

OFFICIAL STATEMENT DATED MAY 22, 2019

NEW ISSUE - Book-Entry-Only

Ratings: Moody's: "Aa3"

S&P: "AA"

Fitch: "AA"

(See "OTHER RELEVANT INFORMATION – Ratings")

Interest on the Bonds will be included in gross income for federal income tax purposes. See "TAX MATTERS" in this document.



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

\$464,540,000

Electric Utility System Revenue Bonds, Taxable Series 2019A

Dated: Date of Initial Delivery

Due: As shown on the inside cover page

The bonds offered in this document are the \$464,540,000 City of Austin, Texas Electric Utility System Revenue Bonds, Taxable Series 2019A (the "Bonds"). The Bonds represent the sixteenth series of "Parity Electric Utility Obligations" issued pursuant to City of Austin, Texas (the "City") Ordinance No. 010118-52A, passed on January 18, 2001, by the City Council of the City (the "City Council") governing the issuance of the City's Electric Utility System indebtedness (the "Master Ordinance") and are authorized and being issued in accordance with supplemental ordinances pertaining to the Bonds, including Ordinance No. 20190509-037, passed on May 9, 2019, by the City Council (the "Sixteenth Supplement"). The Sixteenth Supplement delegated to a designated "Pricing Officer" the authority to effect the sale of the Bonds, subject to the terms of the Sixteenth Supplement. See "INTRODUCTION" in this document. 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 Subordinate Lien Obligations (defined in this document) while they remain outstanding. The Master Ordinance provides that no additional revenue obligations payable from the same sources and secured in the same manner as the Prior Subordinate Lien Obligations shall be issued. Commercial Paper Obligations (defined in this document) currently authorized, having a combined pledge of Net Revenues of the Electric Light and Power System and Water and Wastewater System (the "Combined Utility Systems"), 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 and the Sixteenth 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, 2019 and each May 15 and November 15 thereafter until maturity or prior redemption. The Bonds will be registered in the name of 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. U.S. Bank National Association, 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 - Redemption of the Bonds" in this document).

The Bonds are offered for delivery when, as, and if issued and subject, among other things, to the opinions of the Attorney General of 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 – "Form of Bond Counsel's Opinion" in this document). Certain legal matters will be passed upon for the City by McCall, Parkhurst & Horton L.L.P., Disclosure Counsel for the City, and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP.

It is expected that the Bonds will be delivered through the facilities of DTC on or about June 13, 2019.

J.P. Morgan

HilltopSecurities

Loop Capital Markets

Piper Jaffray & Co.

CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
\$464,540,000
Electric Utility System Revenue Bonds, Taxable Series 2019A
Base CUSIP No. 052414 (1)

MATURITY SCHEDULE

| <u>Maturity Date</u> <u>(November 15)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Initial</u> <u>Yield</u> | <u>CUSIP</u> <u>Suffix (1)</u> |
|--|-----------------------------------|--------------------------------|--------------------------------|-----------------------------------|
| 2019 | \$ 31,355,000 | 2.425% | 2.425% | RK7 |
| 2020 | 31,125,000 | 2.425% | 2.425% | RL5 |
| 2021 | 31,890,000 | 2.425% | 2.425% | RM3 |
| 2022 | 32,680,000 | 2.456% | 2.456% | RN1 |
| 2023 | 33,505,000 | 2.524% | 2.524% | RP6 |
| 2024 | 34,370,000 | 2.574% | 2.574% | RQ4 |
| 2025 | 35,290,000 | 2.677% | 2.677% | RR2 |
| 2026 | 36,265,000 | 2.777% | 2.777% | RS0 |
| 2027 | 37,305,000 | 2.837% | 2.837% | RT8 |
| 2028 | 38,400,000 | 2.937% | 2.937% | RU5 |
| 2029 | 39,555,000 | 2.987% | 2.987% | RV3 |
| 2030 | 40,765,000 | 3.037% | 3.037% | RW1 |
| 2031 | 42,035,000 | 3.087% | 3.087% | RX9 |

(Interest to accrue from Date of Initial Delivery)

Redemption of the Bonds

The Bonds will be subject to Make Whole Optional Redemption as defined in “DESCRIPTION OF THE BONDS – Redemption of the Bonds” in this document.

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data in this document is provided by CUSIP Global Services (“CGS”), managed by S&P Global Market Intelligence on behalf of the American Bankers Association. Copyright© 2019 CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the services provided by CGS. CUSIP numbers are provided for convenience of reference only. None of the City, the Financial Advisor, or the Underwriters take any responsibility for the accuracy of such numbers.

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CITY OF AUSTIN

Elected Officials

| | <u>Term Expires</u> | <u>January</u> |
|---------------------------------|------------------------|----------------|
| Steve Adler | Mayor | 2023 |
| Natasha Harper-Madison | Councilmember Place 1 | 2023 |
| Delia Garza, Mayor Pro Tem..... | Councilmember Place 2 | 2021 |
| Sabino “Pio” Renteria..... | Councilmember Place 3 | 2023 |
| Gregorio “Greg” Casar..... | Councilmember Place 4 | 2021 |
| Ann Kitchen..... | Councilmember Place 5 | 2023 |
| Jimmy Flanagan | Councilmember Place 6 | 2021 |
| Leslie Pool | Councilmember Place 7 | 2021 |
| Paige Ellis..... | Councilmember Place 8 | 2023 |
| Kathryne B. Tovo..... | Councilmember Place 9 | 2023 |
| Alison Alter | Councilmember Place 10 | 2021 |

Appointed Officials

| | |
|--------------------------|---|
| Spencer Cronk | City Manager |
| Elaine Hart, CPA..... | Deputy City Manager/Chief Financial Officer |
| Greg Canally..... | Deputy Chief Financial Officer |
| Ed Van Eenoo | Deputy Chief Financial Officer |
| Anne Morgan..... | City Attorney |
| Jannette S. Goodall..... | City Clerk |

BOND COUNSEL

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

PFM Financial Advisors LLC
Austin, Texas

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Austin, Texas

For additional information regarding the City, please contact:

Belinda Weaver
Interim Treasurer
City of Austin
919 Congress Ave, Suite 1250
Austin, TX 78701
(512) 974-7885
belinda.weaver@austintexas.gov

Dennis P. Waley
Managing Director
PFM Financial Advisors LLC
221 West 6th Street, Suite 1900
Austin, TX 78701
(512) 614-5323
waleyd@pfm.com

SELECTED FINANCIAL INFORMATION

Combined Utility Systems (Electric Utility System and Water and Wastewater System)

The selected financial information below presents selected historical information related to the Combined Utility Systems of the City, which is comprised of the Electric Utility System and the Water and Wastewater System of the City, presented on a combined basis. The financial information for the fiscal years ended September 30, 2015 through September 30, 2018 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" in this document.

Operating Summary of the Combined Utility Systems

| | <u>12-Months Ended 12-31-2018 (2)</u> | Fiscal Year Ended September 30 (2) | | | |
|--|---|------------------------------------|-------------------|-------------------|-------------------|
| | | (000's) | | | |
| | | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| Combined Gross Revenues | \$1,995,799 | \$1,998,556 | \$1,974,948 | \$1,941,815 | \$1,876,350 |
| Combined Maintenance and Operating Expenses | 1,371,182 | 1,334,151 | 1,252,196 | 1,207,225 | 1,186,590 |
| Combined Net Revenues | <u>\$ 624,617</u> | <u>\$ 664,405</u> | <u>\$ 722,752</u> | <u>\$ 734,590</u> | <u>\$ 689,760</u> |
| | | | | | |
| Principal and Interest on Revenue Bonds of the Combined Utility Systems (Prior First Lien Obligations and Prior Subordinate Lien Obligations) (1) | \$ 74,212 | \$ 80,433 | \$ 60,298 | \$ 33,867 | \$ 33,112 |
| | | | | | |
| Debt Service Coverage on Revenue Bonds of the Combined Utility Systems (Prior First Lien Obligations and Prior Subordinate Lien Obligations) (1) | 8.42x | 8.26x | 11.99x | 21.69x | 20.83x |

(1) Includes only the Prior First Lien Obligations, which were fully paid and discharged on May 15, 2019, and Prior Subordinate Lien Obligations, which are the obligations secured by a pledge of the Net Revenues of the Combined Utility Systems.

(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 fiscal years ended September 30, 2015 through September 30, 2018 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" in this document.

Operating Summary of the Electric Utility System

| | (000's) | | | | |
|---|--------------------------------------|------------------------------------|------------------|------------------|------------------|
| | 12-Months Ended 12-31-2018 (4) | Fiscal Year Ended September 30 (4) | | | |
| | | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| Gross Revenues | \$1,432,962 | \$1,417,232 | \$1,373,020 | \$1,378,749 | \$1,359,097 |
| Maintenance and Operating Expenses | <u>1,117,046</u> | <u>1,083,928</u> | <u>1,018,604</u> | <u>989,768</u> | <u>978,283</u> |
| Net Revenues | <u>\$315,916</u> | <u>\$333,304</u> | <u>\$354,416</u> | <u>\$388,981</u> | <u>\$380,814</u> |
| Principal and Interest paid by the Electric Utility System on Revenue Bonds of the Combined Utility Systems (Prior First Lien and Prior Subordinate Lien Revenue Obligations) (1) | 9,128 | 12,604 | 12,651 | 19,742 | 10,746 |
| Net Revenues available for Parity Electric Utility Obligations | 306,788 | 320,700 | 341,765 | 369,239 | 370,068 |
| Principal and Interest on Parity Electric Utility Obligations (2) | \$82,843 | \$81,024 | \$92,319 | \$107,989 | \$96,175 |
| Debt Service Coverage on Parity Electric Utility Obligations (3) | 3.70x | 3.96x | 3.70x | 3.42x | 3.85x |

(1) Represents Austin Energy's portion of the Prior First Lien Obligations (which were fully paid and discharged on May 15, 2019), and Prior Subordinate Lien Obligations, which are obligations secured by a pledge of the Net Revenues of the Combined Utility Systems.

(2) Secured by a lien on and pledge of the Net Revenues of the City's Electric Utility System.

(3) By acquiring the Nacogdoches Biomass Facility, Austin Energy anticipates exchanging an escalating capacity payment (funded as an operating expense) for a lower, fixed debt service payment. Following the acquisition, Austin Energy expects the debt service coverage ratio on the Parity Electric Utility Obligations, after the issuance of the Bonds, to exceed Austin Energy's internal goal of 2.0x. See "DESCRIPTION OF PHYSICAL PROPERTY – Nacogdoches Biomass Facility."

(4) See "DEBT SERVICE REQUIREMENTS" and "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, and there shall not 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 CGS, and neither the City, PFM Financial Advisors LLC, nor the Underwriters are responsible for the selection or correctness of CUSIP numbers.

The City, PFM Financial Advisors LLC., and the Underwriters do not make any representation regarding the information contained in this Official Statement regarding DTC or its book-entry-only system, as such information has been furnished by DTC. Neither the City nor PFM Financial Advisors LLC make any representations regarding the information concerning the Underwriters contained in this document in “OTHER RELEVANT INFORMATION – Underwriting.”

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

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

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

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

**INFORMATION CONCERNING OFFERING RESTRICTIONS
IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES**

REFERENCES HEREIN TO THE “ISSUER” MEAN THE CITY OF AUSTIN, TEXAS AND REFERENCES TO “BONDS” OR “SECURITIES” MEAN THE BONDS OFFERED BY THIS DOCUMENT. NEITHER THE ISSUER NOR THE UNDERWRITERS ASSUME ANY RESPONSIBILITY FOR THIS SECTION.

THE BONDS WILL TRADE AND SETTLE ON A UNIT BASIS (ONE UNIT EQUALING ONE BOND OF \$5,000 PRINCIPAL AMOUNT). FOR ANY SALES MADE OUTSIDE THE UNITED STATES, THE MINIMUM PURCHASE AND TRADING AMOUNT IS 30 UNITS (BEING 30 BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF \$150,000).

NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA (“EEA”)

THE BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EUROPEAN ECONOMIC AREA (“EEA”). FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (AS AMENDED, “MIFID II”); OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE 2002/92/EC (AS AMENDED OR SUPERSEDED, THE “INSURANCE MEDIATION DIRECTIVE”), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II; OR (III) NOT A QUALIFIED INVESTOR AS DEFINED IN DIRECTIVE 2003/71/EC (AS AMENDED OR SUPERSEDED, THE “PROSPECTUS DIRECTIVE”). CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 (AS AMENDED, THE “PRIIPS REGULATION”) FOR OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

THIS OFFICIAL STATEMENT HAS BEEN PREPARED ON THE BASIS THAT ALL OFFERS OF THE BONDS TO ANY PERSON THAT IS LOCATED WITHIN A MEMBER STATE OF THE EEA WILL BE MADE PURSUANT TO AN EXEMPTION UNDER ARTICLE 3(2) OF THE PROSPECTUS DIRECTIVE, AS IMPLEMENTED IN MEMBER STATES OF THE EEA, FROM THE REQUIREMENT TO PRODUCE A PROSPECTUS FOR OFFERS OF THE BONDS. ACCORDINGLY, ANY PERSON MAKING OR INTENDING TO MAKE ANY OFFER IN THE EEA OF THE BONDS SHOULD ONLY DO SO IN CIRCUMSTANCES IN WHICH NO OBLIGATION ARISES FOR THE ISSUER OR ANY OF THE UNDERWRITERS TO PROVIDE A PROSPECTUS FOR SUCH OFFER. NEITHER THE ISSUER NOR THE UNDERWRITERS HAVE AUTHORIZED, NOR DO THEY AUTHORIZE, THE MAKING OF ANY OFFER OF BONDS THROUGH ANY FINANCIAL INTERMEDIARY, OTHER THAN OFFERS MADE BY THE UNDERWRITERS, WHICH CONSTITUTE THE FINAL PLACEMENT OF THE BONDS CONTEMPLATED IN THIS OFFICIAL STATEMENT.

IN RELATION TO EACH MEMBER STATE OF THE EEA THAT HAS IMPLEMENTED THE PROSPECTUS DIRECTIVE (EACH, A “RELEVANT MEMBER STATE”), WITH EFFECT FROM AND INCLUDING THE DATE ON WHICH THE PROSPECTUS DIRECTIVE IS IMPLEMENTED IN THAT RELEVANT MEMBER STATE, THE OFFER OF ANY BONDS WHICH IS THE SUBJECT OF THE OFFERING CONTEMPLATED BY THIS OFFICIAL STATEMENT IS NOT BEING MADE AND WILL NOT BE MADE TO THE PUBLIC IN THAT RELEVANT MEMBER STATE, OTHER THAN: (A) TO ANY LEGAL ENTITY WHICH IS A “QUALIFIED INVESTOR” AS SUCH TERM IS DEFINED IN THE PROSPECTUS DIRECTIVE; (B) TO FEWER THAN 150 NATURAL OR LEGAL PERSONS (OTHER THAN “QUALIFIED INVESTORS” AS SUCH TERM IS DEFINED IN THE PROSPECTUS DIRECTIVE), SUBJECT TO OBTAINING THE PRIOR CONSENT OF THE RELEVANT UNDERWRITER OR THE ISSUER FOR ANY SUCH OFFER OR (C) IN ANY OTHER CIRCUMSTANCES FALLING WITHIN ARTICLE 3(2) OF THE PROSPECTUS DIRECTIVE; PROVIDED THAT NO SUCH OFFER OF THE BONDS SHALL REQUIRE THE ISSUER OR ANY UNDERWRITER TO PUBLISH A PROSPECTUS PURSUANT TO ARTICLE 3(1) OF THE PROSPECTUS DIRECTIVE OR A SUPPLEMENT TO A PROSPECTUS PURSUANT TO ARTICLE 16 OF THE PROSPECTUS DIRECTIVE.

FOR THE PURPOSES OF THIS PROVISION, THE EXPRESSION AN “OFFER OF SECURITIES TO THE PUBLIC” IN RELATION TO THE BONDS IN ANY RELEVANT MEMBER STATE MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE BONDS TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE THE BONDS, AS THE SAME MAY BE VARIED IN THAT RELEVANT MEMBER STATE BY ANY MEASURE IMPLEMENTING THE PROSPECTUS DIRECTIVE IN THAT RELEVANT MEMBER STATE.

EACH SUBSCRIBER FOR OR PURCHASER OF THE BONDS IN THE OFFERING LOCATED WITHIN A RELEVANT MEMBER STATE WILL BE DEEMED TO HAVE REPRESENTED, ACKNOWLEDGED AND AGREED THAT IT IS A “QUALIFIED INVESTOR” WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE. THE ISSUER AND EACH UNDERWRITER AND OTHERS WILL RELY ON THE TRUTH AND ACCURACY OF THE FOREGOING REPRESENTATION, ACKNOWLEDGEMENT AND AGREEMENT.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

THIS OFFICIAL STATEMENT HAS NOT BEEN APPROVED FOR THE PURPOSES OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (“FSMA”) AND DOES NOT CONSTITUTE AN OFFER TO THE PUBLIC IN ACCORDANCE WITH THE PROVISIONS OF SECTION 85 OF THE FSMA. IT IS FOR DISTRIBUTION ONLY TO, AND IS DIRECTED SOLELY AT, PERSONS WHO (I) ARE OUTSIDE OF THE UNITED KINGDOM (II) ARE INVESTMENT PROFESSIONALS, AS SUCH TERM IS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE “FINANCIAL PROMOTION ORDER”), (III) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER OR (IV) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE “FSMA”) IN CONNECTION WITH THE ISSUE OR SALE OF ANY BONDS MAY OTHERWISE BE LAWFULLY COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THIS OFFICIAL STATEMENT IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFICIAL STATEMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFICIAL STATEMENT OR ANY OF ITS CONTENTS.

NOTICE TO PROSPECTIVE INVESTORS IN HONG KONG

THE CONTENTS OF THIS OFFICIAL STATEMENT HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG. YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE OFFER OF THE BONDS. IF YOU ARE IN ANY DOUBT ABOUT ANY OF THE CONTENTS OF THIS OFFICIAL STATEMENT, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

THIS OFFICIAL STATEMENT HAS NOT BEEN, AND WILL NOT BE, REGISTERED AS A PROSPECTUS (AS DEFINED IN THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE (CHAPTER 32 OF THE LAWS OF HONG KONG) (THE “C(WUMP)O”)) IN HONG KONG NOR HAS IT BEEN APPROVED BY THE SECURITIES AND FUTURES COMMISSION OF HONG KONG PURSUANT TO THE SECURITIES AND FUTURES ORDINANCE (CHAPTER 571 OF THE LAWS OF HONG KONG) (“SFO”). ACCORDINGLY, THE BONDS MAY NOT BE OFFERED OR SOLD IN HONG KONG BY MEANS OF THIS OFFICIAL STATEMENT OR ANY OTHER DOCUMENT, AND THIS OFFICIAL STATEMENT MUST NOT BE ISSUED, CIRCULATED OR DISTRIBUTED IN HONG KONG, OTHER THAN (A) TO ‘PROFESSIONAL INVESTORS’ AS DEFINED IN THE SFO AND ANY RULES MADE UNDER THE SFO OR (B) IN OTHER CIRCUMSTANCES WHICH DO NOT RESULT IN THE DOCUMENT BEING A “PROSPECTUS” AS DEFINED IN THE C(WUMP)O OR WHICH DO NOT CONSTITUTE AN OFFER TO THE PUBLIC WITHIN THE MEANING OF THE C(WUMP)O. IN ADDITION, NO PERSON MAY ISSUE OR HAVE IN ITS POSSESSION FOR THE PURPOSES OF ISSUE, WHETHER IN HONG KONG OR ELSEWHERE, ANY ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE BONDS, WHICH IS DIRECTED AT, OR THE CONTENTS OF WHICH ARE LIKELY TO BE ACCESSED OR READ BY, THE PUBLIC OF HONG KONG (EXCEPT IF PERMITTED TO DO SO UNDER THE SECURITIES LAWS OF HONG KONG) OTHER THAN WITH RESPECT TO BONDS WHICH ARE OR ARE INTENDED TO BE DISPOSED OF ONLY (A) TO PERSONS OUTSIDE HONG KONG, (B) TO ‘PROFESSIONAL INVESTORS’ AS DEFINED IN THE SFO AND ANY RULES MADE UNDER THE SFO.

JAPAN

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INSTRUMENTS AND EXCHANGE ACT OF JAPAN (ACT NO. 25 OF 1948, AS AMENDED, THE “FIEA”). NEITHER THE BONDS NOR ANY INTEREST THEREIN MAY BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY RESIDENT OF JAPAN (AS DEFINED UNDER ITEM 5, PARAGRAPH 1, ARTICLE 6 OF THE FOREIGN EXCHANGE AND FOREIGN TRADE ACT (ACT NO. 228 OF 1949, AS AMENDED)), OR TO OTHERS FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY RESIDENT OF JAPAN, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE FIEA AND ANY OTHER APPLICABLE LAWS, REGULATIONS AND MINISTERIAL GUIDELINES OF JAPAN.

THE PRIMARY OFFERING OF THE BONDS AND THE SOLICITATION OF AN OFFER FOR ACQUISITION THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER PARAGRAPH 1, ARTICLE 4 OF THE FIEA. AS IT IS A PRIMARY OFFERING, IN JAPAN, THE BONDS MAY ONLY BE OFFERED, SOLD, RESOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY TO, OR FOR THE BENEFIT OF CERTAIN QUALIFIED INSTITUTIONAL INVESTORS AS DEFINED IN THE FIEA (“QIIs”) IN RELIANCE ON THE QIIs-ONLY PRIVATE PLACEMENT EXEMPTION AS SET FORTH IN ITEM 2(I), PARAGRAPH 3, ARTICLE 2 OF THE FIEA. A QII WHO PURCHASED OR OTHERWISE OBTAINED THE BONDS CANNOT RESELL OR OTHERWISE TRANSFER THE BONDS IN JAPAN TO ANY PERSON EXCEPT ANOTHER QII.

NOTICE TO PROSPECTIVE INVESTORS IN TAIWAN

THE OFFER OF THE BONDS HAS NOT BEEN AND WILL NOT BE REGISTERED OR FILED WITH, OR APPROVED BY, THE FINANCIAL SUPERVISORY COMMISSION OF TAIWAN AND/OR OTHER REGULATORY AUTHORITY OF TAIWAN PURSUANT TO RELEVANT SECURITIES LAWS AND REGULATIONS, AND THE BONDS MAY NOT BE OFFERED, ISSUED OR SOLD IN TAIWAN THROUGH A PUBLIC OFFERING OR IN CIRCUMSTANCES WHICH CONSTITUTE AN OFFER WITHIN THE MEANING OF THE SECURITIES AND EXCHANGE ACT OF TAIWAN THAT REQUIRES THE REGISTRATION OR FILING WITH OR APPROVAL OF THE FINANCIAL SUPERVISORY COMMISSION OF TAIWAN. THE BONDS MAY BE MADE AVAILABLE OUTSIDE TAIWAN FOR PURCHASE BY INVESTORS RESIDING IN TAIWAN (EITHER DIRECTLY OR THROUGH PROPERLY LICENSED TAIWAN INTERMEDIARIES), BUT MAY NOT BE OFFERED OR SOLD IN TAIWAN EXCEPT TO QUALIFIED INVESTORS VIA A TAIWAN LICENSED INTERMEDIARY. ANY SUBSCRIPTIONS OF BONDS SHALL ONLY BECOME EFFECTIVE UPON ACCEPTANCE BY THE ISSUER OR THE RELEVANT DEALER OUTSIDE TAIWAN AND SHALL BE DEEMED A CONTRACT ENTERED INTO IN THE JURISDICTION OF INCORPORATION OF THE ISSUER OR RELEVANT DEALER, AS THE CASE MAY BE, UNLESS OTHERWISE SPECIFIED IN THE SUBSCRIPTION DOCUMENTS RELATING TO THE BONDS SIGNED BY THE INVESTORS.

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OFFICIAL STATEMENT

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

\$464,540,000
Electric Utility System Revenue Bonds, Taxable Series 2019A

INTRODUCTION

This Official Statement is being furnished in connection with the proposed issuance by the City of Austin, Texas (the “City”) of its \$464,540,000 City of Austin, Texas Electric Utility System Revenue Bonds, Taxable Series 2019A (the “Bonds”). The Bonds are to be issued pursuant to authority conferred by the laws of the State of Texas (the “State”), Ordinance No. 010118-53A, passed by the City Council on January 18, 2001 (the “Master Ordinance”) providing the terms for the issuance of Parity Electric Utility Obligations and the related covenant and security provisions, and Ordinance No. 20190509-037, passed by the City Council on May 9, 2019, pertaining to the Bonds (the “Sixteenth Supplement”). The Sixteenth Supplement delegated to a designated “Pricing Officer” the authority, through the execution of a certificate stating the terms of the sale of the Bonds (the “Pricing Certificate”), to effect the sale of the Bonds, subject to the terms of the Sixteenth Supplement. The Pricing Certificate was executed and delivered by the Pricing Officer on May 22, 2019. A summary of certain provisions of the Master Ordinance is attached to this document as APPENDIX C. So long as the Prior Subordinate Lien Obligations are outstanding, the City must comply with the covenants contained in the ordinances (collectively, the “Bond Ordinance”) authorizing their issuance. 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, the Sixteenth Supplement, or the Bond Ordinance, as applicable (see APPENDICES C and D).** A description of The Depository Trust Company and its Book-Entry-Only System and the global clearance procedures applicable to the Bonds is attached as Appendix F. 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. References to web sites and the information or links contained therein are not incorporated into, and are not a part of, this document. As used in this document, “FY” refers to the fiscal year of the City, which encompasses the twelve-month period commencing on October 1 and ending on the following September 30.

The Bonds represent the sixteenth encumbrance to be issued or incurred as Parity Electric Utility Obligations under the Master Ordinance. The City has issued certain Prior Subordinate Lien Obligations and Commercial Paper Obligations secured by a joint and several pledge of the Net Revenues of the City’s Electric Light and Power System and Waterworks and Sewer System (the “Combined Utility Systems”). Pursuant to the Master Ordinance, no additional Prior Subordinate Lien Obligations may be issued. When the 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 revenue obligations of Austin Electric 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 Supplemental 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 also comply with the covenants and security provisions relating to the Prior Subordinate Lien Obligations while any such obligations remain outstanding.

On May 15, 2019, the last remaining maturity of the Prior First Lien Obligations was paid in full, and the terms of the ordinance governing the issuance of Prior First Lien Obligations are no longer effective. The City has also issued revenue obligations secured solely by the net revenues of the Water and Wastewater System (the “Water and Wastewater System Separate Lien Obligations”) pursuant to a separate Water and Wastewater Master Ordinance (Ordinance No. 0006008-56A, adopted June 8, 2000), 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, \$90,967,962 of Prior Subordinate Lien Obligations (with maturities extending through May 15, 2025) is outstanding as May 15, 2019 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.

PLAN OF FINANCING

The Bonds are being issued to finance improvements and extensions to the Electric Utility System. See “DESCRIPTION OF PHYSICAL PROPERTY – Nacogdoches Biomass Facility” in this document. Proceeds from the Bonds will also be used to pay costs of issuance.

SOURCES AND USES OF FUNDS

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

| | |
|--|--------------------------|
| Sources of Funds: | |
| Par Amount of Bonds | <u>\$ 464,540,000.00</u> |
| Total Sources of Funds | <u>\$ 464,540,000.00</u> |
| | |
| Uses of Funds: | |
| Acquisition Cost of the Nacogdoches Biomass Facility | \$ 460,000,000.00 |
| Underwriters' Discount | 1,863,341.84 |
| Cost of Issuance | <u>2,676,658.16</u> |
| Total Uses of Funds | <u>\$ 464,540,000.00</u> |

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DEBT PAYABLE FROM SYSTEMS REVENUES

(Reflects principal outstanding as of May 22, 2019)

| | |
|--|-----------------|
| <u>Combined Utility Systems Obligations</u> (a) | |
| Prior Subordinate Lien Obligations | \$90,967,962 |
| <u>Parity Electric Utility Obligations</u> (b) | \$1,530,050,000 |
| <u>Water and Wastewater System Separate Lien Obligations</u> (c) | |
| Parity Water and Wastewater Obligations | \$2,134,405,000 |
| <u>Commercial Paper</u> (d) | \$331,367,000 |
| <u>General Obligation Bonds</u> (e) | \$5,209,939 |
| <u>Assumed Municipal Utility District Obligations</u> (f) | \$4,509,832 |
| TOTAL | \$4,096,509,733 |

See “SECURITY FOR THE BONDS” in this document.

- (a) Prior First Lien Obligations issued by the City were fully paid and discharged on May 15, 2019.
- (b) Includes the Bonds.
- (c) The Water and Wastewater System Separate Lien Obligations are payable from the Net Revenues of the Water and Wastewater System only.
- (d) 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 \$75,000,000. The obligations issued pursuant to each such program are referred to herein collectively as the “Commercial Paper Obligations.” The Commercial Paper Obligations and the reimbursement obligations to the respective banks providing the direct-pay letter of credit supporting the Commercial Paper Obligations are payable from the Net Revenues of the Combined Utility Systems after providing for the payment of 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 Obligations 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). **Prior to the end of the fiscal year ending September 30, 2019, the City intends to issue additional Parity Electric Utility Obligations, in one or more series, to refinance approximately \$275,000,000 of its Commercial Paper Obligations and fund \$30,000,000 of additional capital projects.** See “SECURITY FOR THE BONDS – Issuance of Parity Electric Utility Obligations” in this document.
- (e) 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. See “THE CITY – Recent Annexations.”
- (f) Such bonds are secured by City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System. See “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Services Financed by Utility Districts.”

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DEBT SERVICE REQUIREMENTS

| Fiscal Year Ending 9/30 | Prior Subordinate Lien Obligations (a) (b) | Parity Electric Utility System Obligations (a) (c) | | | | | Separate Lien Water & Wastewater Obligations (a) (d) | Assumed MUD Obligations (a) (e) | Total Debt Service Payable From Systems Revenues |
|----------------------------|---|--|---------------|---|--|------------------|--|------------------------------------|--|
| | | The Taxable Series 2019A Bonds | | Existing Parity Electric Utility System Obligations (a) (c) | Total Parity Electric Utility System Obligations (c) | | | | |
| | | Principal | Interest | | | | | | |
| 2019 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,522,500 | \$ 881,915 | \$ 2,404,415 | |
| 2020 | 21,090,425 | 31,355,000 | 11,310,415 | 88,664,540 | 131,329,955 | 151,320,371 | 661,645 | 304,402,396 | |
| 2021 | 14,963,350 | 31,125,000 | 11,538,798 | 86,834,126 | 129,497,924 | 168,823,159 | 669,724 | 313,954,157 | |
| 2022 | 20,964,250 | 31,890,000 | 10,774,742 | 87,825,724 | 130,490,466 | 175,783,963 | 663,681 | 327,902,359 | |
| 2023 | 19,950,225 | 32,680,000 | 9,986,765 | 83,497,840 | 126,164,605 | 178,316,263 | 666,568 | 325,097,661 | |
| 2024 | 19,666,450 | 33,505,000 | 9,162,621 | 84,262,955 | 126,930,577 | 188,154,488 | 664,896 | 335,416,410 | |
| 2025 | 15,834,863 | 34,370,000 | 8,297,446 | 84,059,974 | 126,727,420 | 188,016,989 | 668,673 | 331,247,944 | |
| 2026 | - | 35,290,000 | 7,382,748 | 86,644,774 | 129,317,522 | 185,552,415 | 604,005 | 315,473,942 | |
| 2027 | - | 36,265,000 | 6,406,852 | 97,768,898 | 140,440,750 | 184,542,055 | - | 324,982,805 | |
| 2028 | - | 37,305,000 | 5,374,141 | 97,556,236 | 140,235,377 | 191,601,454 | - | 331,836,830 | |
| 2029 | - | 38,400,000 | 4,281,065 | 84,646,544 | 127,327,610 | 174,983,025 | - | 302,310,634 | |
| 2030 | - | 39,555,000 | 3,126,407 | 71,221,830 | 113,903,237 | 169,119,469 | - | 283,022,706 | |
| 2031 | - | 40,765,000 | 1,916,637 | 71,117,481 | 113,799,117 | 130,966,837 | - | 244,765,954 | |
| 2032 | - | 42,035,000 | 648,810 | 61,551,196 | 104,235,006 | 116,602,379 | - | 220,837,385 | |
| 2033 | - | - | - | 61,268,118 | 61,268,118 | 116,632,740 | - | 177,900,858 | |
| 2034 | - | - | - | 57,081,010 | 57,081,010 | 116,587,848 | - | 173,668,859 | |
| 2035 | - | - | - | 56,912,786 | 56,912,786 | 116,402,303 | - | 173,315,089 | |
| 2036 | - | - | - | 56,898,190 | 56,898,190 | 115,712,622 | - | 172,610,812 | |
| 2037 | - | - | - | 56,654,368 | 56,654,368 | 113,621,910 | - | 170,276,277 | |
| 2038 | - | - | - | 56,512,829 | 56,512,829 | 101,607,440 | - | 158,120,268 | |
| 2039 | - | - | - | 55,270,106 | 55,270,106 | 91,542,658 | - | 146,812,764 | |
| 2040 | - | - | - | 31,494,251 | 31,494,251 | 91,107,079 | - | 122,601,330 | |
| 2041 | - | - | - | 31,343,035 | 31,343,035 | 78,996,802 | - | 110,339,837 | |
| 2042 | - | - | - | 30,947,500 | 30,947,500 | 67,714,250 | - | 98,661,750 | |
| 2043 | - | - | - | 28,333,875 | 28,333,875 | 54,594,125 | - | 82,928,000 | |
| 2044 | - | - | - | 29,412,125 | 29,412,125 | 42,891,750 | - | 72,303,875 | |
| 2045 | - | - | - | 29,038,625 | 29,038,625 | 18,632,250 | - | 47,670,875 | |
| 2046 | - | - | - | 29,110,000 | 29,110,000 | 18,622,250 | - | 47,732,250 | |
| 2047 | - | - | - | - | - | 7,103,250 | - | 7,103,250 | |
| Total | \$ 112,469,563 | \$ 464,540,000 | \$ 90,207,448 | \$ 1,695,928,935 | \$ 2,250,676,383 | \$ 3,357,074,642 | \$ 5,481,107 | \$ 5,725,701,695 | |

(a) Debt service remaining in Fiscal Year 2019 as of May 16, 2019.

(b) Prior Subordinate Lien Obligations payable from Net Revenues of the Combined Utility Systems. Prior First Lien Obligations previously issued by the City were fully paid and discharged on May 15, 2019 and are therefore not reflected in this table.

(c) Parity Electric Utility Obligations are secured by and payable from Net Revenues of the Electric Utility System. This table does not include the City's planned issuance of additional Parity Electric Utility Obligations to refinance approximately \$275,000,000 of Commercial Paper Obligations and fund \$30,000,000 of additional capital projects, which is anticipated to occur prior to September 30, 2019.

(d) Separate Lien Water & Wastewater Obligations are secured by and payable from Net Revenues of the Water and Wastewater System.

(e) Assumed municipal utility district obligations are secured by City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.

SECURITY FOR THE BONDS

Pledges of Net Revenues

Prior Subordinate Lien Obligations. . . . The Net Revenues of the Combined Utility Systems have been pledged, jointly and severally, on a first lien basis to the payment and security of the Prior Subordinate Lien Obligations. As of May 15, 2019, the Prior First Lien Obligations were fully paid and discharged, and the lien securing the Prior Subordinate Lien Obligations ascended to a first lien pledge of the Net Revenues of the Combined Utility Systems. In the ordinances authorizing the issuance of 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. The pledge of the Net Revenues of the Electric Utility System and the pledge of the Net Revenues of the Water and Wastewater System to the related Separate Lien Obligations are of equal dignity with the lien on and pledge of these Net Revenues of the Combined Utility Systems securing the payment of the Prior Subordinate Lien Obligations.

As of May 15, 2019, there is \$90,967,962 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 sixteenth issuance, or series, of Separate Lien Obligations of the City’s Electric Utility System. The Master Ordinance and the Sixteenth Supplement pledge the Net Revenues of the Electric Utility System to the payment of the “Parity Electric Utility Obligations” (which includes the Outstanding Parity Electric Utility Obligations, the Bonds and additional parity obligations issued or incurred subsequent to the issuance of the Bonds). 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.

In addition to the pledge of Net Revenues of the Electric Utility System, 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 Sixteenth Supplement affirms 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 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 Subordinate Lien Obligations

The City has agreed to establish rates and charges for the facilities and services of the Combined Utility Systems to provide Gross Revenues of the Combined Utility Systems in each Fiscal Year sufficient (i) to pay the Maintenance and Operating Expenses of the Combined Utility Systems, (ii) to fund the reserves required for 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 Net Revenues of the Combined Utility Systems, and (iii) to produce Net Revenues of the Combined Utility Systems (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 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 Separate Lien Obligations, payable only from and secured solely by a lien on and pledge of the Net Revenues of either the Electric Light and Power System or the Waterworks and Sewer 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 of the Electric Utility System each Fiscal Year sufficient: (i) to pay all current Operating Expenses; (ii) to produce Net Revenues of the Electric Utility System, 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 Subordinate Lien Obligations and (y) taking into account ending fund balances in the Electric 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 of the Electric Utility System.

If the Net Revenues of the Electric Utility System 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 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 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 of the Electric Utility System occurred.

Reserve Fund for Prior Subordinate Lien Obligations

A separate reserve fund was 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"), S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P") and Fitch Ratings, Inc. ("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 securing the Prior Subordinate Lien Obligations under the Bond Ordinance as of May 15, 2019 is \$24,445,273 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 Subordinate Lien Obligations in a manner that reduces the principal amount and "Maturity Amount" (in the case of Prior

Subordinate Lien Obligations issued as capital appreciation bonds, the principal and interest on which is payable upon maturity) of outstanding 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 Sixteenth Supplement, however, affirms 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 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 “Electric Utility System Reserve Fund”). When an Electric Utility System 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 an Electric Utility Reserve Fund is required, the City may deposit cash to the Electric Utility 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 Electric Utility System for the preceding Fiscal Year. See “SELECTED FINANCIAL INFORMATION – Electric Utility System Only” in this document.

Issuance of Additional Prior Subordinate Lien Obligations Precluded

The Master Ordinance provides that no additional revenue obligations of the Combined Utility Systems will be issued on parity with the Prior Subordinate Lien Obligations. The Prior First Lien Obligations were paid in full on May 15, 2019 and are no longer outstanding. The ordinance governing the issuance of Prior First Lien Obligations is no longer in effect.

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 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 of the Electric Utility System, 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 of the Electric Utility System are determined and, for purposes of satisfying the Electric Utility System 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 and charges being in effect for the entire period covered.

Prior to the end of the fiscal year ending September 30, 2019, the City intends to issue additional Parity Electric Utility Obligations, in one or more series, to refinance approximately \$275,000,000 of its Commercial Paper Obligations and fund \$30,000,000 of additional capital projects (see footnote (d) to "DEBT PAYABLE FROM SYSTEMS REVENUES" in this document). The principal and interest due on the Commercial Paper Obligations are to be paid from funds deposited with U.S. Bank National Association, the issuing and paying agent for the refunded Commercial Paper Obligations, in such amounts sufficient to accomplish the discharge and final payment on the refunded Commercial Paper Obligations on their scheduled maturity dates.

Short-Term Parity Electric Utility Obligations

Pursuant to the Master 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 Electric Utility System 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. The City has no present intention of issuing additional Parity Electric Utility Obligations in the form of commercial paper.

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 of the Electric Utility System 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.

Electric Fund

The Master Ordinance recites that in accordance with the provisions of the ordinances authorizing the issuance of 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”). All funds deposited to the credit of the Electric 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 Electric 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 to the credit of the reserve fund established for the 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 of the Electric Utility System remaining in the Electric 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.

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DESCRIPTION OF THE BONDS

General

The Bonds will be dated the date of delivery. Interest on the Bonds will accrue from their dated date and will be payable on November 15, 2019 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 of this document. Principal of the Bonds is payable at maturity, subject only to prior redemption as described in this document.

Redemption of the Bonds

Make Whole Optional Redemption

The Bonds of each maturity are subject to redemption at the option of the City in whole or in part pro-rata at any time at the Redemption Price that is the greater of (A) 100% of the principal amount of the Bonds to be redeemed and (B) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 5 basis points, with respect to Bonds maturing in each of the years 2019 through 2023, plus 10 basis points with respect to Bonds maturing in each of the years 2024 through 2027 and plus 15 basis points with respect to Bonds maturing in each of the years 2028 through 2031, plus, in each case, accrued and unpaid interest on the Bonds to be redeemed to but not including the redemption date.

“*Make Whole Period*” means the period between the date of redemption of the Bonds to be redeemed pursuant to the make whole optional redemption provisions of the Bonds described above and the maturity date.

“*Treasury Rate*” means, as of any redemption date for a Bond, (i) the time-weighted interpolated average yield to maturity, assuming a 360-day year consisting of twelve 30-day months, for a term equal to the Make Whole Period of the yields of the two U.S. Treasury nominal securities at “constant maturity” (as compiled and published in the Federal Reserve Statistical Release H.15 (519) that is publicly available not less than two (2) Business Days nor more than 30 calendar days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data reasonably selected by the Paying Agent/Registrar most nearly equal to the period from the redemption date to the maturity date of such Bond, taking into account any Sinking Fund Payments for such Bonds)) maturing immediately preceding and succeeding the Make Whole Period or (ii) if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded U.S. Treasury Securities adjusted to a constant maturity of one year. The Treasury Rate will be determined by an independent accounting firm, investment banking firm, or financial advisor retained and compensated by the City at the City’s expense.

