935,184</u>	<u>61,909</u>	<u>(55,147)</u>	<u>5,941,946</u>
Nondepreciable capital assets				
Land and improvements	513,213	56,187	(14,626)	554,774
Arts and treasures	1,657	--	--	1,657
Construction in progress	648,553	479,316	(333,405)	794,464
Plant held for future use	23,115	--	--	23,115
Total nondepreciable assets	<u>1,186,538</u>	<u>535,503</u>	<u>(348,031)</u>	<u>1,374,010</u>
Total capital assets	<u>\$ 7,121,722</u>	<u>597,412</u>	<u>(403,178)</u>	<u>7,315,956</u>

(1) Increases and decreases do not include transfers (at net book value) between Business-type Activities.

(2) Components of accumulated depreciation/amortization increases:

Business-type activities:

Electric	\$ 167,443
Water	44,577
Wastewater	58,866
Airport	21,151
Convention Center	8,941
Environmental and health services	8,071
Public recreation	773
Urban growth management	9,405
Total increases in accumulated depreciation/amortization	<u>\$ 319,227</u>

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Austin Energy

Capital asset activity for the year ended September 30, 2014, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets				
Vehicles	\$ 30,751	1,302	(1,585)	30,468
Electric plant	4,438,575	107,061	(28,434)	4,517,202
Non-electric plant	176,157	16,818	(3,145)	189,830
Nuclear fuel	306,171	56,229	(41,636)	320,764
Total depreciable capital assets	<u>4,951,654</u>	<u>181,410</u>	<u>(74,800)</u>	<u>5,058,264</u>
Less accumulated depreciation/amortization for				
Vehicles	(21,639)	(2,416)	1,581	(22,474)
Electric plant	(2,195,312)	(142,593)	21,956	(2,315,949)
Non-electric plant	(48,085)	(7,441)	1,050	(54,476)
Nuclear fuel	(266,155)	(14,993)	--	(281,148)
Total accumulated depreciation/amortization	<u>(2,531,191)</u>	<u>(167,443) (1)</u>	<u>24,587</u>	<u>(2,674,047)</u>
Depreciable capital assets, net	<u>2,420,463</u>	<u>13,967</u>	<u>(50,213)</u>	<u>2,384,217</u>
Nondepreciable capital assets				
Land and improvements	62,323	442	--	62,765
Plant held for future use	23,115	--	--	23,115
Construction in progress	80,872	166,783	(130,295)	117,360
Total nondepreciable assets	<u>166,310</u>	<u>167,225</u>	<u>(130,295)</u>	<u>203,240</u>
Total capital assets	<u>\$ 2,586,773</u>	<u>181,192</u>	<u>(180,508)</u>	<u>2,587,457</u>

(1) Components of accumulated depreciation/amortization increases:

Current year depreciation	\$ 152,450
Current year amortization included in operating expense	14,993
Total increases in accumulated depreciation/amortization	<u>\$ 167,443</u>

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Austin Water Utility

Capital asset activity for the year ended September 30, 2014, was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u> (1)	<u>Decreases</u> (1)	<u>Ending Balance</u>
Depreciable capital assets				
Building and improvements	\$ 656,933	18,817	(1,734)	674,016
Plant and equipment	3,246,692	111,215	(2,877)	3,355,030
Vehicles	36,452	3,413	(723)	39,142
Water rights	100,000	--	--	100,000
Total depreciable capital assets	<u>4,040,077</u>	<u>133,445</u>	<u>(5,334)</u>	<u>4,168,188</u>
Less accumulated depreciation/amortization for				
Building and improvements	(216,717)	(15,305)	115	(231,907)
Plant and equipment	(1,125,645)	(84,122)	1,792	(1,207,975)
Vehicles	(25,453)	(3,028)	775	(27,706)
Water rights	(13,827)	(988)	--	(14,815)
Total accumulated depreciation/amortization	<u>(1,381,642)</u>	<u>(103,443)</u> (2)	<u>2,682</u>	<u>(1,482,403)</u>
Depreciable capital assets, net	<u>2,658,435</u>	<u>30,002</u>	<u>(2,652)</u>	<u>2,685,785</u>
Nondepreciable capital assets				
Land and improvements	244,646	795	(14,626)	230,815
Arts and treasures	62	--	--	62
Construction in progress	486,394	198,902	(108,214)	577,082
Total nondepreciable assets	<u>731,102</u>	<u>199,697</u>	<u>(122,840)</u>	<u>807,959</u>
Total capital assets	<u>\$ 3,389,537</u>	<u>229,699</u>	<u>(125,492)</u>	<u>3,493,744</u>

(1) Increases and decreases do not include transfers (at net book value) between Austin Water Utility funds.

(2) Components of accumulated depreciation/amortization increases:

Current year depreciation	
Water	\$ 43,589
Wastewater	58,866
Current year amortization	
Water	988
Total increases in accumulated depreciation/amortization	<u>\$ 103,443</u>

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2014, was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Depreciable capital assets				
Building and improvements	\$ 710,481	24,625	--	735,106
Plant and equipment	25,082	2,436	(1,592)	25,926
Vehicles	10,672	196	(942)	9,926
Total depreciable capital assets	<u>746,235</u>	<u>27,257</u>	<u>(2,534)</u>	<u>770,958</u>
Less accumulated depreciation for				
Building and improvements	(231,068)	(18,795)	--	(249,863)
Plant and equipment	(13,975)	(1,294)	1,031	(14,238)
Vehicles	(4,852)	(1,062)	360	(5,554)
Total accumulated depreciation	<u>(249,895)</u>	<u>(21,151) (1)</u>	<u>1,391</u>	<u>(269,655)</u>
Depreciable capital assets, net	<u>496,340</u>	<u>6,106</u>	<u>(1,143)</u>	<u>501,303</u>
Nondepreciable capital assets				
Land and improvements	92,387	3,351	--	95,738
Arts and treasures	983	--	--	983
Construction in progress	30,963	53,099	(32,911)	51,151
Total nondepreciable assets	<u>124,333</u>	<u>56,450</u>	<u>(32,911)</u>	<u>147,872</u>
Total capital assets	<u>\$ 620,673</u>	<u>62,556</u>	<u>(34,054)</u>	<u>649,175</u>

(1) Components of accumulated depreciation/amortization increases:

Current year depreciation	<u>\$ 21,151</u>
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5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2014, was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u> (1)	<u>Decreases</u> (1)	<u>Ending Balance</u>
Depreciable capital assets				
Building and improvements	\$ 326,656	3,002	(225)	329,433
Plant and equipment	166,371	24,190	(2,338)	188,223
Vehicles	99,573	11,832	(2,614)	108,791
Total depreciable capital assets	<u>592,600</u>	<u>39,024</u>	<u>(5,177)</u>	<u>626,447</u>
Less accumulated depreciation for				
Building and improvements	(125,637)	(9,669)	1	(135,305)
Plant and equipment	(55,202)	(7,424)	1,406	(61,220)
Vehicles	(51,815)	(10,097)	2,631	(59,281)
Total accumulated depreciation	<u>(232,654)</u>	<u>(27,190)</u> (2)	<u>4,038</u>	<u>(255,806)</u>
Depreciable capital assets, net	<u>359,946</u>	<u>11,834</u>	<u>(1,139)</u>	<u>370,641</u>
Nondepreciable capital assets				
Land and improvements	113,857	51,599	--	165,456
Arts and treasures	612	--	--	612
Construction in progress	50,324	60,532	(61,985)	48,871
Total nondepreciable assets	<u>164,793</u>	<u>112,131</u>	<u>(61,985)</u>	<u>214,939</u>
Total capital assets	<u>\$ 524,739</u>	<u>123,965</u>	<u>(63,124)</u>	<u>585,580</u>

(1) Increases and decreases do not include transfers (at net book value) between nonmajor enterprise funds.

(2) Components of accumulated depreciation/amortization increases:

Current year depreciation	
Convention Center	\$ 8,941
Environmental and health services	8,071
Public recreation	773
Urban growth management	9,405
Total increases in accumulated depreciation/amortization	<u>\$ 27,190</u>

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Capitalized Interest

The City has recorded capitalized interest for fiscal year 2014 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Enterprise Funds	
Airport	\$ 1,409
Nonmajor enterprise funds:	
Austin Resource Recovery	2
Convention Center	981
Drainage	430
Golf	1
Transportation	1

Interest is not capitalized on governmental capital assets. In accordance with accounting for regulated operations, interest is also not capitalized for Austin Energy or Austin Water Utility capital assets.

Service Concession Arrangements

The City has recorded capital assets and deferred inflows of \$3.67 million derived from two service concession arrangements (SCA) described below. An SCA is an arrangement in which the City conveys use of a capital asset to an operator in exchange for significant consideration; where the operator is compensated from third parties; where the COA may determine what services are provided, to whom and for what price; where the City retains a significant residual interest in the asset after the SCA terminates.

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 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, 2014, the City recorded the following activity in the governmental activities (in thousands):

Service Concession Arrangement	Asset				Total	Net Book Value
	Construction Cost	Prior Period Depreciation	Current Year Depreciation	Depreciation		
Umlauf Sculpture Garden	\$ 2,337	1,280	59	1,339	998	
YMCA Northeast Recreation Center	1,333	28	33	61	1,272	
	<u>3,670</u>	<u>1,308</u>	<u>92</u>	<u>1,400</u>	<u>2,270</u>	

	Beginning	Prior Period	Current Year	Total	Ending
	Deferred Inflows	Amortization	Amortization	Amortization	Deferred Inflows
Umlauf Sculpture Garden	2,337	1,707	78	1,785	552
YMCA Northeast Recreation Center	1,333	211	67	278	1,055
	<u>\$ 3,670</u>	<u>1,918</u>	<u>145</u>	<u>2,063</u>	<u>1,607</u>

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, 2014, were as follows (in thousands):

Description	October 1, 2013	Increases	Decreases	September 30, 2014	Amounts Due Within One Year
Governmental activities					
General obligation bonds, net	\$ 919,973	227,524	(172,642)	974,855	53,769
Certificates of obligation, net	114,798	25,528	(4,497)	135,829	4,287
Contractual obligations, net	67,788	25,527	(8,279)	85,036	10,584
Debt service requirements total	<u>1,102,559</u>	<u>278,579</u>	<u>(185,418)</u>	<u>1,195,720</u>	<u>68,640</u>
Other long-term obligations					
Accrued compensated absences	127,828	4,635	(327)	132,136	56,693
Claims payable	39,882	21,977	(18,053)	43,806	23,655
Pension obligation payable	64,768	--	(18)	64,750	--
Other post employment benefits	375,956	59,307	--	435,263	--
Other liabilities	85,890	35,128	(33,788)	87,230	81,205
Governmental activities total	<u>1,796,883</u>	<u>399,626</u>	<u>(237,604)</u>	<u>1,958,905</u>	<u>230,193</u>
Total business-type activities					
General obligation bonds, net	33,192	7,475	(6,966)	33,701	4,302
Certificates of obligation, net	33,658	363	(6,789)	27,232	983
Contractual obligations, net	55,508	25,971	(15,625)	65,854	15,370
Other tax supported debt, net	9,915	--	(720)	9,195	745
General obligation bonds and other tax supported debt total	<u>132,273</u>	<u>33,809</u>	<u>(30,100)</u>	<u>135,982</u>	<u>21,400</u>
Commercial paper notes, net	193,991	247,468	(200,003)	241,456	--
Revenue bonds, net	4,318,355	387,079	(406,791)	4,298,643	172,691
Capital lease obligations	1,176	--	(41)	1,135	46
Debt service requirements total	<u>4,645,795</u>	<u>668,356</u>	<u>(636,935)</u>	<u>4,677,216</u>	<u>194,137</u>
Other long-term obligations					
Accrued compensated absences	23,102	1,032	(310)	23,824	23,416
Pension obligation payable	63,638	--	(1,767)	61,871	--
Other post employment benefits	222,731	32,271	--	255,002	--
Accrued landfill closure and postclosure costs	10,310	245	(620)	9,935	411
Decommissioning expense payable	179,123	6,765	(3,352)	182,536	8,138
Other liabilities	802,507	5,764	(713,094)	95,177	53,919
Business-type activities total	<u>5,947,206</u>	<u>714,433</u>	<u>(1,356,078)</u>	<u>5,305,561</u>	<u>280,021</u>
Total liabilities (1)	<u>7,744,089</u>	<u>1,114,059</u>	<u>(1,593,682)</u>	<u>7,264,466</u>	<u>510,214</u>

(1) This schedule excludes select short-term liabilities of \$91,307 for governmental activities. For business-type activities, it excludes select short-term liabilities of \$201,761, capital appreciation bond interest payable of \$99,707 and derivative instruments of \$90,437.