The redemption price of the Bonds to be redeemed pursuant to the Make-Whole Optional Redemption provision described above will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the City at the City’s expense to calculate such redemption price. The Paying Agent/Registrar and the City may conclusively rely on such determination of redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

Redemption Procedures

Notice of redemption of the Bonds identifying the Bonds or portions thereof to be redeemed, and specifying the redemption date, the redemption price, the places and dates of payment, that from the redemption date interest will cease to accrue, and whether the redemption (in the case of an optional redemption) is conditioned upon sufficient moneys being available on the redemption date (or any other condition), shall be given by the Paying Agent/Registrar by mailing a copy of such redemption notice, not less than 30 days nor more than 60 days prior to the date fixed for redemption, to the Registered Owner of each such Bond to be redeemed in whole or in part at the address shown on the registration books. Redemption notices will be sent by first class mail, except that notices to Registered Owners of at least \$1,000,000 of Bonds shall be sent by registered mail. Failure to mail any such notice to the Registered Owner of any such Bond or any defect therein shall not affect the validity of the proceedings for such redemption of such Bond. Any such notice

mailed as described above shall be conclusively presumed to have been duly given, whether or not the Registered Owner of any Bond receives the notice.

If a Bond is of a denomination larger than \$5,000, all or a portion of such Bond (in a denomination of \$5,000 or any integral multiple thereof) may be redeemed, but such Bond shall be redeemed only in a principal amount equal to \$5,000 or any integral multiple thereof. Upon surrender of any Bond for redemption in part only, the City shall execute and the Paying Agent/Registrar shall authenticate and deliver to the Registered Owner thereof, at the expense of the City, a new Bond, maturity and interest rate and of authorized denominations, in aggregate principal amount equal to the unredeemed portion of the Bond surrendered.

Selection of Bonds to be Redeemed

If fewer than all of the Bonds, maturity and interest rate are called for redemption, such Bonds (or portions thereof) to be redeemed shall be selected by lot by the Paying Agent/Registrar (except at any time when such Bonds are held in a book-entry system, in which case selection of such Bonds to be redeemed will be in accordance with procedures established by the book-entry depository).

It is the City's intent that redemption allocations made by DTC be made on a pro-rata pass-through distribution of principal basis as described above. However, none of the City, the Underwriters or the Paying Agent/Registrar can provide any assurance that DTC, DTC's Participants or any other intermediary will allocate the redemption of Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds on a pro-rata pass-through distribution of principal basis as discussed above, then the Bonds will be selected for redemption in accordance with DTC procedures, by lot.

Notice of Redemption

Not less than thirty (30) days before a redemption date for the Bonds, a notice of redemption shall be sent by United States mail, first-class postage prepaid, in the name of the City, 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, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent/Registrar before the notice of redemption is mailed, such notice may state that redemption may, at the option of the City, be conditional upon the receipt of such moneys by the Paying Agent/Registrar on or before the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption; and, if sufficient moneys are not received, such notice shall be of no force and effect, the City shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

Defeasance

The City may defease and discharge its obligation to the Holders of any or all of the Bonds to pay the principal of, redemption premium, 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) such other obligations authorized by law to be acquired for defeasance and payment of outstanding indebtedness of the City.

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 the Bonds being defeased.

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is U.S. Bank National Association. The City retains the right to replace the Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City will promptly cause written notice 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 Sixteenth Supplement.

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 Houston, 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 nor the Sixteenth 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 or the Sixteenth 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 if there is no other available remedy at law to compel performance of the Bonds, the Master Ordinance, or the Sixteenth 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. Neither the Master Ordinance nor the Sixteenth 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 Sixteenth 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 or the Sixteenth 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.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the State. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

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 supplemental ordinances thereto (including the Sixteenth Supplement), and defeasance of the Bonds, see APPENDIX C attached to this document.

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-fired electric generation facilities, which are available to meet Electric Utility System demand. Proceeds of the Bonds will be used to acquire a biomass power plant, which will become part of the Electric Utility System and will be available to meet Electric Utility System demand. For the fiscal year commencing October 1, 2018, the Electric Utility System had approximately 1,749 full-time regular employees and the Water and Wastewater Utility had approximately 1,201 full-time regular employees.

ELECTRIC UTILITY SYSTEM “AUSTIN ENERGY”

Management (as of May 16, 2019)

| | <u>Years at City</u> | <u>Additional Years of Experience</u> | <u>Total</u> |
|--|--------------------------|---|--------------|
| General Manager | | | |
| Jacqueline Sargent, PE | 4 | 26 | 30 |
| Deputy General Managers | | | |
| Charles Dickerson, <i>Chief Operating Officer</i> | 1 | 28 | 29 |
| Mark Dombroski, <i>Chief Financial and Risk Officer</i> | 5 | 24 | 29 |
| Kerry Overton, <i>Chief Customer and Compliance Officer</i> | 18 | 11 | 29 |
| Vice Presidents | | | |
| Erika Bierschbach, <i>Market Operations and Resource Planning</i> | 18 | 7 | 25 |
| Gerardo Galvan, <i>Customer Care Services</i> | 2 | 15 | 17 |
| Elaine Veselka, <i>Customer Account Management</i> | 10 | 12 | 22 |
| Deborah Kimberly, <i>Customer Energy Solutions and Corp. Communication</i> | 5 | 30 | 35 |
| Dan Smith, PE, <i>Electric Service Delivery</i> | 15 | 15 | 30 |
| William Sweeney, <i>Power Production</i> | 27 | 4 | 31 |

Service Area

The service area for Austin Energy was established by the Public Utilities Commission of Texas (“PUCT”) pursuant to a certificate of convenience and necessity on April 3, 1978. The City’s service area encompasses 227 square miles within the City itself and approximately 210 square miles of surrounding Travis and Williamson Counties. The establishment of such a service area entitles Austin Energy to provide electric service within this area. As presently constituted, the City’s service area overlaps with approximately 11 square miles of the service area of ONCOR Electric Delivery in Travis and Williamson Counties.

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

Real Estate Taxes

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

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Customer Base – Average Monthly Number of Customers

| <u>For Period ended September 30, 2018</u> | <u>Average Monthly Number of Customers</u> | <u>Percent</u> |
|--|--|----------------|
| Residential | 433,411 | 89.33 |
| Commercial | 48,966 | 10.09 |
| Industrial | 112 | 0.02 |
| Public Street & Highway | 4 | 0.00 |
| Governmental Authorities | <u>2,711</u> | <u>0.56</u> |
| Total Service Area Customers | <u>485,204</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, natural gas, and biomass facilities. In addition, Austin Energy has renewable energy installations or contracts for purchased power from wind, solar, and landfill methane. See “DESCRIPTION OF PHYSICAL PROPERTY” and “STRATEGIC PLANS, GOALS AND POLICIES – Austin Energy Resource, Generation and Climate Protection Plan to 2027” in this document.

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Generation Facilities – TABLE ONE

As of May 15, 2019, generation facilities wholly or partially owned by Austin Energy and in operation 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 | 200.0 | Nuclear |
| Nacogdoches Biomass Facility (pending) (1) | 2012 | <u>115.0</u> | Biomass |
| Total Capacity owned by Austin Energy | | <u>2,585.6</u> | |
| Purchased Power (2)(3): | | | |
| RES North America Whirlwind Energy LLC | 2007 | 59.80 | Wind |
| RES North America Hackberry Wind, LLC | 2008 | 165.6 | Wind |
| Exelon Whitetail Wind Energy, LLC | 2012 | 92.3 | Wind |
| Duke Energy Los Vientos IB, LLC | 2012 | 201.6 | Wind |
| Austin Solar, LLC | 2011 | 30.0 | Solar |
| Duke Energy Los Vientos III, LLC | 2015 | 200.0 | Wind |
| BHE Renewables TX Jumbo Road Wind, LLC | 2015 | 300.0 | Wind |
| Energy Developments, Inc. | 2002-2003 | 7.8 | Landfill Methane |
| Duke Energy Los Vientos IV, LLC | 2016 | 200.0 | Wind |
| Southern Power Roserock Solar, LLC | 2016 | 157.5 | Solar |
| Southern Power East Pecos Solar, LLC | 2017 | 118.5 | Solar |
| Consolidated Edison CED Upton County Solar, LLC | 2017 | 157.5 | Solar |
| DESRI Midway Solar, LLC | 2018 | 178.5 | Solar |
| Power Fin Texas Solar Project, LLC | 2018 | 3.2 | Solar |
| Total Capacity from Purchased Power | | <u>1,872.3</u> | |
| Total Capacity including Purchased Power | | <u>4,457.9</u> | |

(1) See “DESCRIPTION OF PHYSICAL PROPERTY – Nacogdoches Biomass Facility” in this document.

(2) 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.

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

Source: Austin Energy.

See “CUSTOMER STATISTICS - Generation and Use Data - TABLE THREE” 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 several factors that affect Austin Energy's finances. Fuel mix percentages (based on generation as a percent of load) by fuel type are provided below.

| Fuel Type | Percentage Net Load (*) | | | | |
|------------------------------|-------------------------|-------------|------------|--------------|---------------|
| | As of September 30 | | | | |
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Coal | 27.6% | 24.3% | 23.1% | 29.2% | 29.4% |
| Natural Gas & Oil | 13.1 | 16.1 | 16.5 | 13.2 | 18.7 |
| Nuclear | 23.1 | 26.0 | 24.6 | 24.2 | 25.2 |
| Renewable Energy | 22.0 | 23.2 | 29.7 | 35.9 | 37.5 |
| Net Market Purchases/(Sales) | <u>14.2</u> | <u>10.4</u> | <u>6.1</u> | <u>(2.5)</u> | <u>(10.8)</u> |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

* Inputs to the categories above have been updated; "Purchased Power" in prior Official Statements included bilateral and market purchases. Purchase power agreements remain in the "Renewable Energy" category.

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 is targeted to be 40-70 days. Austin Energy's coal inventory share was 43 days as of April 30, 2019.

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 comprised of an equal number of voting representatives from each participant was established, supported by four Subcommittees (Environmental, Fiscal/Budget, Fuels, and Technical) composed of representatives from each participant to direct the operation of the project. FPP is a 7,500 acre site located 8½ miles east of LaGrange, Texas, which is approximately 65 miles southeast of the City.

FPP installed scrubbers on Units 1 and 2 in 2011 to meet sulfur dioxide (SO₂) permit levels and to help meet limits of air toxics in the federal Mercury and Air Toxics Standards ("MATS") rules published in 2012. Beginning in 2012, FPP installed mercury removal technology equipment to reach compliance with the MATS rule on Units 1 and 2. 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" 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 "F" class combustion turbine ("CT"), one natural circulation, duct fired, heat recovery steam generator ("HRSG"), and one 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 originally had a 40-year Nuclear Regulatory Commission ("NRC") license that expired in 2027 and 2028, respectively. Under NRC regulations, the STP owners requested a 20-year license renewal which was approved for Units 1 and 2 on September 18, 2017. The license renewals allow operation of STP Units 1 and 2 until August 20, 2047 and December 15, 2048, respectively.

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 STP 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 STP. Austin Energy evaluated the City's ownership option and provided City Council with an analysis on which to base a decision. The City Council elected to decline participation in this expansion as then proposed. Nuclear Innovation North America ("NINA"), operating as a subsidiary of NRG Energy, Inc., became the lead applicant for the license and assumed responsibility for design, construction, and licensing prior to operation of STP 3 and 4 on January 24, 2011. The NRC issued the Combined License for Units 3 and 4 on

February 12, 2016. A press release from NINA at the time of the license issuance stated “NINA plans to hold these licenses until market economics support construction.”

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

In 2018, STP completed construction of an on-site Dry Cask Storage (“DCS”) system and NRC licensed Independent Spent Fuel Storage Installation (“ISFSI”). The DCS and ISFSI are necessary to store spent nuclear fuel on-site as the spent fuel pool for both STP Units 1 and 2 were nearing their full design limit. The DCS and ISFSI were successfully placed into operation in early 2019 with the off-loading of spent nuclear fuel from the Units 1 and 2 spent fuel pool.

Nacogdoches Biomass Facility

In August 2008, Austin Energy signed a 20-year Power Purchase Agreement (“PPA”) with Nacogdoches Power, LLC, a subsidiary of BayCorp Holdings, for up to 100 MW of output from a 115 MW biomass power plant, fueled by wood waste such as forest residue, mill residue, waste pallets and municipal wood waste (the “Nacogdoches Biomass Facility”). Southern Power Company acquired the development rights for the Nacogdoches Biomass Facility from BayCorp Holdings in 2009. Southern Power Company completed construction of the facility, which commenced commercial operation in June 2012. The Nacogdoches Biomass Facility is located in Nacogdoches County, Texas.

When Austin Energy entered into the PPA in 2008, natural gas prices averaged nearly \$10 per thousand cubic feet and the possibility of a carbon tax was under serious consideration at the federal level. At the time, Austin Energy also considered the Nacogdoches Biomass Facility’s ability to produce energy on demand an advantage over the intermittency of other renewable energy generation such as wind or solar. By 2012, when the Nacogdoches Biomass Facility became operational, the economics of the facility had changed. The proliferation of hydraulic fracturing produced abundant, low-cost natural gas resulting in lower power prices in the ERCOT market. In addition, the carbon tax debate had ended in Washington D.C. without adoption. The combination of these factors has resulted in the marginal cost to operate the Nacogdoches Biomass Facility to be higher than the market price for electricity in ERCOT, except during limited periods in summer months. This has caused the capacity factor for the Nacogdoches Biomass Facility to be lower than expected.

Southern Power Company engaged an investment banking firm to conduct a competitive sale of Nacogdoches Power, LLC in late 2018. On April 18, 2019, Austin Energy announced that it reached an agreement to purchase Nacogdoches Power, LLC from Southern Power Company for \$460 million. The acquisition will be funded with proceeds of the Bonds (see “SOURCES AND USES OF FUNDS” in this document), and will enable Austin Energy to avoid approximately \$275 million in additional costs over the remaining term of the PPA. The acquisition is subject to customary closing conditions, and is expected to close in June 2019. Austin Energy intends to cause Nacogdoches Power, LLC to transfer the Nacogdoches Biomass Facility to Austin Energy as soon as practicable following the acquisition.

As a result of these transactions, the Nacogdoches Biomass Facility will become part of the Electric Utility System operated by Austin Energy. Austin Energy has engaged NAES Corporation (“NAES”) to provide full service operations and maintenance at the Nacogdoches Biomass Facility. NAES currently has operations at over 160 power plants in North America, including a similar biomass facility located in Gainesville, Florida. No immediate changes to the operation of the Nacogdoches Biomass Facility are expected. As is the case with respect to all elements of the electric generating capacity needs of Austin Energy, the long-term status of the operations of the Nacogdoches Biomass Facility will be addressed by Austin Energy in the normal course of future resource planning efforts.

By acquiring the Nacogdoches Biomass Facility Austin Energy anticipates several key economic benefits, including exchanging an escalating capacity payment (funded as an operating expense) for a lower, fixed debt service payment, eliminating the significant profit component of future capacity payments to Southern Power Company and capturing operating efficiencies and cost reductions as the facility owner. As a result, Austin Energy expects a net improvement on its coverage of fixed operating costs, including power purchase agreements. Austin Energy also expects the debt service coverage ratio on the Parity Electric Utility Obligations after the issuance of the Bonds to exceed Austin Energy’s internal goal of 2.0x.

District Cooling Program

Austin Energy's District Cooling program (the "District Cooling Program") is a market based program that constructs, maintains and operates district chiller plants. These chiller stations transform electrical energy into thermal energy which is then distributed, via a network of underground pipes, to external customers in the form of chilled water to cool and air condition their buildings. The aggregation of loads enables superior efficiencies, reliability, and quality when compared to stand-alone systems. The thermal storage elements within each plant enable Austin Energy to shift electrical consumption from on-peak to off-peak electrical periods. In this region, 40-45% of the electricity consumed by a typical commercial building goes to powering its air conditioning system. The District Cooling Program includes a district energy system serving the City's downtown Central Business District, The Domain development (the "Domain"), and the Mueller neighborhood ("Mueller"). The District Cooling Program currently has 70 customers consisting of over 19 million square feet of space connected to its district energy systems including residential towers, office buildings, hotels, the Austin Convention Center, and City Hall. The chiller systems serving the downtown Central Business District and the Domain provide chilled water services while the chiller system serving Mueller provides chilled water, steam and on-site generated electricity to the Dell Children's Medical Center of Central Texas and chilled water to neighboring buildings.

The District Cooling Program is supported by revenue from its customers and offers many benefits in return, including reduced construction and capital costs, extraordinary reliability, and simple, low risk operations. Benefits to Austin Energy and the City include having a valuable tool for economic development, providing new revenue from long-term service agreements, and advancement of environmental stewardship. All Austin Energy customers benefit from reduced electric market and regulatory charges due to the active electric demand management provided by the thermal energy storage elements of the District Cooling Program. The current Resource, Generation and Climate Protection Plan to 2027 includes a goal of 30 MW thermal demand shift by 2027. The District Cooling Program provided a 19 MW shift for summer 2018 and is projected to reach the 30 MW goal on or before 2027.

CUSTOMER RATES

Retail Service Rates

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

State courts have held that the PUCT may apply the same ratemaking standards to the City as are applied to utilities over which the PUCT has original jurisdiction.

In August 2016, the City Council approved a system average 6.65% base rate reduction for Austin Energy, which was reflected in electric bills beginning in January 2017. It is expected that rates will be reviewed at least every five years. The City Council reaffirmed that future system rate increases should not exceed 2%, compounded, per year and that Austin Energy rates should remain in the lower 50% among Texas electric utilities. The rates approved by the City Council in 2016 also include several line item charges that will be reviewed and updated annually:

- Power Supply Adjustment ("PSA"): recovers dollar-for-dollar fuel and net 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. The Regulatory Charge was modified to provide for a system-wide recovery mechanism rather than a rate class approach.
- Customer Assistance Program ("CAP"): funds utility bill discounts, weatherization, arrearage management and emergency financial assistance for low income customers (approximately 35,000 customers through Fiscal Year 2018). CAP was introduced during the 2012 rate update.
- Service Area Streetlights ("SAL"): maintains and powers the streetlights and traffic signals in the City (outside-the-city customers are not assessed this fee). The SAL charge was also modified to reflect a system-wide recovery approach.
- Energy Efficiency Services ("EES"): funds energy efficiency programs. The EES Charge was also modified to reflect a system-wide recovery approach.

Base Rate Decrease: The 2016 rate review resulted in a \$42.5 million base rate decrease. In addition to reducing base revenues, the rate update also eliminated the seasonal base rate differential, created a seasonal adjustment capability for PSA rates, modified and moderately flattened the residential tiered rates, redefined the boundaries of the Secondary Voltage 2 and Secondary Voltage 3 rate classes, and provided a level of price protection for low load factor customers. The changes in rate design are expected to improve cash flow for the utility and provide more stable and predictable rates for customers of Austin Electric. The approved rates were a negotiated result that included residential, commercial, and industrial customers.

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 PSA (fuel and other power supply costs), regulatory charge (primarily ERCOT transmission costs), and the Community Benefit Charge (low income programs, energy efficiency programs, and street lights).

Commercial rates: Commercial rates generally include a customer charge, demand and electric delivery charges (based on monthly peak demand), energy charges, and the pass-through charges for the PSA, Regulatory Charge, and the Community Benefit Charge (see “Residential Rates and Structure” above).

Industrial rates: Generally, industrial rates are comprised of a customer charge, electric delivery and demand charges, and in some instances, an energy charge. Industrial customers pay pass-through charges for the PSA and the Regulatory Charge, and in some instances, all or part of the Community Benefit Charge. In March 2017, the State of Texas agreed to a new long-term contract for large accounts, extending through August 2026. The City Council approved a new tariff in May 2015 for Austin Energy’s largest transmission customer that replaced their prior long-term contract. As a result, four of Austin Energy’s largest customers are served under a tariff that includes an executed long-term contract.

Power Supply Adjustment

During the annual budget process, the City Council reviews Austin Energy’s proposal for updating the PSA, which recovers ERCOT Settlements, fuel and other power supply costs, and purchased power agreement costs, plus an adjustment for the prior year over/under-recovery.

Typical Monthly Residential Electric Bills of Large Texas Cities

| <u>City</u> | <u>Monthly Electric Bill*</u> |
|-------------------|-------------------------------|
| Dallas/Fort Worth | \$95.09 |
| AUSTIN | 101.80 |
| Houston | 104.09 |
| Corpus Christi | 109.53 |
| San Antonio | 110.25 |
| El Paso | 121.81 |

* Average monthly residential bill for 1,000 kWh during the period October 2017 – September 2018, including fuel costs. Dallas/Fort Worth, Houston, and Corpus Christi are served by competitive retail service providers (“REP”). Many REPs design their offerings around the 1,000 kWh standard, resulting in an atypically low rate at the 1,000 kWh level, compared to the 500 kWh or 2,000 kWh consumption levels.

Source: PUCT and powertochoose.org.

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CUSTOMER STATISTICS

Five Year Electric Customer Statistics – TABLE TWO

TABLE TWO shows service area billed customer sales for fiscal years 2014 through 2018. The revenue per year varies in large degree due to the price of power which is passed through to customers in the Power Supply adjustment clause as stated above. MWH sales variances are due to a combination of customer growth and weather.

| | Fiscal Year Ended September 30 | | | | |
|--|--------------------------------|----------------|----------------|----------------|----------------|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| <u>Revenue (000's)</u> | | | | | |
| Residential | \$ 486,759 | \$ 465,608 | \$ 453,555 | 460,644 | 490,443 |
| Commercial | 480,461 | 467,175 | 484,162 | 476,618 | 465,363 |
| Industrial | 200,107 | 185,034 | 181,909 | 176,698 | 178,676 |
| Public Street & Highway | 3,058 | 2,412 | 2,679 | 2,734 | 2,636 |
| Sales to Government Authorities | <u>84,702</u> | <u>81,656</u> | <u>75,897</u> | <u>73,191</u> | <u>72,019</u> |
| Total | \$1,255,087 | \$1,201,885 | \$1,198,202 | 1,189,885 | 1,209,137 |
| <u>MWH</u> | | | | | |
| Residential | 4,314,699 | 4,320,492 | 4,258,275 | 4,360,743 | 4,608,438 |
| Commercial | 4,511,203 | 4,644,241 | 4,891,990 | 4,921,879 | 4,924,929 |
| Industrial | 2,850,111 | 2,795,815 | 2,817,055 | 2,820,344 | 2,968,235 |
| Public Street & Highway | 50,816 | 50,315 | 51,164 | 51,438 | 51,673 |
| Sales to Government Authorities | <u>872,857</u> | <u>879,415</u> | <u>862,343</u> | <u>855,887</u> | <u>864,734</u> |
| Total | 12,599,686 | 12,690,278 | 12,880,827 | 13,010,291 | 13,418,009 |
| <u>Average Monthly Number of Customers</u> | | | | | |
| Residential | 391,410 | 401,556 | 411,366 | 421,752 | 433,411 |
| Commercial | 45,407 | 46,253 | 47,352 | 48,285 | 48,966 |
| Industrial | 151 | 127 | 110 | 104 | 112 |
| Public Street & Highway | 5 | 6 | 7 | 6 | 4 |
| Sales to Government Authorities | <u>2,430</u> | <u>2,501</u> | <u>2,508</u> | <u>2,554</u> | <u>2,711</u> |
| Total | 439,403 | 450,443 | 461,343 | 472,701 | 485,204 |
| <u>Average Monthly KWH per Customer</u> | | | | | |
| Residential | 919 | 897 | 863 | 862 | 886 |
| Commercial | 8,279 | 8,367 | 8,609 | 8,495 | 8,382 |
| Industrial | 1,575,518 | 1,838,142 | 2,127,685 | 2,250,873 | 2,213,449 |
| Public Street & Highway | 846,926 | 653,436 | 609,091 | 695,102 | 1,076,528 |
| Sales to Government Authorities | 29,932 | 29,303 | 28,655 | 27,931 | 26,584 |
| <u>Average Monthly Bill per Customer</u> | | | | | |
| Residential | \$ 103.63 | \$ 96.63 | \$ 91.88 | \$ 91.02 | \$ 94.30 |
| Commercial | 881.77 | 841.70 | 852.07 | 822.58 | 791.98 |
| Industrial | 110,617.30 | 121,652.57 | 137,393.42 | 141,020.30 | 133,240.82 |
| Public Street & Highway | 50,972.42 | 31,325.98 | 31,891.33 | 36,947.02 | 54,922.30 |
| Sales to Government Authorities | 2,904.63 | 2,720.86 | 2,521.99 | 2,388.52 | 2,213.79 |
| <u>Average Revenues per KWH</u> | | | | | |
| Residential | \$0.11281 | \$0.10777 | \$0.10651 | \$0.10563 | \$0.10642 |
| Commercial | 0.10650 | 0.10059 | 0.09897 | 0.09684 | 0.09449 |
| Industrial | 0.07021 | 0.06618 | 0.06457 | 0.06265 | 0.06020 |
| Public Street & Highway | 0.06019 | 0.04794 | 0.05236 | 0.05315 | 0.05102 |
| Sales to Government Authorities | 0.09704 | 0.09285 | 0.08801 | 0.08552 | 0.08328 |

Source: Austin Energy.

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Electric Rates

The PSA, Regulatory Charge, and Community Benefit Charges are updated each year and the new rates are effective as of November 1. Austin Energy’s approved rates schedules are contained in the City’s annual continuing disclosure filing for the fiscal year ended September 30, 2018 for the City’s outstanding Parity Electric Utility Obligations, which filing is available from the Municipal Securities Rulemaking Board (the “MSRB”) on its Electronic Municipal Market Access (“EMMA”) system website (see “CONTINUING DISCLOSURE OF INFORMATION – Availability of Information” in this document), and such rate schedules are incorporated into this document by reference.

Transmission Rates

The PUCT has exclusive jurisdiction over rates and terms and conditions for the provision of transmission services by the City. On February 14, 2019, the PUCT approved the City’s most recent wholesale transmission rate of \$1.187214/kW. Transmission revenues totaled \$79 million in fiscal year 2018 and are expected to total approximately \$81 million in fiscal year 2019. 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. Subscribers see the PSA charge replaced with a GreenChoice charge on their electric bill. 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. GreenChoice renewable energy sales are certified by Green-e, a leading national independent consumer protection program for the sale of renewable energy and greenhouse gas reductions in the retail market.

GreenChoice Sales (kWh) by Calendar Year

| | |
|------|-------------|
| 2007 | 577,636,840 |
| 2008 | 723,824,901 |
| 2009 | 764,895,830 |
| 2010 | 754,203,479 |
| 2011 | 698,703,263 |
| 2012 | 744,442,709 |
| 2013 | 863,956,193 |
| 2014 | 683,986,607 |
| 2015 | 637,575,158 |
| 2016 | 719,814,465 |
| 2017 | 708,313,000 |
| 2018 | 759,088,000 |

Power and Energy Sales Contracts

Austin Energy has numerous enabling agreements in place with various market participants. The agreements are designed to facilitate energy transactions by providing a standard agreement and may be cancelled by either party upon thirty (30) days’ written notice. 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 market. Under this structure, Austin Energy generators are economically dispatched based on their cost against total ERCOT load rather than Austin Energy load. All load is likewise served by the ERCOT centralized dispatch. Bilateral power purchase and sale contracts are unaffected by this change and remain a key feature of the market. See “CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – ERCOT Wholesale Market Design” in this document.

Generation and Use Data – TABLE THREE

| | Fiscal Year Ended September 30 | | | | | | | | | |
|-------------------------------------|--------------------------------|------------------------|-------------------|------------------------|-------------------|-----------------------|-------------------|-----------------------|-------------------|-----------------------|
| | 2018 | | 2017 | | 2016 | | 2015 | | 2014 | |
| | Average Customers | kWh | Average Customers | kWh | Average Customers | kWh | Average Customers | kWh | Average Customers | kWh |
| Net kWh Generated | | 15,404,121,570 | | 13,905,297,109 | | 12,415,243,709 | | 11,610,500,640 | | 10,784,975,000 |
| kWh Received from ERCOT | | 400,176,250 | | 863,722,320 | | 1,452,541,760 | | 1,990,108,990 | | 2,496,345,000 |
| Less: kWh Delivered to ERCOT | | <u>(1,858,211,190)</u> | | <u>(1,218,787,411)</u> | | <u>(501,325,385)</u> | | <u>(215,343,640)</u> | | <u>(134,287,000)</u> |
| | | | | - | | | | | | |
| Total kWh Delivered to Service Area | | <u>13,946,086,630</u> | | <u>13,550,232,018</u> | | <u>13,366,460,084</u> | | <u>13,385,265,990</u> | | <u>13,147,033,000</u> |
| Service Area Energy Use: | | | | | | | | | | |
| Residential | 433,411 | 4,608,437,926 | 421,752 | 4,360,742,811 | 411,366 | 4,258,275,530 | 401,556 | 4,320,491,678 | 391,410 | 4,314,699,441 |
| General Service (Less UT & ENW) | <u>50,759</u> | <u>8,370,161,391</u> | <u>49,907</u> | <u>8,182,982,288</u> | <u>48,951</u> | <u>8,180,335,482</u> | <u>47,814</u> | <u>7,930,288,974</u> | <u>46,886</u> | <u>7,847,048,954</u> |
| | <u>484,170</u> | <u>12,978,599,317</u> | <u>471,659</u> | <u>12,543,725,099</u> | <u>460,317</u> | <u>12,438,611,012</u> | <u>449,370</u> | <u>12,250,780,652</u> | <u>438,296</u> | <u>12,161,748,395</u> |
| Public Street Lighting | 4 | 51,673,359 | 6 | 51,437,560 | 7 | 51,163,631 | 6 | 50,314,561 | 5 | 50,815,562 |
| City Utility Departments (*) | 309 | 264,127,365 | 327 | 288,204,138 | 309 | 268,278,325 | 349 | 265,271,198 | 352 | 265,731,532 |
| Other City Departments (*) | <u>720</u> | <u>112,841,653</u> | <u>708</u> | <u>110,543,607</u> | <u>709</u> | <u>110,274,454</u> | <u>717</u> | <u>110,732,138</u> | <u>749</u> | <u>105,998,996</u> |
| | <u>1,033</u> | <u>428,642,377</u> | <u>1,041</u> | <u>450,185,305</u> | <u>1,025</u> | <u>429,716,410</u> | <u>1,072</u> | <u>426,317,897</u> | <u>1,106</u> | <u>422,546,090</u> |
| Total Service Area Sales | 485,203 | 13,407,241,694 | 472,700 | 12,993,910,404 | 461,342 | 12,868,327,422 | 450,442 | 12,677,098,549 | 439,402 | 12,584,294,485 |
| Sales to UT & ENW (Nightwatchman) | 1 | 10,767,308 | 1 | 16,380,596 | 1 | 12,499,578 | 1 | 13,179,451 | 1 | 15,391,515 |
| Loss and Unaccounted For | | <u>528,077,628</u> | | <u>539,941,018</u> | | <u>485,633,084</u> | | <u>694,987,990</u> | | <u>547,347,000</u> |
| Total kWh Delivered to Service Area | <u>485,204</u> | <u>13,946,086,630</u> | <u>472,701</u> | <u>13,550,232,018</u> | <u>461,343</u> | <u>13,366,460,084</u> | <u>450,443</u> | <u>13,385,265,990</u> | <u>439,403</u> | <u>13,147,033,000</u> |
| System Peak Demand (kW) | | 2,878,000 | | 2,654,000 | | 2,755,000 | | 2,735,000 | | 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 position. 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 item that is hedged. 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.

Premiums paid for options are deferred until the contract is settled. As of September 30, 2018, \$96,075 in premiums were deferred. As of September 30, 2018, the fair value of Austin Energy's futures, options and swaps was an unrealized loss of \$7.7 million, of which \$7.8 million is reported as derivative instruments in liabilities and \$50,000 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, 2018. See APPENDIX B – “AUDITED FINANCIAL STATEMENTS – Note 9a – Energy Risk Management Program” in this document.

Power and Energy Purchase Contracts

The City has signed several long-term energy purchase agreements for conventional, wind, solar and landfill gas (methane) electric generation. All power generated from these facilities is sold into the ERCOT market.

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

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

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

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

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

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

In May 2015, Austin Energy and a subsidiary of Power Fin Texas Solar Projects, LLC entered into a 25-year Power Purchase Agreement for the purchase up to 3.2 MW of solar generated renewable energy from a facility to be constructed in the Austin Energy service territory; this purchase will be considered a component of Austin Energy's local solar goal. Commercial operation began in the first quarter of 2018.

In October 2015, Austin Energy entered into three separate transactions for the purchase and sale of energy from three solar projects in west Texas: (1) a 15-year Power Purchase Agreement with East Pecos Solar, LLC, a subsidiary of Southern Company who purchased the project from the original developer, First Solar Development, LLC, for up to 118.5 MW of capacity from a facility constructed in east Pecos County, commercial operation of which began in April 2017; (2) a 25-year Power Purchase Agreement with Midway Solar LLC, a subsidiary of DESRI, who purchased the asset from 174 Power Global, a subsidiary of Hanwha Q Cells for up to 178.5 MW of capacity from a facility located in east Pecos County; commercial operation began in December 2018; and (3) a 25-year Power Purchase Agreement with CED Upton County Solar LLC, a subsidiary of Consolidated Edison Development, for up to 157.5 MW of capacity from a facility in Upton County; commercial operation under this project began in August of 2017.

In June 2017 Austin Energy signed a 15 year Power Purchase Agreement with Karankawa Wind LLC, a subsidiary of Avangrid Renewables, LLC, for the sale and purchase of up to 206.6 MW of wind energy from a facility under construction in San Patricio and Bee Counties Texas. Commercial operation is expected by the end of 2019.

In December 2017 Austin Energy entered into a Power Purchase Agreement with IP Aragorn, LLC, an Intersect Power subsidiary, for the sale and purchase of solar power generated from a planned 180 MW project in Culberson County, Texas. Commercial operations are expected to commence in the third quarter of 2021.

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 October 1, 2018 are as follows:

| | <u>Number of Substations</u> | <u>Miles of Lines</u> | <u>Kilovolts</u> |
|-----------------------|------------------------------|-----------------------|------------------|
| Transmission | 13 | 624 | 345/138/69 |
| Distribution | 61 | 11,651 | 35/12.5/7.2 |
| Overhead Primary | | 2,379 | |
| Overhead Secondary | | 2,537 | |
| Underground Primary | | 3,394 | |
| Underground Secondary | | 3,341 | |

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

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

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

Until recently, 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, however, 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. ISO 9001 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, operating, maintaining, and repairing the Electric Utility System.

- The Electric Service Delivery (“ESD”) business unit – responsible for the construction, maintenance and operation of the City’s Electric Utility System - became the first of any utility in the nation to earn ISO-9001:2000 registration. 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 ESD Quality Management System by NSAI auditors. In June 2012, ESD Quality Management System was re-registered under the ISO- 9001:2008 standard. More recently, in June 2017, Austin Energy’s ESD Quality Management System was recommended for upgraded certification under the ISO-9001: 2015 standard, by NSAI. At this time, the ESD business unit actively maintains this certification.
- In June 2010, Austin Energy’s Customer Care Services (“CCS”) business unit was also registered as an ISO 9001:2008 organization. CCS is responsible for receiving customer requests, responding to customer requests, billing customers, processing customer payments, and managing customer accounts. In June 2013, Austin Energy’s CCS Quality Management System was re-registered under the ISO-9001: 2008 standard. In February 2017, Austin Energy’s CCS Quality Management System was upgraded to certification under the ISO-9001:2015 standard. At the same time, Austin 311, received initial certification under the ISO-9001:2015 standard – the first distinction of this kind for a

311 Contact Center in the United States. In February 2019, both the CCS Quality Management System, and Austin 311's Quality Management System were recertified to ISO-9001:2015, and combined into a single registration.

- In January 2013, Austin Energy's Power Production & Energy and Market Operations ("PPEMO") business unit received ISO registration for their quality management system. The PPEMO Quality Management System includes over fifty work processes related to operations, maintenance, planning, environmental compliance, plant engineering and market operations. More recently, in June 2017, Austin Energy's PPEMO Quality Management system was recommended for upgraded certification under the ISO-9001:2015 standard, by NSAI. At this time, the PPEMO business units activity maintain this certification.

Conventional System Improvements

Austin Energy's five-year Capital Improvements Spending Plan (the "Capital Plan"), which was approved by the City Council in September 2018 and amended in December 2018, addresses approximately \$1.31 billion of capital spending needs from 2019-2023. Funding for the Capital Plan is expected to be provided from revenues of Austin Energy and the issuance of debt, including short-term commercial paper and long-term revenue bonds. Austin Energy currently anticipates that approximately 60% of the five-year Capital Plan will be debt funded and 40% will be funded from revenues.

The Capital 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. Major projects in the Capital Plan include transmission system upgrades to the Decker Power Plant, the construction of a new downtown substation, the construction of two distinct chiller plants to serve the Austin Community College Highland Campus and the downtown Seaholm development, respectively, and the purchase of Austin Energy's new headquarters (estimated cost of \$150 million, with funding slated to be provided in FY2019 and FY2021).

\$1,310,000,000 Five Year Capital Spending Plan

| <u>\$ in Millions</u> | <u>2018-19</u> | <u>2019-20</u> | <u>2020-21</u> | <u>2021-22</u> | <u>2022-23</u> | <u>Total</u> |
|---|----------------|----------------|----------------|----------------|----------------|-----------------|
| Distribution | \$ 81 | \$ 93 | \$ 94 | \$ 95 | \$ 91 | \$ 454 |
| Distribution Substation | 13 | 19 | 13 | 5 | 8 | 58 |
| Transmission | <u>54</u> | <u>60</u> | <u>102</u> | <u>81</u> | <u>48</u> | <u>345</u> |
| Electric Service Delivery | 148 | 172 | 209 | 181 | 147 | 857 |
| Power Production | 76 | 69 | 45 | 26 | 24 | 240 |
| Customer Service Billing & Metering | 4 | 2 | 1 | 1 | 1 | 9 |
| Facilities, Technology & Support Services | <u>64</u> | <u>12</u> | <u>119</u> | <u>5</u> | <u>4</u> | <u>204</u> |
| Total | <u>\$ 292</u> | <u>\$ 255</u> | <u>\$ 374</u> | <u>\$ 213</u> | <u>\$ 176</u> | <u>\$ 1,310</u> |

Austin Energy Smart Meter Installation Program

Austin Energy maintains an Advanced Metering Infrastructure ("AMI") program. A component of the AMI program is the installation of AMI meters, which send and receive commands related to acquiring consumptive and diagnostic data, including daily meter reads via radio signals. Austin Energy has approximately 495,000 AMI meters: 430,000 2-way communicating residential meters and 65,000 2-way communicating commercial and industrial meters. As of 2015, Austin Energy has deployed a full 2-way AMI system. Continued improvements in AMI technology utilized at Austin Energy have provided demonstrable enhancements to customer service and reliability while reducing operating costs.

STRATEGIC PLANS, GOALS AND POLICIES

Strategic Plan

Austin Energy's mission is "To safely deliver clean, affordable, reliable energy and excellent customer service." To achieve its mission, Austin Energy adopted its 2017-2021 Strategic Plan (the "Strategic Plan") in June 2016. The Strategic Plan identifies adaptive strategies to proactively address customer expectations, deploy innovative technology, provide responsible energy services and ensure Austin Energy is well prepared for the challenges ahead. The Strategic Plan is informed from several sources, including Austin Energy's Technology Roadmap, Facilities Masterplan, Austin Energy Resource, Generation and

Climate Protection Plan, and the City’s strategic planning efforts. The primary focus of the Strategic Plan is to improve Austin Energy’s competitive position while realizing its vision “to drive customer value in energy services with innovative technology and environmental leadership.”

The Strategic Plan is comprised of six overarching goals that will enable Austin Energy to realize its vision. Three of the goals focus on delivering value to the customer, providing customer choice in the products and services they offer (Customer Collaboration, Environment and Grid Modernization). The other three goals have an internal focus on maintaining and increasing the value provided by the utility to its employees, customers and community (Financial Health, Employee Engagement and Business Excellence). Austin Energy identified thirteen separate new or on-going initiatives associated with the six strategic goals. In order to measure performance over time, each goal has an assigned Key Performance Indicator (“KPI”) as well as a target value for each KPI. Likewise, each initiative has several assigned performance metrics to monitor progress. Austin Energy established five-year goals that it intends to achieve before the completion of FY2021, although Austin Energy may complete some of the strategic initiatives on a shorter timeframe. Austin Energy publicly reports its strategic progress in the Monthly Performance Dashboard that tracks 36 separate KPIs and metrics.

Austin Energy is currently undertaking a review and refresh of the 2017-2021 Strategic Plan. The refresh is intended to promote alignment and understanding around key industry trends and risks to Austin Energy and its customers. The outcome will be a prioritization of Austin Energy’s initiatives, evaluation of metrics and a work plan for continued improvement in strategic direction for the utility.

Austin Energy Resource, Generation, and Climate Protection Plan to 2027

The Austin Energy Resource, Generation and Climate Protection Plan to 2027 (the “2027 Plan”) outlines the City Council’s strategic goals for Austin Energy’s environmental and economic leadership and represents a combined, extensive effort of the Austin community. The 2027 Plan is flexible and dynamic in order to respond to changing circumstances including economic conditions, customer load, fuel prices, infrastructure build-out, technological development, law and regulations, policy direction, rate structures and customer needs. It involves extensive analysis of risks, costs and opportunities to meet future demand for electricity.

The 2027 Plan is built on the foundation of previous actions and plans including:

- The Austin City Council adopted the Austin Climate Protection Plan in 2007 to build a more sustainable community. Austin Energy developed the Resource, Generation and Climate Protection Plan to meet these objectives. The first plan, approved by City Council in 2010 and further refined in 2010 by adding affordability metrics, addressed resource plan options through 2020. Austin Energy is committed to updating its integrated resource plan every two years.
- In April 2014, the City Council passed Resolution No. 20140410-024 which recognized the need to further accelerate the reduction of greenhouse gas emissions and set a goal of reaching net zero community-wide greenhouse gas emissions by 2050 or earlier if feasible. The City Council then approved an updated Resource, Generation and Climate Protection Plan in December 2014, addressing resource options through 2025.

In November 2016, the City of Austin’s Electric Utility Commission formed a working group to make recommendations on the most recent update to the 2027 Plan, which addresses resource plan options through 2027. In addition to reaffirming the affordability goals approved in 2010, the working group made recommendations in the areas of generation, local solar, energy efficiency and demand response, electric vehicles and process.

The 2027 Plan: Goals and Directives (Summary)

On August 17, 2017, the City Council approved Resolution No. 20170817-061, adopting the Working Group recommendations and providing additional direction. The recommendations and the City Council directives are detailed in this 2027 Plan.

Vision – The City Council affirmed its continued interest in achieving the City’s climate protection goal of reducing emissions as quickly as possible.

Affordability – Affordability is an overarching goal. The affordability goal acknowledges that Austin Energy must be financially sound; that the cost of electric service must be affordable for all classes of customers and that rates must be competitive to ensure the retention and attraction of businesses for a strong local economy. The affordability goal approved by City Council is comprised of two metrics that seek to: (1) maintain system average rates at or below 2% annual compound growth rate that began October 2012; and (2) maintain an average annual system rate in the lower 50% of all Texas utilities serving residential, commercial and industrial customers as measured by published data from the Energy Information Administration Form 861.

Resource and Technology Objectives – The following goals are inclusive of the goals in the 2027 Plan. Where a study or modeling effort is indicated such items will be reported to the Electric Utility and Resource Management Commissions as well as the Austin Energy Utility Oversight Committee no later than September 30, 2019 unless a different date is indicated.

Renewable Energy

- Achieve at least 55% renewable energy by 2025, and commit to 65% renewable energy by the end of 2027 as a share of customer consumption. Under the 2027 Plan, installed solar capacity would increase to at least 950 MW by 2025, including 200 MW of local solar.

Decker Creek Power Station and Fayette Power Project

- Target ceasing operations and beginning retirement of Decker Steam units, assuming ERCOT approval, with Steam Unit 1 ceasing operations after summer peak of 2020 and Steam Unit 2 ceasing operations after summer peak of 2021.
- The City reaffirmed its previous goal, established in 2014, to exit Austin Energy’s participation in the FPP, beginning by the end of 2022.

Local Solar

- Achieve 110 MW of local solar by the end of 2020, including at least 70 MW of customer-sited solar and commit to a local solar budget of \$7.5 million per year for FY 2018 and FY 2019 followed by \$5 million per year for each of the fiscal years FY 2020 through FY 2027. As of April 2019, there were 101 MW local solar, including the 30 MW Webberville solar farm, the 2.6 MW La Loma Community Solar project, and 68 MW of customer-sited solar photovoltaics. Austin Energy expects to achieve the 70 MW customer-sited solar goal in 2019, and the 110 MW local solar goal in 2020, through continued rooftop solar market growth, aided by Austin Energy incentives, and additional community solar project development.

Energy Efficiency and Demand Response

- Achieve 800 MWs of energy efficiency and demand response by 2020 with an incremental 100 MW of demand response to achieve a total of at least 900 MW of demand side management (“DSM”) by 2025. From 2007 through March 2019, Austin Energy DSM customer programs have reduced demand by 754 MW. Program offerings are provided in all sectors and include community focus such as school based education, in-store point of sale discounts, low income and rebates for energy efficiency and demand response engagement.
- Budget at least 2.5% gross revenues to DSM (recovered in the Community Benefit Charge and base rates) – Austin Energy will work with stakeholders to make future goals ‘budget-based,’ rather than MW-based, as has been done in the past.

Emerging Technology and Energy Storage

- Commit to achieving 30 MW of local thermal storage by 2027, and a minimum of 10 MW of electric storage by 2025. Austin Energy is currently developing 3 MW of electrical storage with the help of a grant from the DOE SHINES program. Using the lessons learned following completion and implementation of the SHINES project develop a roadmap for implementation of electrical storage to achieve the existing goal of 10 MW of electrical storage by 2025.

Electric Vehicles

- Initiate private public partnerships that promote, market, and provide electric vehicle support that will increase utility revenue while reducing air pollution and greenhouse gases. Expand current efforts and, as possible, utilize these vehicles as a valid distributed storage technology.

Financial Policies

The objective 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 fund 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.
- Net revenues generated by Austin Energy shall be used for a transfer to the City's General Fund (the "General Fund Transfer," which is a formula-based appropriation), capital investment, repair and replacement, debt management, competitive strategies, and other Austin Energy funding requirements. Once these obligations have been met, any remaining Net Revenues of the Electric Utility System will be deposited into Austin Energy's reserve funds in the following order until each reserve reaches its minimum funding level: Working Capital Reserve, Contingency Reserve, Power Supply Stabilization Reserve, and then Capital Reserve. The sum of the four reserves shall be the cash equivalent of no less than 150 days of operating and maintenance expense.
- Austin Energy shall maintain an operating cash equivalent (also known as Working Capital) of 60 days of budgeted operations and maintenance expense, less power supply costs, plus the amount of additional monies required to bring the sum of all Austin Energy's reserves to no less than 150 days of operating and maintenance expense. As of September 30, 2018, Austin Energy's operating cash balance was \$454 million and Days Cash on Hand ("DCOH") was 224 days.
- Austin Energy shall maintain a minimum quick ratio of 1.50 (current assets less inventory divided by current liabilities). The source of this information shall be the City's Comprehensive Annual Financial Report ("CAFR").
- Austin Energy shall maintain either bond insurance policies or surety bonds issued by highly rated ("AAA") bond insurance companies, or a cash-funded debt service reserve, or a combination of bond insurance policies, surety bonds, or cash for its existing revenue bond issues, in accordance with the bond covenants of the Combined Utility Systems revenue bonds.
- Debt service coverage of a minimum of 2.0x shall be targeted for the Electric Utility System's revenue bonds, and a coverage minimum of 1.0x coverage shall be targeted when additionally including all short-term debt, including commercial paper obligations and non-revenue obligations.
- The Contingency Reserve shall be created and established for unanticipated or unforeseen events that reduce revenue or increase obligations, such as costs related to a natural disaster, extended unplanned plant outages, insurance deductibles, or unexpected costs created by Federal or State legislation. The Contingency Reserve may be used to fund unanticipated power supply expenses only after the Power Supply Stabilization Reserve has been fully depleted. The Contingency Reserve shall maintain an operating cash equivalent of 60 days of budgeted operations and maintenance expense, less power supply costs. In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted funding level within two fiscal years.
- The Capital Reserve shall be created and established for providing extensions, additions, replacements and improvements to the Electric Utility System. The Capital Reserve shall maintain a minimum cash equivalent of 50% of the previous year's depreciation expense of the Electric Utility System.
- The Power Supply Stabilization Reserve shall be created and established for mitigating power supply cost volatility which causes frequent variation in the Power Supply Adjustment. The Power Supply Stabilization Reserve shall maintain a cash equivalent of 90 days of net power supply costs. Net power supply costs shall be defined as costs eligible for inclusion in the Power Supply Adjustment. The Power Supply Stabilization Reserve shall be funded using net revenues after meeting other obligations and consistent with the flow of funds schedule.

- 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 less power supply costs and District Cooling Program revenue from the City’s CAFR.
- Electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to support (1) the full cost (direct and indirect) of operations including depreciation, (2) debt service, (3) the General Fund Transfer, (4) equity funding of capital investments, (5) requisite deposits of all reserve accounts, (6) sufficient annual debt service requirements of the Parity Electric Utility Obligations and other bond covenant requirements, if applicable, and (7) any other current obligations. In addition, Austin Energy may recommend to the City Council in the budget directing excess net revenues for the General Fund Transfer, capital investment, repair and replacement, debt management, competitive strategies and other Austin Energy requirements such as working capital. In addition to these requirements, electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to ensure a minimum debt service coverage of 2.0x on revenue bonds of the Electric Utility System. A rate adequacy review shall be completed every five years, at a minimum, through performing a cost of service study.
- A decommissioning trust shall be established external to the City to hold the proceeds for monies collected for the purpose of decommissioning the STP. An external investment manager may be hired to administer the trust investments. As of March 31, 2019, the market value of the investments in the trust was \$226.2 million.
- A Non-Nuclear Plant Decommissioning Fund shall be established to fund plant retirement. The amount set aside will be based on a decommissioning study of the plant site. Funding will be set aside over a minimum of four years prior to the expected plant closure.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Rate Regulation

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

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

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

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

ERCOT Wholesale Market Design

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

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

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

Federal Rate Regulation

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

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

Environmental Regulation - General

Austin Energy is subject to environmental regulation by Federal, State and local authorities and 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. The Environmental Services section is also responsible for conducting environmental training for the organization.

Environmental Regulation Related to Air Emissions

Clean Power Plan

In October 2015, the United States Environmental Protection Agency (“USEPA”) finalized the Clean Power Plan (“CPP”) requiring CO₂ emissions reductions from the electricity sector in most states, and directed each state to develop its own plan to achieve those reductions. Twenty-seven states and numerous industry groups filed a combined 39 lawsuits from a total of 157 petitioners asking the D.C. Circuit to review the rule. Briefings were completed in April 2016 and oral arguments were conducted in September 2016. The Supreme Court stayed the CPP rule on February 9, 2016, pending review in the D.C. Circuit Court. The D.C. Circuit has yet to issue a ruling; however, in 2018, the USEPA proposed revising the rule; that proposal is not yet final. Austin Energy’s fleet is less carbon intense than the state-wide fleet as a whole because of investments already made in zero-and-low-carbon generation sources. Austin Energy is well-positioned to comply with this rule, if it goes into effect.

Mercury and Air Toxics Standards (MATS)

USEPA’s final MATS rule published in February 2012 set new emissions limits for mercury and other toxic air emissions from coal-fired electric utility boilers to be achieved by 2015. For Austin Energy, this rule applies to FPP Units 1 and 2. Numerous states and industry groups continue to legally challenge USEPA’s determination that the rule is needed, and USEPA has proposed changes to the rule.

Austin Energy and its operating partner at FPP have already made the necessary investment to comply with MATS and will continue to comply until further direction is provided from the courts and USEPA.

Cross-State Air Pollution Rule and Clean Air Interstate Rule

Austin Energy’s large facilities have been complying with the Cross-State Air Pollution Rule (“CSAPR”) since 2015. On September 7, 2016, USEPA finalized an update to the CSAPR rule. The final rule lowered the State’s Phase II ozone season budgets by approximately an additional 10%. Austin Energy emission of nitrogen oxide (“NO_x”) exceeded allocations in 2018 and are expected to do so in 2019, resulting in the need to purchase excess allowances on the market.

Environmental Regulation Related to Water Discharges

Cooling water intake structures

Section 316(b) of the Clean Water Act establishes requirements to minimize the impact of cooling water intake structures on aquatic organisms. The United States Environmental Protection Agency (“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.

Effluent Limit Guideline (ELG) regulations

On November 3, 2015, the USEPA finalized technology-based wastewater effluent limitation guidelines and standards for steam electric power generating units, primarily focused on discharges associated with coal generating facilities. The standards provide for a phased-in approach and the use of technologies already installed at many power plants. As a result of conversion to dry ash handling and onsite treatment of scrubber discharge at FPP, Austin Energy does not anticipate any significant compliance requirements for this rule at this time.

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. FPP is in compliance with existing CCR rule requirements and Austin Energy does not anticipate any significant future costs associated with this rule at this time.

Nuclear Regulation

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

STP is protected by provisions of the Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities even though the statutory protections for many non-commercial reactors are different. The Price-Anderson Act expires on December 31, 2025. As of September 30, 2018, the limit of liability under the Price-Anderson Act for licensees of nuclear power plants remains at \$14.1 billion per unit per incident, and the maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is \$137.609 million per unit, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at \$20.496 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 \$450 million (as of September 30, 2018) 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.

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 accidental outage insurance, primary and excess property damage insurance is \$59.6 million during any one policy year with insurance premiums being prorated per member share. This number changes annually and is calculated as 10 times the current premium for each policy. A small portion of the primary nuclear property damage insurance is provided by European Mutual Association for Nuclear Insurance (“EMANI”) which is also subject to retrospective assessment of up to \$1.864 million, which is six times the current calendar year premium.

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 2018 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 established an external irrevocable trust for decommissioning with JPMorgan Chase Bank, N.A, and as of October 2016, transferred the trust to Wilmington Trust, National Association. The City has been collecting for its share of anticipated decommissioning activities, which may begin as early as 2047, through its rates since Fiscal Year 1989. The market value of assets held in the decommissioning trust as of March 31, 2019 was \$226,219,592. For Fiscal Year 2019, Austin Energy estimates that it will continue to collect approximately \$5 million for decommissioning expense. In 2018 dollars, the minimum amount for decommissioning the City's share of STP is \$397 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 2012, in response to lessons learned from the Fukushima Daiichi 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. As detailed below, all required actions by STP related to these orders have been completed and accepted by the NRC.

The first NRC order requires all U.S. plants to better protect portable safety equipment put in place after the 9/11 terrorist attacks and to obtain sufficient equipment to support all reactors and spent fuel pools at a given site simultaneously. The ISG for this order endorses the industry's updated guidance for dealing with a scenario that knocks out all of a plant's alternating current electric sources. The updated approach includes the use of backup power supplies for devices that would burn off accident-generated hydrogen before it could accumulate to explosive levels. The staff concludes the updated approach will successfully implement the first NRC order. The ISG is available in the Agencywide Document Access and Management System ("ADAMS") under accession number ML12229A174; the associated industry document is available under accession number ML12242A378. STP has completed engineering design and installation of equipment and modifications to address these requirements, and has had the final closeout inspection by the NRC. The NRC has accepted STP's completion letter and no further action is required for this order.

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

The third NRC order requires all plants to install enhanced equipment for monitoring water levels in each plant's spent fuel pool. The ISG for this order largely endorses an industry document that the staff concludes will successfully implement the order. The ISG defines in more detail the water levels the new equipment must accurately report, as well as standards for equipment mounting, powering and testing, personnel training and other criteria. The final ISG notes several areas, including instrument qualifications and instrument protection from falling debris, where the industry revised its initial approach. An exception in the staff's endorsement sets specific seismic criteria to ensure the instruments will survive an earthquake. This ISG is available in ADAMS under accession number ML12221A399; the associated industry document is available under accession number ML12240A304. STP has completed engineering design and installation of equipment and modifications to address these requirements and has had the final closeout inspection by the NRC. The NRC has accepted STP's completion letter and no further action is required for this order.

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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 | 11 Years |
| David Anders | Assistant Director, Financial Services | 31 Years |
| Chris Chen, P.E. | Assistant Director, Engineering Services | 6 Years |
| Rick Coronado, P.E. | Assistant Director, Operations | 24 Years |
| Kevin Critendon, P.E. | Assistant Director, Water Resources Management | 8 Years |
| Daryl Slusher | Assistant Director, Environmental Affairs and Conservation | 23 Years** |

*As of February 28, 2019.

**Length of service not continuous.

WATER SYSTEM

Service Area

The City supplies treated water to residential and commercial customers within the corporate limits of the City and to a portion of Travis and Williamson Counties. The presently defined service area totals approximately 544 square miles. The City also has contracted to supply treated water on a wholesale basis to four municipal utility districts (individually, a “MUD”; collectively “MUDs”); two water control and improvement districts (individually, a “WCID”; collectively “WCIDs”); several water supply corporations and private utilities; the cities of Manor, Rollingwood, Sunset Valley, West Lake Hills; and the Village of San Leanna. In addition, the City has had a water reclamation initiative for more than thirty 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 System 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 extinguished the bonded indebtedness of all of these WCIDs.

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

Water Supply

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

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

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

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

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

| | | | |
|----------------------------|----------------------------|----------------------------|--------------------------|
| 1987 – 3,399,000 Acre-Feet | 1997 – 3,013,512 Acre-Feet | 2007 – 2,156,000 Acre-Feet | 2017 – 739,900 Acre-Feet |
| 1988 – 834,000 Acre-Feet | 1998 – 1,313,831 Acre-Feet | 2008 – 623,200 Acre-Feet | 2018 – 277,600 Acre-Feet |
| 1989 – 667,900 Acre-Feet | 1999 – 803,240 Acre-Feet | 2009 – 584,800 Acre-Feet | |
| 1990 – 692,300 Acre-Feet | 2000 – 627,370 Acre-Feet | 2010 – 798,500 Acre-Feet | |
| 1991 – 829,700 Acre-Feet | 2001 – 1,371,435 Acre-Feet | 2011 – 670,000 Acre-Feet | |
| 1992 – 5,419,000 Acre-Feet | 2002 – 1,674,985 Acre-Feet | 2012 – 212,800 Acre-Feet | |
| 1993 – 978,000 Acre-Feet | 2003 – 1,017,294 Acre-Feet | 2013 – 210,600 Acre-Feet | |
| 1994 – 708,200 Acre-Feet | 2004 – 928,065 Acre-Feet | 2014 – 219,200 Acre-Feet | |
| 1995 – 896,700 Acre-Feet | 2005 – 1,077,031 Acre-Feet | 2015 – 201,700 Acre-Feet | |
| 1996 – 758,300 Acre-Feet | 2006 – 553,200 Acre-Feet | 2016 – 1,478,341 Acre-Feet | |

* Data from 1987 to 2018 is referenced from USGS Water-Year Summary Statistics.

Using the last thirty-two years from 1987-2018, the average flow was 1,133,900 acre-feet per year. As a result of drought conditions, the flows in water years 2012 through 2015 were lower, in accordance with TCEQ approval, due to LCRA cutting off most Highland Lakes interruptible stored water releases for agricultural irrigation operations. Water year 2018 also experienced dry conditions and LCRA implemented a partial curtailment for downstream agricultural releases towards the latter part of the year). 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 Berl L. Handcox, Sr. Water Treatment Plant known as "Handcox WTP" (formerly Water Treatment Plant No. 4 or WTP No. 4) discussed under "Water Treatment Plants" below). 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 Handcox WTP, and for additional water for municipal and other purposes of use downstream of Lake Travis.

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

Under the terms of the First Amendment, the Water and Wastewater System will begin annual payments to LCRA for raw water diverted in excess of 150,000 acre-feet once the Water and Wastewater System's average annual diversions for two consecutive years exceed 201,000 acre-feet, which is unlikely to occur prior to 2040. The First Amendment also has numerous other provisions that benefit the City. Also, a legal issue regarding the building of Handcox WTP (formerly WTP No. 4) was settled. LCRA's option to acquire up to 50% of the Handcox WTP lapsed on January 1, 2000. All sections of the 1987 Settlement Agreement related to Handcox WTP 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 Handcox WTP.

Water Treatment Plants

Austin Water has three water treatment plants (Davis, Ullrich, and Handcox WTP), which have a combined rated capacity of 335 million gallons per day ("mgd"). These water treatment plants have a combined clear well storage capacity of 45 million gallons on site.

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

The City receives its water supply from the Colorado River through the three water treatment plants. The Davis Water Treatment Plant and the Ullrich Water Treatment Plant both draw water from Lake Austin. Handcox WTP 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.

Handcox WTP began delivering potable water in November 2014. Located in northwest Austin, Handcox WTP draws its water from Lake Travis. The construction of Handcox WTP 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 Handcox WTP came from a combination of cash transferred from the operating fund and Commercial Paper Obligations.

Water Use Management Plans, Austin's Integrated Water Resource Plan, and LCRA Water Management Plans

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 with automatic sprinkler systems of no more than once 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 Code, Chapter 6-4. 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 from September 2011 through May 2016 the City was in Stage 2 watering restrictions, which resulted in lower than forecasted Gross Revenues in fiscal years 2012 through 2014. Among other measures, Stage 2 watering restrictions limit lawn watering to no more than one day per week. In accordance with the DCP, Stage 2 implementation was triggered in response to the combined storage of water supply in Lakes Travis and Buchanan dropping to 900,000 acre-feet in late summer 2011. Water use restrictions achieved their intended effect, as water use has declined significantly during their imposition; however, water use declined more than forecasted by the Water and Wastewater Utility for fiscal years 2012 through 2014. Significant rainfall in 2015 increased the combined storage of Lakes Travis and Buchanan to 2.04 million acre feet as of May 2016. After extensive outreach and community input, the City implemented a modified conservation stage on May 18, 2016. Under the new conservation stage restrictions, customers are permitted to water their landscapes twice-per-week with hose end sprinklers and once-per-week with automatic irrigation systems. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates" in this document.

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

Additionally, in November 2018, the City Council adopted the Water Forward Plan (the "Water Forward Plan"), the City's 100-year integrated water resource plan, intended to ensure a diversified, sustainable, and resilient water future. The Water Forward Plan's strategies include increased water conservation, use alternative water sources (for example, use of rainwater harvesting, greywater reuse, and air conditioner condensate reuse, among other strategies), increased reclaimed water reuse, aquifer storage and recovery and others.

The City has senior water rights and also firm water supply agreements with the LCRA that provide the City with firm water supplies of up to 325,000 acre-feet per year. LCRA's operations and management of the water stored in Lakes Travis and Buchanan, the region's major water supply reservoirs, is guided by the LCRA Water Management Plan ("WMP"), a document approved by the TCEQ. In November 2015, TCEQ approved an updated WMP that will govern LCRA's operation and management of the lakes during the 2016 crop irrigation season, which began in March 2016. LCRA supplies water to firm customers like the City, industries, power plants and other cities. Also, when interruptible water is available, in accordance with LCRA's WMP, LCRA also supplies interruptible water to downstream agricultural irrigation operations in the lower three counties in the lower Colorado River Basin. The updated LCRA WMP better protects the water supply for firm customers, including the City, and allows LCRA to more quickly adapt its operations as drought conditions change. Revisions include incorporating procedures for curtailing interruptible water such that combined storage in Lakes Travis and Buchanan is maintained above 600,000 acre-feet through a repeat of historic drought conditions through 2013. The revised plan also incorporates a three-tier regime that considers inflows, current storage, and modeled future storage conditions in determining water availability given to interruptible agricultural customers. Additionally, availability of interruptible stored water will be determined separately for each of the two crop seasons, rather than having the determination made once for both crop seasons, as was the case in the previous WMP. The revised WMP

also places volumetric limits on the amount of interruptible stored water to be made available for use. City representatives worked diligently through the critical LCRA WMP revision process to proactively ensure reservoir management of Lakes Travis and Buchanan is consistent with the City’s firm water interests and with LCRA’s lake permit duties and firm customer agreements. In early 2019 LCRA submitted to TCEQ for review and approval a 2018 update to the LCRA WMP.

Water Storage and Pumping Facilities

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

| <u>North System</u> | Total Storage Capacity (Millions of Gallons) | Firm Pumping Capacity (Gallons per Minute) |
|-------------------------------|--|---|
| Anderson Mill (1) | 3 | 7,600 |
| Anderson Mill NWC | 1.5 | 7,600 |
| 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 |
| Suntree (1) (Elevated) | 0.5 | n/a |
| Tanglebriar (1) | 0.2 | n/a |
| <u>South System</u> | | |
| Allen Road | n/a | Lost Creek – 2,000 Barclay – 3,000 |
| Barclay Road | 0.5 | 3,000 |
| Center Street | 8 | 31,400 |
| Davis Lane 1 | 10 | 39,500 |
| Davis Lane 2 | 10 | See above |
| LaCrosse (1) | 3 | n/a |
| Leuthan Lane | 3 | SWB – 6,950 SWC - 2,700 |
| Lost Creek 1 | 0.500 | 890 |
| Lost Creek 2 | 0.750 | See above |
| 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.

Historical Water Pumpage - TABLE FOUR

The following table summarizes historical demand and maximum day water pumpage from fiscal years 2009 through 2018.

| <u>Fiscal Year</u> | <u>Total Pumpage (Millions of Gallons)</u> | <u>Percent Change</u> | <u>Maximum Day Pumpage (Millions of Gallons)</u> |
|--------------------|--|-----------------------|--|
| 2009 | 53,331 | 0.5% | 240 |
| 2010 | 43,827 | (17.8)% | 190 |
| 2011 | 52,824 | 20.5% | 231 |
| 2012 | 47,094 | (10.8)% | 203 |
| 2013 | 45,902 | (2.5)% | 183 |
| 2014 | 43,239 | (5.8)% | 184 |
| 2015 | 43,481 | 0.6% | 207 |
| 2016 | 44,661 | 2.7% | 198 |
| 2017 | 47,371 | 6.1% | 204 |
| 2018 | 48,518 | 2.4% | 203 |

Source: Austin Water.

Projected Water Pumpage - TABLE FIVE

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

| <u>Fiscal Year</u> | <u>Total Pumpage (Millions of Gallons)</u> | <u>Maximum Day Pumpage (Millions of Gallons)</u> |
|--------------------|--|--|
| 2019 | 46,987 | 208 |
| 2020 | 48,556 | 209 |
| 2021 | 48,884 | 211 |
| 2022 | 49,252 | 212 |
| 2023 | 49,656 | 214 |

Source: Austin Water.

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Information Concerning Water Sales - TABLE SIX

| | Fiscal Year Ended September 30 | | | | | | | | | |
|--|-------------------------------------|----------------------------|-------------------------------------|----------------------------|-------------------------------------|----------------------------|-------------------------------------|----------------------------|-------------------------------------|----------------------------|
| | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
| | Average # of <u>Customers</u> | Thousand <u>Gallons</u> | Average # of <u>Customers</u> | Thousand <u>Gallons</u> | Average # of <u>Customers</u> | Thousand <u>Gallons</u> | Average # of <u>Customers</u> | Thousand <u>Gallons</u> | Average # of <u>Customers</u> | Thousand <u>Gallons</u> |
| Thousand Gallons Pumped | | 43,239,355 | | 43,480,893 | | 44,687,336 | | 47,312,289 | | 48,520,957 |
| Less: Sales to Other Water Utilities (1) | | <u>2,574,163</u> | | <u>2,296,977</u> | | <u>2,646,438</u> | | <u>2,665,026</u> | | <u>2,621,961</u> |
| Thousand Gallons to System | | <u>40,665,192</u> | | <u>41,183,916</u> | | <u>42,040,898</u> | | <u>44,647,263</u> | | <u>45,898,996</u> |
| Water Sales: | | | | | | | | | | |
| Retail (2) | 216,348 | 35,523,917 | 220,946 | 35,043,691 | 224,956 | 34,461,887 | 228,332 | 37,902,093 | 232,324 | 38,143,134 |
| City Departments | <u>549</u> | <u>589,856</u> | <u>560</u> | <u>602,121</u> | <u>610</u> | <u>562,262</u> | <u>619</u> | <u>601,601</u> | <u>621</u> | <u>678,923</u> |
| Total Sales to Ultimate Consumer | <u>216,897</u> | <u>36,113,773</u> | <u>221,506</u> | <u>35,645,812</u> | <u>225,566</u> | <u>35,024,149</u> | <u>228,951</u> | <u>38,503,694</u> | <u>232,945</u> | <u>38,822,057</u> |
| Used by Water Utility | | 52,023 | | 52,483 | | 58,291 | | 54,528 | | 41,248 |
| Other Unmetered Usage | | 1,271,237 | | 1,278,338 | | 1,313,808 | | 1,390,981 | | 1,412,287 |
| Loss and Unaccounted For | | <u>3,228,159</u> | | <u>4,207,283</u> | | <u>5,644,650</u> | | 4,698,060 | | <u>5,139,404</u> |
| Thousand Gallons to System | | <u>40,665,192</u> | | <u>41,183,916</u> | | <u>42,040,898</u> | | <u>44,647,263</u> | | <u>45,414,996</u> |
| Maximum Daily Consumption | | 183,990 | | 206,966 | | 197,568 | | 203,834 | | 195,902 |
| Average Daily Consumption | | 105,994 | | 103,953 | | 103,207 | | 112,791 | | 113,545 |

(1) Includes sales to all wholesale customers.

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

Source: Austin Water.

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Large Water Customers - TABLE SEVEN

**Water and Wastewater Utility
Large Water Customers (1)
Five Year Comparative Data (2014-2018)**

| | Fiscal Year Ended September 30 (Gallons and Dollars in Thousands) | | | | | | | | | |
|--|--|-----------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|
| | <u>2014</u> | | <u>2015</u> | | <u>2016</u> | | <u>2017</u> | | <u>2018</u> | |
| | <u>Gallons</u> | <u>Revenue</u> | <u>Gallons</u> | <u>Revenue</u> | <u>Gallons</u> | <u>Revenue</u> | <u>Gallons</u> | <u>Revenue</u> | <u>Gallons</u> | <u>Revenue</u> |
| Samsung | 1,547,938 | \$8,382 | 1,558,196 | \$10,010 | 1,975,811 | \$12,601 | 2,184,016 | \$14,627 | 2,317,298 | \$13,913 |
| Travis County WCID #10 | 753,777 | \$3,183 | 708,235 | \$3,374 | 774,588 | \$2,569 | 822,205 | \$2,125 | 839,323 | \$2,775 |
| The University of Texas (2) | 827,424 | \$5,022 | 746,252 | \$5,517 | 805,549 | \$6,046 | 804,756 | \$6,296 | 777,696 | \$5,158 |
| NXP (formerly Freescale, Inc.) (3) | 689,059 | \$3,544 | 708,784 | \$4,164 | 676,043 | \$4,235 | 529,506 | \$4,164 | 610,488 | \$3,770 |
| Wells Branch MUD | 423,443 | \$1,641 | 420,508 | \$1,937 | 464,228 | \$1,452 | 480,115 | \$1,231 | 483,764 | \$1,520 |
| North Austin MUD #1 | 299,028 | \$1,232 | 391,524 | \$1,796 | 394,365 | \$1,306 | 425,839 | \$1,170 | 416,336 | \$1,347 |
| Cypress (formerly Spansion)(4) | 329,313 | \$1,801 | 299,686 | \$1,868 | 304,672 | \$1,996 | 319,139 | \$2,123 | 343,591 | \$2,119 |
| Austin Independent School District (5) | 351,478 | \$2,397 | 313,672 | \$2,461 | 318,036 | \$2,615 | 340,342 | \$2,795 | 329,873 | \$2,483 |
| Northtown MUD | 276,343 | \$1,081 | 267,479 | \$1,193 | 287,294 | \$891 | 290,888 | \$695 | 296,842 | \$916 |
| Texas Facilities Commission (5) | <u>210,128</u> | <u>\$1,345</u> | <u>207,324</u> | <u>\$1,495</u> | <u>224,909</u> | <u>\$1,642</u> | <u>229,063</u> | <u>\$1,695</u> | <u>193,194</u> | <u>\$1,343</u> |
| Total: | <u>5,707,931</u> | <u>\$29,629</u> | <u>5,621,660</u> | <u>\$33,814</u> | <u>6,225,496</u> | <u>\$35,353</u> | <u>6,425,869</u> | <u>\$36,921</u> | <u>6,608,405</u> | <u>\$35,344</u> |

- (1) Reflects the ten largest water customers from the most recent fiscal year; previous fiscal years' totals are based on the current list of ten largest customers.
 (2) Includes all accounts.
 (3) Includes east Austin and west Austin plant sites.
 (4) Data for Cypress (formerly Spansion) and Austin Independent School District was inadvertently transposed in the City's FY18 annual disclosure filing.
 (5) Includes all locations.
 Source: Austin Water.

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WASTEWATER SYSTEM

Service Area

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

Facilities

Austin Water has two main wastewater treatment plants with a total permitted capacity of 150 mgd, one biosolids treatment and beneficial reuse facility, over 2,776 miles of sanitary wastewater mains and lines, and 134 city-owned, in-service lift stations. The two treatment plants are the Walnut Creek Wastewater Treatment Plant, which began operations in 1977, and the South Austin Regional Wastewater Treatment Plant, which started operating in 1986. The Hornsby Bend Biosolids Treatment Plant operates as a sludge treatment and beneficial reuse facility and was placed in operation in 1956. The Hornsby Bend Biosolids Management Plant permit was renewed by TCEQ in October 2012 and a renewal draft permit was issued in January 2019. The Walnut Creek Wastewater Treatment Plant permit was renewed in January 2015 and a renewal application was submitted in March 2019. The South Austin Regional Wastewater Treatment Plant permit was renewed in May 2015 and a renewal application was submitted in March 2019.

The Walnut Creek Wastewater Treatment Plant is permitted to discharge an average flow of 75 mgd. 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.

The Hornsby Bend Biosolids Treatment Plant serves as the City's central biosolids treatment and beneficial reuse facility. Waste biosolids from the Walnut Creek and the South Austin Regional plants are pumped to Hornsby Bend for treatment and beneficial reuse. Biosolids received at Hornsby Bend are thickened, anaerobically digested, mechanically dewatered using belt presses for beneficial reuse through on-site and off-site agricultural land application, and composted for marketing and distribution. Excess water from thickeners, anaerobic digesters and belt presses is treated in a side-stream treatment plant and polished by treatment in large on-site ponds. 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 upgrades to sludge thickening, anaerobic digestion, dewatering, and composting facilities. Methane generated during the anaerobic digestion is used to heat the digesters and generate enough electricity to power Hornsby Bend. Excess electricity goes to the power grid. A Center for Environmental Research was established in 1989 at Hornsby Bend with the cooperation of the City, The University of Texas at Austin 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 December 2009, the City purchased an operating interest in a regional wastewater collection and treatment system (the Brushy Creek Project) from LCRA for approximately \$12 million. The City pays its portion of capital expansions and operations and maintenance costs on an annual basis, and reserves sufficient wastewater capacity to adequately serve all of the area inside the City's jurisdiction within the Brushy Creek watershed. The cities of Austin, Round Rock, Leander and Cedar Park all own joint interests in the wastewater system. The City of Round Rock operates and maintains the system for the cities.

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 Watershed Protection Department.

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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 EIGHT

The following table summarizes the historical influent wastewater flows to the City's wastewater treatment facilities from fiscal years 2009 through 2018

| <u>Fiscal Year</u> | <u>Total Wastewater Flow (Millions of Gallons)</u> | <u>Percent Change</u> |
|--------------------|--|-----------------------|
| 2009 | 32,177 | 0.5% |
| 2010 | 37,254 | 15.8% |
| 2011 | 32,946 | (11.6)% |
| 2012 | 37,756 | 14.6% |
| 2013 | 34,813 | (7.8)% |
| 2014 | 37,298 | 7.1% |
| 2015 | 40,711 | 9.2% |
| 2016 | 41,676 | 2.4% |
| 2017 | 37,804 | (9.3)% |
| 2018 | 35,996 | (4.8)% |

Source: Austin Water.

Projected Wastewater Flows – TABLE NINE

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

| <u>Fiscal Year</u> | <u>Total Wastewater Flow (Millions of Gallons)</u> | <u>Percent Change</u> |
|--------------------|--|-----------------------|
| 2019 | 42,047 | 16.81% |
| 2020 | 42,947 | 2.14% |
| 2021 | 43,640 | 1.61% |
| 2022 | 44,431 | 1.81% |
| 2023 | 45,234 | 1.81% |

Source: Austin Water.

COMBINED WATER AND WASTEWATER SYSTEM INFORMATION

Future Capital Improvements for Water and Wastewater System

Based on the proposed FY 2020-2024 capital spending plan, it is anticipated that the Water and Wastewater System will require approximately \$978 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 \$438 million additional Parity Water/Wastewater Obligations (including refunding of commercial paper issued to provide interim financing for such improvements); (2) the application of \$366 million of anticipated transfers from current Water and Wastewater System revenues and amounts on hand; and (3) estimated \$174 million in low-interest loan assistance from the Texas Water Development Board (“TWDB”).

The City submitted applications to the TWDB in fiscal year 2016 for the purposes of obtaining low-interest rate loans for the following projects (1) development and implementation of a Advanced Metering Infrastructure (“AMI”) also known as the smart meter system for Austin Water and (2) multiple capital improvement projects associated with reclaimed water systems. The low-interest loans being sought from the TWDB would come from the State Water Implementation Fund for Texas (“SWIFT”) program that was established by the Texas Legislature in 2013. Funding to the City under the SWIFT program was approved by the TWDB in 2016, and loan closings to-date are \$65,605,000 for projects associated with reclaimed water systems and \$3,000,000 for AMI, as Parity Water/Wastewater Obligations issued by the City. Anticipated future loan closings through TWDB multi-year commitments for AMI over the next five years will total an additional \$77,195,000 in loan proceeds.

Additionally, in Spring 2019, the City applied to TWDB for up to \$120,830,000 from the state revolving fund program for water and wastewater infrastructure projects.

Services Financed by Utility Districts

On August 19, 1981, the City Council enacted an ordinance establishing the basic requirements for the City’s consent to the creation of a district (e.g., a MUD, WCID or fresh water supply district) created under State law for the purpose of supplying water and/or wastewater service to land within the extraterritorial jurisdiction or the city limits of the City. That ordinance has been modified, over time, by the City’s enactment of its Land Development Code, which contains provisions relating to the City’s consent to the creation of districts. On February 2, 1984, the City Council adopted a resolution that established City policy with regard to the creation of MUDs.

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 strategic partnership 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 that the district does not provide and the City would not assume the district’s outstanding debt.

The City has annexed multiple MUDs since December 1997. At the time of annexation, these MUDs are converted to retail customers and the City assumes their outstanding utility system debt, if any.

In February 2011, the City Council approved a resolution that superseded the existing resolution with regard to the 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.

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. Ten new MUDs were subsequently created; during the 2011 and 2013 legislative sessions, conditioned upon the City entered into a consent agreement with each existing MUD at that time. 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 did 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 would have been 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. Subsequently, the City Council conducted public hearings regarding a strategic partnership agreement with each of the MUDs and executed Strategic Partnership Agreements with each of the nine MUDs.

In 2015 and 2017, the City annexed two additional MUDs and assumed their outstanding utility system debt.

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 63.4 miles of mains. Additionally, a 4.0 MG water storage tank with associated pump station is nearing completion. An additional 9.0 miles of mains are in design or under construction. The water reuse facilities presently serve a total of 133 metered customers.

Customer demand is highly dependent on weather conditions. In calendar year 2018, customers used 1.41 billion gallons of reclaimed water. Efforts to promote the use of reclaimed water focus on existing large-volume commercial and industrial potable water users that can convert a portion of their use of treated potable water to reclaimed water. The water reuse facilities extend from the eastern edge of the City, where the water originates at the wastewater treatment plants, to the center of the City, where most of the reclaimed water customers are located.

Water and Wastewater Rates

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

In fiscal year 2014, the Water and Wastewater Utility implemented a fixed revenue goal of 20%, new volumetric rates and block intervals. A revenue stability reserve fund (the "Water Revenue Stability Reserve Fund") was established to help cover costs during extreme weather or economic events. The Water Revenue Stability Reserve Fund is an account within the Water Fund that is funded by a volumetric surcharge applied both to retail and wholesale monthly bills, which became effective in February 2013. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Service Rates Effective as of November 1, 2018– TABLE TEN" in this document. The Water Revenue Stability Reserve Fund exists separate and distinct from the Water and Wastewater Utility Reserve Fund established by the Water and Wastewater Utility Master Ordinance. The target funding level for the Water Revenue Stability Reserve Fund is 120 days of budgeted water operating requirements of the Water and Wastewater Utility, which includes operations and maintenance, and other operating transfers, but excludes debt service and other transfers. In the event that any portion of the Water Revenue Stability Reserve Fund is used, the balance will be replenished to the target level within 5 years. Upon creation of the Water Revenue Stability Reserve Fund, the goal to reach the target funding level of 120 days of budgeted

water operating requirements will be no later than 5 years. If the fund is drawn down prior to reaching the 120 day target during the first 5-year development period, the reserve fund surcharge shall not be lower than it was during the year in which the draw down occurred until such time as the fund reaches its 120 days of operating costs. Moneys in the Water Revenue Stability Reserve Fund are Gross Revenues of the Water and Wastewater Utility under the Master Ordinance. The Water Revenue Stability Reserve Fund cannot be used for purposes other than for water operating purposes of the Water and Wastewater Utility, is primarily intended to pay operating expenses or debt service on Parity Water/Wastewater Obligations related to water purposes, and may only be used to offset current year shortfalls in gross revenues of water operations that exceed 10% of budgeted levels. The City Council must approve any use of funds in the Water Revenue Stability Reserve Fund, no more than 50% of the balance would be used in any one year, and, if used, the Water Revenue Stability Reserve Fund balance would be replenished to the 120-day level within a five-year period.

As of September 30, 2018, the balance of the Water Revenue Stability Fund was \$45.1 million and fully funded. The balance of the Water Revenue Stability Reserve Fund is forecasted to be \$46.4 million by September 30, 2019. No assurance can be given that these forecasted balances will remain at the 120-day goal; however, the volumetric surcharge for the Water Revenue Stability Reserve Fund has been reduced to a level to maintain the 120 days of Operating Expenses funding goal. As of the date of this document, the Water and Wastewater Utility has not drawn any moneys from the Water Revenue Stability Reserve Fund. Notwithstanding the foregoing policy restrictions of the City currently in effect with respect to the use of moneys within the Water Revenue Stability Reserve Fund, the provisions of the separate Water and Wastewater Master Ordinance regarding the use of moneys on deposit in the Water Fund (including the Water Revenue Stability Reserve Fund therein) govern and control. See "SECURITY FOR THE BONDS – System Fund" in this document.