6 – DEBT AND NON-DEBT LIABILITIES, continued
a -- Long-Term Liabilities, continued

Description	October 1, 2013	Increases	Decreases	September 30, 2014	Amounts Due Within One Year
Business-type activities:					
Electric activities					
General obligation bonds, net	\$ 809	502	(625)	686	149
General obligation bonds and other tax supported debt total	809	502	(625)	686	149
Commercial paper notes, net	88,541	77,918	(3)	166,456	--
Revenue bonds, net	1,340,446	--	(88,060)	1,252,386	47,904
Capital lease obligations	1,176	--	(41)	1,135	46
Debt service requirements total	1,430,972	78,420	(88,729)	1,420,663	48,099
Other long-term obligations					
Accrued compensated absences	9,990	147	(56)	10,081	10,067
Pension obligation payable	28,877	--	(1,247)	27,630	--
Other post employment benefits	92,064	12,283	--	104,347	--
Decommissioning expense payable	179,123	6,765	(3,352)	182,536	8,138
Other liabilities	282,108	3,749	(216,065)	69,792	31,961
Electric activities total	2,023,134	101,364	(309,449)	1,815,049	98,265
Water and Wastewater activities					
General obligation bonds, net	5,067	329	(1,421)	3,975	1,016
Contractual obligations, net	8,281	3,019	(2,958)	8,342	2,033
Other tax supported debt, net	6,348	--	(461)	5,887	477
General obligation bonds and other tax supported debt total	19,696	3,348	(4,840)	18,204	3,526
Commercial paper notes, net	105,450	169,550	(200,000)	75,000	--
Revenue bonds, net	2,451,724	322,016	(225,004)	2,548,736	97,176
Debt service requirements total	2,576,870	494,914	(429,844)	2,641,940	100,702
Other long-term obligations					
Accrued compensated absences	5,260	155	--	5,415	5,415
Pension obligation payable	14,264	--	(206)	14,058	--
Other post employment benefits	55,462	8,484	--	63,946	--
Other liabilities	507,121	350	(494,337)	13,134	13,134
Water and Wastewater activities total	3,158,977	503,903	(924,387)	2,738,493	119,251
Airport activities					
General obligation bonds, net	161	89	(116)	134	29
General obligation bonds and other tax supported debt total	161	89	(116)	134	29
Revenue bonds, net	326,547	35,620	(52,154)	310,013	16,681
Debt service requirements total	326,708	35,709	(52,270)	310,147	16,710
Other long-term obligations					
Accrued compensated absences	1,782	235	(201)	1,816	1,756
Pension obligation payable	4,312	--	(63)	4,249	--
Other post employment benefits	14,926	2,283	--	17,209	--
Other liabilities	1,878	317	(75)	2,120	2,108
Airport activities total	349,606	38,544	(52,609)	335,541	20,574
Nonmajor activities					
General obligation bonds, net	27,155	6,555	(4,804)	28,906	3,108
Certificates of obligation, net	33,658	363	(6,789)	27,232	983
Contractual obligations	47,227	22,952	(12,667)	57,512	13,337
Other tax supported debt, net	3,567	--	(259)	3,308	268
General obligation bonds and other tax supported debt total	111,607	29,870	(24,519)	116,958	17,696
Revenue bonds, net	199,638	29,443	(41,573)	187,508	10,930
Debt service requirements total	311,245	59,313	(66,092)	304,466	28,626
Other long-term obligations					
Accrued compensated absences	6,070	495	(53)	6,512	6,178
Pension obligation payable	16,185	--	(251)	15,934	--
Other post employment benefits	60,279	9,221	--	69,500	--
Accrued landfill closure and postclosure costs	10,310	245	(620)	9,935	411
Other liabilities	11,400	1,348	(2,617)	10,131	6,716
Nonmajor activities total	415,489	70,622	(69,633)	416,478	41,931

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, 2014, 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	1,270	182 (1)(3)	3.85 - 4.30%	9/01/2015-2020
NW Austin MUD	2006	7,995	6,850	3,039 (1)(3)	4.00 - 4.25%	9/01/2015-2026
NW Austin MUD	2010	2,760	1,075	71 (1)(3)	4.00 - 4.25%	3/01/2015-2018
2005 Refunding	2005	145,345	18,655	933 (1)	5.00%	9/1/2015
2005 Refunding	2005	19,535	12,240	4,526 (1)	4.00 - 4.25%	9/1/2015-2025
2005	2005	7,185	4,825	1,308 (1)	3.70 - 4.30%	9/1/2015-2025
2006	2006	31,585	30,985	11,165 (1)	4.00 - 5.38%	9/1/2015-2026
2006	2006	24,150	17,180	5,247 (1)	4.00 - 5.00%	9/1/2015-2026
2006	2006	12,000	8,995	2,837 (1)(4)	4.00 - 6.00%	9/1/2015-2026
2007	2008	97,525	93,025	41,489 (1)	4.64%	9/1/2015-2027
2007	2008	3,820	2,885	1,082 (1)	4.88%	9/1/2015-2027
2007	2008	9,755	2,080	129 (2)	3.66%	11/1/2014-2017
2008 Refunding	2008	172,505	80,450	14,096 (1)	5.00%	9/1/2015-2021
2008	2009	76,045	60,955	28,759 (1)	3.50 - 5.00%	9/1/2015-2028
2008	2009	10,700	8,590	3,242 (1)	4.00 - 5.00%	9/1/2015-2028
2008	2009	26,715	6,450	227 (2)	3.50%	11/1/2014-2015
2009A	2009	20,905	5,440	301 (1)	4.13 - 5.00%	9/1/2015-2016
2009B	2009	78,460	78,460	37,153 (1)	4.15 - 5.31%	9/1/2017-2029
2009	2009	12,500	9,320	5,102 (1)	3.00 - 4.75%	9/1/2015-2039
2009	2009	13,800	6,495	446 (2)	3.00 - 3.25%	11/1/2014-2019
2009	2010	15,000	12,535	4,488 (1)(4)	3.50 - 4.25%	9/1/2015-2029
2010A	2011	79,528	66,330	27,732 (1)	2.00 - 4.00%	9/1/2015-2030
2010B	2011	26,400	24,870	11,952 (1)	3.50 - 4.65%	9/1/2015-2030
2010	2011	22,300	19,390	5,822 (1)	2.00 - 3.50%	9/1/2015-2030
2010	2011	16,450	8,690	269 (2)	1.00 - 1.75%	11/1/2014-2017
2010 Refunding	2011	91,560	87,555	23,585 (1)	4.00 - 5.00%	9/1/2015-2023
2011A	2012	78,090	69,590	33,910 (1)	2.00 - 4.00%	9/1/2015-2031
2011B	2012	8,450	8,350	3,761 (1)	2.50 - 4.50%	9/1/2015-2031
2011	2012	51,150	49,025	29,793 (1)	3.00 - 5.00%	9/1/2015-2041
2011	2012	26,725	18,075	878 (2)	1.00 - 2.00%	11/1/2014-2018
2011A Refunding	2012	68,285	38,265	7,623 (1)	4.00 - 5.00%	9/1/2015-2023
2011B Refunding	2012	3,000	1,030	22 (1)	1.51 - 1.86%	9/1/2015-2016
2012A	2013	74,280	70,945	32,734 (1)	3.00 - 5.00%	9/1/2023-2032
2012B	2013	6,640	5,760	1,860 (1)	2.00 - 3.50%	9/1/2015-2032
2012	2013	24,645	23,290	8,505 (1)	2.00 - 4.00%	9/1/2015-2037
2012	2013	27,135	21,840	2,375 (2)	3.00 - 4.00%	11/1/2014-2019
2012	2013	16,735	15,865	5,857 (1)(4)	2.00 - 3.38%	9/1/2015-2032
2013	2014	104,665	101,370	58,749 (1)	4.00 - 5.00%	9/1/2016-2033
2013	2014	25,355	25,355	15,463 (1)	3.25 - 5.00%	9/1/2016-2038
2013	2014	50,150	46,765	3,808 (2)	1.00 - 3.00%	11/1/2014-2020
2013A Refunding	2014	43,250	39,560	11,167 (1)	5.00%	9/1/2015-2024
2013B Refunding	2014	71,455	69,895	5,058 (1)	0.44 - 2.72%	9/1/2015-2020
			<u>\$ 1,280,575</u>			

(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 \$5,887 and interest of \$2,108 and Drainage Fund principal of \$3,308 and interest of \$1,184.

(4) Included with 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 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.

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.

General obligation bonds authorized and unissued amounted to \$439,480,000 at September 30, 2014. Bond ratings at September 30, 2014 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.

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

The total combined utility systems revenue bond obligations at September 30, 2014, exclusive of discounts, premiums, and loss on refundings consists of \$30,561,469 prior lien bonds and \$148,104,711 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are \$191,741,145 at September 30, 2014. Revenue bonds authorized and unissued amount to \$1,492,642,660 at that date. Bond ratings at September 30, 2014, 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).

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. 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, 2014 (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 (2)	7.35%	11/15/2014-2017
1994 Refunding	1995	142,559	26,894	96,961 (2)	6.60%	5/15/2017-2019
1998 Refunding	1999	139,965	128,605	47,057 (1)	5.25%	5/15/2015-2025
1998A Refunding	1999	105,350	19,499	27,221 (2)	4.25%	5/15/2015-2020
			<u>\$ 178,666</u>			

(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 \$400,000,000 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, 2014, 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.

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

At September 30, 2014, Austin Energy had outstanding tax exempt commercial paper notes of \$140,305,000 and Austin Water Utility had \$75,000,000 of commercial paper notes outstanding with interest ranging from 0.06% to 0.08%, which are adjusted daily. Subsequent issues cannot exceed the maximum rate of 12%. 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):

<u>Note Series</u>	<u>Liquidity Provider</u>	<u>Commitment Fee Rate</u>	<u>Remarketing</u>	<u>Remarketing Fee Rate</u>	<u>Outstanding</u>	<u>Expiration</u>
Various	Bank of Tokyo Mitsubishi	0.41%	Goldman Sachs	0.05%	\$ 215,305	10/15/2017

These notes are payable at maturity to the holder at a price equal to principal plus accrued interest. 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, 2014, 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, 2014, Austin Energy had outstanding taxable commercial paper notes of \$26,156,000 (net of discount of \$4,714) with interest rates ranging from 0.13% to 0.18%. 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):

<u>Note Series</u>	<u>Liquidity Provider</u>	<u>Commitment Fee Rate</u>	<u>Remarketing</u>	<u>Remarketing Fee Rate</u>	<u>Outstanding</u>	<u>Expiration</u>
Various	Citibank	0.28%	Goldman Sachs	0.05%	\$ 26,156	10/15/2017

These taxable notes are payable at maturity to the holder at a price equal to the par value of the note. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by Citibank, 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 Citibank, 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. A 36-month 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, 2014, were A1 (Moody’s Investors Service, Inc.), AA- (Standard & Poor’s), and AA- (Fitch).

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

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, 2014 (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	6,485	178 (1)	5.50%	11/15/2014
2002A Refunding	2002	172,880	25,775	2,854 (1)	5.50%	11/15/2014-2016
2006 Refunding	2006	150,000	130,700	83,163 (1)	5.00%	11/15/2014-2035
2006A Refunding	2007	137,800	69,555	16,383 (1)	5.00%	11/15/2014-2022
2007 Refunding	2007	146,635	59,640	8,936 (1)	5.00%	11/15/2014-2020
2008 Refunding	2008	50,000	42,860	30,870 (1)	5.20 - 6.26%	11/15/2014-2032
2008A Refunding	2008	175,000	174,200	140,917 (1)	4.00 - 6.00%	11/15/2014-2038
2010A Refunding	2010	119,255	110,075	66,726 (1)	4.00 - 5.00%	11/15/2014-2040
2010B Refunding	2010	100,990	100,990	98,529 (1)	4.54 - 5.72%	11/15/2019-2040
2012A Refunding	2013	267,770	267,770	203,210 (1)	2.50 - 5.00%	11/15/2016-2040
2012B Refunding	2013	107,715	107,715	26,997 (1)	0.67 - 3.16%	11/15/2015-2027
			<u>\$ 1,095,765</u>			

(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, 2014 (in thousands):

Gross Revenue (1)	Operating Expense (2)(3)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
\$ 1,375,294	1,028,794	346,500	143,252	2.42

(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 June 2014, the City issued \$282,205,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2014. The net proceeds of \$320,800,603 (after issue costs, discounts, and premiums) from the bond refunding were used to refund \$200,000,000 of the City's outstanding tax-exempt commercial paper issued for the water and wastewater utility system; \$105,780,000 of separate lien revenue refunding bonds, series 2005A, and \$9,725,000 of subordinate lien revenue refunding bonds, series 1998A. The debt service requirements on the refunding bonds are \$531,497,128 with interest rates ranging from 4.0% to 5.0%. Interest payments are due May 15 and November 15 of each year from 2015 to 2043. Principal payments are due May 15 of each year from 2018 to 2035, and November 15 of each year from 2019 to 2043. An economic gain of \$9,769,028 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of \$10,623,466. An accounting loss of \$2,733,850, which will be deferred and amortized, was recorded on this refunding.

Bond ratings at September 30, 2014, were Aa2 (Moody's Investors Service, Inc.), AA (Standard & Poor's), and AA- (Fitch).

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

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, 2014 (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	781	27 (1)	4.60 - 4.70%	11/15/2014-2015 (3)
2002A Refunding	2002	139,695	47,250	3,723 (1)	5.50%	11/15/2014-2016
2004A Refunding	2005	165,145	19,390	3,646 (1)	5.00%	11/15/2014-2029
2005 Refunding	2005	198,485	169,545	58,401 (1)	4.00 - 5.00%	11/15/2014-2030 (3)
2005A Refunding	2006	142,335	8,725	3,413 (1)	4.30 - 5.00%	11/15/2014-2035 (3)
2006 Refunding	2006	63,100	43,080	13,269 (1)	5.00%	11/15/2014-2025
2006A Refunding	2007	135,000	120,525	71,865 (1)	3.50 - 5.00%	11/15/2014-2036
2007 Refunding	2008	135,000	122,865	86,917 (1)	4.40 - 5.25%	11/15/2014-2037
2008 Refunding	2008	170,605	125,120	46,872 (2)	0.03 - 0.12%	11/15/2014-2031 (3)
2009 Refunding	2009	175,000	156,495	70,012 (1)	4.00 - 5.13%	11/15/2014-2029
2009A Refunding	2010	166,575	156,065	115,775 (1)	4.00 - 5.00%	11/15/2014-2039
2010	2010	31,815	29,685	-- (4)	0.00%	11/15/2014-2041
2010A Refunding	2011	76,855	75,535	62,790 (1)	4.00 - 5.13%	11/15/2014-2040
2010B Refunding	2011	100,970	100,970	93,193 (1)	2.49 - 6.02%	11/15/2015-2040
2011 Refunding	2012	237,530	237,530	183,867 (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	325,365	212,172 (1)	2.50 - 5.00%	11/15/2014-2042
2013A Refunding	2013	282,460	282,460	218,643 (1)	3.00 - 5.00%	11/15/2015-2043
2014 Refunding	2014	282,205	282,205	249,292 (1)	4.00 - 5.00%	5/15/2018-2043 (6)
			<u>\$ 2,324,408</u>			

(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.