As the financial position of the Water and Wastewater Utility continues to improve, the Water and Wastewater Utility implemented a 4.8% combined rate reduction for the fiscal year ending September 30, 2018. Additionally, in its efforts to maintain level debt service costs, the Water and Wastewater Utility defeased a portion of outstanding Parity Water/Wastewater Obligations in fiscal year 2018 and fiscal year 2019; the defeasances, which were funded with Capital Recovery Fee collections and operating funds, have allowed the Water and Wastewater Utility to realize approximately \$115.9 million in net present value savings. As a result of continued debt management efforts, the Water and Wastewater Utility implemented a zero-percent rate increase for FY 2018-2019 for the first time in several years.

While projected gross revenues of the Water and Wastewater Utility have declined since the imposition of the water use restrictions in September 2011, there has not been an unanticipated increase in debt service on Parity Water/Wastewater Obligations or in operating expenses of the Water and Wastewater System since fiscal year 2012, when the water use restrictions were imposed. The Water and Wastewater Utility prepares a five-year financial forecast each year as part of the City's forecast and budget development process, which includes a City Council-approved policy to forecast gross revenues and operating expenses that will provide for at least 1.5 times debt service coverage for the Parity Water/Wastewater Obligations by Net Revenues of the Water and Wastewater System. The proposed budget prepared by the Water and Wastewater Utility in July 2018 projects debt service coverage levels in fiscal year 2019 of 1.72 times debt service coverage, increasing to 1.81 times debt service coverage by fiscal year 2021; the forecasted coverage levels assume that rate increases will be implemented at various times during the forecast period. No assurance can be given that these debt service coverage levels will be achieved.

Any increase in the rates, charges or fees for water and wastewater services furnished by the Water and Wastewater System must be approved by the City Council. As a result of the Water and Wastewater Utility's annual budgeting process for the 2020 fiscal year, a zero-percent rate increase is being proposed. If any rate increase is approved by City Council as part of the fiscal year 2020 approved budget the rates would not take effect prior to November 1, 2019. No assurance can be given that the City Council will approve any rate increase, or that the City Council will approve rate increases in the amounts proposed by the Water and Wastewater Utility; however, the City is committed to complying with the agreements and covenants of the City in the Prior Lien Ordinance and the Master Ordinance with respect to establishing, maintaining and collecting rates, charges and fees for water and wastewater services furnished by the Water and Wastewater System. See "DESCRIPTION OF THE BONDS – Bondholders' Remedies," "SECURITY FOR THE BONDS – Rate Covenant Required by Prior Lien Ordinance" and "– Rate Covenant Required by Master Ordinance" in this document. See also, Section 4 of "APPENDIX C – COPY OF MASTER ORDINANCE" and "Rates and Charges" in "APPENDIX D – SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS" in this document.

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

Water Service Rates Effective as of November 1, 2018 – TABLE TEN

Monthly Customer Charges

| <u>Customer Account Charge</u> | <u>Meter Size</u> | <u>Retail Equivalent Meter Charge per Month (1)</u> | <u>Multifamily Charge per Month (2)</u> | <u>Commercial Charge per Month (2)</u> |
|--|-------------------|---|---|--|
| Retail Customer Account Charge(\$/Month) | 5/8 | \$7.25 | \$12.50 | \$8.75 |
| | 3/4 | 10.60 | 21.00 | 15.00 |
| | 1 | 13.60 | 33.00 | 23.00 |
| | 1½ | 15.50 | 42.00 | 29.00 |
| | 2 | 25.40 | 83.00 | 58.00 |
| | 3 | 75.10 | 292.00 | 204.00 |
| | 4 | 124.80 | 500.00 | 350.00 |
| | 6 | 253.80 | 1,042.00 | 729.00 |
| | 8 | 482.20 | 2,000.00 | 1,400.00 |
| | 10 | 760.20 | 3,167.00 | 2,217.00 |
| | 12 | 998.40 | 4,167.00 | 2,917.00 |
| Volumetric Surcharge | | | | |
| | | <u>Retail per 1,000 Gals. (3)</u> | <u>Wholesale per 1,000 Gals. (3)</u> | |
| Water Revenue Stability Reserve Fund Surcharge | | \$0.05 | \$0.10 | |
| Community Benefit Charge | | | | |
| | | \$0.15 (4) | | |
| Residential Monthly Tiered Minimum Charge | | | | |
| | | <u>Min. Charge per Month (5)</u> | | |
| 0 – 2,000 Gallons | | \$ 1.25 | | |
| 2,001 – 6,000 Gallons | | 3.55 | | |
| 6,001 – 11,000 Gallons | | 9.25 | | |
| 11,001 – 20,000 Gallons | | 29.75 | | |
| 20,001 – Over Gallons | | 29.75 | | |
| Large Volume Fixed Minimum Charge | | | | |
| | | <u>Min. Charge per Month (2)</u> | | |
| Cypress (formerly Spansion) | | \$ 22,800 | | |
| NXP – Ed Bluestein (formerly Freescale) | | 29,250 | | |
| NXP – W. William Cannon (formerly Freescale) | | 21,400 | | |
| Samsung | | 121,100 | | |
| Skorprios (formerly Novati) | | 4,250 | | |
| University of Texas | | 16,350 | | |

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

Source: Austin Water.

Volume Unit Charge (1)

| | Charge per 1,000 Gals. |
|--|---------------------------|
| Single-Family Residential (2) | |
| 0 – 2,000 Gallons | \$ 2.89 |
| 2,001 – 6,000 Gallons | 4.81 |
| 6,001 – 11,000 Gallons | 8.34 |
| 11,001 – 20,000 Gallons | 12.70 |
| 20,001 – Over Gallons | 14.21 |
| Multifamily (3) | |
| Off Peak | 4.53 |
| Peak | 5.00 |
| Commercial (3) | |
| Off Peak | 5.27 |
| Peak | 5.66 |
| Large Volume (3) | |
| Cypress (formerly Spansion) | |
| Off Peak | 5.00 |
| Peak | 5.52 |
| NXP – Ed Bluestein (formerly Freescale) | |
| Off Peak | 4.67 |
| Peak | 5.16 |
| NXP – W. William Cannon (formerly Freescale) | |
| Off Peak | 4.73 |
| Peak | 5.23 |
| Samsung | |
| Off Peak | 4.69 |
| Peak | 5.18 |
| Skorpios (formerly Novati) | |
| Off Peak | 4.96 |
| Peak | 5.48 |
| University of Texas | |
| Off Peak | 5.27 |
| Peak | 5.66 |

(1) Wholesale unit charges vary between \$2.59 and \$5.09 per 1,000 gallons.

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

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

Source: Austin Water.

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Wastewater Service Rates Effective as of November 1, 2018 – TABLE ELEVEN

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 | \$ 4.85 |
| 2,001 - Over Gallons | 9.94 |
| Multifamily | 8.93 |
| Commercial | 8.95 |
| Large Volume: | |
| Cypress (formerly Spansion) | 7.90 |
| NXP – Ed Bluestein (formerly Freescale) | 8.52 |
| NXP – W. William Cannon (formerly Freescale) | 8.66 |
| Samsung | 7.75 |
| Skorpios (formerly Novati) | 7.74 |
| University of Texas | 8.95 |

(1) Wholesale unit charges vary between \$3.80 and \$5.71 per 1,000 gallons.

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

Source: Austin Water.

The combined water and wastewater minimum charge and volumetric service rates effective as of November 1, 2018 reflect an 8.0% rate reduction over the rates charged in the prior year.

Wholesale and Outside City Rate Challenges

The City Council has original jurisdiction over Water and Wastewater rates. State law, however, does allow water districts and any customers outside city boundaries to appeal the City's water and wastewater rates to the PUCT.

On April 12, 2013, four of the Water and Wastewater Utility's wholesale water customers submitted a water rate petition challenging the City's wholesale water rates to the TCEQ. In their petition, the four wholesale customers (North Austin MUD, Northtown MUD, Travis County WCID #10 (Westlake), and Wells Branch MUD) alleged that the City's wholesale rates were not just or reasonable. The petition alleged the new rates disproportionately increased the monthly fixed charges; collected for costs unrelated to water service; discouraged conservation; and unfairly burdened commercial and large volume customers. The petition also asked the TCEQ to set interim rates while the appeal was pending.

The TCEQ reviewed the petition and recommended referral to the State Office of Administrative Hearings. The hearing concluded in February 2015 and the City received a final ruling from the PUCT in November 2015, which found in favor of the petitioners. The City filed a Motion for Rehearing with the PUCT, which was denied in February 2016. Subsequently, the City filed an appeal in Travis County District Court in March 2016. A hearing in the Travis County District Court was held in May 2017. In the final letter decision, the District Court Judge affirmed the PUCT final order.

The four wholesale water customers represented \$6.3 million, or 2.1%, of the approximate \$294.7 million annual water revenue for fiscal year 2018. The final ruling in favor of the petitioners does not have a significant revenue impact to the Water and Wastewater Utility.

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 alleged the rates adopted by the City were unjust, unreasonable and unfairly burdened customers to pay for City charges unrelated to the cost of service for these customers. The case was settled and dismissed in October 2015.

On October 28, 2016, the Shady Hollow Municipal Utility District filed a water and wastewater rate petition to the PUCT. The petition alleged the rates adopted by the City were unjust, unreasonable and unfairly burdened customers to pay for City charges unrelated to the cost of service for these customers. The case was settled and dismissed in April 2017.

On April 15, 2019, Austin Water filed an application to the PUCT for authority to change water and wastewater rates for the four wholesale water petitioners. The City can make no prediction as to whether any additional wholesale water or outside City customers will petition or challenge the City's water rates.

Water and Wastewater Capital Recovery Fees

On September 3, 1982, the City Council adopted an ordinance under which all new non-industrial and non-commercial customers of the Water and Wastewater System must pay a Capital Recovery Fee at the time that the customer's new tap is purchased. The fee has been revised a number of times since that date and is currently applied to all connections added to the Water and Wastewater System unless expressly waived by the City Council. In 1989, the City Council appointed an Impact Fee Advisory Committee and reauthorized the Capital Recovery Fee in compliance with procedures and methodology established by State law. The total Water and Wastewater Capital Recovery Fee was implemented August 5, 1999 and recently revised effective October 1, 2018. The revised fees are shown below, and under the terms of the Master Ordinance, such fees do not constitute Gross Revenues. There are a number of express exemptions from payment of these fees. The City's policy is to use Capital Recovery Fee receipts to either service debt, defease debt or finance growth-related capital improvement projects, thus reducing the amount required to be debt financed and saving the Water and Wastewater System the related financing costs. The fees listed below are based on one service unit (5/8" meter).

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

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

Fees for lots that were platted on or after January 1, 2014 and before October 1, 2018.

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

Fees for lots that were platted on or after October 1, 2018.

| | <u>Water</u> | <u>Wastewater</u> | <u>Total</u> |
|-----------|--------------|-------------------|--------------|
| All Areas | \$4,700 | \$2,500 | \$7,200 |

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Analysis of Water Bills - TABLE TWELVE

| | Fiscal Year Ended September 30 | | | | |
|--|--------------------------------|--------------|--------------|--------------|--------------|
| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
| <u>Average Monthly Bill Per</u> | | | | | |
| <u>Customer - Water</u> | | | | | |
| Residential (1) | \$ 38.97 | \$ 43.16 | \$ 46.60 | \$ 50.41 | \$ 49.83 |
| Multifamily (1) | 701.04 | 820.44 | 946.79 | 882.93 | 766.84 |
| Commercial (1) | 324.91 | 343.17 | 369.49 | 400.44 | 359.50 |
| Large Volume | 228,692.44 | 260,155.12 | 306,025.68 | 335,060.66 | 317,821.74 |
| City Departments | 641.05 | 683.60 | 653.55 | 660.28 | 653.60 |
| Average Monthly Bill – Above Customers | \$ 85.65 | \$ 94.84 | \$ 104.61 | \$ 109.90 | \$ 101.95 |
| Sales to Other Water Utilities (2) | \$ 53,960.56 | \$ 42,146.05 | \$ 44,412.60 | \$ 47,174.74 | \$ 47,910.10 |
| Average Monthly Bill – All Customers | \$ 89.87 | \$ 98.26 | \$ 107.95 | \$ 113.39 | \$ 105.44 |
| <u>Average Monthly Use in 1,000 Gallons –</u> | | | | | |
| <u>Water</u> | | | | | |
| Residential (1) | 6.10 | 5.77 | 5.78 | 5.86 | 5.84 |
| Multifamily (1) | 127.52 | 128.84 | 135.75 | 124.12 | 127.55 |
| Commercial (1) | 48.99 | 45.45 | 47.27 | 50.64 | 49.77 |
| Large Volume | 42,919.67 | 42,053.37 | 48,701.32 | 51,286.38 | 51,997.13 |
| City Departments | 89.81 | 89.16 | 82.47 | 81.16 | 91.59 |
| Average Monthly Use – Above Customers | 13.89 | 13.33 | 13.86 | 14.01 | 13.96 |
| Sales to Other Water Utilities (2) | 12,651.94 | 10,588.02 | 12,092.58 | 13,046.12 | 12,930.25 |
| Average Monthly Use – All Customers | 14.88 | 14.19 | 14.77 | 14.98 | 14.90 |
| <u>Average Revenue Per 1,000 Gallons – Water</u> | | | | | |
| Residential (1) | \$ 6.39 | \$ 7.48 | \$ 8.07 | \$ 8.60 | \$ 8.54 |
| Multifamily (1) | 5.50 | 6.37 | 6.97 | 7.11 | 6.01 |
| Commercial (1) | 6.63 | 7.55 | 7.82 | 7.91 | 7.22 |
| Large Volume | 5.33 | 6.19 | 6.28 | 6.53 | 6.11 |
| City Departments | 7.14 | 7.67 | 7.92 | 8.14 | 7.14 |
| Average Revenue – Above Customers | \$ 6.17 | \$ 7.11 | \$ 7.55 | \$ 7.84 | \$ 7.30 |
| Sales to Other Water Utilities (2) | \$ 4.27 | \$ 3.98 | \$ 3.67 | \$ 3.62 | \$ 3.71 |
| Average Revenue – All Customers | \$ 6.04 | \$ 6.92 | \$ 7.31 | \$ 7.57 | \$ 7.08 |

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

(2) Includes all Wholesale customers.

Source: Austin Water.

Analysis of Wastewater Bills - TABLE THIRTEEN

| | Fiscal Year Ended September 30 | | | | |
|---|--------------------------------|--------------|--------------|--------------|--------------|
| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
| Average Monthly Bill Per Customer – Wastewater | | | | | |
| Residential (1) | \$ 37.90 | \$ 36.35 | \$ 38.63 | \$ 40.02 | \$ 38.41 |
| Multifamily (1) | 1,096.47 | 1,172.57 | 1,237.57 | 1,209.90 | 1,175.46 |
| Commercial (1) | 383.79 | 395.74 | 411.21 | 457.33 | 431.66 |
| Large Volume | 231,555.45 | 224,832.98 | 273,628.93 | 299,070.91 | 330,416.09 |
| City Departments | 397.24 | 450.32 | 361.80 | 522.17 | 446.47 |
| Average Monthly Bill – Above Customers | \$ 89.91 | \$ 89.62 | \$ 96.03 | \$ 100.28 | \$ 96.14 |
| Sales to Other Utilities (2) | \$ 58,764.29 | \$ 55,611.39 | \$ 47,413.06 | \$ 49,785.58 | \$ 52,040.32 |
| Average Monthly Bill – All Customers | \$ 92.78 | \$ 92.27 | \$ 98.48 | \$ 102.81 | \$ 98.74 |
| Average Monthly Use in 1,000 Gallons – Wastewater | | | | | |
| Residential (1) | 4.15 | 3.88 | 3.87 | 3.84 | 3.79 |
| Multifamily (1) | 126.49 | 132.58 | 133.96 | 126.89 | 126.62 |
| Commercial (1) | 43.85 | 43.79 | 43.52 | 47.06 | 45.77 |
| Large Volume | 30,354.38 | 29,135.26 | 33,944.97 | 35,456.50 | 40,110.14 |
| City Departments | 45.43 | 47.91 | 36.50 | 51.26 | 47.40 |
| Average Monthly Use – Above Customers | 10.25 | 9.97 | 10.17 | 10.25 | 10.12 |
| Sales to Other Utilities (2) | 10,691.69 | 10,020.74 | 9,749.92 | 10,391.34 | 10,174.46 |
| Average Monthly Use – All Customers | 10.78 | 10.45 | 10.68 | 10.78 | 10.62 |
| Average Revenue Per 1,000 Gallons – Wastewater | | | | | |
| Residential (1) | \$ 9.13 | \$ 9.36 | \$ 9.97 | \$ 10.43 | \$ 10.14 |
| Multifamily (1) | 8.67 | 8.84 | 9.24 | 9.53 | 9.28 |
| Commercial (1) | 8.75 | 9.04 | 9.45 | 9.72 | 9.43 |
| Large Volume | 7.63 | 7.72 | 8.06 | 8.43 | 8.24 |
| City Departments | 8.74 | 9.40 | 9.91 | 10.19 | 9.42 |
| Average Revenue – Above Customers | \$ 8.77 | \$ 8.99 | \$ 9.44 | \$ 9.79 | \$ 9.50 |
| Sales to Other Utilities (2) | \$ 5.50 | \$ 5.55 | \$ 4.86 | \$ 4.79 | \$ 5.11 |
| Average Revenue – All Customers | \$ 8.61 | \$ 8.83 | \$ 9.22 | \$ 9.54 | \$ 9.29 |

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

(2) Includes all Wholesale customers.

Source: Austin Water.

**COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM
AND WATER AND WASTEWATER SYSTEM OPERATIONS
OCTOBER 1, 2014 TO SEPTEMBER 30, 2018**
(in thousands rounded)

| INCOME | Fiscal Year Ended September 30 | | | | |
|--|--------------------------------|--------------------|--------------------|--------------------|--------------------|
| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Revenue | \$1,998,556 | \$1,974,948 | \$1,941,815 | \$ 1,876,350 | \$ 1,848,012 |
| Operating Expense | <u>(1,334,151)</u> | <u>(1,252,196)</u> | <u>(1,207,225)</u> | <u>(1,186,590)</u> | <u>(1,246,865)</u> |
| Balance Available for Debt Service | 664,405 | 722,752 | 734,590 | 689,760 | 601,147 |
| Depreciation and Amortization Expense | <u>(290,323)</u> | <u>(284,451)</u> | <u>(272,769)</u> | <u>(264,896)</u> | <u>(255,892)</u> |
| Earnings Before Interest Expense | 374,082 | 438,301 | 461,821 | 424,864 | 345,255 |
| Interest Incurred on Debt | (148,659) | (163,851) | (168,956) | (160,881) | (169,567) |
| Other | <u>(13,061)</u> | <u>(12,505)</u> | <u>(748)</u> | <u>(4,802)</u> | <u>(10,367)</u> |
| INCOME (LOSS) BEFORE OPERATING TRANSFERS (1) (2) (3) (4) (5) | <u>\$212,362</u> | <u>\$261,945</u> | <u>\$ 292,117</u> | <u>\$ 259,181</u> | <u>\$ 165,321</u> |
| PERCENTAGES | | | | | |
| Revenue | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Operating Expense | <u>(66.76%)</u> | <u>(63.40%)</u> | <u>(62.17%)</u> | <u>(63.24%)</u> | <u>(67.47%)</u> |
| Balance Available for Debt Service | 33.24% | 36.60% | 37.83% | 36.76% | 32.53% |
| Depreciation and Amortization Expense | <u>(14.53%)</u> | <u>(14.40%)</u> | <u>(14.05%)</u> | <u>(14.12%)</u> | <u>(13.85%)</u> |
| Earnings Before Interest Expense | 18.72% | 22.19% | 23.78% | 22.64% | 18.68% |
| Interest Incurred on Debt | (7.44%) | (8.30%) | (8.70%) | (8.57%) | (9.18%) |
| Other | <u>(0.65%)</u> | <u>(0.63%)</u> | <u>(0.04%)</u> | <u>(0.26%)</u> | <u>(0.56%)</u> |
| INCOME (LOSS) BEFORE OPERATING TRANSFERS | <u>10.63%</u> | <u>13.26%</u> | <u>15.04%</u> | <u>13.81%</u> | <u>8.95%</u> |

(1) Income before transfers to the General Fund and Other Funds for the 12 months ended September 30, 2018, are as follows (in thousands rounded):

| | |
|--------------------------|-----------|
| Transfer to General Fund | \$154,914 |
| Transfers to Other Funds | \$12,829 |

(2) Excludes Combined Utility Funds' deferred costs recovered in future years of (\$31,680) for the 12 months ended September 30, 2018.

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

(4) Excludes capital contributions of \$108,877 for the 12 months ended September 30, 2018.

(5) Excludes other post-employment benefits ("OPEB") and net pension liability accruals. These amounts for the 12 months ended September 30, 2018 were \$35,336 and \$26,325, respectively.

Source: City Controller's Office.

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

| | Fiscal Year Ended September 30 | | | | |
|---|--------------------------------|--------------------|--------------------|--------------------|--------------------|
| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| REVENUE | | | | | |
| ELECTRIC UTILITY | | | | | |
| Domestic and Rural Residential | \$489,985 | \$456,576 | \$321,985 | \$332,685 | \$327,508 |
| Commercial General | 711,457 | 719,532 | 861,208 | 853,546 | 897,019 |
| City Utility Departments | - | - | - | - | - |
| Public Street Lighting | - | - | - | - | - |
| City General Government Departments | - | - | - | - | - |
| Sales to Other Utilities | 50,482 | 44,331 | 42,119 | 27,798 | 19,305 |
| Transmission | 78,616 | 78,049 | 75,926 | 74,332 | 68,974 |
| Rent from Electric Property | 3,620 | 3,204 | 3,750 | 2,269 | 1,998 |
| Customers' Forfeited Discounts and Penalties | 5,966 | 5,424 | 6,352 | 6,854 | 6,966 |
| Miscellaneous (a) | <u>\$60,397</u> | <u>\$55,016</u> | <u>\$58,887</u> | <u>\$53,953</u> | <u>\$45,385</u> |
| Total Electric Utility | <u>\$1,400,523</u> | <u>\$1,362,132</u> | <u>\$1,370,227</u> | <u>\$1,351,437</u> | <u>\$1,367,155</u> |
| WATER UTILITY | | | | | |
| Water Services | 290,868 | 312,491 | 290,646 | \$267,164 | \$233,827 |
| Miscellaneous Revenue | 6,528 | 5,458 | 2,607 | 2,168 | 158 |
| Revenue Stability Fee | 4,850 | 5,098 | 7,223 | 6,905 | 5,722 |
| Reserve Fund Surcharge | - | - | - | - | - |
| Reclaimed Revenue | <u>1,936</u> | <u>1,515</u> | <u>1,384</u> | <u>944</u> | <u>820</u> |
| Total Water Utility | <u>\$304,182</u> | <u>\$324,562</u> | <u>\$301,860</u> | <u>\$277,181</u> | <u>\$240,527</u> |
| WASTEWATER UTILITY | | | | | |
| Wastewater Services | 265,798 | 271,715 | 257,161 | \$237,553 | \$231,336 |
| Miscellaneous Revenue | 5,086 | 2,803 | 2,813 | 2,257 | 730 |
| Reclaimed Revenue | - | - | - | - | - |
| Total Wastewater Utility | <u>\$ 270,884</u> | <u>\$274,518</u> | <u>\$259,974</u> | <u>\$239,810</u> | <u>\$232,066</u> |
| Interest | <u>\$22,967</u> | <u>\$13,736</u> | <u>\$9,754</u> | <u>\$7,922</u> | <u>\$8,264</u> |
| TOTAL REVENUE | <u>\$1,998,556</u> | <u>\$1,974,948</u> | <u>\$1,941,815</u> | <u>\$1,876,350</u> | <u>\$1,848,012</u> |

Source: City Controller's Office.

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

| <u>EXPENSE</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| ELECTRIC UTILITY | | | | | |
| Production | 179,981 | 173,860 | 215,562 | \$ 225,269 (3) | \$278,893 |
| Joint Facility Production | 218,373 | 162,343 | 162,166 | 169,435 (3) | 200,373 |
| System Control | 26,454 | 19,423 | 19,371 | 16,989 | 15,286 |
| Transmission and Distribution | 193,291 | 188,583 | 176,675 | 166,016 | 154,556 |
| Jobbing and Contract Work | 1,625 | 1,207 | 1,207 | 645 | 998 |
| Customer Accounting and Collection | 9,515 | 16,203 | 15,946 | 15,501 | 15,030 |
| Customer Services | 27,435 | 28,928 | 25,521 | 4,391 | 4,138 |
| Administrative and General | <u>427,253</u> | <u>428,057</u> | <u>373,320</u> | <u>380,038</u> | <u>359,520</u> |
| Total Electric Utility | <u>1,083,927</u> | <u>1,018,604</u> | <u>989,768</u> | <u>\$978,284</u> | <u>1,028,794</u> |
| WATER UTILITY | | | | | |
| Operations (1) | 68,108 | - | - | - | - |
| Treatment (1) | - | 37,456 | 37,835 | \$35,593 | \$35,915 |
| Pipeline Operations (1) | - | 26,547 | 23,795 | 23,169 | 23,889 |
| Engineering Services | 4,512 | 3,876 | 3,296 | 3,472 | 5,159 |
| Water Resources Management | 3,586 | 3,923 | 3,733 | 3,699 | 3,443 |
| Environmental Affairs & Conservation | 7,780 | 7,264 | 7,880 | 7,486 | 8,464 |
| Support Services - Utility | 14,168 | 12,571 | 11,444 | 11,022 | 12,064 |
| One Stop Shop | 164 | 294 | 225 | 264 | 270 |
| Reclaimed Water Services | 534 | 526 | (2,989) | (1,609) | (3,575) |
| Other Operating Expenses | <u>31,814</u> | <u>31,290</u> | <u>31,577</u> | <u>30,155</u> | <u>31,582</u> |
| Total Water Utility | <u>130,666</u> | <u>123,747</u> | <u>116,796</u> | <u>\$113,251</u> | <u>\$117,211</u> |
| WASTEWATER UTILITY | | | | | |
| Operations (1) | \$ 62,412 | - | - | - | - |
| Treatment (1) | - | 40,911 | 38,544 | \$36,132 | \$37,106 |
| Pipeline Operations | - | 18,825 | 17,048 | 16,972 | 16,488 |
| Engineering Services | 7,200 | 6,317 | 5,263 | 4,966 | 5,789 |
| Water Resources Management | 4,427 | 4,526 | 4,150 | 3,911 | 3,779 |
| Environmental Affairs & Conservation | 3,088 | 2,819 | 2,925 | 2,911 | 2,343 |
| Support Services - Utility | 13,767 | 12,821 | 11,454 | 10,769 | 11,482 |
| One Stop Shop | - | 441 | 361 | 346 | 289 |
| Other Operating Expenses | <u>28,664</u> | <u>23,185</u> | <u>20,916</u> | <u>19,048</u> | <u>23,584</u> |
| Total Wastewater Utility | <u>\$ 119,558</u> | <u>\$ 109,845</u> | <u>\$ 100,661</u> | <u>\$ 95,055</u> | <u>\$ 100,860</u> |
| TOTAL EXPENSE (2) | <u>\$1,334,151</u> | <u>\$1,252,196</u> | <u>\$1,207,225</u> | <u>\$1,186,590</u> | <u>\$1,246,865</u> |
| NET REVENUE AVAILABLE FOR DEBT SERVICE | <u>\$ 664,405</u> | <u>\$ 722,752</u> | <u>\$ 734,590</u> | <u>\$ 689,760</u> | <u>\$ 601,147</u> |
| Electric Customers | 485,204 | 472,701 | 469,534 | 457,750 | 446,872 |
| Water Customers | 235,174 | 231,014 | 227,432 | 223,162 | 217,035 |
| Wastewater Customers | 221,862 | 217,794 | 214,373 | 212,260 | 204,482 |

- (1) "Treatment" and "Pipeline Operations" line items were combined and reclassified as "Operations" beginning in fiscal year 2018.
(2) Interest expense, depreciation, amortization, other non-operating items, net pension liability and OPEB accrual are not included in total expense.
(3) Reclassification of expenses from "Production" to "Joint Facility Production."
- Source: City Controller's Office.

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DISCUSSION OF OPERATING STATEMENT

Austin Energy Revenues

Variations in total Austin Energy revenues for the fiscal years ended September 30, 2014 through September 30, 2018 were attributable to changes in cost of power supply for power generation and weather variations. Total power supply costs are passed through to the consumer.

Water and Wastewater System Revenues

Variations in Water and Wastewater System revenues for the period FY14 through FY18 were largely attributable to weather and system rate changes, including imposition of Stage 2 watering restrictions beginning in September 2011. See “WATER SYSTEM – Water Use Management Plan and LCRA Management Plan” and “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates” in this document.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY14 through FY18 were largely attributable to changes in the cost of power supply 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 FY14 through FY18 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 FOURTEEN (000's)

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Plant Cost | | | | | |
| Utility Systems | | | | | |
| Electric | \$5,574,059 | \$5,428,545 | \$5,288,802 | \$5,141,259 | \$4,980,357 |
| Water | 2,903,016 | 2,817,554 | 2,736,990 | 2,663,637 | 2,576,314 |
| Wastewater | <u>2,616,571</u> | <u>2,529,448</u> | <u>2,416,799</u> | <u>2,352,947</u> | <u>2,299,833</u> |
| Total Cost | <u>\$11,093,646</u> | <u>\$10,775,547</u> | <u>\$10,442,591</u> | <u>\$10,157,843</u> | <u>\$9,856,504</u> |
| Allowance for Depreciation: | | | | | |
| Electric | 2,978,260 | 2,827,731 | 2,678,849 | \$2,537,491 | \$2,392,899 |
| Water | 869,971 | 811,230 | 752,394 | 701,383 | 650,103 |
| Wastewater | <u>1,060,395</u> | <u>996,455</u> | <u>935,782</u> | <u>876,532</u> | <u>817,485</u> |
| Total Depreciation | <u>\$4,908,626</u> | <u>\$4,635,416</u> | <u>\$4,367,025</u> | <u>\$4,115,406</u> | <u>\$3,860,486</u> |
| Cost after Depreciation | <u>\$6,185,020</u> | <u>\$6,140,131</u> | <u>\$6,075,566</u> | <u>\$6,042,437</u> | <u>\$5,996,018</u> |
| Equity in Utility Systems | | | | | |
| Utility Systems | \$11,093,646 | \$10,775,547 | \$10,442,591 | \$10,157,843 | \$9,856,504 |
| Plus: Inventories, Materials and Supplies (1) | 55,025 | 53,528 | 55,187 | 51,884 | 56,649 |
| Net Construction Assets and Unamortized Bond Issue Cost | <u>109,641</u> | <u>104,331</u> | <u>114,533</u> | <u>164,690</u> | <u>151,561</u> |
| | <u>\$11,258,312</u> | <u>\$10,993,406</u> | <u>\$10,612,311</u> | <u>\$10,374,417</u> | <u>\$10,064,714</u> |
| Less: | | | | | |
| Allowance for Depreciation | \$4,908,626 | \$4,635,416 | \$4,367,025 | \$4,115,406 | \$3,860,486 |
| Total | <u>\$4,908,626</u> | <u>\$4,635,416</u> | <u>\$4,367,025</u> | <u>\$4,115,406</u> | <u>\$3,860,486</u> |
| Utility Systems, Net | \$6,349,686 | \$6,297,990 | \$6,245,285 | \$6,259,012 | \$6,204,228 |
| Revenue Bonds and Other Debt Outstanding (2) | 3,979,273 | 4,011,156 | 4,014,446 | 4,076,665 | 4,062,603 |
| Net Debt | \$3,979,273 | \$4,011,156 | \$4,014,446 | \$4,076,665 | \$4,062,603 |
| Equity in Utility Systems | <u>\$2,370,413</u> | <u>\$2,286,834</u> | <u>\$2,230,840</u> | <u>\$2,182,346</u> | <u>\$2,141,625</u> |
| Percentage of Equity in Utility Systems | 37.33% | 36.31% | 35.72% | 34.87% | 34.52% |

(1) Does not include fuel, oil or coal inventories of approximately \$140.14 million at September 30, 2018. Consists primarily of spare parts inventory at Fayette Plant and South Texas Project.

(2) Includes Revenue Bonds and Tax and Revenue Bonds of \$3,716,796 (net of discounts and inclusive of premiums); Capital Lease Obligations of \$934; Commercial Paper of \$254,767; General Obligation Bonds of \$2,977; and Contractual Obligation Bonds of \$3,799. 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 matter described below) will not have a material effect on the City's financial condition or the financial condition of the Electric Utility System or of the Water and Wastewater System.

On May 3, 2017, Data Foundry, Inc., filed a lawsuit against the City (Cause No. D-1-GN-17-000937 in the 419th Judicial District Court of Travis County, Texas), alleging that the ERCOT nodal market design disqualifies the City's electric generation assets from being considered as used and useful for the purpose of establishing rates for electric service to the City's retail customers, and otherwise challenging the reasonableness of the City's rate of return and debt service coverage levels. The lawsuit seeks declaratory relief that the City's current retail electric rates are unlawful due to the inclusion of costs and return related to generation assets, and seeks a permanent injunction against the City's establishing electric rates that include costs and return related to generation assets and operations. The City filed a motion to dismiss the case under Rule 91(a) of the Texas Rules of Civil Procedure. The case was dismissed by the trial court on November 27, 2017 on the basis that the plaintiff lacked standing to bring a lawsuit challenging the City's rates. Data Foundry appealed the trial court's decision to the 14th Court of Appeals in Houston (Cause No. 14-18-00071-CV). On April 23, 2019, the appellate court partially upheld the trial court's dismissal of the case, holding that the City's inclusion of generation costs in retail rates was proper and dismissing other claims, but remanded the remainder of the case on the grounds that municipal utility ratepayers have general standing to bring suit alleging the excessiveness of utility rates.

THE CITY

Administration

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

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

City Manager – Spencer Cronk

Mr. Spencer Cronk joined the City as City Manager on February 12, 2018. Before joining the City of Austin, Mr. Cronk was Minneapolis City Coordinator (City Administrator). He directed the management of Minneapolis city government by assisting the Mayor and City Council in defining city policy and establishing priorities, mobilizing department heads and staff to implement the Mayor and Council's priorities, and working to strengthen the management and administrative systems of the City. Mr. Cronk previously served as Commissioner of the Minnesota Department of Administration, a role he was appointed to by Minnesota Governor Mark Dayton in 2011. As Commissioner, Mr. Cronk led the state's real property, purchasing, fleet, demographic analysis and risk management divisions responsible for more than \$2 billion in state purchasing and the historic renovation of the Minnesota State Capitol. Additionally, Mr. Cronk also served as chair of the Minnesota Public Data Governance Advisory Committee, and as a member of the Environmental Quality Board and the Minnesota Indian Affairs Council. Before joining the State of Minnesota, Mr. Cronk served as executive director of organizational development and senior advisor for the Department of Small Business Services for the City of New York, under former Mayor Michael Bloomberg. His accomplishments there included the design and implementation of a comprehensive performance-management system and the development of a program for integrating new employees, which was used citywide as a best practice template for the City of New York's 300,000 employees. Mr. Cronk has served a number of community organizations and agencies, including as an Advisory Council member for Northern Spark, a member of the Minnesota Advisory Board of the Trust for Public Land, and a member of the Itasca Project Task Force on Socioeconomic Disparities in the Twin Cities. He was a recipient of the Minneapolis/St. Paul Business Journal's "40

Under 40” Award in 2013. Mr. Cronk received his bachelor’s degree with honors from the University of Wisconsin–Madison. He is a graduate of Harvard University’s Senior Executives in State and Local Government Program and was a Public Affairs Fellow with the Coro New York Leadership Center.

Chief Financial Officer / Deputy City Manager – Elaine Hart, CPA

Ms. Elaine Hart received her B.B.A. in Accounting from The University of Texas at Arlington. Effective upon the adoption of the City’s fiscal year 2019 budget, Ms. Hart will become Deputy City Manager. 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. 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.

Deputy Chief Financial Officer – Greg Canally

Mr. Greg Canally is the Deputy Chief Financial Officer for the City of Austin over the Treasury Office, Purchasing Office & Capital Contract Office, and worked as the Finance lead on economic development, transportation initiatives, facility master planning, and a variety of information technology issues for the City. Mr. Canally has been with the City for 18 years, entirely in the Finance Department. From 2004 through 2008, he was the City’s Budget Officer. He is a past member of Government Finance Officers Association’s Committee on Economic Development and Capital Planning. Prior to his work in municipal government, Mr. Canally worked as a project manager/economist for HDR Engineering, working with all levels of government to implement Water Planning solutions in Texas. Mr. Canally holds a Bachelor of Science in Economics from Villanova University and a Master of Science in Economics from the University of Texas at Austin.

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. Under current state law, landowner and/or voter approval is required as part of the process for the annexation of territory into a city. The process varies depending on the characteristics of the area that will be considered for annexation, generally involving a petition from each landowner, a petition signed by registered voters and owners of land in the area, or an election at which qualified voters approve the proposed annexation. Additionally, the process involves staff review, development of a written service agreement (or regulatory plan for a limited purpose annexation), notification, publication of a newspaper notice, public hearings, and ordinance approval.

Upon approval, the City provides a wide range of services to the annexed area – police and fire protection, emergency medical services, solid waste collection, and maintenance of public facilities such as water and wastewater, roads, streets, and parks. 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, 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 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 land 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.

The following table sets forth (in acres) the annual results of the City’s annexations since 2009.

| <u>Calendar Year</u> | <u>Full Purpose Acres (1)</u> | <u>Limited Purpose Acres</u> |
|----------------------|-------------------------------|------------------------------|
| 2009 | 295 | 984 |
| 2010 | 1,129 | 2,495 |
| 2011 | 726 | 0 |
| 2012 | 3,387 | 3,818 |
| 2013 | 3,484 | 594 |
| 2014 | 897 | 136 |
| 2015 | 1,911 | 3 |
| 2016 | 311 | 0 |
| 2017 | 1,283 | 0 |
| 2018 | 136 | 0 |

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

Recent Annexation

In 2018 the City annexed and dissolved the Cascades Municipal Utility District No. 1 (MUD) at the request of the property owner. At the time of annexation the area was undeveloped and the MUD had not issued any debt. The property owner determined that the proposed Cascades at Onion Creek subdivision could be developed as originally planned and without the need for a MUD and the City agreed to annex and dissolve the MUD. The taxable assessed value at the time of annexation was \$584,827.

The largest of the 2017 annexations was the River Place Municipal Utility District area which converted approximately 1,040 acres from the City’s limited purpose jurisdiction to full purpose. This area included an estimated population of approximately 3,125 persons. In addition, the City annexed several commercial properties in south Austin. The total taxable assessed value (“TAV”) for these areas at the time of annexation was \$697.2 million.

The City's 2016 annexation program included the full purpose annexation of five areas containing approximately 311 acres. With the exception of a small amount of office/warehouse/commercial uses, these areas were largely undeveloped at the time of annexation. Approved development plans include an additional 651 single-family homes and 97 multi-family units. The TAV for these areas at the time of annexation was approximately \$19.3 million.

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

The City annexed seven areas for full purposes in 2014, including approximately 900 acres of undeveloped land. If developed as anticipated, these areas would include an estimated 1,498 dwelling units and a projected population of 3,747 persons at build-out. The TAV for these areas as of January 1, 2017 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 at the time of annexation. The City Council also approved the creation and limited purpose annexation of a new Public Improvement District, Estancia, which is located on the southern edge of the City along Interstate Highway 35 South. Future full purpose annexation of this area will occur in accordance with the terms of the development agreement.

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

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

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

In accordance with the terms of a SPA between the City and the River Place Municipal Utility District, all of the territory in the River Place Municipal Utility District 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.

Future Annexation

Shady Hollow Municipal Utility District is scheduled for full purpose annexation in December 2020 in accordance with the terms of a SPA agreement with the City.

Pension Plans

The City has three contributory defined benefit retirement plans for its general municipal, fire, and police employees. These three plans are called the City of Austin Employees Retirement System (“COAERS”), the City of Austin Police Retirement System (the “Police Retirement System”) and the City of Austin Fire Fighters Relief and Retirement Fund (the “Fire Fighters Retirement Fund”). These plans are single employer funded plans each with a fiscal year end of December 31. The three retirement plans cover substantially all full-time employees. State law requires the City to make contributions to the plans in an amount at least equal to the contribution of the employee group. The contributions made by the City to the COAERS include amounts allocable to the City employees within Austin Water and Austin Energy; the contributions allocable to such employees are paid from gross revenues of the related utility systems and constitute operating expenses of Austin Water and Austin Energy, respectively.

The following describes the contributions in place as of October 1, 2018. Municipal employees contribute 8.0% and the City contributes 18.0% of payroll. Firefighters (who are not members of the Social Security System) contribute 18.7% of payroll, and the City contributes 22.05%. Police officers contribute 13.0% and the City contributes 21.313% of payroll.

The City’s net pension liability was measured as of December 31, 2017 for all three systems. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date for the COAERS and Police Retirement System. For the Fire Fighters Retirement Fund, the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016 using the final 2017 assumptions and then was rolled forward to the plan’s year ending December 31, 2017.

The COAERS, as of December 31, 2017, had a net pension liability of \$1.15 billion with a plan fiduciary net position as a percentage of the total pension liability of 69.8%. The Police Retirement System, as of December 31, 2017, had a net pension liability of \$420.1 million with a plan fiduciary net position as a percentage of the total pension liability of 64.7%. The Fire Fighters Retirement Fund, as of December 31, 2017 had a net pension liability of \$85.0 million with a plan fiduciary net position as a percentage of the total pension liability of 91.8%.

The COAERS and Police Retirement System plan had no changes of assumptions or benefit terms that affected the total pension liability for the measurement period.

The Fire Fighters Retirement Fund had no significant changes of assumptions during the measurement period but did have a change in benefit term that affected the total pension liability. Effective January 1, 2019 a cost-of-living adjustment increase of 2.30% went into effect.

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

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability. As of December 31, 2017, the amortization period of the unfunded actuarial accrued liability for the COAERS was 30 years, for the Police Officers’ Fund was 35 years and the Firefighters’ Fund was 17 years.

As of December 31, 2017, the actuarial accrued liability for the COAERS was \$3,797,823,303 and the funded ratio was 68.3%. The actuarial accrued liability for the Police Retirement System was \$1,185,017,294 and the funded ratio was 65.8%. The actuarial accrued liability for the Fire Fighters Retirement Fund was \$1,038,118,085 and the funded ratio was 88.3%.

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, the City Council approved an amendment to the SFP that increased the City’s 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.

Other Post-Employment Benefits (“OPEB”)

In addition to the contributions made to the three pension systems, the City provides certain other postemployment benefits (“OPEB”) to its retirees. The City’s OPEB plan is a defined-benefit single-employer plan. Allocation of City funds to pay postemployment benefits other than pensions 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 is under no obligation to pay any portion of the cost of other postemployment benefits for retirees or their dependents.

Other postemployment 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 postemployment benefits. Retirees may also enroll eligible dependents under the medical, dental, and vision plan(s) in which they participate.

In fiscal year 2018, the City implemented Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, which increased the total other postemployment benefits liability by \$1.51 billion over the previously reported net other postemployment benefits obligation. The City does not accumulate assets in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

GASB Statement No. 75 requires governments offering postemployment benefits other than pensions to record a liability in the current period for total future postemployment benefit obligations for existing employees and retirees in excess of plan assets. In addition, it identifies accepted actuarial methods and assumptions, allows deferral of certain OPEB expense items, expands financial statement note disclosures, and changes disclosure of required supplementary information.

Day-to-day accounting and administration of the OPEB activities is provided by the City and recorded in the Employee Benefits Fund. However, at year end an adjustment is made to recognize OPEB expenses in the operating funds that provide funding to the Employee Benefits Fund to pay for the City’s portion of these benefits. No separate plan report is available.

The City subsidizes between 20% and 80% of the projected medical premium for retirees and a lesser portion for dependents and surviving spouses depending on years of service at retirement. The retiree must pay the unsubsidized portion of the premium. Both the City and retirees’ estimated premiums are deposited in the Employee Benefits Fund, which pays actual claims for medical and prescription drugs and 100% of the retiree’s basic life insurance premium. The cost of coverage above the \$1,000 level for life insurance premium is paid by the retiree. 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 \$43.14 million in 2018 and \$43.05 million in 2017. As of September 30, 2018, the total OPEB liability is \$2.52 billion.

See “APPENDIX B – AUDITED FINANCIAL STATEMENTS – Note 8 and Note 18” in this document for additional information on the City’s OPEB.

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to third party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund’s operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately \$4.44 million for claims and damages at the end of fiscal year 2018. 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, including the Federal Home Loan Banks and letters of credit, of the United States or its agencies and instrumentalities;
- (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 are 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 ("FDIC") 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) interest-bearing banking deposits that are guaranteed insured by the FDIC or the National Credit Union Share Insurance Fund ("NCUSIF") or their respective successors;
- (8) interest-bearing banking deposits other than those described by subdivision (7) if the funds invested in the banking deposits are invested through (a) a broker with a main office or branch office in the State of Texas that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025; or (b) a depository institution with a main office or branch office in the State of Texas that the investing entity selects; (ii) the broker or depository institution selected as described above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (iv) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account (a) the depository institution selected as described above; (b) an entity described by Section 2257.041(d); or (c) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3);
- (9) 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 FDIC or the NCUSIF, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for City deposits;
- (10) 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;
- (11) 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 not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency;
- (12) commercial paper with a stated maturity of 270 days or less that is rated not less than "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;
- (13) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that comply with the United States Securities and Exchange Commission Rule 2a-7;
- (14) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, and either has a duration of one year or more and is

- invested exclusively in obligations described in this paragraph, or has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and,
- (15) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Code) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than “AAA”, “AAA-m” or at an equivalent rating by at least one nationally recognized rating service.

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

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

- (i) the value of securities loaned under the program are not 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 (11) through (13) above, or an authorized investment pool;
- (ii) securities held as collateral under a loan are pledged to the City, held in the City’s name and deposited at the time the investment is made with the City or a third party designated by the City;
- (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and
- (iv) the agreement to lend securities has a term of one year or less.

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

The City, 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 established an external irrevocable trust for decommissioning with JPMorgan Chase Bank, N.A., and as of October 2016, transferred the trust to Wilmington Trust, National Association. The market value of the assets held in the decommissioning trust, as of March 31, 2019, was \$226,219,592.

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 State 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 a registered representative of business organizations offering to engage in an investment transaction with the City to (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements;
- (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; and
- (5) provide specific investment training for the Chief Financial Officer of the City, Treasurer and Investment Officers.

Current Investments

As of March 31, 2019 the City's investable funds were invested in the following categories.

| <u>Type of Investment</u> | <u>Percentage</u> |
|-----------------------------------|-------------------|
| U. S. Treasuries | 18% |
| U. S. Agencies | 38% |
| Money Market Funds | 1% |
| Local Government Investment Pools | 43% |

The dollar weighted average maturity for the combined City investment portfolios is 216 days. The City prices the portfolios weekly utilizing a market pricing service.

TAX MATTERS

The following is a general summary of certain United States federal income tax consequences of the purchase and ownership of the 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 herein. 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 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, brokers-dealers, and persons who have hedged the risk of owning the Bonds). The summary is therefore limited to certain issues relating to initial investors who will hold the Bonds as "capital assets" within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"), and acquire such 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 Internal Revenue Service (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.

As used herein, "U.S. Holder" means a beneficial owner of a Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Bonds (including their status as U.S. Holders or Non-U.S. Holders).

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 BONDS.

U.S. Holders

Payments of Stated Interest on the Bonds

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

Original Issue Discount

If a substantial amount of the 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 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 Bonds at maturity over its Issue Price, and the amount of the original issue discount on the Bonds will be amortized over the life of the Bonds using the “constant yield method” provided in the Treasury Regulations. As the original issue discount accrues under the constant yield method, U.S. Holders, 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 U.S. Holders that exceeds actual cash distributions to the U.S. Holders in a taxable year.

The amount of the original issue discount that accrues on the Bonds each taxable year will be reported annually to the IRS and to the U.S. Holders. The portion of the original issue discount included in each beneficial owner’s gross income while the U.S. Holder holds the Bonds will increase the adjusted tax basis of the Bonds in the hands of such U.S. Holder.

Premium

If a U.S. Holder purchases a Bond for an amount that is greater than its stated redemption price at maturity, such U.S. Holder will be considered to have purchased the Bond with “amortizable bond premium” equal in amount to such excess. A U.S. Holder may elect to amortize such premium using a constant yield method over the remaining term of the Bond and may offset interest otherwise required to be included in respect of the Bond during any taxable year by the amortized amount of such excess for the taxable year. Bond premium on a Bond held by a U.S. Holder 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 Bond. However, if the Bond may be optionally redeemed after the U.S. Holder 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 Bond. Any election to amortize bond premium applies to all taxable debt instruments held by the U.S. Holder 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 (i) 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). U.S. Holders of the Bonds should consult with their tax advisor concerning this additional tax, as it may apply to interest earned on the Bonds as well as gain on the sale of a Bond.

Disposition of Bonds and Market Discount

A U.S. Holder will generally recognize gain or loss on the redemption, sale or exchange of a Bond equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the U.S. Holder’s adjusted tax basis in the Bonds. Generally, the U.S. Holder’s adjusted tax basis in the Bonds will be the U.S. Holder’s initial cost, increased by the original issue discount previously included in the U.S. Holder’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 U.S. Holder’s holding period for the Bonds.

Under current law, a purchaser of a Bond who did not purchase the Bonds in the initial public offering (a “subsequent purchaser”) generally will be required, on the disposition of the 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 Bonds by a subsequent purchaser is less than the sum of Issue Price and the amount of original issue discount previously accrued on the Bonds. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire 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 Bonds could have a material effect on the market value of the Bonds.

Legal Defeasance

If the City elects to defease the Bonds by depositing in escrow sufficient cash and/or obligations to pay when due outstanding Bonds (a “legal defeasance”), under current tax law, a U.S. Holder may be deemed to have sold or exchanged its Bonds. In the event of such a legal defeasance, a U.S. Holder generally would recognize gain or loss in the manner described above. Ownership of the Bonds after a deemed sale or exchange as a result of a legal defeasance may have tax consequences different from those described above, and each U.S. Holder should consult its own tax advisor regarding the consequences to such beneficial owner of a legal defeasance of the Bonds.

Backup Withholding

Under section 3406 of the Code, a U.S. Holder may, under certain circumstances, be subject to “backup withholding” on payments of current or accrued interest on the Bonds. This withholding applies if such U.S. Holder: (i) fails to furnish to payor such U.S. Holder’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 U.S. Holder is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain U.S. Holders. U.S. Holders should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

Reporting of Interest Payments

Subject to certain exceptions, interest payments made to beneficial owners with respect to the 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 U.S. Holder for U.S. federal income tax purposes.

Non-U.S. Holders

Effectively Connected Income

If, under the Code, interest on the Bonds is effectively connected with the conduct of a trade or business within the United States by a Non-U.S. Holder, such interest will be subject to U.S. federal income tax in a similar manner as if the Bonds were held by a U.S. Holder, as described above, and in the case of Non-U.S. Holders that are corporations, interest on the Bonds also may be included in the computation of earnings and profits that are subject to a U.S. branch profits tax at a rate of up to 30%, unless an applicable tax treaty provides otherwise. Such Non-U.S. Holder will not be subject to withholding taxes, however, if it provides a properly executed Form W-8ECI to the Corporation or its paying agent, if any.

Withholding on Payments to Non-U.S. Holders

Under sections 1441 and 1442 of the Code, Non-U.S. Holders 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 Non-U.S. Holders 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 Non-U.S. Holder provides a statement to the payor certifying, under penalties of perjury, that such Non-U.S. Holder is not a United States person and providing the name and address of such Non-U.S. Holder; (ii) such interest is treated as not effectively connected with the Non-U.S. Holder’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 Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such Non-U.S. Holder is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such Non-U.S. Holder is not

a bank receiving interest on the Bonds pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the 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 Non-U.S. Holders or intermediaries who have furnished Form W-8BEN, Form W-8EXP or Form W-8IMY, as applicable, provided the payor does not have actual knowledge that such person is a United States person.

Disposition of the Bonds

Generally gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the City or a deemed retirement due to defeasance of the Bond) or other disposition of a Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the City) or other disposition and certain other conditions are met.

Foreign Account Tax Compliance Act – U.S. Holders and Non-U.S. Holders

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to a foreign financial institution, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain United States persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, the Foreign Account Tax Compliance Act ("FATCA") imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial United States owner. Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest and principal under the Bonds and sales proceeds of Bonds held by or through a foreign entity. Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

CONTINUING DISCLOSURE OF INFORMATION

In the Sixteenth Supplement and the Pricing Certificate, 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 MSRB.

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes 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 described in the Pricing Certificate 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 2019 and audited financial statements within 12 months of each fiscal year beginning with the fiscal year ending in 2019. 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 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 website 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 financial statements and operating data 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 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 or obligated person; (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; (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material (Neither the Bonds nor the Sixteenth Supplement make any provision for debt service reserves or liquidity enhancement); (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties. 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 Sixteenth Supplement. The City intends the words used in (15) and (16) above and the definition of Financial Obligations to have the meaning ascribed to them in SEC release No. 34-83885, dated August 20, 2018.

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. As used in clause 15 and clause 16, the term “Financial Obligation” means a: (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii); provided that “financial obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule. The term “Business Day” means a day other than a Saturday, Sunday, a legal holiday, or a day on which banking institutions are authorized by law or executive order to close in the City or the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located.

Availability of Information

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

Limitations and Amendments

The City has agreed to update information and to provide notices of certain 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. No default by the City in observing or performing its obligations under its continuing disclosure undertaking for the Bonds shall constitute a breach of or default under the Sixteenth Supplement for purposes of any other provision of the Sixteenth Supplement.

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 “CONTINUING DISCLOSURE OF INFORMATION - 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

With respect to the City’s continuing disclosure agreement regarding the Rental Car Special Facility Revenue Bonds, the City failed to file rating upgrades from Moody’s and Fitch within the ten day window which started on July 10, 2015 and August 17, 2016, respectively. The City filed the event notices with respect to the ratings upgrade on December 14, 2016. The failure to file the ratings upgrade in a timely manner was also filed on the same date. With respect to the continuing disclosure agreement entered into by ABLE, with respect to its Series 1999A & 1999B Bonds, ABLE did not file its financial statements by the June 30 deadline for Fiscal Year December 31, 2015. The financial statements were filed on July 19, 2016 and the failure to file notice was posted on September 1, 2017. The referenced ABLE bonds are no longer outstanding. With respect to the City’s continuing disclosure reports regarding its outstanding Airport System Revenue Bonds, the City determined that a table had transposed years in the presentation of data in such report that was filed in 2015, and the City filed corrected information for such table on May 8, 2015. With respect to the City’s continuing disclosure reports regarding its outstanding Combined Utility Revenue Bonds, Water and Wastewater System Revenue Bonds, and Electric Utility System Revenue Bonds, on April 25, 2016, the City filed updated financial information and operating data to reflect audited financial information as well as updated information in the “Comparative Analysis of Electric Utility System and Water and Wastewater System Operations,” “Operating Statement Electric Utility System and Water and Wastewater System” and “The Electric Utility System and Water and Wastewater System (Plant Cost and Equity in Utility Systems)” tables previously filed. On February 3, 2017, the City filed a ratings upgrade notice for the Prior First-Lien Combined Electric, Water and Wastewater Revenue Bonds, which took place on July 1, 2015. The failure to file the ratings upgrade in a timely manner was also filed on the same date. On June 30, 2017, the City filed updated financial information and operating data to reflect Fiscal Year 2016 information on the first page of the “Water Service Rates” table. The City has implemented procedures to ensure timely filing of all future financial information and event notices and will continue to provide updates to the financial information and operating data as changes occur.

OTHER RELEVANT INFORMATION

Ratings

The Bonds received ratings of “Aa3” (stable outlook) from Moody’s, “AA” (stable outlook) from S&P, and “AA” (stable outlook) from Fitch. An explanation of the significance of such ratings may be obtained from the organization furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating companies, if in the judgment of one or more companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

Registration and Qualification of Bonds

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

Legal Opinions

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the City in accordance with their terms payable solely from and, together with the outstanding Parity 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 Electric Utility System in the manner provided in the Sixteenth Supplement and the approving legal opinion of Bond Counsel, to like effect. The form of Bond Counsel’s opinion is attached as APPENDIX E. Certain legal matters will be passed upon for the City by McCall, Parkhurst & Horton L.L.P., Disclosure Counsel for the City, and the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP.

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” (except for the information under the subheading “Bondholders’ Remedies”), “TAX MATTERS”, “CONTINUING DISCLOSURE OF INFORMATION” (except for the information under the subheading “Compliance with Prior Undertakings”), “OTHER RELEVANT INFORMATION – Registration and Qualification of Bonds,” “OTHER RELEVANT INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas” and “OTHER RELEVANT INFORMATION – Legal Opinions,” and in “APPENDIX C” and “APPENDIX D” to verify that the information relating to the Bonds, the Master Ordinance, and the Sixteenth 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

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

Underwriting

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the City at a price equal to the initial offering prices shown on the inside front cover of this Official Statement, less an underwriting discount of \$1,863,341.84. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The 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.

Forward - Looking Statements

The statements contained in this document and in any other information provided by the City that are not purely historical are forward-looking statements, including statements regarding the City’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date of this document, 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.

Independent Auditors

The financial data listed as fiscal year 2019 has been derived from the internal records of the City. The City's independent auditors have not reviewed, examined, or performed any procedures with respect to the fiscal year 2019 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 fiscal year 2019 financial information. The fiscal year 2019 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 Pricing Certificate authorized by the Sixteenth Supplement approved 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.

/s/ Steve Adler
Mayor
City of Austin, Texas

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

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information is presented for informational purposes only.

GENERAL INFORMATION

The City of Austin (the “City”), chartered in 1839, has a Council-Manager form of government with a Mayor who is elected at large and ten Councilmembers who are elected by geographic district. 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, according to the City’s estimates, a September 2018 population of 963,797. Over the past ten years, Austin’s population has increased by approximately 25.1%, or 193,501 residents. Geographically, the City consists of approximately 326 square miles. The current estimated median household income for residents of the City is \$63,191 according to Nielsen SiteReports. The City’s per capita income is estimated to be \$57,600.

The City offers several broad-ranged educational opportunities for those individuals with a desire to learn. Austin is a highly educated city, with 49% of adults twenty-five years or older holding a bachelor’s or advanced degree, compared to 29% for Texas and 31% 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 seventh largest public university in the nation, is known as a world-class center of education and research and was ranked 15th among public universities in the 2018 U.S. News and World Report Best Colleges survey of undergraduate programs.

The City is nationally recognized as a great place to live due in part to its diverse, educated 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, wedged between coastal plains and dramatic cliffs, canyons, and juniper-carpeted rolling hills. Austin’s quality of life has become a critical economic development engine, and the City’s diverse demographic structure serves to support and enrich its quality of life.

Major Initiatives

The City has a long-term vision of Austin being the most livable community in the country. The City has a highly dedicated and exceptional workforce to support City Council’s policies and initiatives. City staff are committed to creating a work environment that fosters creative thinking and innovation throughout the organization, thereby better positioning the workforce to more effectively respond to new challenges as well as new opportunities. City employees take enormous pride in their work.

Imagine Austin – Austin residents share a sense of community pride and a determination that the City’s vision is not just a slogan, but a reality for everyone who lives here. *Imagine Austin*, a comprehensive plan for the City’s future, sets a context to guide decision-makers for the next 30 years. The plan adheres to 6 core principles established in collaboration with 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

The plan’s success is monitored annually with performance metrics and will be formally assessed at least every five years. During the development of both the annual and capital improvement budgets, *Imagine Austin*, is a consideration in how resources are allocated.

Strategic Plan – In addition to Imagine Austin, in the spring of 2017 the City Council selected six strategic outcomes to help develop and guide City policies, initiatives, and budget development. The six strategic outcomes are:

- Mobility - getting us where we want to go, when we want to get there, safely and cost effectively;
- Economic Opportunity and Affordability - having economic opportunities and resources that enable us to thrive in our community;
- Safety - being safe in our home, at work, and in our community;
- Health - enjoying a sustainable environment and a healthy life, physically and mentally;
- Cultural and Learning Opportunities - being enriched by Austin's unique civic, cultural, ethnic, and learning opportunities; and
- Government that Works for All of Us - believing that city government works effectively and collaboratively for all of us--that is equitable, ethical and innovative.

Mobility – In November 2016, voters approved the City's \$720 million general obligation bond proposition to fund transportation and mobility improvements. Approximately two-thirds of the funding will be devoted to corridor improvement projects with the remainder earmarked for regional and local improvements including bicycle and pedestrian facilities and safety. The capital spending plan for 2019 includes \$67.7 million for mobility projects including sidewalks, bike lanes, urban trails, and the Corridor Construction Program improvements. Progress continues on several joint interchange projects along Interstate 35 with the Texas Department of Transportation, one of the City's regional partners. An additional \$160 million in bond funding was approved by city-wide election in November 2018, which will fund a number of transportation projects including a replacement for one of the bridges over Lady Bird Lake. In addition to capital projects, the City is undergoing a pilot program for licensing dockless scooters and bicycles to improve mobility in the central city. Over 15,000 scooters have been licensed by nine companies in Austin's core neighborhoods and downtown.

Economic Opportunity and Affordability – Affordability is a prime consideration as the City makes decisions that impact the citizens who live here and the businesses that operate here. For 2019 there were no base rate increases for five of the City's six rate assessing enterprise departments. This is significant, as there have been rate increases in at least two of these departments for each of the previous nine budget cycles.

Housing affordability is increasingly an issue in a region where housing costs have been rising at a brisk pace and the impact is felt the most by those in the service, music, and creative areas. Since 2007, the median sales price of a home increased almost 60% gradually pricing more and more families out of the home buying market. At a June 2018 City Council meeting, action was taken to increase the general homestead exemption from 8% to 10% of eligible property value. In the November 2018 bond election, voters approved \$250 million for planning, constructing and renovating affordable housing facilities for low- and moderate-income residents. Additionally, the current budget fully funds the Housing Trust Fund for the first time, enabling the City to reach income-restricted affordable housing goals adopted in the Austin Strategic Housing Blueprint.

In the arena of economic opportunity, the Small and Minority Business Resources Department will conduct a new disparity study to examine the participation of women and minority-owned businesses in public sector contracting over the past several years. Results of the study will form the basis of the MBE/WBE Procurement Program.

Safety – The 2019 budget includes 6 additional Airport Police officers, 16 sworn fire personnel, funding for 27 additional APD officers, and two new fire stations. Austin's Fire Department responds to approximately 87,000 incidents per year. The department's goal is to reach each emergency location within 8 minutes of call receipt. As the City develops and expands, this goal is an increasing challenge. In response, completion of a new fire station and design work on two others is slated for FY 2019. In tandem with the pilot program to license dockless mobility devices previously mentioned, Austin Health is working with the Centers for Disease Control to conduct a safety study, the first of its kind in the nation. Results of the study will be used to make recommendations for safe usage of the new technology.

Health & Environment – Reducing reliance on traditional higher-polluting fuel sources is behind the \$220 million budgeted for Austin Energy to purchase more sustainable fuel sources in fiscal year 2019. Funding was provided for Austin Resource Recovery toward the purchase of vehicles for existing programs as well as vehicles and containers for expanding the curbside composting program, which is adding approximately 52,000 households in fiscal year 2019. In addition, several departments received recognition for their sustainability efforts:

- The new Central Library was awarded LEED Platinum status in July 2018. The platinum designation is the highest level of recognition awarded by the U.S. Green Building Council and only six commercial buildings have ever received it
- In July 2018, Austin Water received Platinum Certification from The Alliance for Water Efficiency for excellence in water conservation program operation and management.
- In October 2018, the Airports Council International awarded Austin Bergstrom International Airport a Level 2 Accreditation in its Airport Carbon Accreditation Program, which recognizes the airport's efforts in reducing its overall carbon footprint. In addition to participating in Austin Energy's GreenChoice® program for terminal operations, ABIA has replaced over 30 diesel powered vehicles with electric vehicles.

Cultural and Learning Opportunities – Established in fiscal year 2018, the Historic Preservation Fund was allocated additional funding from the Hotel-Motel Occupancy Tax in order to preserve, restore and rehabilitate historic structures city-wide. Also, the bond elections in November 2018 saw approval for \$128 million for development of community, cultural and creative arts facilities.

Government that Works – The five-year capital improvements spending plan includes \$1.1 billion in support of this priority, of which \$262.7 million is expected to be expended in 2019. The majority of funding supports maintenance of and upgrades to the City's electric and water and wastewater systems to ensure continued incremental improvement to the condition and quality of these crucial components of the City's infrastructure. Funding is also included for technological replacement and enhancement such as a new data center and conversion to a remote water meter reading system which uses cellular or radio transmission.

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. 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. 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.

Long-Term Financial Planning

Austin leaders are continually looking towards and planning for the future. 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. 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. A second plan covering a 10-year planning horizon, the Long-Range CIP Strategic Plan, is also updated biennially. This plan provides a data-driven approach to planning for how the City's future capital improvements support the way Austin functions and grows. Such an approach assists in aligning the City's CIP investments with the Imagine Austin Comprehensive Plan and the City Council's new strategic priorities as the City strives to strike a balance between ongoing capital needs necessary to maintain services for a rapidly growing community and strategic investments that support community priorities. In support of long-range capital improvement, \$925 million within seven new bond propositions were approved by Austin voters in the November 2018 election.

City departments prepare a number of other long- and mid- range service plans that provide input into decisions made in the planning and budgeting process. These plans range from clean energy and climate protection to strategic mobility planning. A brief summary of these planning documents can be found in the Integrated Planning section of the City's approved budget.

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 the City's financial policies and the area's healthy economy, the City's general obligation bond ratings remain "AAA" from three of the major rating agencies, Moody's, S&P, and Fitch. Through defeasances in 2018 and 2019, Austin Water has retired \$104.3 million of debt which improved debt service coverage and reduced scheduled debt service payments over the next five years.

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 2018 CAFR, the City continues to meet its responsibility for sound financial management.

Budgetary Information

The 2019 Budget was developed in a manner true to the City's unwavering commitment to openness, transparency, and public engagement. The City's Budget is now organized around strategic outcomes. The budget development process still integrates a collaborative approach to the City's finances with business planning, performance measurement, and resident input, but by organizing around City Council identified strategic outcomes, the document is more focused on the bigger picture and less on the minutiae of departmental expenditures. Input was gathered and evaluated to address the many issues, concerns, and priorities identified by Austin's citizens, employees, boards and commissions, and Councilmembers. The result was a budget built around the ideals of livability, affordability, and inclusivity that dictate the operations of Austin's city government.

The structurally balanced fiscal year 2019 Approved Budget totals \$4.1 billion and includes \$1 billion 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 Austin. Austin budgeted revenue comes from utility charges (48%), various taxes (including property) (25%), charges for services and goods (14%), and other revenue such as interest, fees, and transfers (13%). The 2019 budget was approved with a 0.45 cent decrease to the property tax rate, from 44.48 to 44.03 cents per \$100 of taxable value.

The City's largest enterprise department, Austin Energy, is the eighth largest municipal-owned electric utility in the U.S. in terms of customers served. Austin Energy serves more than 480,000 customers within a service territory of approximately 437 square miles in the Greater Austin area. The approved budget for fiscal year 2019 is \$1.4 billion in annual revenues, including transfers. The utility has a diverse generation mix that includes nuclear, coal, natural gas, and an increasing portfolio of renewable energy sources such as solar and wind.

The City's second largest enterprise activity is Austin Water, which provides water and wastewater services to more than one million retail and wholesale customers spanning more than 540 square miles within Austin and surrounding areas. The fiscal year 2019 budget projects revenues and transfers of \$613 million. For the first time in several years, the utility has a slight decrease for water and wastewater rates for 2019. Reduction in projected revenue is the result of the 2018 rate reduction.

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 2017 CAFR. The City has received this award for 11 consecutive years. The certificate is valid for a period of one year only. City management believes that the 2018 CAFR conforms to the Certificated of Achievement Program requirements, and is submitting it to the GFOA for review.

The City also received the GFOA Distinguished Budget Presentation award for the 2018 budget as well as a 2017 Certificate of Excellence in Performance Measurement from the International City/County Management Association (ICMA), and the Achievement of Excellence in Procurement from the National Procurement Institute in 2018.

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Employment by Industry in the Austin Metropolitan Area (1)

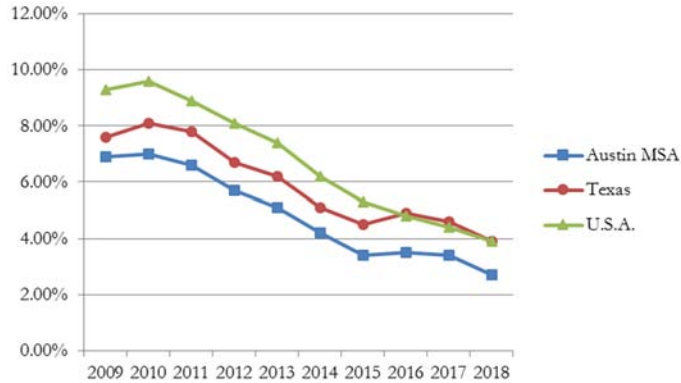
| | <u>2014</u> | | <u>2015</u> | | <u>2016</u> | | <u>2017</u> | | <u>2018</u> | |
|--------------------------------------|----------------|----------------|----------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|
| | | % of | | % of | | % of | | % of | | % of |
| | total | | total | | total | | total | | total | |
| Mining, Logging, and Construction | 52,900 | 5.60% | 56,800 | 5.80% | 59,800 | 5.90% | 63,300 | 6.00% | 63,400 | 5.90% |
| Manufacturing | 56,200 | 5.90% | 54,900 | 5.60% | 56,000 | 5.50% | 58,600 | 5.60% | 61,600 | 5.70% |
| Trade, Transportation, and Utilities | 164,300 | 17.40% | 172,100 | 17.40% | 178,000 | 17.40% | 182,100 | 17.30% | 187,700 | 17.30% |
| Information | 27,100 | 2.90% | 28,900 | 2.90% | 29,400 | 2.90% | 32,200 | 3.10% | 34,300 | 3.20% |
| Financial Activities | 53,000 | 5.60% | 55,500 | 5.60% | 58,700 | 5.80% | 61,800 | 5.90% | 63,600 | 5.90% |
| Professional and Business Services | 156,500 | 16.50% | 166,700 | 16.90% | 173,200 | 17.00% | 180,500 | 17.10% | 188,000 | 17.40% |
| Education and Health Services | 109,100 | 11.50% | 113,700 | 11.50% | 117,400 | 11.50% | 122,300 | 11.60% | 126,900 | 11.70% |
| Leisure and Hospitality | 108,600 | 11.50% | 118,100 | 12.00% | 122,300 | 12.00% | 126,900 | 12.00% | 128,700 | 11.90% |
| Other Services | 42,400 | 4.50% | 42,500 | 4.30% | 43,900 | 4.30% | 45,100 | 4.30% | 45,100 | 4.20% |
| Government | <u>175,700</u> | <u>18.60%</u> | <u>177,800</u> | <u>18.00%</u> | <u>181,900</u> | <u>17.80%</u> | <u>182,400</u> | <u>17.30%</u> | <u>182,700</u> | <u>16.90%</u> |
| Total nonfarm employment | <u>945,800</u> | <u>100.00%</u> | <u>987,000</u> | <u>100.00%</u> | <u>1,020,600</u> | <u>100.00%</u> | <u>1,055,200</u> | <u>100.00%</u> | <u>1,082,000</u> | <u>100.00%</u> |

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

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

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Average Annual Unemployment Rate



| <u>Year</u> | <u>Austin MSA</u> | <u>Texas</u> | <u>U.S.A.</u> |
|-------------|-------------------|--------------|---------------|
| 2009 | 6.90% | 7.60% | 9.30% |
| 2010 | 7.00% | 8.10% | 9.60% |
| 2011 | 6.60% | 7.80% | 8.90% |
| 2012 | 5.70% | 6.70% | 8.10% |
| 2013 | 5.10% | 6.20% | 7.40% |
| 2014 | 4.20% | 5.10% | 6.20% |
| 2015 | 3.40% | 4.50% | 5.30% |
| 2016 | 3.50% | 4.90% | 4.80% |
| 2017 | 3.40% | 4.60% | 4.40% |
| 2018 | 2.70% | 3.90% | 3.90% |

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) (1)

| <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> | <u>Period</u> | <u>Amount</u> |
|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|----------------|
| 1-1-13 | \$13.126 | 1-1-14 | \$15.123 | 1-1-15 | \$15.260 | 1-1-16 | \$16.138 | 1-1-17 | \$17.697 | 1-1-18 | \$18.369 | 1-1-19 | \$18.697 |
| 2-1-13 | 18.079 | 2-1-14 | 19.112 | 2-1-15 | 21.092 | 2-1-16 | 21.884 | 2-1-17 | 21.866 | 2-1-18 | 22.174 | 2-1-19 | 23.474 |
| 3-1-13 | 13.324 | 3-1-14 | 13.782 | 3-1-15 | 14.677 | 3-1-16 | 15.667 | 3-1-17 | 16.597 | 3-1-18 | 17.895 | 3-1-19 | 19.197 |
| 4-1-13 | 12.727 | 4-1-14 | 13.803 | 4-1-15 | 14.345 | 4-1-16 | 15.528 | 4-1-17 | 17.370 | 4-1-18 | 16.939 | 4-1-19 | 18.499 |
| 5-1-13 | 15.962 | 5-1-14 | 17.750 | 5-1-15 | 19.404 | 5-1-16 | 19.258 | 5-1-17 | 18.790 | 5-1-18 | 21.249 | | |
| 6-1-13 | 12.869 | 6-1-14 | 15.581 | 6-1-15 | 15.958 | 6-1-16 | 17.070 | 6-1-17 | 16.838 | 6-1-18 | 18.371 | | |
| 7-1-13 | 14.699 | 7-1-14 | 14.723 | 7-1-15 | 16.180 | 7-1-16 | 16.836 | 7-1-17 | 18.059 | 7-1-18 | 19.552 | | |
| 8-1-13 | 16.088 | 8-1-14 | 16.970 | 8-1-15 | 19.483 | 8-1-16 | 21.467 | 8-1-17 | 19.930 | 8-1-18 | 20.338 | | |
| 9-1-13 | 14.119 | 9-1-14 | 15.385 | 9-1-15 | 16.429 | 9-1-16 | 16.352 | 9-1-17 | 17.401 | 9-1-18 | 19.701 | | |
| 10-1-13 | 14.644 | 10-1-14 | 15.309 | 10-1-15 | 16.514 | 10-1-16 | 17.106 | 10-1-17 | 17.828 | 10-1-18 | 19.502 | | |
| 11-1-13 | 16.187 | 11-1-14 | 17.734 | 11-1-15 | 18.952 | 11-1-16 | 19.059 | 11-1-17 | 19.382 | 11-1-18 | 20.661 | | |
| 12-1-13 | 14.192 | 12-1-14 | 15.735 | 12-1-15 | 16.269 | 12-1-16 | 17.033 | 12-1-17 | 17.567 | 12-1-18 | 20.483 | | |
| | <u>\$176.02</u> | | <u>\$191.01</u> | | <u>\$204.56</u> | | <u>\$213.40</u> | | <u>\$219.33</u> | | <u>\$235.23</u> | | <u>\$79.87</u> |

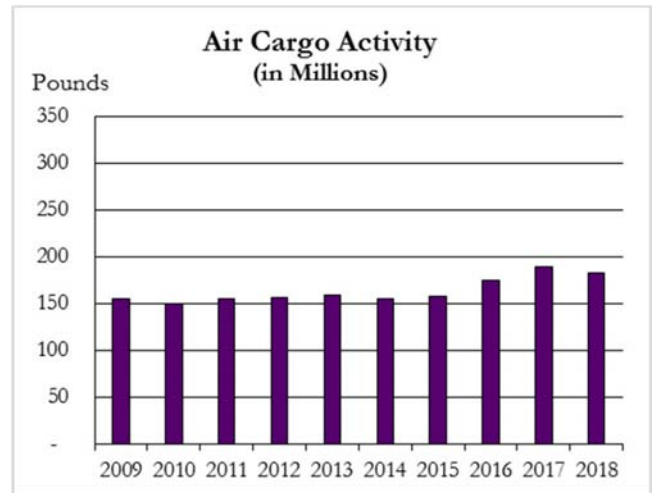
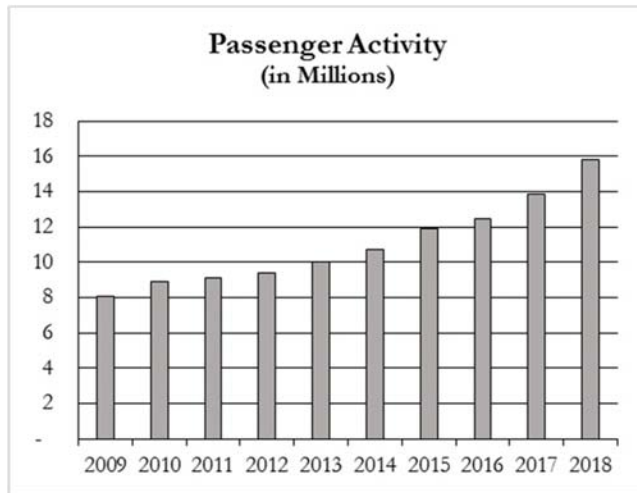
(1) Sales taxes are not pledged to the payment of the Bonds.
 Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2018)

| <u>Employer</u> | <u>Product or Service</u> | <u>Employees</u> |
|------------------------------------|---------------------------|------------------|
| State Government | Government | 37,890 |
| The University of Texas at Austin | Education | 23,925 |
| City of Austin | Government | 14,038 |
| HEB Grocery | Grocery/Retail | 13,756 |
| Dell Computer Corporation | Computers | 13,000 |
| Federal Government | Government | 13,000 |
| Austin Independent School District | Education | 11,379 |
| St. David's Healthcare Partnership | Healthcare | 10,309 |
| Seton Healthcare Network | Healthcare | 9,947 |
| Samsung Austin Semiconductor | Manufacturer | 8,935 |

Source: The City's 2018 CAFR.

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. The City continues to debt finance a portion of capital projects to expand and/or improve ABIA; major transactions are summarized below.

On February 21, 2013, the City issued \$143,770,000 of its Rental Car Special Facility Revenue Bonds, Taxable Series 2013, to finance a state-of-the-art rental car facility within walking distance of the Airport terminal. Ground breaking for the facility occurred in April 2013 and the facility opened for business, as scheduled, on October 1, 2015.

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

On February 2, 2017 the City issued \$185,300,000 of Airport System Revenue Bonds, Series 2017A and \$129,655,000 of Airport System Revenue Bonds, Series 2017B (AMT) to finance the parking garage project construction costs the Airport Terminal/Apron Expansion and Improvement project.

On May 8, 2019, the City issued \$151,720,000 in Airport System Revenue Refunding Bonds, Series 2019 (AMT) (the “Airport System 2019 Bonds”), to refund all of the outstanding City of Austin, Texas Airport System Refunding Revenue Bonds, Series 2005 (AMT) (the “Airport System 2005 Bonds”), and to fund a swap termination payment to terminate an interest rate swap agreement executed in connection with the Airport System 2005 Bonds, which were issued as variable rate demand obligations. As a result of the termination of the interest rate swap agreement, letters of credit issued to provide credit and liquidity support for the Airport System 2005 Bonds, and insurance policies issued in connection with the issuance of the Airport System 2005 Bonds and the execution of the interest rate swap agreement, including a surety policy to fund a reserve fund for the Airport System 2005 Bonds, will terminate in accordance with their respective terms and will no longer be in effect. A portion of the proceeds of the Airport System 2019 Bonds will be used to fund a debt service reserve fund.

Additionally, the City anticipates authorizing the issuance of \$300,000,000 in Airport System Revenue Bonds, in summer 2019, with a delivery of the bonds, in one or more series, anticipated to occur by the fourth quarter of calendar year 2019.

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

| Year | City of Austin Population (1) | Area of Incorporation (Square Miles) (1) | Population MSA (2) | Income (MSA) (thousands of dollars) (2) | Median Household Income MSA (3) | Per Capita Personal Income MSA (3) | Unemployment Rate (MSA) (4) |
|------------------|----------------------------------|--|-----------------------|--|--|---|--------------------------------|
| 2009 | 770,296 | 302 | 1,682,338 | 64,290,898 | 47,520 | 38,215 | 6.9% |
| 2010 | 778,560 | 306 | 1,727,743 | 69,124,528 | 48,460 | 40,009 | 7.0% |
| 2011 | 805,662 | 308 | 1,781,409 | 76,507,673 | 46,689 | 42,948 | 6.6% |
| 2012 | 821,012 | 319 | 1,834,319 | 84,319,550 | 46,818 | 45,968 | 5.7% |
| 2013 | 841,649 | 321 | 1,883,528 | 89,014,800 | 46,436 | 47,260 | 5.2% |
| 2014 | 878,002 | 321 | 1,942,255 | 97,444,500 | 49,227 | 50,171 | 4.2% |
| 2015 | 899,119 | 323 | 2,000,784 | 103,473,800 | 52,519 | 51,717 | 3.4% |
| 2016 | 925,491 | 326 | 2,060,558 | 109,057,100 | 56,163 | 52,926 | 3.3% |
| 2017 | 946,080 | 325 | 2,115,827 | 115,982,300 | 56,849 | 54,817 | 3.1% |
| 2018 | 963,797 | 326 | 2,130,664(6) | 122,793,898(5) | 63,191(6) | 57,600(5) | 2.9% |
| 2009-2018 Change | 25.12% | 7.98% | 26.65% | 91.00% | 32.98% | 50.73% | |

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 2018, which are estimated figures; final figures are expected to be available later in 2019.
- (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 2018; figures are estimated.
- (6) Source: Nielsen SiteReports.

Utility Connections

| <u>Year</u> | <u>Utility Connections</u> | | |
|-------------|----------------------------|------------------|----------------|
| | <u>Electric (1)</u> | <u>Water (1)</u> | <u>Gas (1)</u> |
| 2008 | 397,100 | 207,979 | 198,718 |
| 2009 | 407,926 | 209,976 | 208,232 |
| 2010 | 413,870 | 210,885 | 204,823 |
| 2011 | 417,865 | 212,752 | 213,365 |
| 2012 | 422,375 | 214,928 | 217,170 |
| 2013 | 430,582 | 217,070 | 216,688 |
| 2014 | 439,403 | 217,036 | 223,500 |
| 2015 | 450,479 | 223,164 | 228,700 |
| 2016 | 461,345 | 227,432 | 223,158 |
| 2017 | 472,701 | 231,014 | 226,749 |
| 2018 | 485,204 | 235,174 | 221,314 |

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

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

Housing Units

Rental rates in the City averaged \$1.46 per square foot, with an occupancy rate of 93.1% as of December 2018, per Capitol Market Research.