(6) Series matures on November 15th of the final year.

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	The Bank of Tokyo-Mitsubishi UFJ, Ltd Sumitomo Mitsui Banking Corporation	0.85%	Goldman Sachs	0.05%	<u>\$ 125,120</u>	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, 2014 (in thousands):

	Gross Revenue (1)	Operating Expense (2)(3)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage (4)
\$	472,717	218,071	254,646	204,146	1.25

- (1) Gross revenue includes revenues from operations and interest income.
- (2) Excludes depreciation.
- (3) Excludes other post employment benefits and pension obligation accruals.
- (4) The coverage calculation presented considers all Water and Wastewater debt service obligations, regardless of type or designation. This methodology closely approximates but does not follow exactly the coverage calculation required by the master ordinance.

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, 2014, the total airport system obligation for prior lien bonds is \$310,445,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are \$71,256,575 at September 30, 2014. Revenue bonds authorized and unissued amount to \$735,795,000.

Airport System Revenue Debt -- 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.

The bond rating at September 30, 2014, 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, 2014 (in thousands):

Series	Fiscal Year	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2005 Refunding	2008 (1)	\$ 281,300	214,825	57,707 (2)	0.03 - 0.14%	11/15/2014-2025
2013 Revenue	2013	60,000	60,000	11,888 (3)	2.25%	11/15/2015-2028 (4)
2013A Refunding	2014	35,620	35,620	1,662 (3)	1.56%	11/15/2014-2018
			<u>\$ 310,445</u>			

- (1) Series was remarketed in 2008.
- (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) Interest is paid semiannually on May 15 and November 15.
- (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 \$214,825,000. The associated letter of credit agreement has the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Variable Rate Demand Bonds			Outstanding	Expiration
		Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate		
2005-1	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	\$ 53,725	10/15/2018
2005-2	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	53,650	10/15/2018
2005-3	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	53,725	10/15/2018
2005-4	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	53,725	10/15/2018
					\$ 214,825	

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, 2014. 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, 2014 (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
\$ 109,263	3,620	73,822	39,061	14,480	2.70

- (1) Gross revenue includes revenues from operations and interest income.
- (2) Pursuant to the bond ordinance, in addition to gross revenue, the Airport is authorized to use "other available funds" in the calculation of revenue bond coverage not to exceed 25% of the debt service requirements.
- (3) Excludes depreciation.
- (4) Excludes other post employment benefits and pension obligation accruals.
- (5) Excludes debt service amounts paid with passenger facility charge revenues and restricted bond proceeds applied to current interest payments.

Nonmajor Fund Debt:

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, 2014, the total convention center obligation for prior and subordinate lien bonds is \$182,670,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are \$55,191,678 at September 30, 2014. Revenue bonds authorized and unissued amount to \$760,000 at September 30, 2014.

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.

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

Bond ratings at September 30, 2014, for the revenue bonds and subordinate lien bonds were, respectively, AA3 and A1 (Moody's Investors Service, Inc.), and AA- and A (Standard & Poor's).

The following table summarizes Convention Center original and refunding revenue bonds outstanding at September 30, 2014 (in thousands):

<u>Series</u>	<u>Fiscal Year</u>	<u>Original Amount Issued</u>	<u>Principal Outstanding</u>	<u>Aggregate Interest Requirements Outstanding</u>	<u>Interest Rates of Debt Outstanding</u>	<u>Maturity Dates of Serial Debt</u>
2005 Refunding	2005	\$ 36,720	33,455	14,904 (1)	4.00 - 5.00%	11/15/2014-2029
2008AB Refunding	2008	125,280	103,365	28,099 (2)	0.04 - 0.15%	11/15/2014-2029
2012 Refunding	2012	20,185	19,365	8,275 (1)	2.00 - 5.00%	11/15/2014-2029
2013 Refunding	2014	26,485	26,485	3,913 (1)	2.00 - 5.00%	11/15/2014-2019
			<u>\$ 182,670</u>			

(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):

<u>Bond Sub- Series</u>	<u>Liquidity Provider</u>	<u>Commitment Fee Rate</u>	<u>Remarketing Agent</u>	<u>Remarketing Fee Rate</u>	<u>Outstanding</u>	<u>Expiration</u>
2008-A	JPMorgan Chase Bank, NA	0.42%	Raymond James	0.06%	\$ 51,680	10/1/2017
2008-B	JPMorgan Chase Bank, NA	0.42%	Merrill Lynch, Pierce, Fenner & Smith Inc.	0.05%	51,685	10/1/2017
					<u>\$ 103,365</u>	

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, 2014. 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

Fiscal Year Ended September 30	Governmental Activities (in thousands)					
	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 53,769	39,680	4,287	5,212	10,584	2,442
2016	56,621	37,265	5,234	5,059	10,265	2,204
2017	57,204	35,176	5,476	4,862	9,953	1,959
2018	55,501	32,962	5,720	4,667	9,963	1,671
2019	56,953	30,751	5,968	4,452	8,650	1,381
2020-2024	299,583	115,118	33,720	18,660	17,375	4,533
2025-2029	264,255	51,175	31,987	11,670	10,610	2,136
2030-2034	88,575	7,653	20,323	6,482	6,055	407
2035-2039	--	--	15,915	2,856	--	--
2040-2044	--	--	4,365	281	--	--
	<u>932,461</u>	<u>349,780</u>	<u>132,995</u>	<u>64,201</u>	<u>83,455</u>	<u>16,733</u>
Less: Unamortized bond discounts	(258)	--	--	--	(7)	--
Add: Unamortized bond premiums	42,652	--	2,834	--	1,588	--
Net debt service requirements	<u>974,855</u>	<u>349,780</u>	<u>135,829</u>	<u>64,201</u>	<u>85,036</u>	<u>16,733</u>

Fiscal Year Ended September 30	Total Governmental Debt Service Requirements		
	Principal	Interest	Total
2015	68,640	47,334	115,974
2016	72,120	44,528	116,648
2017	72,633	41,997	114,630
2018	71,184	39,300	110,484
2019	71,571	36,584	108,155
2020-2024	350,678	138,311	488,989
2025-2029	306,852	64,981	371,833
2030-2034	114,953	14,542	129,495
2035-2039	15,915	2,856	18,771
2040-2044	4,365	281	4,646
	<u>1,148,911</u>	<u>430,714</u>	<u>1,579,625</u>
Less: Unamortized bond discounts	(265)	--	(265)
Add: Unamortized bond premiums	47,074	--	47,074
Net debt service requirements	<u>\$ 1,195,720</u>	<u>430,714</u>	<u>1,626,434</u>

6 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Fiscal Year Ended September 30	Business-Type Activities (in thousands)					
	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 4,302	1,403	983	959	15,370	1,503
2016	4,353	1,209	1,071	933	13,590	1,164
2017	3,406	1,017	1,104	905	11,273	869
2018	3,725	869	1,150	875	9,567	581
2019	3,171	715	1,207	844	7,661	324
2020-2024	12,310	1,580	7,006	3,621	6,875	142
2025-2029	--	--	8,878	2,235	--	--
2030-2034	--	--	3,737	737	--	--
2035-2039	--	--	1,730	254	--	--
2040-2044	--	--	--	--	--	--
	<u>31,267</u>	<u>6,793</u>	<u>26,866</u>	<u>11,363</u>	<u>64,336</u>	<u>4,583</u>
Less: Unamortized bond discounts	(14)	--	--	--	--	--
Add: Unamortized bond premiums	2,448	--	366	--	1,518	--
Net debt service requirements	<u>33,701</u>	<u>6,793</u>	<u>27,232</u>	<u>11,363</u>	<u>65,854</u>	<u>4,583</u>

Fiscal Year Ended September 30	Other Tax Supported Debt		Commercial Paper Notes (1)		Revenue Bonds (2)(3)	
	Principal	Interest	Principal	Interest	Principal	Interest
	2015	745	371	241,461	4	172,691
2016	795	342	--	--	190,763	184,554
2017	539	469	--	--	200,104	205,913
2018	545	467	--	--	152,247	213,706
2019	456	575	--	--	153,221	183,898
2020-2024	4,245	950	--	--	931,954	659,499
2025-2029	1,870	118	--	--	950,285	437,086
2030-2034	--	--	--	--	560,405	258,434
2035-2039	--	--	--	--	511,960	130,207
2040-2044	--	--	--	--	268,325	24,836
	<u>9,195</u>	<u>3,292</u>	<u>241,461</u>	<u>4</u>	<u>4,091,955</u>	<u>2,493,661</u>
Less: Unamortized bond discounts	--	--	(5)	--	(3,929)	--
Add: Unamortized bond premiums	--	--	--	--	210,617	--
Net debt service requirements	<u>\$ 9,195</u>	<u>3,292</u>	<u>241,456</u>	<u>4</u>	<u>4,298,643</u>	<u>2,493,661</u>

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

(Continued)

(2) A portion of these bonds are variable rate bonds with rates ranging from 0.03% to 0.15%.

(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, continued
(in thousands)

Fiscal Year Ended September 30	Capital Lease Obligations		Total Business-Type Activities Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
2015	46	56	435,598	199,824	635,422
2016	49	53	210,621	188,255	398,876
2017	52	51	216,478	209,224	425,702
2018	54	48	167,288	216,546	383,834
2019	57	45	165,773	186,401	352,174
2020-2024	333	179	962,723	665,971	1,628,694
2025-2029	427	85	961,460	439,524	1,400,984
2030-2034	117	4	564,259	259,175	823,434
2035-2039	--	--	513,690	130,461	644,151
2040-2044	--	--	268,325	24,836	293,161
	<u>1,135</u>	<u>521</u>	<u>4,466,215</u>	<u>2,520,217</u>	<u>6,986,432</u>
Less: Unamortized bond discounts	--	--	(3,948)	--	(3,948)
Add: Unamortized bond premiums	--	--	214,949	--	214,949
Net debt service requirements	<u>1,135</u>	<u>521</u>	<u>4,677,216</u>	<u>2,520,217</u>	<u>7,197,433</u>

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
	2015	\$ 149	18	166,461	3	47,904
2016	122	11	--	--	65,131	56,811
2017	127	9	--	--	53,793	54,201
2018	115	7	--	--	39,431	52,049
2019	109	4	--	--	41,932	47,158
2020-2024	54	2	--	--	249,497	201,952
2025-2029	--	--	--	--	276,642	138,153
2030-2034	--	--	--	--	196,110	79,822
2035-2039	--	--	--	--	175,410	33,440
2040-2044	--	--	--	--	47,400	2,429
	<u>676</u>	<u>51</u>	<u>166,461</u>	<u>3</u>	<u>1,193,250</u>	<u>725,032</u>
Less: Unamortized bond discounts	--	--	(5)	--	(638)	--
Add: Unamortized bond premiums	10	--	--	--	59,774	--
Net debt service requirements	<u>686</u>	<u>51</u>	<u>166,456</u>	<u>3</u>	<u>1,252,386</u>	<u>725,032</u>

Fiscal Year Ended September 30	Capital Lease Obligations		Total Austin Energy Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
	2015	46	56	214,560	59,094
2016	49	53	65,302	56,875	122,177
2017	52	51	53,972	54,261	108,233
2018	54	48	39,600	52,104	91,704
2019	57	45	42,098	47,207	89,305
2020-2024	333	179	249,884	202,133	452,017
2025-2029	427	85	277,069	138,238	415,307
2030-2034	117	4	196,227	79,826	276,053
2035-2039	--	--	175,410	33,440	208,850
2040-2044	--	--	47,400	2,429	49,829
	<u>1,135</u>	<u>521</u>	<u>1,361,522</u>	<u>725,607</u>	<u>2,087,129</u>
Less: Unamortized bond discounts	--	--	(643)	--	(643)
Add: Unamortized bond premiums	--	--	59,784	--	59,784
Net debt service requirements	<u>\$ 1,135</u>	<u>521</u>	<u>1,420,663</u>	<u>725,607</u>	<u>2,146,270</u>

(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		Contractual Obligations		Other Tax Supported Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 1,016	165	2,033	186	477	238
2016	1,029	123	1,733	146	509	219
2017	856	75	1,527	105	345	300
2018	599	35	1,180	68	349	299
2019	101	7	910	37	292	368
2020-2024	112	7	778	16	2,718	608
2025-2029	--	--	--	--	1,197	76
	<u>3,713</u>	<u>412</u>	<u>8,161</u>	<u>558</u>	<u>5,887</u>	<u>2,108</u>
Less: Unamortized bond discounts	--	--	--	--	--	--
Add: Unamortized bond premiums	262	--	181	--	--	--
Net debt service requirements	<u>3,975</u>	<u>412</u>	<u>8,342</u>	<u>558</u>	<u>5,887</u>	<u>2,108</u>

Fiscal Year Ended September 30	Commercial Paper Notes (1)		Revenue Bonds (2) (3)		Total Austin Water Utility Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2015	75,000	1	97,176	119,668	175,702	120,258	295,960
2016	--	--	95,541	111,973	98,812	112,461	211,273
2017	--	--	112,221	136,786	114,949	137,266	252,215
2018	--	--	76,467	147,656	78,595	148,058	226,653
2019	--	--	73,920	124,118	75,223	124,530	199,753
2020-2024	--	--	498,717	415,886	502,325	416,517	918,842
2025-2029	--	--	542,618	288,457	543,815	288,533	832,348
2030-2034	--	--	351,455	178,463	351,455	178,463	529,918
2035-2039	--	--	336,550	96,767	336,550	96,767	433,317
2040-2044	--	--	220,925	22,407	220,925	22,407	243,332
	<u>75,000</u>	<u>1</u>	<u>2,405,590</u>	<u>1,642,181</u>	<u>2,498,351</u>	<u>1,645,260</u>	<u>4,143,611</u>
Less: Unamortized bond discounts	--	--	(2,668)	--	(2,668)	--	(2,668)
Add: Unamortized bond premiums	--	--	145,814	--	146,257	--	146,257
Net debt service requirements	<u>\$ 75,000</u>	<u>1</u>	<u>2,548,736</u>	<u>1,642,181</u>	<u>2,641,940</u>	<u>1,645,260</u>	<u>4,287,200</u>

(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 0.03% to 0.12%.