Residential Sales Data

| <u>Year</u> | <u>Number of Sales</u> | <u>Total Volume (\$)</u> | <u>Average Price (\$)</u> |
|-------------|------------------------|--------------------------|---------------------------|
| 2009 | 20,407 | 4,830,082,305 | 236,688 |
| 2010 | 19,547 | 4,819,525,215 | 246,561 |
| 2011 | 21,067 | 5,276,728,492 | 250,474 |
| 2012 | 25,227 | 6,718,087,395 | 266,305 |
| 2013 | 29,985 | 8,607,692,421 | 287,067 |
| 2014 | 30,168 | 9,268,438,505 | 307,227 |
| 2015 | 31,454 | 10,433,969,643 | 331,722 |
| 2016 | 32,713 | 11,375,656,754 | 347,741 |
| 2017 | 33,947 | 12,447,529,430 | 366,675 |
| 2018 | 34,469 | 13,152,971,542 | 381,588 |

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

City-Wide Austin Office Occupancy Rate

| <u>Year</u> | <u>Occupancy Rate</u> |
|-------------|-----------------------|
| 2009 | 77.7% |
| 2010 | 80.0% |
| 2011 | 82.7% |
| 2012 | 86.8% |
| 2013 | 89.2% |
| 2014 | 90.9% |
| 2015 | 90.9% |
| 2016 | 91.8% |
| 2017 | 89.5% |
| 2018 | 89.6% |

Source: Cushman & Wakefield.

Education

The Austin Independent School District has an enrollment of 80,032 for the 2018/2019 school year and an estimated average daily attendance of 73,906. The District includes 130 campuses.

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 51,832 for the fall semester of 2018 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.

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APPENDIX B
AUDITED FINANCIAL STATEMENTS

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**CITY OF AUSTIN, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2018**

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Deloitte & Touche LLP
500 West Second Street
Suite 1600
Austin, TX 78701-4671
USA

Tel: +1 512 691 2330
Fax: +1 512 708 1035
www.deloitte.com

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of discretely presented component units which represents 99.9% of the assets, 97.8 % of net position, and 98.9% of revenues of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of 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, 2018, 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 basic financial statements, the City adjusted its beginning net position as of October 1, 2017, to reflect the impact of the implementation of Governmental Accounting Standards Board Statements No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this change.

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 Postemployment 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 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

February 28, 2019



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, 2018.

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. 82, No. 85 through No. 86, and No. 89.

FINANCIAL HIGHLIGHTS

Government-wide financial statements

The City's assets and deferred outflows exceeded its liabilities and deferred inflows in fiscal year 2018, resulting in \$3.7 billion of net position. Net position associated with governmental activities is a deficit of approximately \$253.2 million, while the net position associated with business-type activities is approximately \$4.0 billion, or 106.8% of the total net position of the City. The largest portion of net position consists of net investment in capital assets, which is \$4.1 billion, or 110.9% of total net position.

The City's unrestricted net position is a deficit of \$1.3 billion. Unrestricted net position for governmental activities is a deficit of \$2.1 billion, while unrestricted net position for business-type activities is approximately \$789.2 million, or 19.9% of total business-type net position. The deficit in governmental unrestricted net position is largely due to the net pension liability of \$1.1 billion and other postemployment benefits payable of \$1.6 billion.

During fiscal year 2018, total net position for the City of Austin increased \$102.5 million or 2.8%. Of this amount, governmental activities decreased \$68.9 million, or 37.4% from the previous year and business-type activities increased \$171.4 million, or 4.5%.

Total revenues for the City increased \$144.2 million; revenues for governmental activities increased \$102.8 million; revenues for business-type activities increased \$41.4 million. Total expenses for the City increased \$162.6 million; expenses for governmental activities increased \$27.1 million; expenses for business-type activities increased \$135.5 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 Urban Renewal Agency (URA), the Austin Industrial Development Corporation (AIDC), Mueller Local Government Corporation (MLGC), and Austin-Bergstrom International Airport (ABIA) Development Corporation. The operations of AHFC, URA, AIDC, MLGC, and ABIA 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 four discretely presented component units: Austin-Bergstrom Landhost Enterprises, Inc. (ABLE), Austin Convention Enterprises, Inc. (ACE), Waller Creek Local Government Corporation (WCLGC) and Austin/Travis County Sobriety Center Local Government Corporation (SCLGC). 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 Note 1, 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 prepares the financial reports for this entity. There was no WCLGC activity in fiscal year 2018.

b -- Fund financial statements

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

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

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

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

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

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of three of the City's major funds, Austin Energy™, 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

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:

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

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 nine 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 postemployment 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, as restated:

| | Condensed Statement of Net Position | | | | | |
|----------------------------------|--|------------------|----------------------|-------------------|-------------------|-------------------|
| | as of September 30 | | | | | |
| | (in thousands) | | | | | |
| | Governmental | | Business-Type | | Total | |
| | Activities | | Activities | | | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Current assets | \$ 738,058 | 658,456 | 1,775,185 | 1,662,516 | 2,513,243 | 2,320,972 |
| Capital assets | 3,028,885 | 2,949,094 | 8,157,304 | 7,909,044 | 11,186,189 | 10,858,138 |
| Other noncurrent assets | 172,731 | 161,139 | 2,263,075 | 2,139,577 | 2,435,806 | 2,300,716 |
| Total assets | 3,939,674 | 3,768,689 | 12,195,564 | 11,711,137 | 16,135,238 | 15,479,826 |
| Deferred outflows of resources | 419,521 | 359,842 | 361,090 | 342,671 | 780,611 | 702,513 |
| Current liabilities | 419,484 | 361,031 | 512,245 | 532,870 | 931,729 | 893,901 |
| Noncurrent liabilities | 4,106,241 | 3,945,608 | 6,737,881 | 6,517,668 | 10,844,122 | 10,463,276 |
| Total liabilities | 4,525,725 | 4,306,639 | 7,250,126 | 7,050,538 | 11,775,851 | 11,357,177 |
| Deferred inflows of resources | 86,679 | 6,228 | 1,347,043 | 1,215,205 | 1,433,722 | 1,221,433 |
| Net position: | | | | | | |
| Net investment in capital assets | 1,735,481 | 1,709,146 | 2,375,219 | 2,358,240 | 4,110,700 | 4,067,386 |
| Restricted | 146,496 | 140,299 | 795,049 | 702,749 | 941,545 | 843,048 |
| Unrestricted (deficit) | (2,135,186) | (2,033,781) | 789,217 | 727,076 | (1,345,969) | (1,306,705) |
| Total net position | \$ (253,209) | (184,336) | 3,959,485 | 3,788,065 | 3,706,276 | 3,603,729 |

In the current fiscal year, total assets increased \$655.4 million and deferred outflows of the City increased by \$78.1 million. Total liabilities increased \$418.7 million and deferred inflows increased by \$212.3 million. Governmental-type total assets increased by \$171.0 million and business-type increased by \$484.4 million, while governmental-type liabilities increased by \$219.1 million and business-type increased by \$199.6 million.

The most significant increase in governmental total assets resulted from an increase in capital assets of \$79.8 million as the City continues to build out projects from the 2012 and 2016 bond programs. Factors in the increase of governmental-type liabilities include increases in bonds payable of \$20.9 million, related primarily to the 2012 and 2016 bond programs along with a decrease in the net pension liability of \$136.0 million and an increase in other postemployment benefits payable of \$278.6 million.

The most significant factor in the increase of business-type total assets is related to growth in capital assets of \$248.3 million or 51.2% of the increase in business-type total assets, of which approximately \$200.0 million is related to the Airport terminal expansion. The primary factor in the increase in business-type total liabilities of \$199.6 million is due to an increase in other postemployment benefits of \$190.6 million.

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 \$3.7 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, buildings, and equipment offset by related debt), which is \$4.1 billion, or 110.9% 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, \$941.0 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 is a deficit of \$1.3 billion of unrestricted net position. Unrestricted net position decreased \$39.3 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 business-type activities. However, governmental activities as well as the government as a whole report a deficit of \$2.1 billion and \$1.3 billion for unrestricted net position, respectively.

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 | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Program revenues: | | | | | | |
| Charges for services | \$ 173,400 | 176,640 | 2,543,788 | 2,500,259 | 2,717,188 | 2,676,899 |
| Operating grants and contributions | 42,489 | 45,162 | 876 | 861 | 43,365 | 46,023 |
| Capital grants and contributions | 107,865 | 90,256 | 122,396 | 137,464 | 230,261 | 227,720 |
| General revenues: | | | | | | |
| Property tax | 616,745 | 554,631 | -- | -- | 616,745 | 554,631 |
| Sales tax | 232,319 | 218,790 | -- | -- | 232,319 | 218,790 |
| Franchise fees and gross receipts tax | 159,754 | 151,670 | -- | -- | 159,754 | 151,670 |
| Interest and other | 34,333 | 26,950 | 27,730 | 14,801 | 62,063 | 41,751 |
| Total revenues | <u>1,366,905</u> | <u>1,264,099</u> | <u>2,694,790</u> | <u>2,653,385</u> | <u>4,061,695</u> | <u>3,917,484</u> |
| Program expenses: | | | | | | |
| General government | 200,125 | 192,231 | -- | -- | 200,125 | 192,231 |
| Public safety | 704,566 | 719,032 | -- | -- | 704,566 | 719,032 |
| Transportation, planning, and sustainability | 72,240 | 72,517 | -- | -- | 72,240 | 72,517 |
| Public health | 117,578 | 119,278 | -- | -- | 117,578 | 119,278 |
| Public recreation and culture | 173,333 | 161,226 | -- | -- | 173,333 | 161,226 |
| Urban growth management | 176,453 | 156,180 | -- | -- | 176,453 | 156,180 |
| Interest on debt | 65,147 | 61,879 | -- | -- | 65,147 | 61,879 |
| Electric | -- | -- | 1,268,610 | 1,277,623 | 1,268,610 | 1,277,623 |
| Water | -- | -- | 312,276 | 281,787 | 312,276 | 281,787 |
| Wastewater | -- | -- | 286,736 | 219,609 | 286,736 | 219,609 |
| Airport | -- | -- | 184,084 | 158,863 | 184,084 | 158,863 |
| Convention | -- | -- | 80,990 | 75,377 | 80,990 | 75,377 |
| Environmental and health services | -- | -- | 111,184 | 108,658 | 111,184 | 108,658 |
| Public recreation | -- | -- | 9,009 | 8,736 | 9,009 | 8,736 |
| Urban growth management | -- | -- | 196,817 | 183,532 | 196,817 | 183,532 |
| Total expenses | <u>1,509,442</u> | <u>1,482,343</u> | <u>2,449,706</u> | <u>2,314,185</u> | <u>3,959,148</u> | <u>3,796,528</u> |
| Excess (deficiency) before transfers | (142,537) | (218,244) | 245,084 | 339,200 | 102,547 | 120,956 |
| Transfers | 73,664 | 40,693 | (73,664) | (40,693) | -- | -- |
| Increase (decrease) in net position | (68,873) | (177,551) | 171,420 | 298,507 | 102,547 | 120,956 |
| Beginning net position, as previously reported | 455,353 | 632,904 | 3,976,814 | 3,678,307 | 4,432,167 | 4,311,211 |
| Restatement adjustment | (639,689) | -- | (188,749) | -- | (828,438) | -- |
| Beginning net position, as restated (see Note 18) | <u>(184,336)</u> | <u>632,904</u> | <u>3,788,065</u> | <u>3,678,307</u> | <u>3,603,729</u> | <u>4,311,211</u> |
| Ending net position | <u>\$ (253,209)</u> | <u>455,353</u> | <u>3,959,485</u> | <u>3,976,814</u> | <u>3,706,276</u> | <u>4,432,167</u> |

Total net position of the City increased by \$102.5 million in the current fiscal year. Governmental net position decreased by \$68.9 million. The decrease is attributable to expenses exceeding revenues by \$142.5 million before transfers from other funds of \$73.7 million. Business-type net position increased by \$171.4 million due to revenues exceeding expenses by \$245.1 million before transfers to other funds of \$73.7 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. 75, "Accounting and Financial Reporting for Postemployment Benefits other than Pensions". For more information, see Note 18.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

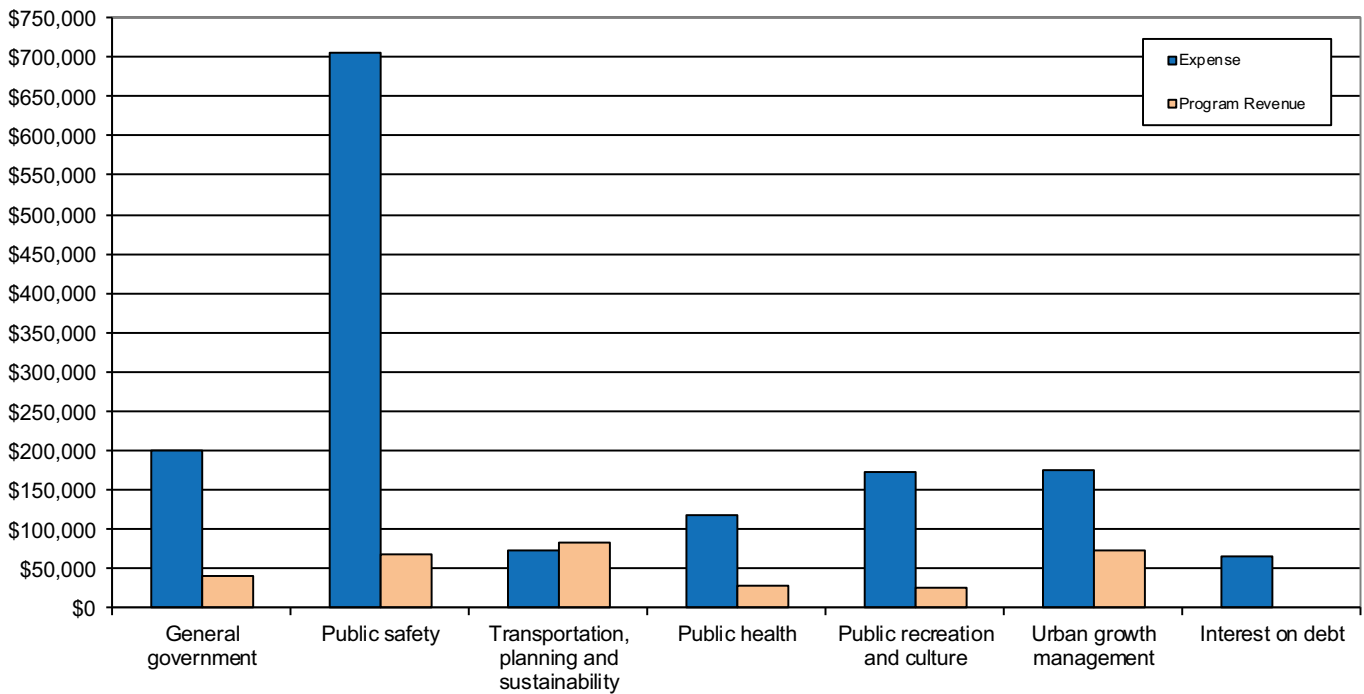
c -- Program revenues and expenses -- governmental activities

Governmental activities decreased the City’s net position by \$68.9 million in fiscal year 2018, a 37.4% decrease of governmental net position from the previous year. Key factors for the change from fiscal year 2017 to 2018 are as follows:

- The City’s property tax revenue increased by \$62.1 million from the previous year due to an increase in assessed property values of \$13.0 billion, while the property tax rate per \$100 of valuation increased from 0.4418 to 0.4448.
- Sales tax collections and franchise fees for the year were \$13.5 million and \$8.1 million, respectively, more than the prior year as result of the continued improvement in the Austin economy.
- Public safety expenses decreased by \$12.9 million due to the negotiated labor contract with police not being renewed during the fiscal year. This resulted in a significant number of employee retirements decreasing the compensated absence accrual by \$5.4 million. In addition there was a related decrease in salaries and fringe benefits of \$5.5 million.
- Public recreation and culture of expenses increased \$12.1 million as the result of an increase in salaries and fringe benefits of \$3.7 million, and an increase in overall expenses of \$2.7 million related to the opening of the new library.
- Urban growth management expenses were \$20.3 million greater than the prior year as the result of an increase in Neighborhood Housing & Conservation expenses for the implementation of the new Strategic Housing Blueprint of \$16.8 million along with \$5.0 million decrease in drainage utility reimbursements to development services.

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.

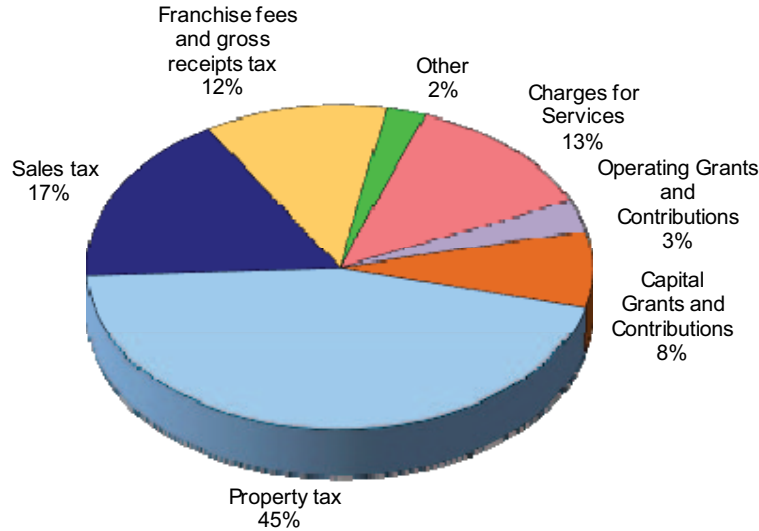
**Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)**



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

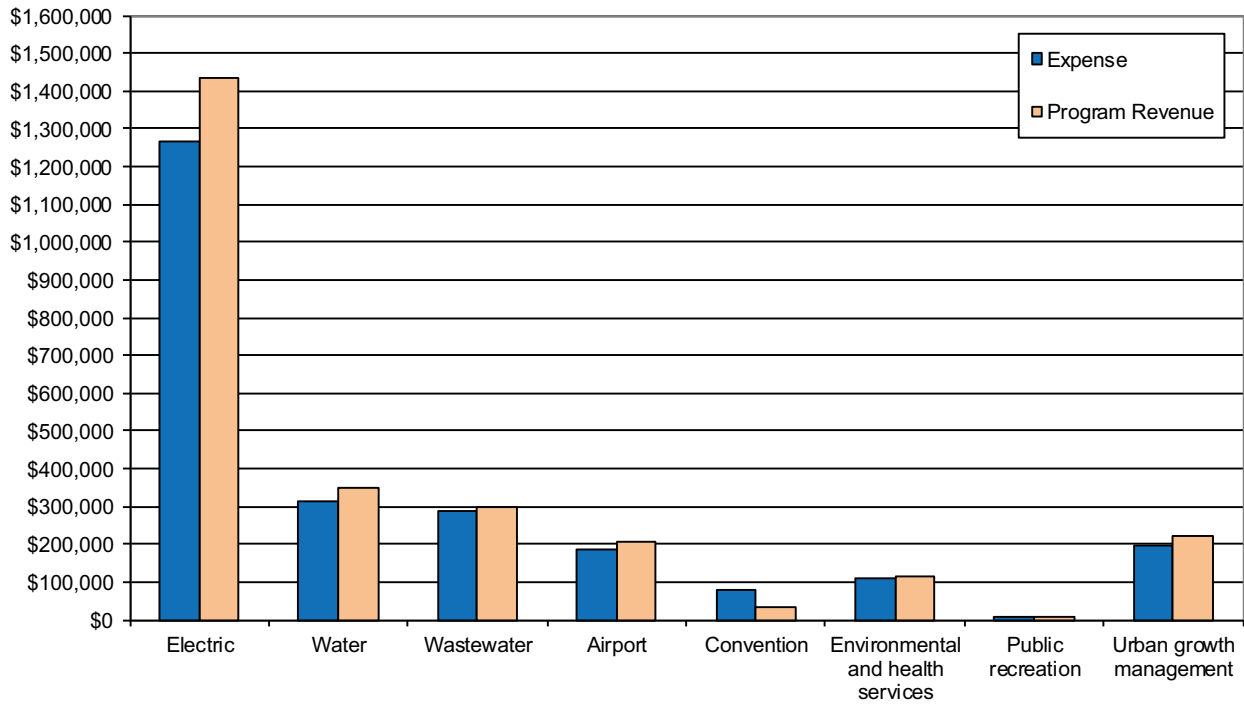
Business-type activities increased the City's net position by approximately \$171.4 million, accounting for a 4.8% increase in the City's total net position. Key factors include:

- Austin Energy net position increased approximately \$63.2 million. Operating revenues increased primarily due to increased base revenue, which was linked to customer growth. Operating expenses remained relatively stable.
- Austin Water Utility net position increased approximately \$2.9 million. Revenues decreased 3.7% largely due to a mid-year rate reduction for fiscal year 2018. Expenses increased by 19.5% due to an increase in operating and maintenance costs, and an increase in debt defeasance payments.
- Airport net position increased approximately \$28.1 million. Revenues increased 6.1% due to increases in passenger traffic, concessions and parking revenues, and updated Ground Transportation Operator fees and rates. Expenses increased 15.9% due to an increase in operating and maintenance costs and debt service payments.
- Convention Center net position increased approximately \$30.5 million, however, this was an overall incremental decrease of \$10.9 million compared to the 2017 fiscal year increase in net position. Revenues decreased 16.0% due to a decline in food concessions revenue, which was primarily driven by a one-time special event held in the previous year that generated \$4.3 million in revenue. The absence of a similar event in fiscal year 2018 resulted in a 24.0% decrease in food concessions revenue. Expenses increased 7.4% as a result of Council authorizing the Convention Center to pay a portion of the Visit Austin contract to market, sell and service convention activities.
- Environmental and health services activities is comprised of the Austin Resource Recovery nonmajor enterprise fund. Net position increased approximately \$4.0 million. Revenues increased by 5.7% due mainly to an increase in the Clean Community Fee and base fee for residential and commercial customer accounts. Expenses increased by 2.3% due mainly to an increase in operations and support services costs.
- Urban growth management activities are comprised of the Drainage and Transportation nonmajor enterprise funds. Net position increased by approximately \$43.3 million. Drainage revenues and transfers decreased 15.6% primarily due to a decrease in transfers in for home buyouts from \$50.0 million in the prior year to \$22.0 million in the current year. Drainage expenses remained relatively flat. Transportation revenues increased approximately 5.4% primarily as a result of increases in right-of-way (ROW) and utility-cut fees collected for downtown construction and new development review fees established to recover departmental costs. Transportation expenses increased 10.7% due to new investments in engineering contracts as well as an increase in staff of 27 new positions.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

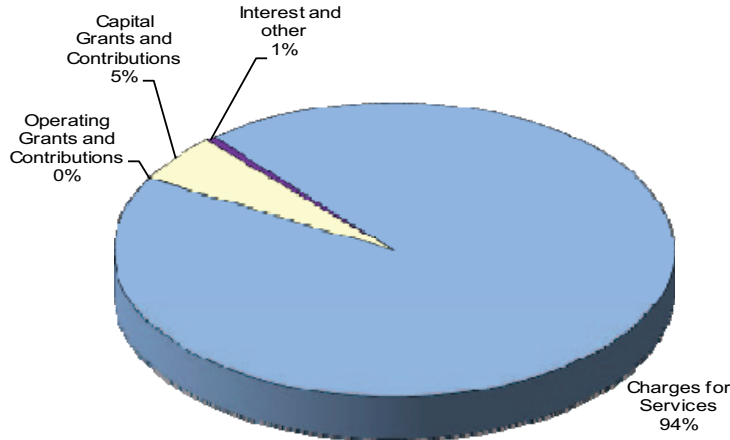
As shown in the following chart, Austin Energy (electric), with expenses of \$1.3 billion is the City's largest business-type activity, followed by water with \$312.3 million, wastewater with \$286.7 million, urban growth management with \$196.8 million, airport with \$184.1 million, environmental and health services with \$111.2 million, convention with \$81.0 million, and public recreation with \$9.0 million. For the fiscal year, operating revenues exceeded operating expenses for all business-type activities except convention and public recreation.

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



For all business-type activities, charges for services provide the largest percentage of revenues (94.40%), followed by capital grants and contributions (4.54%), interest and other revenues (1.03%), and operating grants and contributions (0.03%).

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 \$579.5 million, an increase of \$67.0 million from the previous year. Approximately \$3.1 million is nonspendable, \$223.1 million is restricted, \$45.2 million is committed, \$145.9 million is assigned, and \$162.2 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 \$2.1 million, assigned fund balance of \$37.6 million, and unassigned fund balance of \$173.3 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 17.2% of total General Fund expenditures of \$1.0 billion, and total fund balance represents 21.2% 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 \$72.1 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 \$41.1 million during the fiscal year. Significant differences from the previous year include:

- Property tax revenues increased \$41.2 million due to an increase in assessed property values.
- Sales tax revenues increased by \$13.5 million and interest and other increased by \$5.6 million.

General Fund expenditures increased \$30.7 million, due primarily to increases in the following areas: urban growth management (\$11.8 million), general government (\$8.5 million), public recreation and culture (\$7.4 million), and public health (\$3.9 million). These increases are primarily due to a 2.5% general wage increase for non-sworn employees, the addition of 29 FTE's, and increases in 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 \$155.6 million before consolidation of the internal service funds activities.

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

OTHER INFORMATION

a -- General Fund budgetary highlights

During fiscal year 2018 an amendment to the General Fund Interest and other revenue budget increased it by \$868,240 to reflect proceeds related to the Aspen Heights Density Bonus Program. This was the sole revenue budget amendment. The budget for Transfers in was increased by \$150,000 related to a settlement with an apartment complex. Budgeted expenditures in Other urban growth management were increased by \$868,240 to provide housing subsidies to the homeless and by \$150,000 to fund relocation costs related to the apartment settlement. The expenditure budget related to Parks and Recreation was decreased by \$280,630 and the budget for Transfers out was increased by the same amount. Upgrades to the Millennium Youth Entertainment Complex that were originally budgeted to be spent in 2018 were delayed resulting in this amendment which moved the funds from the operating to the capital budget.

OTHER INFORMATION, continued

During the year, actual budget basis revenues were \$2.3 million more than budgeted. Property taxes were \$4.9 million more than budgeted due to added properties and an increase in overall property values. Sales taxes were also \$6.2 million more than budgeted due to continued improvement in the economy. These were offset partly by \$6.4 million in lower than expected development permit revenue and \$2.3 million in lower than expected traffic fines.

Actual budget-basis expenditures were \$34.0 million less than budgeted. Two departments were over budget, Municipal Court by \$169 thousand and Social Services by \$74 thousand. All other departments were under budget. Police was under budget by \$14.9 million due primarily to the negotiated labor contract not being approved by Council during the fiscal year as was originally anticipated. EMS was under budget by \$3.4 million due primarily to salary savings from regular position vacancies. Fire was under budget by \$3.0 million largely due to higher than expected expense reimbursements from natural disasters and overtime from inspections and permitting done outside of normal business hours. Development Services was \$5.9 million under budget due primarily to salary savings from vacancies and lower contractual expenses as a result of the cancelation of CodeNEXT, the City's land development code rewrite project. The total budget-basis fund balance at year-end was \$206.2 million.

b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2018, total \$11.2 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 \$328 million, with an increase of 2.7% for governmental activities and an increase of 3.1% 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 | |
|---------------------------------|--------------------------------|--------------|---------------------------------|--------------|---------------|---------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | Building and improvements | \$ 657 | 651 | 1,978 | 1,916 | 2,635 |
| Plant and equipment | 75 | 65 | 2,377 | 2,348 | 2,452 | 2,413 |
| Vehicles | 54 | 52 | 74 | 76 | 128 | 128 |
| Electric plant | -- | -- | 2,124 | 2,198 | 2,124 | 2,198 |
| Non-electric plant | -- | -- | 147 | 141 | 147 | 141 |
| Nuclear fuel | -- | -- | 48 | 43 | 48 | 43 |
| Water rights | -- | -- | 81 | 82 | 81 | 82 |
| Infrastructure | 1,739 | 1,658 | -- | -- | 1,739 | 1,658 |
| Land and improvements | 383 | 379 | 694 | 676 | 1,077 | 1,055 |
| Construction in progress | 92 | 116 | 607 | 402 | 699 | 518 |
| Plant held for future use | -- | -- | 23 | 23 | 23 | 23 |
| Other assets not depreciated | 29 | 28 | 4 | 4 | 33 | 32 |
| Total net capital assets | \$ 3,029 | 2,949 | 8,157 | 7,909 | 11,186 | 10,858 |

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

- Governmental capital assets increased \$79.8 million primarily due to additions of new facilities and improvements to existing facilities. Significant additions and improvements were also made including acquisitions of parkland, upgrades to information technology equipment, pedestrian facility improvements, and street reconstructions across the City. The construction of the Waller Creek Tunnel Inlet Facility was completed during the fiscal year.
- Business-type activities purchased, constructed or received capital asset contributions of \$248.3 million. Asset additions included continued work on the airport terminal and apron expansion projects. Additionally, the Drainage fund continued to acquire properties at risk of flooding along Onion Creek.

OTHER INFORMATION, continued

c -- Debt administration

At the end of the current fiscal year, the City reported \$6.5 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 | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| General obligation bonds and other tax supported debt, net | \$ 1,457 | 1,436 | 102 | 116 | 1,559 | 1,552 |
| Commercial paper notes, net | -- | -- | 254 | 146 | 254 | 146 |
| Revenue bonds, net | -- | -- | 4,702 | 4,881 | 4,702 | 4,881 |
| Capital lease obligations | 10 | -- | 1 | 1 | 11 | 1 |
| Total | <u>\$ 1,467</u> | <u>1,436</u> | <u>5,059</u> | <u>5,144</u> | <u>6,526</u> | <u>6,580</u> |

During fiscal year 2018, the City's total outstanding debt decreased by \$53.6 million. The City issued new debt, used cash to defease debt, and refinanced portions of existing debt to achieve lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities increased by \$20.9 million. The resulting net increase is a combination of the issuance of \$123.3 million in new debt to be used primarily for facility improvements, streets and mobility, watershed home buyouts, central library, parks and recreation, capital equipment, and affordable housing, offset by debt payments during the year.
- Outstanding debt for business-type functions decreased by \$84.4 million. The City issued \$45.2 million in Water and Wastewater System revenue bonds, which was offset by debt payments during the year and the cash defeasance of \$61.2 million in Water and Wastewater separate lien revenue bonds.

OTHER INFORMATION, continued

During the year, the City's commercial paper notes, tax exempt and taxable, received favorable rating upgrades from Standard & Poor's and Fitch Ratings, Inc. from A-1 to A-1+ and F1 to F1+, respectively. The City's commercial paper ratings are related to the ratings of the liquidity providers associated with those obligations. All other bond ratings were unchanged. Ratings of the City's obligations for various debt instruments at September 30, 2018 and 2017 were as follows:

| Debt | Moody's Investors Service, Inc. | | Standard & Poor's | | Fitch Ratings, Inc. | |
|---|---------------------------------|------|-------------------|------|---------------------|---------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| 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 | Aa3 | Aa3 | AA | AA | AA- | AA- |
| Austin Water Utility | Aa2 | Aa2 | AA | AA | AA- | AA- |
| Airport system revenue bonds | A1 | A1 | A | A | NUR (1) | NUR (1) |
| Convention Center revenue bonds | Aa3 | Aa3 | AA | AA | NUR (1) | NUR (1) |
| Convention Center revenue bonds - subordinate | A1 | A1 | A+ | A+ | NUR (1) | NUR (1) |

(1) No underlying rating

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 to the area. The Austin metro area is the 8th fastest growing metro in the US for its size. Over the past 10 years, Austin's population has increased by approximately 25.1% or nearly 200,000 residents, with projections of the City surpassing the 1 million mark by the year 2020. Both the Austin and the Texas economies continue to expand at rates above the national economy. Job growth in the Austin MSA was ranked fourth along with several other cities when comparing activity in the top 50 metro areas per the US Bureau of Labor statistics. Austin added more than 36,800 net new jobs in 2018. The unemployment rate for the Austin-Round Rock MSA maintained a low of 2.7%, while the state unemployment rate fell to 3.7% in 2018; the national unemployment rate was 3.9%.

The City's primary economic drivers which in the past have included the technology industry, business startups and growth of entrepreneurial business, and tourism, continue to diversify with the opening of the Army Futures Command (AFC) in downtown. This reorganization of the Army, the biggest since 1973, and the first not located on a military base, is anticipated to innovate the service and make it more nimble and efficient, bringing along with it a sizeable annual budget and desire to engage with the growing local tech sector. All of these factors are expected to continue to generate job growth. All sectors of the real estate market continue to perform well. The Austin residential market experienced an increase in sales of 3.3% in 2018 over 2017, with housing in the downtown area growing in popularity. In 2018, sales tax revenue increased 6.2% over the previous year, compared to a 2.9% increase in 2017 and a 4.2% increase in 2016, an indicator that the local economy continues to exhibit steady growth. In 2019, the rate of growth in sales tax collections is expected to be 3.5%. Overall, the Austin economy is expected to continue to grow at a steady pace barring any events at the national or international level that would have an adverse impact.

OTHER INFORMATION, continued

The City's fiscal year 2019 budget was developed in a manner true to City Management's unwavering commitment to openness, transparency, and public engagement; a process that has been refined over time and centered this year on heightened levels of collaboration between the community, city staff, management, and the City Council. The overriding goal of the 2019 budget process was to align department budgets to Council's priorities with particular focus on the Council's six strategic outcomes for the City: Mobility, Economic Opportunity and Affordability, Safety, Health, Cultural and Learning Opportunities, and Government that Works. Each year during the budget process, the Austin City Council adopts a comprehensive set of financial policies that provide the foundation for long-range financial sustainability. These financial policies are directly aligned with the Council's underlying goals of budget stability, maintaining affordability, investing in future economic development, infrastructure needs, and quality of life. These policies are also crucial in maintaining the City's favorable bond ratings; the City had a ratings upgrade for commercial paper instruments in 2018. City management continues to monitor the economy and take corrective actions when necessary to help mitigate any unfavorable economic events.

The taxable property values within the City increased by 9.7% in 2018 for fiscal year 2019. The property tax rate for fiscal year 2019 is 44.03 cents per \$100 valuation, down from 44.48 cents per \$100 valuation in 2018. The tax rate consists of 33.08 cents for the General Fund and 10.95 cents for debt service. Each 1 cent of the 2018 (fiscal year 2019) property tax rate is equivalent to \$15,177,490 of tax levy, as compared to \$13,841,865 in the previous year. Austin Energy's 2018 base rates remain unchanged from the prior fiscal year. For the past several years, Austin Water Utility has been working to strengthen its financial position and reduce the need for annual rate increases; consequently, the utility submitted its fiscal year 2019 budget with a slight rate decrease.

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 Controller's Office 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, 2018
(In thousands)

City of Austin, Texas
Exhibit A-1

| | Governmental Activities | Business-type Activities | Total (†) | Component Units |
|---|------------------------------------|-------------------------------------|-------------------|----------------------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash | 61 | 63 | 124 | 5,955 |
| Pooled investments and cash | 582,458 | 1,072,584 | 1,655,042 | -- |
| Pooled investments and cash - restricted | -- | 123,333 | 123,333 | -- |
| Total pooled investments and cash | 582,458 | 1,195,917 | 1,778,375 | -- |
| Investments - restricted | 28,533 | 136,317 | 164,850 | -- |
| Cash held by trustee | -- | 1,601 | 1,601 | -- |
| Cash held by trustee - restricted | 9,152 | 1,144 | 10,296 | -- |
| Working capital advances | -- | 2,225 | 2,225 | -- |
| Property taxes receivable, net of allowance \$5,711 | 12,017 | -- | 12,017 | -- |
| Accounts receivable, net of allowance \$328,639 | 107,502 | 224,532 | 332,034 | 3,392 |
| Receivables from other governments | 17,409 | 91 | 17,500 | -- |
| Receivables from other governments - restricted | -- | 8,421 | 8,421 | -- |
| Notes receivable, net of allowance of \$17,669 | 26,666 | -- | 26,666 | -- |
| Internal balances | (62,654) | 62,654 | -- | -- |
| Inventories, at cost | 2,998 | 74,152 | 77,150 | 196 |
| Real property held for resale | 5,836 | -- | 5,836 | -- |
| Regulatory assets, net of accumulated amortization | -- | 29,552 | 29,552 | -- |
| Prepaid expenses | 4,213 | 24,004 | 28,217 | 860 |
| Other receivables - restricted | -- | 4,370 | 4,370 | -- |
| Other assets | 3,867 | 10,142 | 14,009 | -- |
| Total current assets | 738,058 | 1,775,185 | 2,513,243 | 10,403 |
| Noncurrent assets: | | | | |
| Cash - restricted | -- | 4,920 | 4,920 | 2,090 |
| Pooled investments and cash - restricted | 167,701 | 638,690 | 806,391 | -- |
| Investments - restricted | -- | 341,645 | 341,645 | 56,298 |
| Investments held by trustee - restricted | 1,868 | 228,367 | 230,235 | 20,788 |
| Cash held by trustee - restricted | 1,853 | -- | 1,853 | -- |
| Interest receivable - restricted | -- | 410 | 410 | -- |
| Depreciable capital assets, net | 2,524,708 | 6,829,037 | 9,353,745 | 183,421 |
| Nondepreciable capital assets | 504,177 | 1,328,267 | 1,832,444 | 13,508 |
| Derivative instruments - energy risk management | -- | 50 | 50 | -- |
| Regulatory assets, net of accumulated amortization | -- | 1,020,958 | 1,020,958 | -- |
| Other receivables - restricted | -- | 7,696 | 7,696 | -- |
| Other long-term assets | 1,309 | 20,339 | 21,648 | -- |
| Total noncurrent assets | 3,201,616 | 10,420,379 | 13,621,995 | 276,105 |
| Total assets | 3,939,674 | 12,195,564 | 16,135,238 | 286,508 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| | 419,521 | 361,090 | 780,611 | 15,605 |

(†) 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, 2018
(In thousands)

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

| | Governmental Activities | Business-type Activities | Total (†) | Component Units |
|---|------------------------------------|-------------------------------------|-------------------|----------------------------|
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | 44,343 | 95,774 | 140,117 | 5,525 |
| Accounts and retainage payable from restricted assets | 22,878 | 65,452 | 88,330 | -- |
| Accrued payroll | 33,603 | 19,535 | 53,138 | 317 |
| Accrued compensated absences | 65,263 | 26,939 | 92,202 | -- |
| Claims payable | 23,655 | 205 | 23,860 | -- |
| Due to other governments | 13 | 3,469 | 3,482 | -- |
| Accrued interest payable from restricted assets | 8 | 95,651 | 95,659 | 5,246 |
| Interest payable on other debt | 8,693 | 1,153 | 9,846 | -- |
| Bonds payable | 61,130 | 13,733 | 74,863 | 3,450 |
| Bonds payable from restricted assets | 28,725 | 110,970 | 139,695 | -- |
| Other postemployment benefits liability | 33,071 | 20,005 | 53,076 | -- |
| Capital lease obligations payable | 2,115 | 56 | 2,171 | -- |
| Customer and escrow deposits payable from restricted assets | 76,584 | 47,154 | 123,738 | -- |
| Accrued landfill closure and postclosure costs | -- | 2,591 | 2,591 | -- |
| Decommissioning liability payable from restricted assets | -- | 3,753 | 3,753 | -- |
| Other liabilities | 19,403 | 4,900 | 24,303 | 5,847 |
| Other liabilities payable from restricted assets | -- | 905 | 905 | -- |
| Total current liabilities | 419,484 | 512,245 | 931,729 | 20,385 |
| Noncurrent liabilities, net of current portion: | | | | |
| Accrued compensated absences | 82,074 | 714 | 82,788 | -- |
| Claims payable | 24,319 | 217 | 24,536 | -- |
| Capital appreciation bond interest payable | -- | 2,722 | 2,722 | -- |
| Commercial paper notes payable, net of discount | -- | 254,767 | 254,767 | -- |
| Bonds payable, net of discount and inclusive of premium | 1,367,110 | 4,679,015 | 6,046,125 | 267,119 |
| Net pension liability | 1,067,452 | 585,052 | 1,652,504 | -- |
| Other postemployment benefits liability | 1,540,192 | 931,629 | 2,471,821 | -- |
| Capital lease obligations payable | 7,765 | 878 | 8,643 | -- |
| Accrued landfill closure and postclosure costs | -- | 9,899 | 9,899 | -- |
| Decommissioning liability payable from restricted assets | -- | 201,617 | 201,617 | -- |
| Derivative instruments - energy risk management | -- | 7,796 | 7,796 | -- |
| Derivative instruments - interest rate swaps | -- | 27,723 | 27,723 | -- |
| Other liabilities | 17,329 | 33,041 | 50,370 | -- |
| Other liabilities payable from restricted assets | -- | 2,811 | 2,811 | -- |
| Total noncurrent liabilities | 4,106,241 | 6,737,881 | 10,844,122 | 267,119 |
| Total liabilities | 4,525,725 | 7,250,126 | 11,775,851 | 287,504 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| | 86,679 | 1,347,043 | 1,433,722 | 1,120 |
| NET POSITION | | | | |
| Net investment in capital assets | 1,735,481 | 2,375,219 | 4,110,700 | (11,273) |
| Restricted for: | | | | |
| Bond reserve | -- | 39,469 | 39,469 | -- |
| Capital projects | 40,454 | 275,910 | 316,364 | 741 |
| Debt service | 20,033 | 57,507 | 77,540 | 26,598 |
| Housing activities | 29,436 | -- | 29,436 | -- |
| Operating reserve | -- | 66,020 | 66,020 | -- |
| Passenger facility charges | -- | 110,452 | 110,452 | -- |
| Perpetual care: | | | | |
| Expendable | 1 | -- | 1 | -- |
| Nonexpendable | 1,070 | -- | 1,070 | -- |
| Renewal and replacement | -- | 53,339 | 53,339 | -- |
| Strategic reserve | -- | 192,352 | 192,352 | -- |
| Tourism | 22,649 | -- | 22,649 | -- |
| Other purposes | 32,853 | -- | 32,853 | -- |
| Unrestricted (deficit) | (2,135,186) | 789,217 | (1,345,969) | (2,577) |
| Total net position | (253,209) | 3,959,485 | 3,706,276 | 13,489 |

(†) 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, 2018
(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 | \$ 200,125 | 27,276 | 1,595 | 15,655 | (155,599) | -- | (155,599) | -- |
| Public safety | 704,566 | 57,950 | 9,364 | -- | (637,252) | -- | (637,252) | -- |
| Transportation, planning, and sustainability | 72,240 | 1,503 | 70 | 81,495 | 10,828 | -- | 10,828 | -- |
| Public health | 117,578 | 8,109 | 21,553 | 80 | (87,836) | -- | (87,836) | -- |
| Public recreation and culture | 173,333 | 12,401 | 1,804 | 10,635 | (148,493) | -- | (148,493) | -- |
| Urban growth management | 176,453 | 66,161 | 8,103 | -- | (102,189) | -- | (102,189) | -- |
| Interest on debt | 65,147 | -- | -- | -- | (65,147) | -- | (65,147) | -- |
| Total governmental activities | <u>1,509,442</u> | <u>173,400</u> | <u>42,489</u> | <u>107,865</u> | <u>(1,185,688)</u> | <u>--</u> | <u>(1,185,688)</u> | <u>--</u> |
| Business-type activities | | | | | | | | |
| Electric | 1,268,610 | 1,400,523 | 104 | 34,986 | -- | 167,003 | 167,003 | -- |
| Water | 312,276 | 304,182 | -- | 46,907 | -- | 38,813 | 38,813 | -- |
| Wastewater | 286,736 | 270,884 | -- | 26,985 | -- | 11,133 | 11,133 | -- |
| Airport | 184,084 | 197,426 | 616 | 7,593 | -- | 21,551 | 21,551 | -- |
| Convention | 80,990 | 33,752 | -- | -- | -- | (47,238) | (47,238) | -- |
| Environmental and health services | 111,184 | 115,499 | 92 | 177 | -- | 4,584 | 4,584 | -- |
| Public recreation | 9,009 | 7,278 | -- | 230 | -- | (1,501) | (1,501) | -- |
| Urban growth management | 196,817 | 214,244 | 64 | 5,518 | -- | 23,009 | 23,009 | -- |
| Total business-type activities | <u>2,449,706</u> | <u>2,543,788</u> | <u>876</u> | <u>122,396</u> | <u>--</u> | <u>217,354</u> | <u>217,354</u> | <u>--</u> |
| Total primary government | <u>\$ 3,959,148</u> | <u>2,717,188</u> | <u>43,365</u> | <u>230,261</u> | <u>(1,185,688)</u> | <u>217,354</u> | <u>(968,334)</u> | <u>--</u> |
| Component Units | <u>92,066</u> | <u>97,298</u> | <u>--</u> | <u>1,124</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>6,356</u> |
| General revenues: | | | | | | | | |
| Property tax | | | | | 616,745 | -- | 616,745 | -- |
| Sales tax | | | | | 232,319 | -- | 232,319 | -- |
| Franchise fees and gross receipts tax | | | | | 159,754 | -- | 159,754 | -- |
| Interest and other | | | | | 34,333 | 27,730 | 62,063 | 298 |
| Transfers-internal activities | | | | | <u>73,664</u> | <u>(73,664)</u> | <u>--</u> | <u>--</u> |
| Total general revenues and transfers | | | | | <u>1,116,815</u> | <u>(45,934)</u> | <u>1,070,881</u> | <u>298</u> |
| Special item - gain on debt structure | | | | | -- | -- | -- | 32,729 |
| Change in net position | | | | | (68,873) | 171,420 | 102,547 | 39,383 |
| Beginning net position, as restated (see Note 18) | | | | | <u>(184,336)</u> | <u>3,788,065</u> | <u>3,603,729</u> | <u>(25,894)</u> |
| Ending net position | | | | | <u>\$ (253,209)</u> | <u>3,959,485</u> | <u>3,706,276</u> | <u>13,489</u> |

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



**Governmental Funds
Balance Sheet
September 30, 2018
(In thousands)**

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

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|-------------------------|--|---|
| ASSETS | | | |
| Cash | \$ 51 | -- | 51 |
| Pooled investments and cash | 213,964 | 353,362 | 567,326 |
| Investments | -- | 28,533 | 28,533 |
| Cash held by trustee - restricted | -- | 8,826 | 8,826 |
| Investments held by trustee - restricted | -- | 1,868 | 1,868 |
| Property taxes receivable, net of allowance | 8,207 | 3,810 | 12,017 |
| Accounts receivable, net of allowance | 62,401 | 33,064 | 95,465 |
| Receivables from other governments | 1,076 | 15,315 | 16,391 |
| Notes receivable, net of allowance | 162 | 26,504 | 26,666 |
| Due from other funds | -- | 11,128 | 11,128 |
| Advances to other funds | -- | 8,683 | 8,683 |
| Inventories, at cost | 45 | -- | 45 |
| Real property held for resale | -- | 5,836 | 5,836 |
| Prepaid items | 2,019 | -- | 2,019 |
| Other assets | 59 | 3,808 | 3,867 |
| Total assets | <u>287,984</u> | <u>500,737</u> | <u>788,721</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Accounts payable | 25,361 | 25,207 | 50,568 |
| Accrued payroll | 26,553 | 548 | 27,101 |
| Accrued compensated absences | 137 | -- | 137 |
| Due to other funds | 231 | 11,112 | 11,343 |
| Due to other governments | 10 | -- | 10 |
| Unearned revenue | -- | 3,320 | 3,320 |
| Advances from other funds | 441 | 8,204 | 8,645 |
| Deposits and other liabilities | 6,689 | 78,929 | 85,618 |
| Total liabilities | <u>59,422</u> | <u>127,320</u> | <u>186,742</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>15,628</u> | <u>6,896</u> | <u>22,524</u> |
| FUND BALANCES | | | |
| Nonspendable: | | | |
| Inventories and prepaid items | 2,064 | -- | 2,064 |
| Permanent funds | -- | 1,070 | 1,070 |
| Restricted | -- | 223,062 | 223,062 |
| Committed | -- | 45,169 | 45,169 |
| Assigned | 37,561 | 108,333 | 145,894 |
| Unassigned | 173,309 | (11,113) | 162,196 |
| Total fund balances | <u>212,934</u> | <u>366,521</u> | <u>579,455</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 287,984</u> | <u>500,737</u> | <u>788,721</u> |

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, 2018
(In thousands)**

**City of Austin, Texas
Exhibit B-1.1**

| | | |
|--|--------------------|----------------------------|
| Total fund balances - Governmental funds | | \$ 579,455 |
| 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 | 4,817,505 | |
| Less: accumulated depreciation | <u>(1,860,540)</u> | 2,956,965 |
| Other long-term assets and certain revenues are not available as current-period resources and are not reported in the funds. | | |
| Other assets | <u>1,309</u> | 1,309 |
| Deferred outflows represent the consumption of net position that are applicable to a future reporting period. | | |
| Pensions | 190,260 | |
| Other postemployment benefits | 210,083 | |
| Loss on debt refundings | <u>19,073</u> | 419,416 |
| Long-term liabilities are not payable in the current period and are not reported in the funds. | | |
| Compensated absences | (137,776) | |
| Interest payable | (8,693) | |
| Bonds and other tax supported debt payable, net | (1,454,316) | |
| Net pension liability | (1,067,452) | |
| Other postemployment benefits | (1,573,263) | |
| Other liabilities | <u>(21,604)</u> | (4,263,104) |
| Deferred inflows represent an acquisition of net position that is applicable to a future reporting period. | | |
| Unavailable revenue | | |
| Property taxes and interest | 12,097 | |
| Accounts and other taxes receivable | 10,427 | |
| Pensions | (73,937) | |
| Other postemployment benefits | (11,713) | |
| Deferred gain on service concession agreement | <u>(1,028)</u> | (64,154) |
| 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. | | |
| | | 116,904 |
| Total net position - Governmental activities | | <u><u>\$ (253,209)</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, 2018
(In thousands)

City of Austin, Texas
Exhibit B-2

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|-------------------------|--|---|
| REVENUES | | | |
| Property taxes | \$ 457,789 | 158,635 | 616,424 |
| Sales taxes | 232,319 | -- | 232,319 |
| Franchise fees and other taxes | 48,391 | 111,363 | 159,754 |
| Fines, forfeitures and penalties | 10,330 | 5,434 | 15,764 |
| Licenses, permits and inspections | 54,103 | 321 | 54,424 |
| Charges for services/goods | 61,705 | 22,610 | 84,315 |
| Intergovernmental | -- | 65,632 | 65,632 |
| Property owners' participation and contributions | -- | 16,355 | 16,355 |
| Interest and other | 21,389 | 12,865 | 34,254 |
| Total revenues | 886,026 | 393,215 | 1,279,241 |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 135,161 | 2,850 | 138,011 |
| Public safety | 584,760 | 12,325 | 597,085 |
| Transportation, planning, and sustainability | -- | 5,162 | 5,162 |
| Public health | 84,410 | 21,606 | 106,016 |
| Public recreation and culture | 120,120 | 14,455 | 134,575 |
| Urban growth management | 82,293 | 68,342 | 150,635 |
| Debt service: | | | |
| Principal | -- | 99,572 | 99,572 |
| Interest | -- | 64,674 | 64,674 |
| Fees and commissions | -- | 27 | 27 |
| Capital outlay-capital project funds | -- | 139,324 | 139,324 |
| Total expenditures | 1,006,744 | 428,337 | 1,435,081 |
| Deficiency of revenues over expenditures | (120,718) | (35,122) | (155,840) |
| OTHER FINANCING SOURCES (USES) | | | |
| Issuance of tax supported debt | -- | 118,216 | 118,216 |
| Bond premiums | -- | 17,237 | 17,237 |
| Transfers in | 173,614 | 69,242 | 242,856 |
| Transfers out | (11,776) | (143,679) | (155,455) |
| Total other financing sources (uses) | 161,838 | 61,016 | 222,854 |
| Net change in fund balances | 41,120 | 25,894 | 67,014 |
| Fund balances at beginning of year | 171,814 | 340,627 | 512,441 |
| Fund balances at end of year | \$ 212,934 | 366,521 | 579,455 |

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, 2018
(In thousands)

City of Austin, Texas
Exhibit B-2.1

Net change in fund balances - Governmental funds \$ 67,014

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-capital project funds | 139,324 | |
| Capital outlay-other funds | 9,716 | |
| Depreciation expense | (126,239) | |
| Loss on disposal of capital assets | (523) | |
| Other asset adjustments | <u>(24,572)</u> | (2,294) |

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

| | | |
|-----------------------------|---------------|--------|
| Property taxes | 321 | |
| Charges for services | (408) | |
| Interest and other | (548) | |
| Capital asset contributions | <u>75,993</u> | 75,358 |

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 premiums, discounts, 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 | (118,216) | |
| Principal repayment on long-term debt | 99,572 | |
| Bond premiums | <u>(17,237)</u> | (35,881) |

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 | (7,740) | |
| Pensions | (79,849) | |
| Other postemployment benefits | (130,911) | |
| Interest and other | <u>24,951</u> | (193,549) |

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

20,479

Change in net position - Governmental activities \$ (68,873)

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

Proprietary Funds
Statement of Net Position
September 30, 2018
(In thousands)

| | Business-Type Activities | | |
|--|---------------------------------|---------------------------------|----------------|
| | Austin Energy | Austin Water Utility | Airport |
| | Austin Energy | Utility | Airport |
| ASSETS | | | |
| Current assets: | | | |
| Cash | \$ 22 | 5 | 3 |
| Pooled investments and cash | 454,016 | 190,509 | 12,038 |
| Pooled investments and cash - restricted | 31,035 | 59,975 | 17,341 |
| Total pooled investments and cash | 485,051 | 250,484 | 29,379 |
| Investments - restricted | 44,328 | 46,835 | 32,843 |
| Cash held by trustee | -- | 1,601 | -- |
| Cash held by trustee - restricted | -- | 1,144 | -- |
| Working capital advances | 2,225 | -- | -- |
| Accounts receivable, net of allowance | 137,033 | 62,229 | 3,982 |
| Receivables from other governments | -- | 62 | -- |
| Receivables from other governments - restricted | 5,765 | -- | 1,976 |
| Due from other funds | 381 | 301 | -- |
| Inventories, at cost | 66,838 | 2,214 | 1,931 |
| Regulatory assets, net of accumulated amortization | 3,323 | 26,229 | -- |
| Prepaid expenses | 22,543 | 568 | 516 |
| Other receivables - restricted | -- | -- | 4,370 |
| Other assets | 9,058 | -- | 1,084 |
| Total current assets | 776,567 | 391,672 | 76,084 |
| Noncurrent assets: | | | |
| Cash - restricted | 4,920 | -- | -- |
| Pooled investments and cash - restricted | 66,834 | 90,802 | 454,323 |
| Advances to other funds | 11,755 | 1,803 | -- |
| Advances to other funds - restricted | -- | -- | 32 |
| Investments - restricted | 239,044 | 52,214 | 40,124 |
| Investments held by trustee - restricted | 220,578 | 7,789 | -- |
| Interest receivable - restricted | 410 | -- | -- |
| Depreciable capital assets, net | 2,327,110 | 3,184,855 | 960,563 |
| Nondepreciable capital assets | 268,690 | 485,601 | 249,408 |
| Derivative instruments - energy risk management | 50 | -- | -- |
| Regulatory assets, net of accumulated amortization | 696,201 | 324,757 | -- |
| Other receivables - restricted | 7,696 | -- | -- |
| Other long-term assets | 2,078 | -- | 18,261 |
| Total noncurrent assets | 3,845,366 | 4,147,821 | 1,722,711 |
| Total assets | 4,621,933 | 4,539,493 | 1,798,795 |
| DEFERRED OUTFLOWS OF RESOURCES | \$ 109,392 | 115,262 | 41,918 |

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 | 63 | 10 |
| Pooled investments and cash | 416,021 | 1,072,584 | 177,405 |
| Pooled investments and cash - restricted | 14,982 | 123,333 | -- |
| Total pooled investments and cash | 431,003 | 1,195,917 | 177,405 |
| Investments - restricted | 12,311 | 136,317 | -- |
| Cash held by trustee | -- | 1,601 | -- |
| Cash held by trustee - restricted | -- | 1,144 | 2,179 |
| Working capital advances | -- | 2,225 | -- |
| Accounts receivable, net of allowance | 21,288 | 224,532 | 12,037 |
| Receivables from other governments | 29 | 91 | 1,018 |
| Receivables from other governments - restricted | 680 | 8,421 | -- |
| Due from other funds | 1,148 | 1,830 | -- |
| Inventories, at cost | 3,169 | 74,152 | 2,953 |
| Regulatory assets, net of accumulated amortization | -- | 29,552 | -- |
| Prepaid expenses | 377 | 24,004 | 2,194 |
| Other receivables - restricted | -- | 4,370 | -- |
| Other assets | -- | 10,142 | -- |
| Total current assets | 470,038 | 1,714,361 | 197,796 |
| Noncurrent assets: | | | |
| Cash - restricted | -- | 4,920 | -- |
| Pooled investments and cash - restricted | 26,731 | 638,690 | 5,428 |
| Advances to other funds | -- | 13,558 | 12 |
| Advances to other funds - restricted | 229 | 261 | -- |
| Investments - restricted | 10,263 | 341,645 | -- |
| Investments held by trustee - restricted | -- | 228,367 | -- |
| Interest receivable - restricted | -- | 410 | -- |
| Depreciable capital assets, net | 356,509 | 6,829,037 | 71,319 |
| Nondepreciable capital assets | 324,568 | 1,328,267 | 601 |
| Derivative instruments - energy risk management | -- | 50 | -- |
| Regulatory assets, net of accumulated amortization | -- | 1,020,958 | -- |
| Other receivables - restricted | -- | 7,696 | -- |
| Other long-term assets | -- | 20,339 | -- |
| Total noncurrent assets | 718,300 | 10,434,198 | 77,360 |
| Total assets | 1,188,338 | 12,148,559 | 275,156 |
| DEFERRED OUTFLOWS OF RESOURCES | 94,518 | 361,090 | 105 |

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

(Continued)

Proprietary Funds
Statement of Net Position
September 30, 2018
(In thousands)

| | Business-Type Activities | | |
|---|---------------------------------|---------------------------------|------------------|
| | Austin Energy | Austin Water Utility | Airport |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 81,327 | 3,775 | 2,837 |
| Accounts and retainage payable from restricted assets | 11,115 | 16,509 | 33,402 |
| Accrued payroll | 7,852 | 4,033 | 1,542 |
| Accrued compensated absences | 11,067 | 5,579 | 2,355 |
| Claims payable | 64 | 141 | -- |
| Due to other funds | -- | -- | 166 |
| Due to other governments | 3,464 | -- | 5 |
| Accrued interest payable from restricted assets | 20,614 | 62,682 | 11,559 |
| Interest payable on other debt | 527 | 137 | -- |
| Bonds payable | -- | -- | 20 |
| Bonds payable from restricted assets | 37,116 | 36,165 | 24,249 |
| Other postemployment benefits liability | 6,619 | 4,485 | 1,852 |
| Capital lease obligations payable | 56 | -- | -- |
| Customer and escrow deposits payable from restricted assets | 27,283 | 12,239 | 1,116 |
| Accrued landfill closure and postclosure costs | -- | -- | -- |
| Decommissioning liability payable from restricted assets | 3,753 | -- | -- |
| Other liabilities | 975 | 2,229 | 1,685 |
| Other liabilities payable from restricted assets | 487 | -- | -- |
| Total current liabilities | <u>212,319</u> | <u>147,974</u> | <u>80,788</u> |
| Noncurrent liabilities, net of current portion: | | | |
| Accrued compensated absences | -- | -- | -- |
| Claims payable | 5 | 212 | -- |
| Advances from other funds | -- | 556 | 341 |
| Advances from other funds payable from restricted assets | -- | 10,821 | -- |
| Capital appreciation bond interest payable | -- | 2,722 | -- |
| Commercial paper notes payable, net of discount | 212,597 | 42,170 | -- |
| Bonds payable, net of discount and inclusive of premium | 1,216,890 | 2,433,401 | 829,245 |
| Net pension liability | 240,493 | 127,015 | 43,715 |
| Other postemployment benefits liability | 308,236 | 208,869 | 86,267 |
| Capital lease obligations payable | 878 | -- | -- |
| Accrued landfill closure and postclosure costs | -- | -- | -- |
| Decommissioning liability payable from restricted assets | 201,617 | -- | -- |
| Derivative instruments - energy risk management | 7,796 | -- | -- |
| Derivative instruments - interest rate swaps | -- | 9,653 | 12,349 |
| Other liabilities | 33,041 | -- | -- |
| Other liabilities payable from restricted assets | 2,811 | -- | -- |
| Total noncurrent liabilities | <u>2,224,364</u> | <u>2,835,419</u> | <u>971,917</u> |
| Total liabilities | <u>2,436,683</u> | <u>2,983,393</u> | <u>1,052,705</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>\$ 389,490</u> | <u>760,948</u> | <u>185,891</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 | |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | 7,835 | 95,774 | 16,653 |
| Accounts and retainage payable from restricted assets | 4,426 | 65,452 | -- |
| Accrued payroll | 6,108 | 19,535 | 6,502 |
| Accrued compensated absences | 7,938 | 26,939 | 9,052 |
| Claims payable | -- | 205 | 23,655 |
| Due to other funds | 1,449 | 1,615 | -- |
| Due to other governments | -- | 3,469 | 3 |
| Accrued interest payable from restricted assets | 796 | 95,651 | 8 |
| Interest payable on other debt | 489 | 1,153 | -- |
| Bonds payable | 13,713 | 13,733 | 355 |
| Bonds payable from restricted assets | 13,440 | 110,970 | -- |
| Other postemployment benefits liability | 7,049 | 20,005 | -- |
| Capital lease obligations payable | -- | 56 | 2,115 |
| Customer and escrow deposits payable from restricted assets | 6,516 | 47,154 | 174 |
| Accrued landfill closure and postclosure costs | 2,591 | 2,591 | -- |
| Decommissioning liability payable from restricted assets | -- | 3,753 | -- |
| Other liabilities | 11 | 4,900 | 2,600 |
| Other liabilities payable from restricted assets | 418 | 905 | -- |
| Total current liabilities | 72,779 | 513,860 | 61,117 |
| Noncurrent liabilities, net of current portion: | | | |
| Accrued compensated absences | 714 | 714 | 372 |
| Claims payable | -- | 217 | 24,319 |
| Advances from other funds | 2,151 | 3,048 | -- |
| Advances from other funds payable from restricted assets | -- | 10,821 | -- |
| Capital appreciation bond interest payable | -- | 2,722 | -- |
| Commercial paper notes payable, net of discount | -- | 254,767 | -- |
| Bonds payable, net of discount and inclusive of premium | 199,479 | 4,679,015 | 2,294 |
| Net pension liability | 173,829 | 585,052 | -- |
| Other postemployment benefits liability | 328,257 | 931,629 | -- |
| Capital lease obligations payable | -- | 878 | 7,765 |
| Accrued landfill closure and postclosure costs | 9,899 | 9,899 | -- |
| Decommissioning liability payable from restricted assets | -- | 201,617 | -- |
| Derivative instruments - energy risk management | -- | 7,796 | -- |
| Derivative instruments - interest rate swaps | 5,721 | 27,723 | -- |
| Other liabilities | -- | 33,041 | -- |
| Other liabilities payable from restricted assets | -- | 2,811 | -- |
| Total noncurrent liabilities | 720,050 | 6,751,750 | 34,750 |
| Total liabilities | 792,829 | 7,265,610 | 95,867 |
| DEFERRED INFLOWS OF RESOURCES | 10,714 | 1,347,043 | 1 |

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

(Continued)

Proprietary Funds
Statement of Net Position
September 30, 2018
(In thousands)

| | Business-Type Activities | | |
|---|---------------------------------|---------------------------------|----------------|
| | Austin Energy | Austin Water Utility | Airport |
| NET POSITION | | | |
| Net investment in capital assets | \$ 927,258 | 638,134 | 335,667 |
| Restricted for: | | | |
| Bond reserve | 13,297 | 15,573 | 3,330 |
| Capital projects | 25,089 | 20,976 | 205,237 |
| Debt service | 23,714 | -- | 21,317 |
| Operating reserve | -- | 45,089 | 16,225 |
| Passenger facility charges | -- | -- | 110,452 |
| Renewal and replacement | 42,458 | -- | 10,000 |
| Strategic reserve | 192,352 | -- | -- |
| Unrestricted | 680,984 | 190,642 | (100,111) |
| Total net position | \$ 1,905,152 | 910,414 | 602,117 |
| Reconciliation to government-wide Statement of Net Position | | | |
| Adjustment to consolidate internal service activities | 25,706 | 14,825 | 5,316 |
| Total net position - Business-type activities | \$ 1,930,858 | 925,239 | 607,433 |

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 | 474,160 | 2,375,219 | 59,391 |
| Restricted for: | | | |
| Bond reserve | 7,269 | 39,469 | -- |
| Capital projects | 24,608 | 275,910 | 5,428 |
| Debt service | 12,476 | 57,507 | -- |
| Operating reserve | 4,706 | 66,020 | -- |
| Passenger facility charges | -- | 110,452 | -- |
| Renewal and replacement | 881 | 53,339 | -- |
| Strategic reserve | -- | 192,352 | -- |
| Unrestricted | <u>(44,787)</u> | <u>726,728</u> | <u>114,574</u> |
| Total net position | <u><u>479,313</u></u> | <u><u>3,896,996</u></u> | <u><u>179,393</u></u> |
| Reconciliation to government-wide Statement of Net Position | | | |
| Adjustment to consolidate internal service activities | 16,642 | 62,489 | |
| Total net position - Business-type activities | <u><u>495,955</u></u> | <u><u>3,959,485</u></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, 2018
(In thousands)

| | Business-Type Activities | | |
|---|---------------------------------|---------------------------------|----------------|
| | Austin Energy | Austin Water Utility | Airport |
| OPERATING REVENUES | | | |
| Utility services | \$ 1,400,523 | 575,066 | -- |
| User fees and rentals | -- | -- | 167,284 |
| Billings to departments | -- | -- | -- |
| Employee contributions | -- | -- | -- |
| Operating revenues from other governments | -- | -- | -- |
| Other operating revenues | -- | -- | -- |
| Total operating revenues | 1,400,523 | 575,066 | 167,284 |
| OPERATING EXPENSES | | | |
| Operating expenses before depreciation | 1,122,290 | 273,522 | 118,126 |
| Depreciation and amortization | 165,645 | 124,678 | 33,723 |
| Total operating expenses | 1,287,935 | 398,200 | 151,849 |
| Operating income (loss) | 112,588 | 176,866 | 15,435 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Interest and other revenues | 10,645 | 4,994 | 7,542 |
| Interest on revenue bonds and other debt | (58,845) | (95,722) | (33,318) |
| Passenger facility charges | -- | -- | 30,142 |
| Loss on in-substance defeasance | -- | (1,180) | -- |
| Cost (recovered) to be recovered in future years | 81,602 | (109,039) | -- |
| Other nonoperating revenue (expense) | (10,386) | 1,588 | (375) |
| Total nonoperating revenues (expenses) | 23,016 | (199,359) | 3,991 |
| Income (loss) before contributions and transfers | 135,604 | (22,493) | 19,426 |
| Capital contributions | 34,986 | 73,892 | 7,593 |
| Transfers in | 2,879 | 65 | -- |
| Transfers out | (115,885) | (51,857) | (182) |
| Change in net position | 57,584 | (393) | 26,837 |
| Beginning net position, as restated (see Note 18) | 1,847,568 | 910,807 | 575,280 |
| Ending net position | \$ 1,905,152 | 910,414 | 602,117 |
| Reconciliation to government-wide Statement of Activities | | | |
| Change in net position | 57,584 | (393) | 26,837 |
| Adjustment to consolidate internal service activities | 5,568 | 3,268 | 1,261 |
| Change in net position - Business-type activities | \$ 63,152 | 2,875 | 28,098 |

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

| | Business-Type Activities | | Governmental |
|---|--|------------------|---|
| | Nonmajor Enterprise Funds | Total | Activities- Internal Service Funds |
| OPERATING REVENUES | | | |
| Utility services | -- | 1,975,589 | -- |
| User fees and rentals | 370,773 | 538,057 | -- |
| Billings to departments | -- | -- | 455,708 |
| Employee contributions | -- | -- | 44,372 |
| Operating revenues from other governments | -- | -- | 5,337 |
| Other operating revenues | -- | -- | 13,968 |
| Total operating revenues | 370,773 | 2,513,646 | 519,385 |
| OPERATING EXPENSES | | | |
| Operating expenses before depreciation | 366,234 | 1,880,172 | 465,623 |
| Depreciation and amortization | 29,137 | 353,183 | 9,888 |
| Total operating expenses | 395,371 | 2,233,355 | 475,511 |
| Operating income (loss) | (24,598) | 280,291 | 43,874 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Interest and other revenues | 4,549 | 27,730 | 79 |
| Interest on revenue bonds and other debt | (6,737) | (194,622) | (3) |
| Passenger facility charges | -- | 30,142 | -- |
| Loss on in-substance defeasance | -- | (1,180) | -- |
| Cost (recovered) to be recovered in future years | -- | (27,437) | -- |
| Other nonoperating revenue (expense) | (4,886) | (14,059) | (950) |
| Total nonoperating revenues (expenses) | (7,074) | (179,426) | (874) |
| Income (loss) before contributions and transfers | (31,672) | 100,865 | 43,000 |
| Capital contributions | 5,925 | 122,396 | 13,039 |
| Transfers in | 103,887 | 106,831 | 2,407 |
| Transfers out | (6,593) | (174,517) | (22,122) |
| Change in net position | 71,547 | 155,575 | 36,324 |
| Beginning net position, as restated (see Note 18) | 407,766 | 3,741,421 | 143,069 |
| Ending net position | 479,313 | 3,896,996 | 179,393 |
| Reconciliation to government-wide Statement of Activities | | | |
| Change in net position | 71,547 | 155,575 | |
| Adjustment to consolidate internal service activities | 5,748 | 15,845 | |
| Change in net position - Business-type activities | <u>77,295</u> | <u>171,420</u> | |

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2018
(In thousands)

| | Business-Type Activities | | |
|---|---------------------------------|---------------------------------|------------------|
| | Austin Energy | Austin Water Utility | Airport |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Cash received from customers | \$ 1,398,861 | 575,435 | 166,712 |
| Cash received from other funds | 30,050 | 8,663 | -- |
| Cash payments to suppliers for goods and services | (746,577) | (64,750) | (37,399) |
| Cash payments to other funds | (53,346) | (75,250) | (27,874) |
| Cash payments to employees for services | (209,794) | (112,203) | (42,352) |
| Cash payments to claimants/beneficiaries | (293) | (238) | (1) |
| Taxes collected and remitted to other governments | (42,659) | -- | -- |
| Net cash provided by operating activities | 376,242 | 331,657 | 59,086 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | |
| Transfers in | 2,876 | 53 | -- |
| Transfers out | (115,873) | (51,847) | (182) |
| Collections from other sources | -- | 929 | -- |
| Loan repayments to other funds | -- | (123) | (179) |
| Loan repayments from other funds | 470 | 301 | 20 |
| Collections from other governments | 1,423 | 1,725 | (453) |
| Net cash provided (used) by noncapital financing activities | (111,104) | (48,962) | (794) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Proceeds from the sale of commercial paper notes | 66,502 | 42,170 | -- |
| Proceeds from the sale of general obligation bonds and other tax supported debt | -- | -- | -- |
| Proceeds from the sale of revenue bonds | -- | 45,175 | -- |
| Principal paid on long-term debt | (35,787) | (60,962) | (23,765) |
| Proceeds from the sale of capital assets | 1,362 | -- | -- |
| Interest paid on revenue bonds and other debt | (61,161) | (153,419) | (36,702) |
| Passenger facility charges | -- | -- | 29,494 |
| Acquisition and construction of capital assets | (162,072) | (133,028) | (222,152) |
| Contributions from state and federal governments | -- | 128 | 7,593 |
| Contributions in aid of construction | 34,986 | 30,674 | -- |
| Bond issuance costs | (118) | (143) | -- |
| Bond premiums | -- | -- | -- |
| Cash paid for bond defeasance | -- | (63,407) | -- |
| Cash paid for nuclear fuel inventory | (24,084) | -- | -- |
| Net cash provided (used) by capital and related financing activities | \$ (180,372) | (292,812) | (245,532) |

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> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Cash received from customers | 365,762 | 2,506,770 | 62,903 |
| Cash received from other funds | 3,735 | 42,448 | 455,708 |
| Cash payments to suppliers for goods and services | (86,144) | (934,870) | (102,535) |
| Cash payments to other funds | (66,196) | (222,666) | (24,757) |
| Cash payments to employees for services | (169,980) | (534,329) | (176,479) |
| Cash payments to claimants/beneficiaries | -- | (532) | (167,890) |
| Taxes collected and remitted to other governments | -- | (42,659) | -- |
| Net cash provided by operating activities | 47,177 | 814,162 | 46,950 |
| CASH FLOWS FROM NONCAPITAL | | | |
| FINANCING ACTIVITIES: | | | |
| Transfers in | 103,624 | 106,553 | 2,370 |
| Transfers out | (6,508) | (174,410) | (21,915) |
| Collections from other sources | -- | 929 | -- |
| Loan repayments to other funds | (1,279) | (1,581) | -- |
| Loan repayments from other funds | 635 | 1,426 | -- |
| Collections from other governments | 671 | 3,366 | -- |
| Net cash provided (used) by noncapital financing activities | 97,143 | (63,717) | (19,545) |
| CASH FLOWS FROM CAPITAL AND RELATED | | | |
| FINANCING ACTIVITIES: | | | |
| Proceeds from the sale of commercial paper notes | -- | 108,672 | -- |
| Proceeds from the sale of general obligation bonds and other tax supported debt | 5,075 | 5,075 | -- |
| Proceeds from the sale of revenue bonds | -- | 45,175 | -- |
| Principal paid on long-term debt | (27,917) | (148,431) | (374) |
| Proceeds from the sale of capital assets | -- | 1,362 | -- |
| Interest paid on revenue bonds and other debt | (8,597) | (259,879) | (129) |
| Passenger facility charges | -- | 29,494 | -- |
| Acquisition and construction of capital assets | (35,594) | (552,846) | (1,300) |
| Contributions from state and federal governments | 177 | 7,898 | -- |
| Contributions in aid of construction | 3,286 | 68,946 | -- |
| Bond issuance costs | (43) | (304) | -- |
| Bond premiums | 429 | 429 | -- |
| Cash paid for bond defeasance | -- | (63,407) | -- |
| Cash paid for nuclear fuel inventory | -- | (24,084) | -- |
| Net cash provided (used) by capital and related financing activities | (63,184) | (781,900) | (1,803) |

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2018
(In thousands)

| | Business-Type Activities | | |
|--|---------------------------------|---------------------------------|----------------|
| | Austin Energy | Austin Water Utility | Airport |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of investment securities | \$ (196,635) | (258,794) | (62,111) |
| Proceeds from sale and maturities of investment securities | 161,868 | 273,752 | 61,840 |
| Interest on investments | 5,407 | 4,994 | 6,930 |
| Net cash provided (used) by investing activities | (29,360) | 19,952 | 6,659 |
| Net increase (decrease) in cash and cash equivalents | 55,406 | 9,835 | (180,581) |
| Cash and cash equivalents, beginning | 501,421 | 334,201 | 664,286 |
| Cash and cash equivalents, ending | 556,827 | 344,036 | 483,705 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | |
| Operating income (loss) | 112,588 | 176,866 | 15,435 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 165,645 | 124,678 | 33,723 |
| Change in assets and liabilities: | | | |
| Decrease in working capital advances | 1,434 | -- | -- |
| (Increase) decrease in accounts receivable | (12,896) | 8,724 | 4,588 |
| Increase (decrease) in allowance for doubtful accounts | 1,468 | (100) | 61 |
| Decrease in receivables from other governments | -- | -- | -- |
| (Increase) decrease in inventory | 9,923 | (277) | (96) |
| (Increase) decrease in prepaid expenses and other assets | (900) | (526) | (430) |
| Increase in advances to other funds | -- | -- | -- |
| Decrease in other long-term assets | 17,630 | -- | 1,140 |
| (Increase) decrease in deferred outflows | (6,845) | (9,554) | (11,359) |
| Increase (decrease) in accounts payable | (1,335) | 95 | 740 |
| Increase in accrued payroll and compensated absences | 1,026 | 168 | 342 |
| Decrease in claims payable | (2,001) | (209) | -- |
| Decrease in net pension liability | (32,959) | (19,075) | (2,527) |
| Increase in other postemployment benefits liability | 63,630 | 42,238 | 21,325 |
| Increase (decrease) in other liabilities | 32,704 | (1,468) | (137) |
| Decrease in customer deposits | (2,958) | (2,244) | (235) |
| Increase (decrease) in deferred inflows | 30,088 | 12,341 | (3,484) |
| Total adjustments | 263,654 | 154,791 | 43,651 |
| Net cash provided by operating activities | \$ 376,242 | 331,657 | 59,086 |

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> | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of investment securities | (19,565) | (537,105) | -- |
| Proceeds from sale and maturities of investment securities | 21,459 | 518,919 | -- |
| Interest on investments | 4,549 | 21,880 | 79 |
| Net cash provided (used) by investing activities | 6,443 | 3,694 | 79 |
| Net increase (decrease) in cash and cash equivalents | 87,579 | (27,761) | 25,681 |
| Cash and cash equivalents, beginning | 370,188 | 1,870,096 | 159,341 |
| Cash and cash equivalents, ending | 457,767 | 1,842,335 | 185,022 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | |
| Operating income (loss) | (24,598) | 280,291 | 43,874 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 29,137 | 353,183 | 9,888 |
| Change in assets and liabilities: | | | |
| Decrease in working capital advances | -- | 1,434 | -- |
| (Increase) decrease in accounts receivable | (1,525) | (1,109) | (1,837) |
| Increase (decrease) in allowance for doubtful accounts | 292 | 1,721 | -- |
| Decrease in receivables from other governments | -- | -- | 1,069 |
| (Increase) decrease in inventory | (650) | 8,900 | (657) |
| (Increase) decrease in prepaid expenses and other assets | (210) | (2,066) | (1,739) |
| Increase in advances to other funds | -- | -- | (5) |
| Decrease in other long-term assets | -- | 18,770 | -- |
| (Increase) decrease in deferred outflows | (29,833) | (57,591) | 2 |
| Increase (decrease) in accounts payable | 3,147 | 2,647 | (1,555) |
| Increase in accrued payroll and compensated absences | 1,237 | 2,773 | 686 |
| Decrease in claims payable | -- | (2,210) | (1,122) |
| Decrease in net pension liability | (16,953) | (71,514) | -- |
| Increase in other postemployment benefits liability | 77,428 | 204,621 | -- |
| Increase (decrease) in other liabilities | (758) | 30,341 | (70) |
| Decrease in customer deposits | (43) | (5,480) | (1,584) |
| Increase (decrease) in deferred inflows | 10,506 | 49,451 | -- |
| Total adjustments | 71,775 | 533,871 | 3,076 |
| Net cash provided by operating activities | 47,177 | 814,162 | 46,950 |

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2018
(In thousands)

| | Business-Type Activities | | |
|---|---------------------------------|---------------------------------|----------------|
| | Austin Energy | Austin Water Utility | Airport |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES: | | | |
| Capital appreciation bonds interest accreted | \$ (30) | (4,665) | -- |
| Capital assets contributed from other funds | -- | 79 | -- |
| Capital assets contributed to other funds | (1,491) | (352) | (814) |
| Capital assets acquired through service concession arrangements | -- | -- | 213 |
| Contributed facilities | -- | 43,011 | -- |
| Increase in the fair value of investments | (4,051) | -- | -- |
| Amortization of bond (discounts) premiums | 7,092 | 20,320 | 4,140 |
| Amortization of deferred gain (loss) on refundings | (4,582) | (5,908) | (875) |
| Gain (loss) on disposal of assets | (4,533) | (755) | (216) |
| Costs (recovered) to be recovered | 81,605 | (109,039) | -- |
| Transfers from other funds | 3 | 12 | -- |
| Transfers to other funds | (12) | (10) | -- |
| Assets acquired through capital lease | -- | -- | -- |

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 | -- | (4,695) | -- |
| Capital assets contributed from other funds | 2,462 | 2,541 | 8,661 |
| Capital assets contributed to other funds | (5,271) | (7,928) | -- |
| Capital assets acquired through service concession arrangements | -- | 213 | -- |
| Contributed facilities | -- | 43,011 | -- |
| Increase in the fair value of investments | -- | (4,051) | -- |
| Amortization of bond (discounts) premiums | 2,304 | 33,856 | 123 |
| Amortization of deferred gain (loss) on refundings | (602) | (11,967) | (13) |
| Gain (loss) on disposal of assets | (234) | (5,738) | (913) |
| Costs (recovered) to be recovered | -- | (27,434) | -- |
| Transfers from other funds | 263 | 278 | 37 |
| Transfers to other funds | (85) | (107) | (207) |
| Assets acquired through capital lease | -- | -- | 9,880 |

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

Fiduciary Funds
Statement of Fiduciary Net Position
September 30, 2018
(In thousands)

City of Austin, Texas
Exhibit D-1

| | Private-purpose | |
|--------------------------------|------------------------|---------------|
| | Trust | Agency |
| ASSETS | | |
| Pooled investments and cash | \$ 2,213 | 1,556 |
| Investments held by trustee | -- | 3,101 |
| Other assets | 121 | -- |
| Total assets | <u>2,334</u> | <u>4,657</u> |
| LIABILITIES | | |
| Accounts payable | 42 | -- |
| Due to other governments | -- | 961 |
| Deposits and other liabilities | 1,548 | 3,696 |
| Total liabilities | <u>1,590</u> | <u>4,657</u> |
| NET POSITION | | |
| Held in trust | 744 | |
| Total net position | <u>\$ 744</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, 2018
(In thousands)

City of Austin, Texas
Exhibit D-2

| | <u>Private-Purpose Trust</u> |
|-------------------------------|----------------------------------|
| ADDITIONS | |
| Contributions | \$ 2,251 |
| Interest and other | 29 |
| Total additions | <u>2,280</u> |
| DEDUCTIONS | |
| Benefit payments | <u>2,352</u> |
| Total deductions | <u>2,352</u> |
| Change in net position | (72) |
| Beginning net position | 816 |
| Ending net position | <u>\$ 744</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 who is elected at large and ten Councilmembers who are elected by geographic district, all of whom serve four-year staggered terms subject to a maximum of two consecutive terms. A petition signed by 5% of the registered voters waives the term limit for a member of the City Council.