(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		Revenue Bonds (1)	
	Bonds		Principal	Interest
	Principal	Interest		
2015	\$ 29	4	16,681	10,086
2016	24	3	18,351	9,391
2017	24	2	21,940	8,986
2018	21	1	23,744	8,532
2019	20	1	24,249	7,673
2020-2024	12	1	131,625	23,787
2025-2029	--	--	73,855	2,802
	130	12	310,445	71,257
Less: Unamortized bond discounts	--	--	(432)	--
Add: Unamortized bond premiums	4	--	--	--
Net debt service requirements	134	12	310,013	71,257

Fiscal Year Ended September 30	Total Airport		
	Debt Service Requirements		
	Principal	Interest	Total
2015	16,710	10,090	26,800
2016	18,375	9,394	27,769
2017	21,964	8,988	30,952
2018	23,765	8,533	32,298
2019	24,269	7,674	31,943
2020-2024	131,637	23,788	155,425
2025-2029	73,855	2,802	76,657
	310,575	71,269	381,844
Less: Unamortized bond discounts	(432)	--	(432)
Add: Unamortized bond premiums	4	--	4
Net debt service requirements	\$ 310,147	71,269	381,416

(1) Portions of these bonds are variable rate bonds with rates ranging from 0.03% to .14%.

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		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 3,108	1,216	983	959	13,337	1,317
2016	3,178	1,072	1,071	933	11,857	1,018
2017	2,399	931	1,104	905	9,746	764
2018	2,990	826	1,150	875	8,387	513
2019	2,941	703	1,207	844	6,751	287
2020-2024	12,132	1,570	7,006	3,621	6,097	126
2025-2029	--	--	8,878	2,235	--	--
2030-2034	--	--	3,737	737	--	--
2035-2039	--	--	1,730	254	--	--
	<u>26,748</u>	<u>6,318</u>	<u>26,866</u>	<u>11,363</u>	<u>56,175</u>	<u>4,025</u>
Less: Unamortized bond discounts	(14)	--	--	--	--	--
Add: Unamortized bond premiums	2,172	--	366	--	1,337	--
Net debt service requirements	<u>28,906</u>	<u>6,318</u>	<u>27,232</u>	<u>11,363</u>	<u>57,512</u>	<u>4,025</u>

Fiscal Year Ended September 30	Other Tax Supported Debt		Revenue Bonds (1)		Total Nonmajor Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2015	268	133	10,930	6,757	28,626	10,382	39,008
2016	286	123	11,740	6,379	28,132	9,525	37,657
2017	194	169	12,150	5,940	25,593	8,709	34,302
2018	196	168	12,605	5,469	25,328	7,851	33,179
2019	164	207	13,120	4,949	24,183	6,990	31,173
2020-2024	1,527	342	52,115	17,874	78,877	23,533	102,410
2025-2029	673	42	57,170	7,674	66,721	9,951	76,672
2030-2034	--	--	12,840	149	16,577	886	17,463
2035-2039	--	--	--	--	1,730	254	1,984
	<u>3,308</u>	<u>1,184</u>	<u>182,670</u>	<u>55,191</u>	<u>295,767</u>	<u>78,081</u>	<u>373,848</u>
Less: Unamortized bond discounts	--	--	(191)	--	(205)	--	(205)
Add: Unamortized bond premiums	--	--	5,029	--	8,904	--	8,904
Net debt service requirements	<u>\$ 3,308</u>	<u>1,184</u>	<u>187,508</u>	<u>55,191</u>	<u>304,466</u>	<u>78,081</u>	<u>382,547</u>

(1) A portion of these bonds are variable rate bonds with rates ranging from 0.04% to 0.15%.

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, 2014, 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 2005	3/1/2015	\$ 66,475
HUD 108 Loan, Series 2006A	8/1/2016	560
HUD 108 Loan, Series 2010A	8/1/2016	985
Austin Water Utility		
Series 2004A	11/15/2014	113,305
Series 2005	5/15/2015	105,780
		<u>\$ 287,105</u>

(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, 2013. Membership in the plans at December 31, 2013, is as follows:

	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>	<u>Total</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	6,050	709	631	7,390
Current employees	8,592	1,732	1,074	11,398
Total	14,642	2,441	1,705	18,788

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. Austin, Texas 78752-3720 www.coaers.org	(512)458-2551
Police Officers' Retirement and Pension Fund	2520 S. IH 35, Ste. 100 Austin, Texas 78704 www.ausprs.org	(512)416-7672
Fire Fighters' Relief and Retirement Fund	4101 Parkstone Heights Dr., Ste. 270 Austin, Texas 78746 www.afrs.org	(512)454-9567

b -- Funding Policy

	<u>City of Austin Employees' Retirement and Pension Fund</u>	<u>City of Austin Police Officers' Retirement and Pension Fund</u>	<u>Fire Fighters' Relief and Retirement Fund</u>
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%	17.20% (1)
City's contribution (percent of earnings)	18.00% (2)	21.63%	22.05%

(1) A rate of 17.70% was effective October 1, 2014

(2) The City contributes two-thirds of the cost of prior service benefit payments. A rate of 18% was effective October 1, 2012.

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, 2014, are as follows (in thousands):

	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>	<u>Total</u>
City	\$ 90,842	32,040	18,768	141,650
Employees	40,127	19,242	14,640	74,009
Total contributions	<u>\$ 130,969</u>	<u>51,282</u>	<u>33,408</u>	<u>215,659</u>

c -- Annual Pension Cost and Net Pension Obligation (Asset)

The City's annual pension cost of \$136,951,000 for the fiscal year ended September 30, 2014, was \$4,699,000 less than the City's actual contributions. Three-year trend information is as follows (in thousands):

	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>	<u>Total</u>
City's Annual Pension Cost (APC)				
2012	\$ 85,335	27,246	15,589	128,170
2013	77,682	27,347	17,861	122,890
2014	89,057	32,563	18,903	140,523
Percentage of APC contributed				
2012	85%	102%	100%	N/A
2013	110%	112%	97%	N/A
2014	102%	98%	99%	N/A
Net Pension Obligation (Asset)				
2012	136,255	(4,733)	(2,451)	129,071
2013	128,406	(8,061)	(1,980)	118,365
2014	126,621	(7,538)	(1,845)	117,238

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):

	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>	<u>Total</u>
Annual required contribution	\$ 86,602	30,133	18,521	135,256
Interest on net pension obligation (asset)	9,951	(440)	(122)	9,389
Adjustment to annual required contribution	(7,496)	2,870	504	(4,122)
Annual pension cost	89,057	32,563	18,903	140,523
Employer contributions	(90,842)	(32,040)	(18,768)	(141,650)
Change in net pension obligation (asset)	(1,785)	523	135	(1,127)
Beginning net pension obligation (asset)	128,406	(8,061)	(1,980)	118,365
Net pension obligation (asset)	<u>\$ 126,621</u>	<u>(7,538)</u>	<u>(1,845)</u>	<u>117,238</u>

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, 2013. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>
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%	6.5% 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	26 years	28.9 years	10.51 years

d -- Schedule of Funding Progress

Information pertaining to the schedule of funding progress for each plan is as follows (in thousands):

<u>Valuation Date, December 31</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>UAAL (1)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Percentage of UAAL to Covered Payroll</u>
City Employees						
2013	\$ 2,047,930	2,909,918	861,988	70.4%	490,553	175.7%
Police Officers						
2013	604,842	911,044	306,202	66.4%	147,139	208.1%
Fire Fighters (2)						
2013	742,073	808,771	66,698	91.8%	85,377	78.1%

(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 \$33.3 million for 4,189 retirees in 2014 and \$26.9 million for 3,945 retirees in 2013.

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, 2014 is as follows (in thousands):

	OPEB
Annual required contribution	\$ 139,900
Interest on net OPEB obligation	24,941
Adjustment to annual required contribution	(39,980)
Annual OPEB cost	124,861
Contributions made	(33,283)
Change in net OPEB obligation	91,578
Beginning net OPEB obligation	598,687
Net OPEB obligation	<u>\$ 690,265</u>

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
2012	\$ 134,082	18%	\$ 493,051
2013	132,595	20%	598,687
2014	124,861	27%	690,265

c -- Schedule of Funding Progress at September 30, 2014 (in thousands):

Actuarial Value of Assets	Actuarial Accrued Liability	UAAL (1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
\$ --	1,471,844	1,471,844	0%	734,710	200.3%

(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, 2014, \$469 thousand in premiums was deferred. As of September 30, 2014, the fair value of Austin Energy's futures, options, swaps and congestion rights, was an unrealized loss of \$26.2 million, of which \$30 million is reported as derivative instruments in liabilities and \$4.2 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, 2014, PCRRs had a fair value of \$0 and CRRs had a fair value of \$308 thousand and, both 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, 2014, Austin Energy had the following outstanding hedging derivative instruments (in thousands):

Type of Transaction	Reference Index	Fair Value at September 30, 2014			Change in Fair Value	Premiums Deferred
		Maturity Dates	Notional Volumes	Fair Value		
Long OTC Call Options	Henry Hub	Jan 2015 - Sep 2018	10,370,518 (1)	\$ 3,923	2,609	2,490
Long OTC Put Options	Henry Hub	Oct 2014 - Dec 2014	1,540,000 (1)	10	10	-
n/a Congestion Rights	ICE (2)	Oct 2014 - June 2016	20,489,148 (3)	308	(1,774)	-
		Derivative instruments (assets)		4,241	845	2,490
Short OTC Call Options	Henry Hub	Apr 2016 - Oct 2016	(1,660,000) (1)	(726)	81	-
Short OTC Put Options	Henry Hub	Oct 2014 - Sep 2018	(10,680,000) (1)	(3,986)	(2,673)	(2,021)
Long OTC Swaps	Henry Hub	Oct 2014 - Sep 2018	33,112,500 (1)	(25,790)	(1,441)	-
		Derivative instruments (liabilities)		(30,502)	(4,033)	(2,021)
		Total		\$ (26,261)	(3,188)	469

(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, 2014, the brokerages had credit ratings of A and A+.

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 counterparties to fail to meet their obligations given their high credit ratings. At September 30, 2014, the two counterparties both had credit ratings of A. The contractual provisions under the International Swaps and Derivatives Association (ISDA) agreement applied to these contracts include collateral provisions. At September 30, 2014, no collateral was required under these provisions.

9 – DERIVATIVE INSTRUMENTS, continued
a -- Energy Risk Management Program, continued

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 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, 2014, the NYMEX price was \$3.98 per MMBTU, the WAHA Hub price was \$3.77 per MMBTU, Katy was \$3.98 per MMBTU, and the HSC Hub price was \$3.96 per MMBTU.

Investment Derivative Instruments

On September 30, 2014, Austin Energy had the following closed out investment derivative instruments (in thousands):

Type of Transaction		Reference Index	Fair Value at September 30, 2014			Change in Fair Value
			Maturity Dates	Volumes in MMBTU	Fair Value	
Long	OTC Swaps	Henry Hub	Dec 2015	155,000	\$ 2	(16)
Short	OTC Swaps	Henry Hub	Dec 2015	(155,000)	7	16
					\$ 9	--

In fiscal year 2014 Austin Energy sold PCRRs and recorded a gain of \$519 thousand. However, this gain was deferred under the accounting requirements for regulated operations. At September 30, 2014, \$1.1 million remained deferred.

Risks

As of September 30, 2014, Austin Energy was not exposed to credit, interest, or foreign currency risk on its investment derivative instruments.

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, 2014, the City has three outstanding swap transactions with initial and outstanding notional amounts totaling \$602.1 million and \$443.3 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, 2014, 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	\$ 125,120	(15,027)
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Pay 4.051%, receive 71% of LIBOR	8/17/2005	11/15/2025	214,825	(32,514)
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	103,365	(12,394)
					<u>\$ 443,310</u>	<u>(59,935)</u>

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, 2014 (in thousands):

Item	Outstanding		Fair Value and Classification	Change in fair value	
	Notional Amount	Fair Value Amount		Deferred Outflows	Deferred Inflows
Business-Type Activities:					
Hedging derivative instruments (cash flow hedges):					
WW2	\$ 125,120	(15,027)	Non-current liability	(1,905)	--
AIR1	214,825	(32,514)	Non-current liability	3,464	--
HOT1	103,365	(12,394)	Non-current liability	155	--
<u>\$ 443,310</u>		<u>(59,935)</u>		<u>1,714</u>	<u>--</u>

Due to the continued low interest rate levels during fiscal year 2014, the City's interest rate swap hedging derivative instruments had negative fair values as of September 30, 2014. 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.

Risks

Credit risk. As of September 30, 2014, 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.

9 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

The counterparty credit ratings for the City's interest rate swap hedging derivative instruments at September 30, 2014 are included in the table below:

Item	Related Variable Rate Bonds	Counterparty	Counterparty Ratings		
			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.	Baa2	A-	A
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Morgan Keegan Financial Products	A3	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, 2014, are included in the table below (in thousands):

Item	Related Variable Rate Bonds	Counterparty Swap Interest			Interest to Bondholders	Net Interest Payments
		Pay	Receive	Net		
Business-Type Activities:						
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	\$ (4,818)	79	(4,739)	(72)	(4,811)
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	(8,803)	253	(8,550)	(158)	(8,708)
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	(3,405)	111	(3,294)	(73)	(3,367)
		<u>\$ (17,026)</u>	<u>443</u>	<u>(16,583)</u>	<u>(303)</u>	<u>(16,886)</u>

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, 2014, 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.

9 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

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 fails 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, 2014, the City did not have any investment derivative instruments related to interest rate swaps.

As of September 30, 2014, 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)		Interest Rate Swaps, Net	Total Interest
	Principal	Interest		
2015	\$ 30,520	125	15,506	15,631
2016	23,820	116	14,561	14,677
2017	12,255	111	14,028	14,139
2018	12,600	107	13,588	13,695
2019	28,525	98	12,637	12,735
2020-2024	169,940	346	45,290	45,636
2025-2029	129,910	101	14,857	14,958
2030-2031	35,740	5	1,203	1,208
Total	\$ 443,310	1,009	131,670	132,679

10 – DEFICITS IN FUND BALANCES AND NET POSITION

At September 30, 2014, 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.

<u>Nonmajor Governmental</u>	<u>Deficit</u>
Special Revenue Funds:	
Fiscal Surety - Land Development	\$ 11
Neighborhood Housing & Conservation	8,150
Mueller Development	6
Rutherford Lane Facility	81
Capital Projects Funds:	
Funds authorized in 1992	
Street & traffic signals	8
Parks and recreation facilities	288
Libraries	17
Funds authorized in 1997	
Radio Trunking	47
Funds authorized in 2006	
Central Library	3,018
Funds authorized in 2010	
Mobility	5,441
Funds authorized in 2012	
Transportation	6,636
Open Space	9,194
Parks	5,425
Public Safety	443
Health	726
Other Funds	
Planning & development improvements	1
General government projects	10,488
Health projects	243
Build Austin	5
Park improvements	889
Capital Reserve	1,200
Public Works	1,360
Watershed Protection	699
City Hall, plaza, parking garage	7,032
Conservation Land	15
Waller Creek Tunnel	9,158
Nonmajor Enterprise	
Austin Resource Recovery	18,956

11 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables, payables, and advances at September 30, 2014, are as follows (in thousands):

Receivable Fund	Payable Fund	Amount	
		Current	Advances
Governmental funds:			
General Fund	Nonmajor governmental funds	\$ 227	--
Nonmajor governmental funds	General Fund	60	--
	Nonmajor governmental funds	81,230	--
	Austin Water Utility	--	1,879
	Nonmajor enterprise funds	--	368
	Internal service funds	--	2
Internal Service funds	Nonmajor governmental funds	11	115
Enterprise funds:			
Austin Energy	General Fund	193	1,257
	Nonmajor governmental funds	--	238
	Austin Water Utility (restricted)	--	17,028
	Airport	149	972
	Nonmajor enterprise funds	332	338
	Internal service funds	13	--
Austin Water Utility	Nonmajor enterprise funds	301	3,006
Airport (restricted)	Nonmajor governmental funds	--	58
Nonmajor enterprise funds	Nonmajor enterprise funds	8,777	--
Nonmajor enterprise funds (restricted)	Nonmajor governmental funds	--	588
		<u>\$ 91,293</u>	<u>25,849</u>

Interfund receivables, payables, and advances reflect loans between funds. Of the above current amount, \$14.3 million and \$9.4 million are interfund loans from the Fiscal Surety Fund and Waller Creek Reserve Fund, special revenue funds, respectively, to cover deficit pooled investments and cash in grant and other special revenue funds. The above current amount also includes \$57.5 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

Interfund transfers during fiscal year 2014 were as follows (in thousands):

Transfers Out	Transfers In							
	General Fund	Nonmajor Governmental	Austin Energy	Austin Water Utility	Airport	Nonmajor Enterprise	Internal Service	Total
General Fund	\$ --	10,809	1,531	14,300	--	875	--	27,515
Nonmajor governmental funds	1,626	21,333	--	--	--	61,061	2,850	86,870
Austin Energy	116,771	--	--	--	--	--	64	116,835
Austin Water Utility	43,701	175	--	--	--	--	246	44,122
Airport	--	--	448	--	--	--	345	793
Nonmajor enterprise funds	524	7,838	--	3,607	--	--	62	12,031
Internal service funds	--	19,091	--	73	3	1,095	1,826	22,088
Total transfers out	<u>\$ 162,622</u>	<u>59,246</u>	<u>1,979</u>	<u>17,980</u>	<u>3</u>	<u>63,031</u>	<u>5,393</u>	<u>310,254</u>

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 3, 2014, the PUC approved the City's most recent wholesale transmission rate of \$1.160111/KW. Transmission revenues totaled approximately \$69 million in 2014. 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, 2014, the City 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 2014, the Airport fund revenues included minimum concession guarantees of \$17,524,129.

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, 2014 (in thousands):

Fiscal Year Ended September 30	Enterprise Airport Lease Receipts
2015	\$ 13,543
2016	4,508
2017	2,330
2018	81
2019	5
2020-2021	6
Totals	<u>\$ 20,473</u>

Projection of minimum future rentals for the Austin-Bergstrom Landhost Enterprises, Inc. is based on the current adjusted minimum rent for the period January 1, 2010 through December 31, 2015. 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.

b – Operating Lease Revenue

The City has entered into various lease agreements as the lessor of office space, antenna space and ground leases. Minimum guaranteed income on these non-cancelable operating leases is as follows (in thousands):

Fiscal Year Ended September 30	Future Lease Receivables
2015	\$ 1,269
2016	1,177
2017	453
2018	459
2019	433
2020-2021	2,173
Totals	<u>\$ 5,964</u>

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 \$29.8 million as of September 30, 2014. The decrease in the pro-rata interest from 2013 is primarily due to a decrease in coal inventory. The pro-rata interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset 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.

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, 2014, Austin Energy's investment in the STP was approximately \$399 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, 2014, the trust's assets were in excess of the estimated liability by \$20.5 million which is reported as part of deferred inflows of resources (in thousands):

Decommissioning trust assets	\$ 194,945
Pro rata decommissioning liability	<u>(174,398)</u>
	<u>\$ 20,547</u>

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.

13 – COMMITMENTS AND CONTINGENCIES, continued

d -- Purchased Power

Austin Energy has commitments totaling \$5.9 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 \$8.8 million at September 30, 2014. Austin Energy anticipates payment of these costs in 2015. The amount is based on 2014 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. The financial statements include a liability of approximately \$3.1 million at September 30, 2014. Austin Water Utility anticipates payment of these costs in 2015. The amount is based on 2014 cost estimates to perform remediation and decommissioning. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

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 \$1.9 million at September 30, 2014, for sites related to Harold Court, Rosewood and Loop 360. Austin Resource Recovery anticipates payment of these costs in 2015. The amount is based on 2014 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, 2014.

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 Department, U.S. Health and Human Services Department, and U.S. Department of Transportation. 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 2014 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.

h -- Capital Improvement Plan, continued

<u>Project</u>	<u>(in thousands)</u>	<u>Remaining Commitment</u>
Governmental activities:		
General government		\$ 74,143
Public safety		18,680
Transportation		94,977
Public health		559
Public recreation and culture		95,791
Urban growth management		55,223
Business-type activities:		
Electric		361,772
Water		241,115
Wastewater		106,385
Airport		171,915
Convention		19,773
Environmental and health services		23,256
Urban growth management		69,548
Total		<u>\$ 1,333,137</u>

i -- Encumbrances

The City utilizes encumbrances to track commitments against budget in governmental funds. The amount of outstanding encumbrances at September 30, 2014, is as follows (in thousands):

	<u>Encumbrances</u>
General Fund	\$ 10,886
Nonmajor governmental	
Special Revenue	19,092
Capital Projects	207,488
	<u>\$ 237,466</u>

Significant encumbrances include reservations for the 2000 bond program (\$12,858), the 2006 bond program (\$78,287), the 2012 bond program (\$17,893), and the Waller Creek Tunnel project (\$23,124).

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 2015. 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, 2014, is as follows (in thousands):

	<u>Closure</u>	<u>Postclosure</u>	<u>Total</u>
Total estimated costs	\$ 15,933	9,899	25,832
% capacity used	100%	100%	100%
Cumulative liability accrued	15,933	9,899	25,832
Costs incurred	(15,897)	--	(15,897)
Closure and postclosure liability	<u>\$ 36</u>	<u>9,899</u>	<u>9,935</u>

13 – COMMITMENTS AND CONTINGENCIES, continued
j -- Landfill Closure and Postclosure Liability, continued

These amounts are based on the 2014 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 28% of city employees and 34% of retirees use the HMO option; approximately 72% of city employees and 66% 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.

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 2014, sixteen claims exceeded the stop-loss limit of \$500,000; during fiscal year 2013, nine claims exceeded the stop-loss limit of \$500,000, and during fiscal year 2012, five 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. 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 \$43.8 to \$58.1 million. In accordance with GAAP, \$43.8 million is recognized as claims payable in the financial statements with \$23.7 million recognized as a current liability and \$20.1 million 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	
	2014	2013	2014	2013	2014	2013
Liability balances, beginning of year	\$ 10,920	10,304	10,123	6,324	18,839	17,591
Claims and changes in estimates	10,832	9,677	5,195	5,547	5,950	6,870
Claim payments	(10,053)	(9,061)	(4,737)	(1,748)	(3,263)	(5,622)
Liability balances, end of year	<u>\$ 11,699</u>	<u>10,920</u>	<u>10,581</u>	<u>10,123</u>	<u>21,526</u>	<u>18,839</u>

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of \$3.6 million discounted at 4.45% in 2014 and \$3.5 million discounted at 4.85% in 2013.

13 – COMMITMENTS AND CONTINGENCIES, continued
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.

The development contains over 1.33 million square feet of civic, institutional, hotel and Class A office space and approximately 532,900 square feet of retail space that is either complete or under construction. Over 75 employers provide approximately 4,800 jobs at Mueller. From the start of home sales in 2007, the community has been well received. As of September 30, 2014, approximately 1,224 single-family homes and 1,222 multi-family units were either complete or under construction. Catellus has also started the infrastructure for an additional 133 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, 2014. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2014 are \$15,500,000 and \$9,979,043, 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, 2014. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2014 are \$2,860,000 and \$847,523, 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, 2014. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2014 are \$12,590,000 and \$3,392,581, respectively.

13 – COMMITMENTS AND CONTINGENCIES, continued
n – Capital Leases

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. See Note 6 for the debt service requirements on this lease.

The following summarizes capital assets recorded at September 30, 2014, under capital lease obligations (in thousands):

Capital Assets	Business-type
	Activities
	Austin
	Energy
Building and improvements	\$ 1,405
Accumulated depreciation	(422)
Net capital assets	<u>\$ 983</u>

o – Operating Leases

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, 2014, was \$16.9 million.

Fiscal Year Ended September 30	Future Lease Payments
2015	\$ 11,964
2016	9,312
2017	8,524
2018	5,735
2019	3,560
2020-2021	10,048
Totals	<u>\$ 49,143</u>

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, 2014. 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. As of September 30, 2014, \$87.3 million in housing revenue bonds were outstanding with an original issue value of \$93.7 million.

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, 2014, \$147.6 million in revenue and revenue refunding bonds were outstanding with an original issue value of \$148.6 million.

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	\$ 82,713
Capital assets	248,809
Other noncurrent assets	13,343
Total assets	<u>344,865</u>
Deferred outflows of resources	<u>25,305</u>
LIABILITIES	
Due to other funds	332
Other current liabilities	19,390
Advances from other funds	338
Other noncurrent liabilities	222,276
Total liabilities	<u>242,336</u>
Deferred inflows of resources	<u>348</u>
NET POSITION	
Net investment in capital assets	44,874
Restricted	31,344
Unrestricted	51,268
Total net position	<u>\$ 127,486</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Position	
OPERATING REVENUES	
User fees and rentals	\$ 25,087
Total operating revenues	<u>25,087</u>
OPERATING EXPENSES	
Operating expenses before depreciation	42,473
Depreciation and amortization	8,941
Total operating expenses	<u>51,414</u>
Operating income (loss)	<u>(26,327)</u>
Nonoperating revenues (expenses)	(7,620)
Capital contributions	57
Transfers	57,611
Change in net position	<u>23,721</u>
Total net position - beginning, as restated	<u>103,765</u>
Total net position - ending	<u>\$ 127,486</u>

Condensed Statement of Cash Flows	
Net cash provided (used) by:	
Operating activities	\$ (16,294)
Noncapital financing activities	57,286
Capital and related financing activities	(21,518)
Investing activities	(351)
Net increase (decrease) in cash and cash equivalents	<u>19,123</u>
Cash and cash equivalents, October 1	<u>51,852</u>
Cash and cash equivalents, September 30	<u>\$ 70,975</u>

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. The most recently available financial statements for Austin Bergstrom Landhost Enterprises, Inc and Austin Convention Enterprises, Inc. are for the year ended December 31, 2013. The condensed financial statements of Waller Creek Local Government Corp. are presented for the year ended September 30, 2014 (in thousands):

Condensed Combining Statement of Net Position

	Austin Bergstrom Landhost Enterprises, Inc.	Austin Convention Enterprises, Inc.	Waller Creek Local Government Corp.	Total
ASSETS				
Current assets	\$ 844	7,752	--	8,596
Capital assets	25,608	167,667	--	193,275
Noncurrent assets	3,806	74,702	--	78,508
Total assets	<u>30,258</u>	<u>250,121</u>	<u>--</u>	<u>280,379</u>
Deferred outflows of resources	<u>--</u>	<u>20,241</u>	<u>--</u>	<u>20,241</u>
LIABILITIES				
Current Liabilities	10,538	14,736	--	25,274
Bonds payable, net of discount and inclusive of premium	54,784	270,971	--	325,755
Noncurrent liabilities	--	37	--	37
Total liabilities	<u>65,322</u>	<u>285,744</u>	<u>--</u>	<u>351,066</u>
NET POSITION				
Net investment in capital assets	(29,175)	(77,050)	--	(106,225)
Restricted	--	5,181	--	5,181
Unrestricted (deficit)	(5,889)	56,487	--	50,598
Total net position	<u>\$ (35,064)</u>	<u>(15,382)</u>	<u>--</u>	<u>(50,446)</u>

Condensed Combining Statement of Revenues, Expenses, and Changes in Net Position

	Austin Bergstrom Landhost Enterprises, Inc.	Austin Convention Enterprises, Inc.	Waller Creek Local Government Corp.	Total
OPERATING REVENUES				
User fees and rentals	\$ 15,498	72,914	--	88,412
Contributions	--	--	150	150
Total operating revenues	<u>15,498</u>	<u>72,914</u>	<u>150</u>	<u>88,562</u>
OPERATING EXPENSES				
Operating expenses before depreciation	12,434	39,019	150	51,603
Depreciation and amortization	1,316	6,213	--	7,529
Total operating expenses	<u>13,750</u>	<u>45,232</u>	<u>150</u>	<u>59,132</u>
Operating income (loss)	<u>1,748</u>	<u>27,682</u>	<u>--</u>	<u>29,430</u>
NONOPERATING REVENUES (EXPENSES)				
Nonoperating revenues (expenses)	(4,076)	(17,074)	--	(21,150)
Change in net position	<u>(2,328)</u>	<u>10,608</u>	<u>--</u>	<u>8,280</u>
Total net position - beginning, as restated	<u>(32,736)</u>	<u>(25,990)</u>	<u>--</u>	<u>(58,726)</u>
Total net position - ending	<u>\$ (35,064)</u>	<u>(15,382)</u>	<u>--</u>	<u>(50,446)</u>

18 – RESTATEMENT AS A RESULT OF THE IMPLEMENTATION OF A NEW ACCOUNTING STANDARD

During fiscal year 2014, the City implemented a new accounting standard, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* which established standards of accounting and reporting standards that reclassify certain items that were previously reported as assets and liabilities to deferred outflows or inflows of resources, and recognize certain items that were previously reported as assets and liabilities as outflows or inflows of resources. As a result of implementing GASB Statement No. 65, net position was restated at October 1, 2013. The City is reporting the deferred loss on bond refunding as a deferred outflow and the deferred gain on bond refunding as a deferred inflow. Bond issuance costs are expensed and no longer amortized annually.

<u>September 30, 2013</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net position, as previously reported	\$ 1,355,433	3,197,015
Adjustments to properly record:		
Implementation of GASB Statement No. 65	(8,909)	(6,662)
Net position, as restated	<u>\$ 1,346,524</u>	<u>3,190,353</u>

<u>September 30, 2013</u>	<u>Airport</u>	<u>Nonmajor Enterprise Funds</u>	<u>Business-Type Activities</u>	<u>Governmental Activities-Internal Service Funds</u>
Net position, as previously reported	\$ 514,948	362,265	3,169,171	128,682
Adjustments to properly record:				
Implementation of GASB Statement No. 65	(2,413)	(4,249)	(6,662)	(11)
Net position, as restated	<u>\$ 512,535</u>	<u>358,016</u>	<u>3,162,509</u>	<u>128,671</u>

19 – SUBSEQUENT EVENTS

a -- General Obligation Bond Issue

In October 2014, the City issued \$89,915,000 of Public Improvement Bonds, Series 2014. The net proceeds of \$104,620,000 (after issue costs, discounts, and premiums) from the issue will be used as follows: streets and signals (\$54,685,000), watershed protection improvements (\$10,000,000), parks and recreation (\$8,310,000), central library (\$20,000,000), and facility improvements (\$11,625,000). These bonds will be amortized serially on September 1 of 2015 and 2017, then each year on September 1 from 2020 to 2034. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2015. Total interest requirements for these bonds, at rates ranging from 3.0% to 5.0%, are \$69,693,650.

In October 2014, the City issued \$35,490,000 of Certificates of Obligation, Series 2014. The net proceeds of \$40,450,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: watershed home buyouts (\$15,000,000), Waller Creek Tunnel (\$25,000,000) and street improvements (\$450,000). These certificates of obligation will be amortized serially on September 1 of each year from 2015 to 2034. Interest is payable on March 1 and September 1 of each year, commencing on March 1, 2015. Total interest requirements for these obligations, at rates ranging from 2.0% to 5.0%, are \$19,927,600.

In October 2014, the City issued \$14,100,000 of Public Property Finance Contractual Obligations, Series 2014. The net proceeds of \$15,800,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: water and wastewater utility capital equipment (\$900,000), public works capital equipment (\$2,300,000), transportation capital equipment (\$1,845,000) and network equipment (\$10,755,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2015 to 2021. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2015. Total interest requirements for these obligations, at rates ranging from 3.0% to 5.0%, are \$2,836,458.

In October 2014, the City issued \$10,000,000 of Public Improvement Taxable Bonds, Series 2014. The net proceeds of \$9,844,936 (after issue costs, discounts, and premiums) from the issuance were used for affordable housing. Interest is payable March 1 and September 1 of each year from 2015 to 2034, commencing on March 1, 2015. Principal payments are due September 1 of each year from 2015 to 2034. Total interest requirements for this obligation, at rates ranging from 0.4% to 4.0% are \$5,806,156.

19 – SUBSEQUENT EVENTS, continued
a -- General Obligation Bond Issue, continued

In October 2014, the City issued \$9,600,000 of Certificates of Obligation Bonds, Taxable Series 2014. The net proceeds of \$9,449,004 (after issue costs, discounts, and premiums) from the issuance were used for Grey Rock Golf Course & Improvements. Interest is payable March 1 and September 1 of each year from 2015 to 2034, commencing on March 1, 2015. Principal payments are due September 1 of each year from 2015 to 2034. Total interest requirements for this obligation, at rates ranging from 0.4% to 3.9%, are \$4,002,858.

b -- Mueller Local Government Corporation – Revenue Bond Issue

In October 2014, the City issued \$15,845,000 of Tax Increment Contract Revenue Bonds, Series 2014. The net proceeds of \$18,492,042 (after issue costs, discounts, and premiums) were used to reimburse the developer of Mueller for additional eligible infrastructure costs such as streets, drainage, and parks. The debt service requirements on the bonds are \$24,217,550 with interest rates ranging from 2.0% to 5.0%. Interest payments are due March 1 and September 1 of each year from 2015 to 2029. Principal payments are due September 1 of each year from 2015 to 2029.

c -- Airport – System Revenue Bond Issue

In January 2015, the City issued \$244,495,000 of Airport System Revenue Bonds, Series 2014. The net proceeds of \$216,378,075 (after issue costs, discounts, and premiums) from the issuance are being used for designing and constructing improvements to Austin-Bergstrom International Airport. Interest is payable May 15 and November 15 of each year from 2015 to 2044, commencing on May 15, 2015. Principal payments are due November 15 of each year from 2026 to 2044. Total interest requirements for this obligation, at a rate of 5%, are \$272,662,118.

d -- Change in City Council structure

As described in Note 1, the voters approved a charter amendment on November 6, 2012, which provides for the election of City Councilmembers from 10 geographical single-member districts, with the mayor to be elected at large. The election was also moved from May to the November general election. The first election for this new process occurred in November 2014. On January 6, 2015, a new Mayor and Councilmembers were sworn in under this new Council structure. The size of the City Council has grown from 7 to 11. The Mayor and Councilmembers serve four-year staggered terms rather than three, and they may serve a maximum of two consecutive terms. Currently half of the Councilmembers are serving a two-year term as a part of the transition to this new structure. Here are the newly elected officials.

Steve Adler, Mayor
Term expires January 2019

Kathie Tovo, Mayor Pro Tem (District 9)
Term expires January 2019

Council Members

Ora Houston (District 1)
Term expires January 2019

Delia Garza (District 2)
Term expires January 2017

Sabino “Pio” Renteria (District 3)
Term expires January 2019

Gregorio “Greg” Casar (District 4)
Term expires January 2017

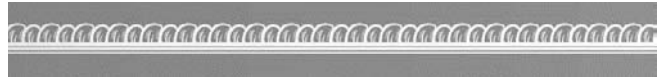
Ann Kitchen (District 5)
Term expires January 2019

Don Zimmerman (District 6)
Term expires January 2017

Leslie Pool (District 7)
Term expires January 2017

Ellen Troxclair (District 8)
Term expires January 2019

Sheri Gallo (District 10)
Term expires January 2017



REQUIRED SUPPLEMENTARY INFORMATION

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General Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2014
(In thousands)

City of Austin, Texas
RSI

General Fund	Actual	Adjustments (1) (2)	Actual- Budget Basis	Budget		Variance (3) Positive (Negative)
				Original	Final	
REVENUES						
Taxes	537,138	100	537,238	524,011	524,011	13,227
Franchise fees	37,407	4	37,411	33,268	33,268	4,143
Fines, forfeitures and penalties	17,130	(1)	17,129	16,555	16,555	574
Licenses, permits and inspections	33,719	(13)	33,706	25,289	25,224	8,482
Charges for services/goods	57,974	(1,046)	56,928	51,575	51,802	5,126
Interest and other	9,335	(5,251)	4,084	3,483	3,483	601
Total revenues	692,703	(6,207)	686,496	654,181	654,343	32,153
EXPENDITURES						
General government						
Municipal Court	14,610	227	14,837	15,012	15,012	175
Public safety						
Police	290,030	(25)	290,005	295,538	295,538	5,533
Fire	142,209	293	142,502	142,413	142,413	(89)
Emergency Medical Services	61,429	734	62,163	60,756	63,143	980
Transportation, planning, and sustainability						
Transportation, planning, and sustainability	(6)	6	--	--	--	--
Public health						
Health	54,196	(3,216)	50,980	51,352	51,352	372
Public recreation and culture						
Parks and Recreation	58,449	615	59,064	59,933	59,933	869
Austin Public Library	31,043	350	31,393	31,448	31,448	55
Urban growth management						
Neighborhood Planning and Zoning	27,195	175	27,370	27,654	27,654	284
Other Urban Growth Management	30,130	3,207	33,337	35,020	34,137	800
General city responsibilities (4)	97,951	(81,583)	16,368	19,005	19,005	2,637
Total expenditures	807,236	(79,217)	728,019	738,131	739,635	11,616
Excess (deficiency) of revenues over expenditures	(114,533)	73,010	(41,523)	(83,950)	(85,292)	43,769
OTHER FINANCING SOURCES (USES)						
Transfers in	162,622	35,231	197,853	200,555	198,393	(540)
Transfers out	(27,515)	(104,099)	(131,614)	(117,075)	(115,899)	(15,715)
Total other financing sources (uses)	135,107	(68,868)	66,239	83,480	82,494	(16,255)
Excess (deficiency) of revenues and other sources over expenditures and other uses	20,574	4,142	24,716	(470)	(2,798)	27,514
Special item - land sale	15,830	--	15,830	--	--	15,830
Fund balance at beginning of year	147,092	3,205	150,297	53,172	75,791	74,506
Fund balance at end of year	183,496	7,347	190,843	52,702	72,993	117,850

(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 expenditures.

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 six 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, Economic 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 (\$465,000), accrued payroll (\$3,228,492), expenditures for workers' compensation (\$7,703,202), liability reserve (\$2,500,000), public safety (\$4,108,805), 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 2014 to increase Emergency Medical Services charges for services. The original expenditure budget of the General Fund was amended during fiscal year 2014 primarily as the result of increased Emergency Medical Services costs. In addition, transfers from the General Fund to the Economic Incentives Reserve Fund were reduced. 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	\$ 20,574
Adjustments - increases (decreases) due to:	
Unbudgeted revenues	(2,122)
Net compensated absences accrual	(327)
Outstanding encumbrances established in current year	(10,017)
Payments against prior year encumbrances	6,485
Other	10,123
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	<u>\$ 24,716</u>

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						
2011	\$ 1,790,900	2,723,800	932,900	65.7%	451,800	206.5%
2012	1,897,700	2,968,400	1,070,700	63.9%	470,200	227.7%
2013	2,047,930	2,909,918	861,988	70.4%	490,553	175.7%
Police Officers						
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%
2013	604,842	911,044	306,202	66.4%	147,139	208.1%
Fire Fighters (2)						
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%
2013	742,073	808,771	66,698	91.8%	85,377	78.1%

(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
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%
2014	2012	--	1,471,844	1,471,844	0.0%	734,710	200.3%

(1) UAAL – Unfunded Actuarial Accrued Liability (Excess)

Supplementary information for the OPEB plan can be found in Footnote 8.

APPENDIX C

SUMMARY OF CERTAIN MASTER ORDINANCE PROVISIONS

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ORDINANCE NO. 010118-53A

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

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

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

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

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

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

(c) "Commercial Paper Obligations" more particularly described as follows: (i) City of Austin, Texas Combined Utility Systems Commercial Paper Notes, Series A", authorized for issuance pursuant to Ordinance No. 930318-A, as amended by Ordinance No. 961121-A and Ordinance No. 980513-A currently authorized up to an aggregate principal amount of \$350,000,000 and (ii) "City of Austin, Texas Combined Utility Systems Taxable Commercial Paper Notes", authorized for issuance pursuant to Ordinance No. 980513-B, as amended by Ordinance No. 000627-A, currently authorized up to an aggregate principal amount of \$160,000,000, and in such aggregate principal amounts as hereinafter provided by amendments to either Ordinance No. 930318-A, as amended, or Ordinance No.980513-B, as amended; and

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

WHEREAS, the City has determined future financing of capital improvements for the City's Electric Light and Power System and the City's Water and Wastewater System should be undertaken and accomplished through the issuance of "Separate Lien Obligations" which will enable the City to restructure provisions governing the issuance of such obligations and relating to the

operations of such systems and provide financing flexibility to both systems, particularly the Electric Light and Power System in a more competitive market resulting from a change in laws affecting the regulation, generation, distribution and sale of electric energy, and

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

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

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

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

Section 2. PLEDGE OF REVENUES/SECURITY FOR PAYMENT. Subject to the prior claim on and lien on the Net Revenues of the Electric Utility System to the payment and security of the Prior First Lien Obligations currently Outstanding, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations, the Net Revenues of the Electric Utility System are hereby pledged to the payment of the Parity Electric Utility Obligations and such Parity Electric Utility Obligations, together with the Prior Subordinate Lien Obligations, shall be equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Electric Utility System in accordance with the terms of this Ordinance and any Supplement. Additionally, Parity Electric Utility Obligations shall be secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund, any special fund or funds created and maintained for the payment and security of the Parity Electric Utility Obligations pursuant to a Supplement and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Electric Utility Obligations pending expenditure in accordance with the terms of this Ordinance and any Supplement. Parity Electric Utility Obligations are and will be secured by and payable only from the Net Revenues of the Electric Utility System, and are not

secured by or payable from a mortgage or deed of trust on any properties, whether real, personal, or mixed, of the Electric Utility System. The owners of the Parity Electric Utility Obligations shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in this Ordinance or any Supplement.

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

Section 4. RATE COVENANT. Subject to any rate regulation by any state or federal regulatory authority, the City will fix, establish, maintain and collect such rates, charges and fees for electric power and energy and services furnished by the Electric Utility System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues each Fiscal Year sufficient:

(i) to pay all current Operating Expenses,

(ii) to produce Net Revenues, after (x) deducting amounts expended during the Fiscal Year from the Electric Utility System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations and (y) taking into account ending fund balances in the System Fund to be carried forward in a Fiscal Year, equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Electric Utility Obligations; and

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

If the Net Revenues in any Fiscal Year are less than the aggregate amount specified above the City shall promptly upon receipt of the annual audit for such Fiscal Year cause such rates and charges to be revised and adjusted to comply with this Section or obtain a written report from a Utility System Consultant after a review and study of the operations of the Electric Utility System has been made concluding that, in their opinion, the rates and charges then in effect for the current Fiscal Year are sufficient or adjustments and revisions need to be made to such rates and charges

to comply with this Section and such adjustments and revisions to electric rates and charges are promptly implemented and enacted in accordance with such Utility System Consultant's report. Notwithstanding anything herein to the contrary, the City shall be deemed to be in compliance herewith if either of the actions mentioned in the preceding sentence are undertaken and completed prior to the end of the Fiscal Year next following the Fiscal Year the deficiency in Net Revenues occurred.

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

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

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

(c) **OPERATION AND MAINTENANCE.** The Electric Utility System shall be operated in an efficient manner consistent with Prudent Utility Practice, and the plants, facilities and properties of the Electric Utility System shall be maintained, preserved and kept in good repair, working order and condition, and proper maintenance, repairs and replacements of such property, facilities and plants shall occur to preserve and keep the Electric Utility System operating in a business like manner; provided, however, nothing herein is intended nor shall any statement herein be construed to prevent the City from ceasing to operate or maintain, or from leasing or disposing of, any portion or component of the Electric Utility System if, in the judgment of the governing body of the City having responsibility for the management and operation of the Electric Utility System, including the making of any final decision on the acquisition and disposal of Electric Utility System properties, determines (i) it is advisable to lease, dispose of or not operate and maintain the same, (ii) the operation thereof is not essential to the maintenance and continued operation of the remainder of the Electric Utility System and (iii) the lease, disposition or failure to maintain or

operate such component or portion of the Electric Utility System will not prevent the City from complying with the requirements of Section 4 hereof.

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

(e) **LIENS.** All taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon the Electric Utility System, its properties or revenues, shall be paid before the same become delinquent; all lawful claims for rents, royalties, labor, materials and supplies shall be paid in a timely manner, which if unpaid might by law become a lien or charge on the revenues of the Electric Utility System or the Electric Utility System's properties prior to or interfere with the liens hereof, and it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the lien on and pledge of the Net Revenues of the Electric Utility System for the Parity Electric Utility Obligations granted by this Ordinance or any Supplement might or could be impaired; provided however, that no such tax, assessment or charge, and no such claims that might result in a mechanic's, laborer's, materialman's or other lien or charge, shall be required to be paid while the validity of the same shall be contested in good faith by the City.

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

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

(h) **SALE, LEASE OR DISPOSAL OF SYSTEM PROPERTY.** To the extent and in the manner provided by law, the City can sell, exchange or otherwise dispose of property, facilities and assets of the Electric Utility System at any time and from time to time. Furthermore, the City to the extent and in the manner provided by law may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the Electric Utility System. The proceeds of any such sale, exchange or disposal of property or facilities shall be deposited to the credit of a special Fund or Account, and funds deposited to the credit of such special Fund or Account shall be used to acquire other property necessary or desirable for the safe or efficient operation of the Electric Utility System, to redeem or purchase Prior First Lien Obligations, Prior Subordinate Lien Obligations, Parity Electric Utility Obligations or for any other Electric Utility System purpose.

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

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

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

(k) **AUDITS.** After the close of each Fiscal Year while any of the Parity Electric Utility Obligations are Outstanding, an annual audit of the books, records and accounts relating to the operations of the Electric Utility System shall be made by an Accountant as part of the City's overall annual comprehensive audit. After such annual audit has been completed and approved by the

City, a copy thereof shall be sent to the Municipal Advisory Council of Texas and to any owner of \$100,000 or more in Outstanding Principal Amount of Parity Electric Utility Obligations who shall request a copy of such annual audit in writing. A copy of such annual audit shall be available for the inspection at the administrative offices of the Electric Utility System by the owners of the Parity Electric Utility Obligations and their agents and representatives at all reasonable times during regular business hours.

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

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

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

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

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

THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable and (ii) the special Funds and Accounts maintain for the payment and security of the Parity Electric Utility Obligations pursuant to this Ordinance or a Supplement.

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

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

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

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

Section 8. ISSUANCE OF ADDITIONAL OBLIGATIONS. (a) Parity Electric Utility Obligations. The City reserves and shall have the right and power to issue or incur Parity Electric Utility Obligations for any purpose authorized by law pursuant to the provisions of this Ordinance and a Supplement hereafter adopted. The City may issue, incur, or otherwise become liable in respect of any Parity Electric Utility Obligations if a Designated Financial Officer shall certify in writing:

(i) the City is in compliance with all covenants contained in this Ordinance and any Supplement, is not in default in the performance and observance of any of the terms, provisions and conditions hereof and thereof, and the Funds and Accounts established for the payment and security of the Parity Electric Utility Obligations then Outstanding contain the amounts then required to be deposited therein or the proceeds of sale of the Parity Electric Utility Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts, if any; and

(ii) the Net Revenues of the Electric Utility System, for the last completed Fiscal Year preceding the date of the then proposed Parity Electric Utility Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Electric Utility Obligations and after deducting amounts expended from the Electric Utility System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, exceed One Hundred Ten Per Cent (110%) the maximum Annual Debt Service Requirement of the Parity Electric Utility Obligations to be Outstanding after giving effect to the issuance of the then proposed Parity Electric Utility Obligations.

For purposes of paragraph (a) (ii), if Parity Electric Utility Obligations are issued to refund less than all of the Parity Electric Utility Obligations then Outstanding, the Designated Financial Officer's certificate required above shall give effect to the issuance of the proposed refunding Parity Electric Utility Obligations (and shall not give effect to the Parity Electric Utility Obligations being refunded following their cancellation or provision being made for their payment).

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

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

(d) Separately Financed Projects. The City expressly retains the right to issue or incur bonds, notes, or other obligations or evidences of indebtedness, other than Parity Electric Utility Obligations, for any project or purpose for goods or services other than the generation, transmission, distribution and sale of electric energy and capacity or related goods and services, which presently are or hereafter may be authorized or permitted to be provided or maintained by municipal electric systems generally or the City specifically under the laws of the State of Texas, federal law or the City's home rule charter; provided the bonds, notes or other obligations issued or incurred for any such separately financed project are payable from and secured by other available funds derived from the ownership or operation thereof or excess Net Revenues remaining after satisfying, or making provision for the satisfaction of, the "First" through the "Fourth" priority of claims identified on such Net Revenues in Section 6 hereof and separate books and records for such separately financed project or activity are maintained by the City

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

(f) Determination of Net Revenues. In making a determination of Net Revenues for any of the purposes described in this Section, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Electric Utility System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Electric Utility System for the period of time covered by his or her certification based on such change in rates and charges being in effect for the entire period covered.

Section 9. FINAL DEPOSITS; GOVERNMENT OBLIGATIONS. (a) Any Parity Electric Utility Obligation shall be deemed to be paid, retired and cease to be Outstanding within the meaning of this Ordinance, and the Supplement pursuant to which it was issued, when payment of the principal amount of, redemption premium, if any, on such Parity Electric Utility Obligation, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either shall have been (i) made in accordance with the terms thereof or (ii) provided by irrevocably depositing with, or making available to, a Paying Agent (or escrow agent) therefor, in trust and set aside exclusively for such payment, in accordance with the terms and conditions of an agreement between the City and said Paying Agent (or escrow agent), (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of such Paying Agent pertaining to the Parity Electric Utility Obligation with respect to which such deposit is made shall have been paid or the payment thereof duly provided (and irrevocable instructions shall have been given by the City to such Paying Agent to give notice of such redemption in the manner required by the Supplement authorizing the issuance of such Parity Electric Utility Obligation) to the satisfaction of such Paying Agent. Such Paying Agent shall give notice to each owner of any Parity Electric Utility Obligation that such deposit as described above has been made, in the same manner as required with respect to the redemption of such Parity Electric Utility Obligation, all in accordance with the terms of the Supplement pursuant to which such Parity Electric Utility Obligation was issued. In addition, in connection with a defeasance, such Paying Agent shall give notice of redemption, if necessary, to the owners of any Parity Electric Utility Obligation in the manner provided in the Supplement for such Parity Electric Utility Obligation and as directed in the redemption instructions delivered by the City to such Paying Agent. At such time as a Parity Electric Utility Obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or the Supplement pursuant to which it was issued or a lien on and pledge of the Net Revenues, and shall be entitled to payment solely from such money or Government Obligations.

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

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

Section 10. AMENDMENT OF ORDINANCE. (a) Required Owner Consent for Amendments. The owners of a majority in Outstanding Principal Amount of the Parity Electric Utility Obligations shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City, provided, however, that nothing contained herein shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Parity Electric Utility Obligations so as to:

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

unless such amendment or amendments be approved by the owners of all of the Parity Electric Utility Obligations affected by the change or amendment then Outstanding.

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

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

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

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

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

(1) To vest the management and control of the Electric Utility System in an independent board of trustees or similar board pursuant to authority conferred by V.T.C.A., Government Code, Section 1502.070 et seq. or other law now or hereafter enacted;

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

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

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

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

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

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

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

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

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

Section 11. DEFICIENCIES. If on any occasion there shall not be sufficient Net Revenues to make the required deposits into the Funds and Accounts established in accordance with this Ordinance and any Supplement, then such deficiency shall be made up as soon as possible from the next available Net Revenues, or from any other source available for such purpose.

Section 12. FUNDS SECURED. Moneys in all Funds and Accounts created in accordance with this Ordinance and any Supplement shall be secured in the manner prescribed by law for securing funds of the City.

Section 13. INVESTMENTS. Moneys in any Fund or Account established pursuant to this Ordinance and any Supplement may, at the option of the City, be placed or invested in Eligible Investments. The value of any such Fund or Account shall be established by adding any money therein to the Value of Investment Securities. The value of each such Fund or Account shall be established no less frequently than annually during the last month of each Fiscal Year. Earnings derived from the investment of moneys on deposit in the various Funds and Accounts shall be credited to the Fund or Account from which moneys used to acquire such investment shall have come.

Section 14. BENEFITS OF ORDINANCE. Nothing in this Ordinance, expressed or implied, is intended or shall be construed to confer upon any person other than the City, the Paying Agent/Registrar and the Holders, any right, remedy, or claim, legal or equitable, under or by reason of this Ordinance or any provision hereof, this Ordinance and all its provisions being intended to be and being for the sole and exclusive benefit of the City, the Paying Agent/Registrar and the Holders.

Section 15. GOVERNING LAW. This Ordinance shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

Section 16. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

Section 17. CONSTRUCTION OF TERMS. If appropriate in the context of this Ordinance, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine or neuter gender shall be considered to include the other genders.

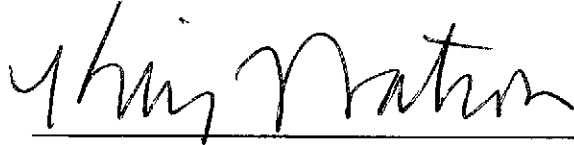
Section 18. SEVERABILITY. If any provision of this Ordinance or the application thereof to any circumstance shall be held to be invalid, the remainder of this Ordinance and the application thereof to other circumstances shall nevertheless be valid, and the City Council hereby declares that this Ordinance would have been enacted without such invalid provision.

Section 19. PUBLIC MEETING. It is officially found, determined, and declared that the meeting at which this Ordinance is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Ordinance, was given; all as required by V.T.C.A., Government Code, Chapter 551, as amended.

Section 20. EMERGENCY. The public importance of this measure and the fact that there is an urgent public need for the City to obtain the funds from the sale of the Bonds as soon as possible and without delay for the immediate preservation of the public peace, health and safety of the citizens of the City constitute and create an emergency requiring the suspension of the rule providing for ordinances to be read on three separate days; and such rule relating to the passage of ordinances and the Charter provision relating to the effective date of ordinances are hereby suspended and this ordinance is hereby passed as an emergency measure and shall be effective immediately upon its passage and adoption as provided by the Charter of the City.

PASSED AND ADOPTED, this 18th day of January, 2001.

CITY OF AUSTIN, TEXAS



KIRK WATSON
Mayor

ATTEST:



SHIRLEY A. BROWN
City Clerk

APPROVED:



ANDREW MARTIN
City Attorney

(City Seal)

EXHIBIT "A"

DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Debt Service Fund" means the "Electric Utility System Revenue Obligation Debt Service Payment Fund" established pursuant to Section 7 of the Ordinance.

"Designated Financial Officer" shall mean the Director of Finance, City Treasurer or such other official of the City having primary responsibility for the fiscal management and operations of the System.

"Electric Utility System" means all properties, facilities and plants currently owned, operated and maintained by the City for the generation, transmission, distribution and sale of electric energy and power, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing and to the extent now or hereafter authorized or permitted by law, the Electric Utility System, as defined herein, shall not include (i) properties and facilities owned in whole or in part by the City and under the management and control of the electric utility department of the City but provide a service or product apart from the generation, transmission, distribution or sale of electric energy and power such as a fiber optic system, chiller tower facilities, etc.; (ii) facilities of any kind which are declared not to be a part of the Electric Utility System and which are acquired or constructed by or on behalf of the City with the

proceeds from the issuance of "Special Facilities Debt", which term is defined as being special revenue obligations of the City not secured by or payable from the Net Revenues but which are secured by and payable solely from special contract revenues, or payments received from the City or any other legal entity, or any combination thereof, in connection with such facilities; or (iii) separately financed projects or properties contemplated and authorized pursuant to Section 8(d) of the Ordinance.

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

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

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

"Funded Debt" of the Electric Utility System means all Parity Electric Utility Obligations (and, for purposes of Section 9(b) of the Ordinance, all Subordinated Debt) created or assumed by the City and payable from Net Revenues maturing by their terms (in the absence of the exercise of any earlier right of demand), or renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

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

"Gross Revenues" means those revenues, income, and receipts derived or received by the City from the operation and ownership of the Electric Utility System, including interest income and earnings from the investment or deposit of money in any Fund created by the Ordinance or a Supplement or maintained by the City in connection with the Electric Utility System, other than those amounts subject to payment to the United States of America as rebate pursuant to section 148 of the Code. The term "Gross Revenues", however, does not include refundable meter deposits, restricted gifts, grants in aid of construction or "transition charges" or similar charges imposed pursuant to V.T.C.A., Utilities Code, Subchapter G of Chapter 39 or similar law imposed for the payment of "transition bonds".

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

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

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

"Operating Expenses" means the expenses of operation and maintenance of the Electric Utility System, including all salaries, labor, materials repairs, and extensions necessary to render efficient service, provided, however, that only such repairs and extensions, as in the judgment of the City, reasonably and fairly exercised by the passage of appropriate ordinances, are necessary to render adequate service, or such as might be necessary to meet some physical accident or condition which would otherwise impair any Parity Electric Utility Obligations. Operating Expenses shall include the purchase of power, and, to the extent permitted by law Operating Expenses may include payments made on or in respect of obtaining and maintaining any Credit Agreement or Credit Facility. Depreciation shall not be considered as expenses of operation and maintenance.

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

"Ordinance" means this Ordinance No. 010118-53A pertaining to the issuance of Parity Electric Utility Obligations, and any amendments thereto.

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

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

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

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

"Parity Electric Utility Obligations" means all Debt of the City issued or incurred in accordance with the terms of the Ordinance and a Supplement, and secured by a lien on and pledge of the Net Revenues.

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

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

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

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

"Rating Agency" means a nationally recognized securities rating agency which has assigned a rating to the Parity Electric Utility Obligations.

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

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

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

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

"System Fund" or **"Electric Fund"** means the "Electric Light and Power System Fund" affirmed in Section 6 of the Ordinance.

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

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

"Value of Investment Securities" and words of like import shall mean the amortized value thereof, provided, however, that all United States of America, United States Treasury Obligations--State and Local Government Series shall be valued at par and those obligations which are redeemable at the option of the holder shall be valued at the price at which such obligations are then redeemable. The computations made under this paragraph shall include accrued interest on the investment securities paid as a part of the purchase price thereof and not collected. For the purposes of this definition "amortized value", when used with respect to a security purchased at par means the purchase price of such security.

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APPENDIX D

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

Definitions. The following definitions are provided:

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

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

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

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

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

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

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

Outstanding-shall mean with respect to Bonds, as of the date of determination, all Bonds theretofore issued and delivered under this Ordinance, except:(i) those Bonds canceled by the Paying Agent/Registrar or delivered

to the Paying Agent/Registrar for cancellation; (ii) those Bonds for which payment has been duly provided by the City in accordance with the provisions of Section 27 hereof; and (iii) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 30 hereof.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Records and Accounts. The City hereby covenants and agrees that so long as any of the Bonds or any interest thereon remains Outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the Waterworks and Sewer System and the Electric Light and Power System in which complete and correct entries shall be made of all transactions relating thereto, as provided by Article 1113, V.A.T.C.S. The Holders of any Bonds or any duly authorized agent or agents of such Holders shall have the right at all reasonable times to inspect such records, accounts and data relating thereto, and to inspect the respective Systems and all properties comprising same. The City further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made

by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

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

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

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

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

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

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

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

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

(b) Any moneys so deposited with the Paying Agent/Registrar, or an authorized escrow agent, may at the direction of the City also be invested in Government Obligations, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Government Obligations not required for the payment of the obligations,

the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City or deposited as directed by the City.

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

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

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

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

Special Obligations. The Bonds are special obligations of the City payable from the pledged Net Revenues of the Systems and the Holders shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

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APPENDIX E
FORMS OF BOND COUNSEL'S OPINIONS

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[Closing Date]

IN REGARD to the authorization and issuance of the "City of Austin, Texas, Electric Utility System Revenue Refunding Bonds, Series 2015A" (the "Bonds"), dated May 1, 2015, in the principal amount of \$327,845,000, we have examined into the legality and validity of the issuance thereof by the City of Austin, Texas (the "City"), which Bonds are issuable in fully registered form only and mature on November 15 in each of the years stated in the pricing certificate (the "Pricing Certificate") executed pursuant to the Ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance" and, collectively with the Pricing Certificate, the "Authorization"), unless redeemed prior to maturity in accordance with the applicable redemption provisions. The Bonds accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Authorization.

We have acted as Bond Counsel for the City solely to pass upon the legality and validity of the Bonds under the Constitution and laws of the State of Texas, the defeasance and discharge of the City's certain outstanding obligations being refunded by the Bonds, and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes, and none other. 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 City's Electric Utility System (the "System") and have not assumed any responsibility with respect thereto. Capitalized terms used herein and not otherwise defined have the meanings assigned in the Ordinance.

In rendering the opinions herein we have examined and rely upon the applicable and pertinent provisions of the Constitution and laws of the State of Texas; the Charter of the City; a transcript of certified proceedings of the City relating to the authorization, issuance, sale, and delivery of the Bonds, including a Master Ordinance and the Ordinance (collectively, the "Ordinances"), a Special Escrow Agreement between the City and Wilmington Trust, National Association (the "Escrow Agreement"), a special report (the "Report") of The Arbitrage Group, Inc., Certified Public Accountants (the "Accountants"); certificates and opinions of officials of the City; other pertinent instruments authorizing and relating to the issuance of the Bonds; and an examination of the Bond executed and delivered initially by the City, which we found to be in due form and properly executed.

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at nortonrosefulbright.com

Page 2 of Legal Opinion of Norton Rose Fulbright US LLP

Re: "City of Austin, Texas, Electric Utility System Revenue Refunding Bonds, Series 2015A",
dated May 1, 2015

1. The Bonds have been duly authorized, issued and delivered in accordance with law and the Bonds are valid, legally binding and enforceable special obligations of the City in accordance with their terms payable solely from and, together with the "City of Austin, Texas, Electric Utility System Revenue Refunding Bonds, Taxable Series 2015B" (authorized for issuance concurrently with the Bonds), the outstanding Previously Issued Electric Utility Obligations and outstanding Prior Subordinate Lien Obligations (identified and defined in the Ordinances), equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the manner provided in the Ordinances except to the extent the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally. Subject to the restrictions stated in the Ordinances, the City has reserved the right, to issue and incur additional revenue obligations payable from and equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as the Bonds.

2. The Escrow Agreement has been duly authorized, executed and delivered and is a binding and enforceable agreement in accordance with its terms and the outstanding obligations refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust pursuant to the Escrow Agreement and in accordance with the provisions of Texas Government Code, Chapter 1207. In rendering this opinion, we have relied upon the verification by the Accountants of the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

3. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporations, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign

Page 3 of Legal Opinion of Norton Rose Fulbright US LLP
Re: "City of Austin, Texas, Electric Utility System Revenue Refunding Bonds, Series 2015A",
dated May 1, 2015

corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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[Closing Date]

IN REGARD to the authorization and issuance of the "City of Austin, Texas, Electric Utility System Revenue Refunding Bonds, Taxable Series 2015B" (the "Bonds"), dated May 1, 2015, in the principal amount of \$81,045,000, we have examined into the legality and validity of the issuance thereof by the City of Austin, Texas (the "City"), which Bonds are issuable in fully registered form only and mature on November 15 in each of the years stated in the pricing certificate (the "Pricing Certificate") executed pursuant to the Ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance" and, collectively with the Pricing Certificate, the "Authorization"), unless redeemed prior to maturity in accordance with the applicable redemption provisions. The Bonds accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Authorization.

We have acted as Bond Counsel for the City solely to pass upon the legality and validity of the Bonds under the Constitution and laws of the State of Texas, the defeasance and discharge of the City's certain outstanding obligations being refunded by the Bonds and none other. 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 City's Electric Utility System (the "System") and have not assumed any responsibility with respect thereto. Capitalized terms used herein and not otherwise defined have the meanings assigned in the Ordinance.

In rendering the opinions herein we have examined and rely upon the applicable and pertinent provisions of the Constitution and laws of the State of Texas; the Charter of the City; a transcript of certified proceedings of the City relating to the authorization, issuance, sale, and delivery of the Bonds, including a Master Ordinance and the Ordinance (collectively, the "Ordinances"), a Special Escrow Agreement between the City and Wilmington Trust, National Association (the "Escrow Agreement"), a special report (the "Report") of The Arbitrage Group, Inc., Certified Public Accountants (the "Accountants"); certificates and opinions of officials of the City; other pertinent instruments authorizing and relating to the issuance of the Bonds; and an examination of the Bond executed and delivered initially by the City, which we found to be in due form and properly executed.

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

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Page 2 of Legal Opinion of Norton Rose Fulbright US LLP
Re: "City of Austin, Texas, Electric Utility System Revenue Refunding Bonds, Taxable Series 2015B", dated May 1, 2015

1. The Bonds have been duly authorized, issued and delivered in accordance with law and the Bonds are valid, legally binding and enforceable special obligations of the City in accordance with their terms payable solely from and, together with the "City of Austin, Texas, Electric Utility System Revenue Refunding Bonds, Series 2015A" (authorized for issuance concurrently with the Bonds), the outstanding Previously Issued Electric Utility Obligations and outstanding Prior Subordinate Lien Obligations (identified and defined in the Ordinances), equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the manner provided in the Ordinances except to the extent the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally. Subject to the restrictions stated in the Ordinances, the City has reserved the right, to issue and incur additional revenue obligations payable from and equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as the Bonds.

2. The Escrow Agreement has been duly authorized, executed and delivered and is a binding and enforceable agreement in accordance with its terms and the outstanding obligations refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust pursuant to the Escrow Agreement and in accordance with the provisions of Texas Government Code, Chapter 1207. In rendering this opinion, we have relied upon the verification by the Accountants of the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

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; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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