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. 82, No. 85 through No. 86, and No. 89. In fiscal year 2018, the City implemented the following GASB Statements:

| GASB Statement | Impact |
|--|--|
| <i>75 – “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”</i> | GASB Statement No. 75 replaces GASB Statement No. 45 and requires governments offering postemployment benefits other than pensions to record as a liability in the current period for total future postemployment benefit obligations for existing employees and retirees in excess of plan assets. In addition, it identifies accepted actuarial methods and assumptions, allows deferral of certain pension expense items, expands financial statement note disclosures, and changes disclosure of required supplementary information. See Note 8. Implementation required restatement of beginning net position. See Note 18. |
| <i>81 – “Irrevocable Split-Interest Agreements”</i> | This statement provides recognition and measurement guidance for situations in which a government is a beneficiary of a split interest agreement. The implementation of this standard had no impact on amounts reported in the financial statements. |
| <i>85 – “Omnibus 2017”</i> | This statement will improve consistency in the accounting and reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits. The implementation of this standard had no impact on the statements. The only portion applicable was fair value measurement and application, and the City was already following requirements listed in the standard. |
| <i>86 – “Certain Debt Extinguishment Issues”</i> | This statement establishes accounting and financial reporting guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt in the future. The standard requires a restatement of the beginning net position; however, prior amounts were determined to be immaterial and the City did not restate as a result of this implementation. |
| <i>89 – “Accounting for Interest Cost Incurred before the End of a Construction Period”</i> | This statement establishes the requirements for interest costs incurred before the end of construction period. As a result of the statement interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this standard are to be applied prospectively. No restatement was necessary. |

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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

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. 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 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. 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)

MLGC is 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. 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

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

Blended Component Units

Austin-Bergstrom International Airport
(ABIA) Development Corporation

Brief Description of Activities, Relationship to City, and Key Inclusion Criteria

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

There is no financial activity to report related to this component unit.

Discretely Presented Component Units – Following are the City's discretely presented component units. Financial statements for these entities can be requested from the addresses located below.

Discretely Presented Component Units

Austin-Bergstrom Landhost Enterprises,
Inc. (ABLE)
2716 Spirit of Texas Drive
Austin, TX 78719

Description of Activities, Relationship to City, and Key Inclusion Criteria

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. 8th 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 WCLGC is fiscally dependent on the City and in a relationship of financial benefit/burden with the City.

There is no financial activity to report related to this component unit.

Austin/Travis County Sobriety Center
Local Government Corporation (SCLGC)
700 Lavaca Street
Austin, TX 78701

SCLGC is a non-profit local government corporation created by the City and Travis County under Subchapter D of Chapter 431 of the Texas Transportation Code. The purpose of SCLGC is to operate a sobriety center located within the City of Austin and Travis County. The City Council and the County each appoint five members of the SCLGC board. The operations of the Sobriety Center are primarily funded by the City. The SCLGC is fiscally dependent on the City and in a relationship of financial benefit/burden with the City.

Related Organizations -- The City Council appoints the voting majority of the board members, but the City has no significant financial accountability for the Austin Housing Authority. The Mayor appoints the persons to serve as commissioners of this organization; however, this entity is separate from the operating activities of the City.

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.

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

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.

b -- Government-wide and Fund Financial Statements

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. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other funds are aggregated into nonmajor governmental, nonmajor enterprise, or internal service fund groupings. A reconciliation of the fund financial statements to the government-wide statements is provided in the financial statements to explain the differences between the two different reporting approaches.

The City's fiduciary funds are presented in the fund financial statements by type (private-purpose and agency). By definition, fiduciary fund assets are held for the benefit of a third party and cannot be used to address activities or obligations of the primary government; therefore, they are not included in the government-wide statements.

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

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 incurred. 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, to the extent they are considered available, 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.

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

Governmental Funds: Consist of the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.

The City reports the following major governmental fund:

General Fund: The primary operating fund of the City. It is used to account for all financial resources that are not required to be accounted for in another fund. It includes the following activities: general government; public safety; transportation, planning, and sustainability; public health; public recreation and culture; and urban growth management.

In addition, the City reports the following nonmajor governmental funds:

Special Revenue Funds: Account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds: Account for and report financial resources, and the accumulation of those financial resources, that are restricted, committed, or assigned to expenditure for principal and interest of general long-term debt and HUD Section 108 loans.

Capital Projects Funds: Account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those reported within proprietary funds). It is primarily funded by general obligation debt, other tax supported debt, interest income, and other intergovernmental revenues. A 1981 ordinance requires the establishment of a separate fund for each bond proposition approved in each bond election.

Permanent Funds: Account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs.

Proprietary Funds: Consist of enterprise funds and internal service funds. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as providing electric or water-wastewater services. Other revenues or expenses are nonoperating items.

Enterprise Funds: Account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges.

The City reports the following major enterprise funds:

Austin Energy™: Accounts for the activities of the City-owned electric utility.

Austin Water Utility: Accounts for the activities of the City-owned water and wastewater utility.

Airport: Accounts for the operations of the Austin-Bergstrom International Airport.

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.

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; debt service payments for special assessment debt; and escrow deposits and payments to loan recipients.

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

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, planning, and sustainability; public recreation and culture; and urban growth management.

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. 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 employee training and other fund-level expenditures are budgeted as general city responsibilities.

Formal budgetary control is employed during the year at the fund and department level as a management control device for annual budgeted funds.

Budgets are modified throughout the year. The City Manager is authorized to transfer appropriation balances within a fund and department of the City. The City Council approves amendments to the budget and transfers of appropriations from one fund and department to another. The original and final budgets for the General Fund are reported in the required supplementary information. Unencumbered appropriations for annual budgets lapse at fiscal year end.

e -- Financial Statement Elements

Pooled Investments and Cash -- Cash balances of all City funds (except for certain funds shown in Note 3 as having non-pooled investments) are pooled and invested. 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. 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 at fair value and money market mutual funds at amortized cost. Investments in local government investment pools are carried at either net asset value (NAV) or at amortized cost.

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, 2018 (in thousands):

| | General Fund | Nonmajor Governmental Funds | Internal Service Funds | Total |
|---------------------------------|-------------------------|--|---------------------------------------|----------------|
| Governmental activities | | | | |
| Charges for Services | \$ 305,438 | 428 | 12,037 | 317,903 |
| Fines | 17,857 | -- | -- | 17,857 |
| Taxes | 50,006 | 25,433 | -- | 75,439 |
| Other Governments | -- | 6,034 | -- | 6,034 |
| Other | 171 | 2,708 | -- | 2,879 |
| Allowance for doubtful accounts | (311,071) | (1,539) | -- | (312,610) |
| Total | \$ 62,401 | 33,064 | 12,037 | 107,502 |

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

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

| Business-type activities | Austin Energy | Austin Water Utility | Airport | Nonmajor Enterprise | Total |
|---------------------------------|--------------------------|---------------------------------|----------------|--------------------------------|----------------|
| Accounts Receivable | \$ 146,964 | 64,567 | 5,841 | 23,189 | 240,561 |
| Allowance for doubtful accounts | (9,931) | (2,338) | (1,859) | (1,901) | (16,029) |
| Total | <u>\$ 137,033</u> | <u>62,229</u> | <u>3,982</u> | <u>21,288</u> | <u>224,532</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”.

Inventories -- Inventories are valued at cost, which is determined as follows:

| Fund | Inventory Valuation Method |
|--------------------------|-----------------------------------|
| General Fund | First-in, first-out |
| Austin Energy | |
| Fuel oil – Distillate #2 | 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 are offset by an equal amount in nonspendable fund balance, which indicates that they do not represent “available spendable resources.”

Restricted Assets -- Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Since Austin Energy and Austin Water Utility report in accordance with accounting for regulated operations, enabling legislation also includes restrictions on asset use established by its governing board which is the City Council. Restricted assets used to repay maturing debt and other current liabilities are classified as current.

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

The balances of restricted assets in the enterprise funds are as follows (in thousands):

| | Austin Energy | Austin Water Utility | Airport | Nonmajor Enterprise | Total Restricted Assets |
|-----------------------------------|------------------|----------------------------|---------|------------------------|-------------------------------|
| Capital projects | \$ 37,277 | 94,613 | 328,552 | 26,731 | 487,173 |
| Customer and escrow deposits | 27,283 | 14,886 | 1,116 | 6,214 | 49,499 |
| Debt service | 44,328 | 46,834 | 42,564 | 13,272 | 146,998 |
| Federal grants | 11,089 | -- | 1,976 | 680 | 13,745 |
| Operating reserve account | -- | 45,089 | 16,225 | 6,868 | 68,182 |
| Passenger facility charge account | -- | -- | 110,452 | -- | 110,452 |
| Plant decommissioning | 238,742 | -- | -- | -- | 238,742 |
| Renewal and replacement account | 42,458 | -- | 10,000 | 1,168 | 53,626 |
| Revenue bond reserve | 27,081 | 57,337 | 40,124 | 10,263 | 134,805 |
| Strategic reserve | 192,352 | -- | -- | -- | 192,352 |
| Total | \$ 620,610 | 258,759 | 551,009 | 65,196 | 1,495,574 |

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. Donated capital assets and assets received in service concession arrangements are reported at estimated acquisition value on the date of receipt. 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.

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 | Business-type Activities | | | | |
|-----------------------------|-----------------------------|---------------|----------------------|---------|---------------------|
| | Governmental Activities (1) | 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 \$18.8 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 postemployment 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 position 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 position that have a negative effect on net position, similar to liabilities.

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

The following chart reflects the activities included in deferred outflows and inflows (in thousands).

| Activities | Category and explanation | Deferred Outflows | | Deferred Inflows | |
|---------------------------------|---|-------------------------|--------------------------|-------------------------|--------------------------|
| | | Governmental Activities | Business-type Activities | Governmental Activities | Business-type Activities |
| 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. | \$ -- | 35,519 | -- | 50 |
| Gain/loss on debt refundings | Deferred outflows or inflows. When debt is refunded, the associated gains (deferred inflows) or losses (deferred outflows) are recognized as deferred outflows or inflows of resources and amortized over future periods. | 19,178 | 92,835 | 1 | 212 |
| 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. | -- | -- | -- | 1,126,159 |
| 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. | -- | -- | 1,028 | 183,249 |
| Pensions | Deferred outflows or inflows. Differences between estimated and actual investment earnings, changes in actuarial assumptions, differences between projected and actual actuarial experience, and changes in proportionate share (between funds), may be treated as either deferred outflows or inflows. Contributions made to the pension systems between the Plans' measurement date (December 31) and the City's fiscal year end (September 30) are recognized as deferred outflows. | 190,260 | 93,953 | 73,937 | 37,373 |
| Other postemployment benefits | Deferred outflows or inflows. Changes in actuarial assumptions, differences between projected and actual actuarial experience, and changes in proportionate share (between funds) may be treated as either deferred outflows or inflows. City benefit payments made between the measurement date (December 31) and the City's fiscal year end (September 30) are recognized as deferred outflows. | 210,083 | 138,783 | 11,713 | -- |
| | Total | \$ 419,521 | 361,090 | 86,679 | 1,347,043 |

The governmental funds' statements include amounts recognized as deferred inflows of resources as a result of property taxes, other taxes, and certain revenues (\$22.5 million) that are not available to liquidate current liabilities in the funds. These amounts will be recognized in the period these amounts become available.

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

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 government-wide statements and in the proprietary activities of the fund financials statements. The liabilities and expenditures are reported on the modified accrual basis in the governmental fund financial statements; the estimated liability in governmental funds is the amount of unused vacation, exception vacation, and sick leave eligible for payout upon termination for employees that terminated by the 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 | 240 |
| | 48 | N/A | N/A | N/A | 240 |
| | 53 | N/A | N/A | 360 | N/A |
| Exception vacation (5) | 0-40 | 160 | 160 | 176 | 160 |
| | 42 | 160 | N/A | N/A | 160 |
| | 48 | 160 | N/A | N/A | 160 |
| | 53 | N/A | N/A | 264 | N/A |
| Sick leave | 0-40 | 720 | 900 | 720 | 1080 |
| | 42 | N/A | N/A | N/A | 1080 |
| | 48 | N/A | N/A | N/A | 1080 |
| | 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 maximums reflect Local Government Code Ch 143.
- (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.

Other Postemployment 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, 2018, the City's total OPEB liability for these retiree benefits was approximately \$2.5 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.

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

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 as a liability and the related deferred loss (gain) amount as deferred outflows (or deferred inflows) of resources on the statement of net position. Austin Energy and Austin Water Utility recognize gains and losses on debt defeasance in accordance with accounting for regulated operations.

Other Long-Term Liabilities -- Capital appreciation bonds are recorded at net accreted value. Annual accretion of the bonds is recorded as interest expense during the life of the bonds. The cumulative accretion of capital appreciation bonds, net of principal and interest payments on the bonds, is recorded as capital appreciation bond interest payable.

Landfill Closure and Postclosure Care Costs -- Municipal solid waste landfill costs and the liability for landfill closure and postclosure costs are reported in 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):

| | <u>Bad Debt Expense</u> |
|----------------------|-----------------------------|
| Austin Energy | \$ 4,505 |
| Austin Water Utility | 1,091 |
| Airport | 60 |
| Nonmajor Enterprise | 1,132 |

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, 2018. The amount of unbilled revenue recorded, as of September 30, 2018, was \$27.8 million. Austin Water Utility records unbilled revenue as earned based upon the percentage of October’s billing that represented water usage through September 30, 2018. The amount of unbilled revenue reported in accounts receivable as of September 30, 2018 was \$13.2 million for water and \$13.3 million for wastewater.

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 | \$ 1,181 |
| Nonmajor Enterprise | 2,575 |

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.

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

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.

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 an ordinance, the highest level action taken, adopted by the City Council. An equal action (ordinance) must be enacted to rescind the commitment. The City Council is the highest level of decision making authority.

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 \$59,000 in fiscal year 2018 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; only the General Fund reports a positive unassigned fund balance.

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

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

| | General Fund | Nonmajor Governmental | | | Total |
|--|------------------|-----------------------|-----------------|----------------------------------|----------------|
| | | Special Revenue | Debt Service | Capital Projects Permanent | |
| Nonspendable | | | | | |
| Inventory | \$ 45 | -- | -- | -- | 45 |
| Prepaid items | 2,019 | -- | -- | -- | 2,019 |
| Permanent funds | -- | -- | -- | 1,070 | 1,070 |
| Total Nonspendable | 2,064 | -- | -- | 1,070 | 3,134 |
| Restricted | | | | | |
| Municipal court services | -- | 1,768 | -- | -- | 1,768 |
| Police special purpose | -- | 8,011 | -- | -- | 8,011 |
| Fire special purpose | -- | 50 | -- | -- | 50 |
| Transportation, planning, and sustainability | -- | 68 | -- | -- | 68 |
| Public health services | -- | 188 | -- | -- | 188 |
| Parks services | -- | 2,266 | -- | -- | 2,266 |
| Library services | -- | 2,828 | -- | 1 | 2,829 |
| Tourism programs | -- | 28,960 | -- | -- | 28,960 |
| Affordable housing programs | -- | 37,803 | -- | -- | 37,803 |
| Urban growth programs | -- | 2,996 | -- | -- | 2,996 |
| Capital construction | -- | -- | -- | 108,840 | 108,840 |
| Debt service | -- | -- | 29,283 | -- | 29,283 |
| Total Restricted | -- | 84,938 | 29,283 | 108,840 | 1 |
| Committed | | | | | |
| Parks services | -- | 4,233 | -- | -- | 4,233 |
| Tourism programs | -- | 63 | -- | -- | 63 |
| Affordable housing programs | -- | 4,642 | -- | -- | 4,642 |
| Urban growth programs | -- | 36,231 | -- | -- | 36,231 |
| Total Committed | -- | 45,169 | -- | -- | 45,169 |
| Assigned | | | | | |
| General government services | 207 | -- | -- | -- | 207 |
| Municipal court services | 1,068 | -- | -- | -- | 1,068 |
| Police special purpose | 8,663 | 39 | -- | -- | 8,702 |
| Fire special purpose | 1,356 | -- | -- | -- | 1,356 |
| EMS special purpose | 563 | -- | -- | -- | 563 |
| Transportation, planning, and sustainability | 61 | 12 | -- | -- | 73 |
| Public health services | 3,914 | 36 | -- | -- | 3,950 |
| Parks services | 1,095 | 212 | -- | -- | 1,307 |
| Library services | 1,130 | 6 | -- | -- | 1,136 |
| Tourism programs | -- | 2,680 | -- | -- | 2,680 |
| Affordable housing programs | 150 | 54 | -- | -- | 204 |
| Urban growth programs | 19,354 | 7,145 | -- | -- | 26,499 |
| Capital construction | -- | -- | -- | 98,149 | 98,149 |
| Total Assigned | 37,561 | 10,184 | -- | 98,149 | 145,894 |
| Unassigned | 173,309 | (990) | -- | (10,123) | 162,196 |
| Total Fund Balance | \$212,934 | 139,301 | 29,283 | 196,866 | 1,071 |

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.

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

Budget stabilization -- By formal action of City Council, the General Fund maintains two reserve funds: an emergency reserve and a budget stabilization reserve. These reserves are part of unassigned fund balance for the General Fund. As of September 30, 2018, the emergency reserve maintains a balance of six percent of total General Fund requirements, or \$62 million, and the budget stabilization reserve reports a balance of \$99.4 million. The funds in the budget stabilization reserve may be appropriated to fund capital or other one-time 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 money market mutual fund.

Pensions -- For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's three pension plans and additions to/deductions from each plan's fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability, pension expenses, and long-term deferrals are allocated to funds based on actual contributions by fund during the corresponding measurement period with the exception of the internal service funds, which are presented in governmental activities in the government-wide statements (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 14).

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, 2018 (in thousands):

| | Pooled Investments and Cash | |
|--------------------------------------|------------------------------------|-------------------|
| | Unrestricted | Restricted |
| General Fund | \$ 213,964 | -- |
| Nonmajor governmental funds | 353,362 | -- |
| Austin Energy | 454,016 | 97,869 |
| Austin Water Utility | 190,509 | 150,777 |
| Airport | 12,038 | 471,664 |
| Nonmajor enterprise funds | 416,021 | 41,713 |
| Internal service funds | 177,405 | 5,428 |
| Fiduciary funds | 3,769 | -- |
| Subtotal pooled investments and cash | <u>1,821,084</u> | <u>767,451</u> |
| Total pooled investments and cash | <u>\$ 2,588,535</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. Members of the Investment Committee include the Chief Financial Officer (as chair), the City Treasurer (as vice chair), Assistant Treasurer over Investment Management, Assistant Treasurer over Debt Management, the City Controller, a public sector investment expert, a Financial Advisor's representative, a representative from Austin Energy, a representative from the Austin Water Utility, and a representative from the Law Department. The report details the investment position of the City and the compliance of the investment portfolio as it relates to both the adopted investment strategy statements and Texas state law.

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

The City is authorized to invest in the following investment instruments if they meet the guidelines of the investment policy:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of the State of Texas;
3. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities;
4. Obligations of other states, cities, counties, or other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent;
5. Bankers' acceptances, so long as each such acceptance has a stated maturity of 270 days or less from the date of its issuance, will be liquidated in full at maturity, are eligible collateral for borrowing from a Federal Reserve Bank, and are accepted by a domestic bank whose short-term obligations are rated at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency or which is the largest subsidiary of a bank holding company whose short-term obligations are so rated;
6. Commercial paper with a stated maturity of 270 days or less from the date of its issuance that is either rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies or is rated at least A-1, P-1, or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof;
7. Collateralized repurchase agreements having a defined termination date and described in more detail in the Investment Policy;
8. Certificates of deposit issued by depository institutions that have a main office or branch office 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. Share certificates issued by a depository institution that has a main office or branch office in Texas;
10. Money market mutual funds;
11. Local government investment pools (LGIPs); and
12. Securities lending program.

The City did not participate in any reverse repurchase agreements or security lending arrangements during fiscal year 2018.

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 City participates in TexPool/TexPool Prime, TexasDAILY, TexStar, and Texas CLASS (collectively referred to as the LGIPs). The State Comptroller oversees TexPool/Texpool Prime, 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. Public Trust Advisors, LLC serves as the program administrator of Texas CLASS under a Trust Agreement with the Board of Trustees.

The City invests in LGIPs to provide its liquidity needs. The LGIPs 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. The LGIPs are structured like money market mutual funds and allow shareholders the ability to deposit or withdraw funds on a daily basis. In addition, interest rates are adjusted on a daily basis, and the funds seek to maintain a constant NAV of \$1.00, although this cannot be fully guaranteed. The LGIPs are rated AAAM and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2018, TexPool, Texpool Prime, TexasDAILY, TexStar, and Texas CLASS had a weighted average maturity of 28 days, 37 days, 34 days, 43 days, and 52 days, respectively. The City's LGIP investments are not subject to limitations, penalties, or restrictions on withdrawals outside emergency conditions that make the sale of assets or determination of fund NAV not reasonably practical, and therefore, the City considers holdings in these funds to have an effective weighted average maturity of one day.

Certain external investment pools and pool participants have an option to measure these investment pools at amortized cost rather than fair value if certain criteria are met. All City LGIPs are qualifying pools for these purposes. TexPool, Texpool Prime, and TexasDAILY opted to report at amortized cost, while TexStar and Texas CLASS measures their investments at fair value.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are other observable inputs; Level 3 inputs are unobservable inputs.

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

The City has the following recurring fair value measurements as of September 30, 2018:

- U.S. Treasury securities of \$669.2 million are valued using other observable inputs, including but not limited to, model processes, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing (Level 2 inputs).
- U.S. Agency securities of \$1.6 billion are valued using other observable inputs, including but not limited to, model processes, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing (Level 2 inputs).

As of September 30, 2018, the City presented Money Market Funds of \$50.7 million, LGIPs of \$925.7 million valued using amortized cost, and LGIP's of \$137.6 million valued using NAV.

The following table includes the portfolio balances of all non-pooled and pooled investments of the City at September 30, 2018 (in thousands):

| | Governmental Activities | Business-type Activities | Fiduciary Funds | Total |
|-----------------------------------|------------------------------------|-------------------------------------|----------------------------|------------------|
| Non-pooled investments: | | | | |
| Local Government Investment Pools | \$ 28,533 | 271,677 | -- | 300,210 |
| Money Market Funds | 1,868 | 45,725 | 3,101 | 50,694 |
| US Treasury Notes | -- | 64,075 | -- | 64,075 |
| US Agency Bonds | -- | 324,852 | -- | 324,852 |
| Total non-pooled investments | <u>30,401</u> | <u>706,329</u> | <u>3,101</u> | <u>739,831</u> |
| Pooled investments: | | | | |
| Local Government Investment Pools | 221,124 | 540,785 | 1,111 | 763,020 |
| US Treasury Notes | 175,375 | 428,901 | 881 | 605,157 |
| US Agency Bonds | 355,757 | 870,058 | 1,777 | 1,227,592 |
| Total pooled investments | <u>752,256</u> | <u>1,839,744</u> | <u>3,769</u> | <u>2,595,769</u> |
| Total investments | <u>\$ 782,657</u> | <u>2,546,073</u> | <u>6,870</u> | <u>3,335,600</u> |

Concentration of Credit Risk

At September 30, 2018, 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 (\$465.7 or 14%), Federal Home Loan Bank (\$380.7 or 12%), Federal Home Loan Mortgage Corporation (\$410 or 12%), and Federal National Mortgage Association (\$296 or 9%).

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

As of September 30, 2018, the City had the following investments in each of these strategic categories (in thousands):

| Investment Type by Category | Governmental Activities | Business-type Activities | Fiduciary Funds | Total | Weighted Average Maturity |
|--|--------------------------------|---------------------------------|------------------------|------------------|----------------------------------|
| Operating funds | | | | | |
| Local Government Investment Pools | \$ 221,124 | 540,785 | 1,111 | 763,020 | 1 |
| US Treasury Notes | 175,375 | 428,901 | 881 | 605,157 | 300 |
| US Agency Bonds | 355,757 | 870,058 | 1,777 | 1,227,592 | 460 |
| Total Operating funds | 752,256 | 1,839,744 | 3,769 | 2,595,769 | |
| Debt service funds | | | | | |
| General Obligation Debt Service | | | | | |
| Local Government Investment Pools | 28,533 | -- | -- | 28,533 | 1 |
| Utility (1) | | | | | |
| Local Government Investment Pools | -- | 91,163 | -- | 91,163 | 1 |
| Airport | | | | | |
| Local Government Investment Pools | -- | 32,843 | -- | 32,843 | 1 |
| Nonmajor Enterprise-Convention Center | | | | | |
| Local Government Investment Pools | -- | 12,311 | -- | 12,311 | 1 |
| Total Debt service funds | 28,533 | 136,317 | -- | 164,850 | |
| Debt service reserve funds | | | | | |
| Utility (1) | | | | | |
| Local Government Investment Pools | -- | 41,394 | -- | 41,394 | 1 |
| Money Market Funds | -- | 7,753 | -- | 7,753 | 1 |
| Airport | | | | | |
| Local Government Investment Pools | -- | 40,124 | -- | 40,124 | 1 |
| Nonmajor Enterprise-Convention Center | | | | | |
| Local Government Investment Pools | -- | 10,263 | -- | 10,263 | 1 |
| Total Debt service reserve funds | -- | 99,534 | -- | 99,534 | |
| Special projects/purpose funds | | | | | |
| Austin Energy Strategic Reserve | | | | | |
| Local Government Investment Pools | -- | 19,461 | -- | 19,461 | 1 |
| US Treasury Notes | -- | 4,926 | -- | 4,926 | 334 |
| US Agency Bonds | -- | 201,359 | -- | 201,359 | 723 |
| Total Austin Energy Strategic Reserve | -- | 225,746 | -- | 225,746 | |
| Austin Energy Nuclear Decommissioning Trust Funds (NDTF) | | | | | |
| Money Market Funds | -- | 37,936 | -- | 37,936 | 1 |
| US Treasury Notes | -- | 59,149 | -- | 59,149 | 418 |
| US Agency Bonds | -- | 123,493 | -- | 123,493 | 403 |
| Total Austin Energy NDTF | -- | 220,578 | -- | 220,578 | |
| Special Projects - Utility Reserve (1) | | | | | |
| Local Government Investment Pools | -- | 24,118 | -- | 24,118 | 1 |
| Special Purpose Funds - Investments Held by Trustee | | | | | |
| Money Market Funds | 1,868 | 36 | 3,101 | 5,005 | 1 |
| Total Special projects/purpose funds | 1,868 | 470,478 | 3,101 | 475,447 | |
| Total funds | \$ 782,657 | 2,546,073 | 6,870 | 3,335,600 | |

(1) Includes combined pledge debt service

Credit Risk

At September 30, 2018, City funds held investments in LGIPs and Money Market Funds rated AAAM by Standard & Poor's, short-to-medium term U.S. Agency bonds rated AA+ by Standard & Poor's, and the remaining investments in Treasury securities, which are direct obligations of the U.S. government.

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

Concentration of Credit Risk

Operating Funds

At September 30, 2018, 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 (\$446.1 or 17%), Federal Home Loan Bank (\$287 or 11%), Federal Home Loan Mortgage Corporation (\$287 or 11%), and Federal National Mortgage Association (\$207.5 or 8%).

Special Projects or Special Purpose Funds

At September 30, 2018, the Austin Energy Strategic Reserve Fund held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Farm Credit Bank (\$19.6 or 9%), Federal Home Loan Bank (\$44.4 or 20%), Federal Home Loan Mortgage Corporation (\$78.6 or 35%), and Federal National Mortgage Association (\$58.8 or 26%).

At September 30, 2018, the NDTF held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Home Loan Bank (\$49.3 or 22%), Federal Home Loan Mortgage Corporation (\$44.4 or 20%), Federal National Mortgage Association (\$29.8 or 13%).

Interest Rate Risk

Operating Funds

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, 2018, less than half of the Investment Pool was invested in AAAM rated LGIPs, with the remainder invested in short-to-medium term U.S. 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 289 days, which was less than the threshold of 365 days.

Debt Service Funds

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.

Debt Service Reserve Funds

Investment strategies for debt service reserve funds have as the primary objective 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

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

At September 30, 2018, the portfolios held investments in TexPool, U.S. Treasury, and U.S. Agency obligations with maturities that will meet anticipated cash flow requirements and an overall dollar weighted average maturity of 654 days.

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

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 stated 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, 2018, the dollar weighted average maturity was 338 days.

Special Purpose Funds - Investments Held by Trustee

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.

3 – INVESTMENTS AND DEPOSITS, continued
c -- Investment and Deposits

Investments and deposits portfolio balances at September 30, 2018, are as follows (in thousands):

| | Governmental Activities | Business-type Activities | Fiduciary Funds | Total |
|---------------------------------|------------------------------------|-------------------------------------|----------------------------|------------------|
| Non-pooled investments and cash | \$ 41,467 | 714,057 | 3,101 | 758,625 |
| Pooled investments and cash | 753,338 | 1,842,389 | 3,769 | 2,599,496 |
| Total investments and cash | <u>794,805</u> | <u>2,556,446</u> | <u>6,870</u> | <u>3,358,121</u> |
| Unrestricted cash | 61 | 1,664 | -- | 1,725 |
| Restricted cash | 11,005 | 6,064 | -- | 17,069 |
| Pooled investments and cash | 753,338 | 1,842,389 | 3,769 | 2,599,496 |
| Investments | 30,401 | 706,329 | 3,101 | 739,831 |
| Total | <u>\$ 794,805</u> | <u>2,556,446</u> | <u>6,870</u> | <u>3,358,121</u> |

The bank balance of the portfolio exceeds the book balance by approximately \$11 million (net), which primarily consists of outstanding checks and deposits in transit. The outstanding checks decrease the book balance as compared to the bank, whereas the deposits in transit increases it. The difference eliminates once both the outstanding checks and deposits in transit clear the bank.

Deposits

The September 30, 2018 carrying amount of deposits at the bank and cash on hand are as follows (in thousands):

| | Governmental Activities | Business-type Activities | Total |
|----------------------|------------------------------------|-------------------------------------|---------------|
| Cash | | | |
| Unrestricted | \$ 61 | 63 | 124 |
| Restricted | -- | 4,920 | 4,920 |
| Cash held by trustee | | | |
| Unrestricted | -- | 1,601 | 1,601 |
| Restricted | 11,005 | 1,144 | 12,149 |
| Pooled cash | 1,082 | 2,645 | 3,727 |
| Total deposits | <u>\$ 12,148</u> | <u>10,373</u> | <u>22,521</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, 2018.

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, 2017, upon which the 2018 levy was based, was \$138,418,647,260.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2018, 99.47% of the current tax levy (October 1, 2017) 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.

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, 2018, was \$0.3393 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, 2018 was \$0.1055 per \$100 assessed valuation. The City has a tax margin for general governmental purposes of \$0.6607 per \$100 assessed valuation, and could levy approximately \$914,532,002 in additional taxes from the assessed valuation of \$138,418,647,260 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, 2018, 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 | \$ 1,013,858 | 37,977 | (529) | 1,051,306 |
| Plant and equipment | 264,858 | 27,813 | (25,390) | 267,281 |
| Vehicles | 141,625 | 14,531 | (4,182) | 151,974 |
| Infrastructure | 2,848,198 | 158,071 | (109) | 3,006,160 |
| Total depreciable capital assets | <u>4,268,539</u> | <u>238,392</u> | <u>(30,210)</u> | <u>4,476,721</u> |
| Less accumulated depreciation for | | | | |
| Building and improvements | (362,580) | (32,066) | 329 | (394,317) |
| Plant and equipment | (200,023) | (16,896) | 24,218 | (192,701) |
| Vehicles | (89,966) | (12,838) | 4,832 | (97,972) |
| Infrastructure | (1,190,052) | (76,971) | -- | (1,267,023) |
| Total accumulated depreciation | <u>(1,842,621)</u> | <u>(138,771)</u> (2) | <u>29,379</u> | <u>(1,952,013)</u> |
| Depreciable capital assets, net | <u>2,425,918</u> | <u>99,621</u> | <u>(831)</u> | <u>2,524,708</u> |
| Nondepreciable capital assets | | | | |
| Land and improvements | 379,161 | 5,701 | (1,725) | 383,137 |
| Arts and treasures | 10,202 | 400 | -- | 10,602 |
| Library collections | 18,167 | -- | -- | 18,167 |
| Construction in progress | 115,646 | 114,840 | (138,215) | 92,271 |
| Total nondepreciable assets | <u>523,176</u> | <u>120,941</u> | <u>(139,940)</u> | <u>504,177</u> |
| Total capital assets | <u>\$ 2,949,094</u> | <u>220,562</u> | <u>(140,771)</u> | <u>3,028,885</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 | \$ 6,367 |
| Public safety | 15,829 |
| Transportation, planning and sustainability | 61,028 |
| Public health | 1,772 |
| Public recreation and culture | 19,836 |
| Urban growth management | 21,407 |
| Internal service funds | 9,887 |
| Total governmental activities depreciation expense | <u>136,126</u> |
| Transferred accumulated depreciation | 2,645 |
| Total increases in accumulated depreciation/amortization | <u>\$ 138,771</u> |

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Total

Capital asset activity for the year ended September 30, 2018, was as follows (in thousands):

| | Beginning Balance | Increases (1) | Decreases (1) | Ending Balance |
|--|----------------------|----------------------|------------------|--------------------|
| Depreciable capital assets | | | | |
| Building and improvements | \$ 2,700,263 | 128,466 | (1,268) | 2,827,461 |
| Plant and equipment | 3,917,466 | 138,716 | (4,864) | 4,051,318 |
| Vehicles | 220,857 | 15,839 | (8,376) | 228,320 |
| Electric plant | 4,919,371 | 85,387 | (18,083) | 4,986,675 |
| Non-electric plant | 221,233 | 15,467 | -- | 236,700 |
| Nuclear fuel | 376,385 | 24,082 | -- | 400,467 |
| Water rights | 100,000 | -- | -- | 100,000 |
| Total depreciable capital assets | <u>12,455,575</u> | <u>407,957</u> | <u>(32,591)</u> | <u>12,830,941</u> |
| Less accumulated depreciation/amortization for | | | | |
| Building and improvements | (784,818) | (64,706) | 161 | (849,363) |
| Plant and equipment | (1,569,973) | (107,985) | 3,862 | (1,674,096) |
| Vehicles | (145,039) | (16,975) | 7,270 | (154,744) |
| Electric plant | (2,721,313) | (154,248) | 12,775 | (2,862,786) |
| Non-electric plant | (80,128) | (9,823) | -- | (89,951) |
| Nuclear fuel | (333,581) | (18,617) | -- | (352,198) |
| Water rights | (17,778) | (988) | -- | (18,766) |
| Total accumulated depreciation/amortization | <u>(5,652,630)</u> | <u>(373,342) (2)</u> | <u>24,068</u> | <u>(6,001,904)</u> |
| Depreciable capital assets, net | <u>6,802,945</u> | <u>34,615</u> | <u>(8,523)</u> | <u>6,829,037</u> |
| Nondepreciable capital assets | | | | |
| Land and improvements | 676,157 | 18,301 | -- | 694,458 |
| Arts and treasures | 4,098 | -- | -- | 4,098 |
| Construction in progress | 402,729 | 560,801 | (356,934) | 606,596 |
| Plant held for future use | 23,115 | -- | -- | 23,115 |
| Total nondepreciable assets | <u>1,106,099</u> | <u>579,102</u> | <u>(356,934)</u> | <u>1,328,267</u> |
| Total capital assets | <u>\$ 7,909,044</u> | <u>613,717</u> | <u>(365,457)</u> | <u>8,157,304</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 | \$ 184,262 |
| Water | 60,031 |
| Wastewater | 64,647 |
| Airport | 33,723 |
| Convention | 9,026 |
| Environmental and health services | 8,863 |
| Public recreation | 716 |
| Urban growth management | 10,532 |
| Total business-type activities depreciation expense | <u>371,800</u> |
| Transferred accumulated depreciation | 1,542 |
| Total increases in accumulated depreciation/amortization | <u>\$ 373,342</u> |

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Austin Energy

Capital asset activity for the year ended September 30, 2018, was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|------------------------------|------------------|------------------|---------------------------|
| Depreciable capital assets | | | | |
| Vehicles | \$ 33,152 | 2,938 | (2,364) | 33,726 |
| Electric plant | 4,919,371 | 85,387 | (18,083) | 4,986,675 |
| Non-electric plant | 221,233 | 15,467 | -- | 236,700 |
| Nuclear fuel | 376,385 | 24,082 | -- | 400,467 |
| Total depreciable capital assets | <u>5,550,141</u> | <u>127,874</u> | <u>(20,447)</u> | <u>5,657,568</u> |
| Less accumulated depreciation/amortization for | | | | |
| Vehicles | (26,290) | (1,574) | 2,341 | (25,523) |
| Electric plant | (2,721,313) | (154,248) | 12,775 | (2,862,786) |
| Non-electric plant | (80,128) | (9,823) | -- | (89,951) |
| Nuclear fuel | (333,581) | (18,617) | -- | (352,198) |
| Total accumulated depreciation/amortization | <u>(3,161,312)</u> | <u>(184,262)</u> | <u>(15,116)</u> | <u>(3,330,458)</u> |
| Depreciable capital assets, net | <u>2,388,829</u> | <u>(56,388)</u> | <u>(5,331)</u> | <u>2,327,110</u> |
| Nondepreciable capital assets | | | | |
| Land and improvements | 64,740 | 1,047 | -- | 65,787 |
| Plant held for future use | 23,115 | -- | -- | 23,115 |
| Construction in progress | 124,130 | 160,929 | (105,271) | 179,788 |
| Total nondepreciable assets | <u>211,985</u> | <u>161,976</u> | <u>(105,271)</u> | <u>268,690</u> |
| Total capital assets | <u>\$ 2,600,814</u> | <u>105,588</u> | <u>(110,602)</u> | <u>2,595,800</u> |

(1) Components of accumulated depreciation/amortization increases:

| | |
|--|-------------------|
| Current year depreciation | \$ 165,645 |
| Current year amortization included in operating expense | 18,617 |
| Total increases in accumulated depreciation/amortization | <u>\$ 184,262</u> |

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Austin Water Utility

Capital asset activity for the year ended September 30, 2018, 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 | \$ 1,191,027 | 11,491 | (346) | 1,202,172 |
| Plant and equipment | 3,664,449 | 124,913 | (1,758) | 3,787,604 |
| Vehicles | 42,583 | 3,041 | (1,413) | 44,211 |
| Water rights | 100,000 | -- | -- | 100,000 |
| Total depreciable capital assets | <u>4,998,059</u> | <u>139,445</u> | <u>(3,517)</u> | <u>5,133,987</u> |
| Less accumulated depreciation/amortization for | | | | |
| Building and improvements | (305,067) | (25,713) | 148 | (330,632) |
| Plant and equipment | (1,469,828) | (97,259) | 996 | (1,566,091) |
| Vehicles | (32,791) | (2,260) | 1,408 | (33,643) |
| Water rights | (17,778) | (988) | -- | (18,766) |
| Total accumulated depreciation/amortization | <u>(1,825,464)</u> | <u>(126,220) (1)</u> | <u>2,552</u> | <u>(1,949,132)</u> |
| Depreciable capital assets, net | <u>3,172,595</u> | <u>13,225</u> | <u>(965)</u> | <u>3,184,855</u> |
| Nondepreciable capital assets | | | | |
| Land and improvements | 231,360 | 403 | -- | 231,763 |
| Arts and treasures | 111 | -- | -- | 111 |
| Construction in progress | <u>217,473</u> | <u>130,093</u> | <u>(93,839)</u> | <u>253,727</u> |
| Total nondepreciable assets | <u>448,944</u> | <u>130,496</u> | <u>(93,839)</u> | <u>485,601</u> |
| Total capital assets | <u>\$ 3,621,539</u> | <u>143,721</u> | <u>(94,804)</u> | <u>3,670,456</u> |

(1) Components of accumulated depreciation/amortization increases:

| | |
|--|-------------------|
| Current year depreciation | |
| Water | \$ 59,043 |
| Wastewater | 64,647 |
| Current year amortization | |
| Water | 988 |
| Total water activities depreciation expense | <u>124,678</u> |
| Transferred accumulated depreciation | 1,542 |
| Total increases in accumulated depreciation/amortization | <u>\$ 126,220</u> |

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport

Capital asset activity for the year ended September 30, 2018, was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--------------------------------------|------------------------------|---------------------|------------------|---------------------------|
| Depreciable capital assets | | | | |
| Building and improvements | \$ 1,166,557 | 114,868 | -- | 1,281,425 |
| Plant and equipment | 36,337 | 2,375 | (2,406) | 36,306 |
| Vehicles | 15,421 | 2,291 | (1,625) | 16,087 |
| Total depreciable capital assets | <u>1,218,315</u> | <u>119,534</u> | <u>(4,031)</u> | <u>1,333,818</u> |
| Less accumulated depreciation for | | | | |
| Building and improvements | (316,493) | (30,166) | -- | (346,659) |
| Plant and equipment | (17,487) | (2,010) | 2,213 | (17,284) |
| Vehicles | (8,515) | (1,547) | 750 | (9,312) |
| Total accumulated depreciation | <u>(342,495)</u> | <u>(33,723) (1)</u> | <u>2,963</u> | <u>(373,255)</u> |
| Depreciable capital assets, net | <u>875,820</u> | <u>85,811</u> | <u>(1,068)</u> | <u>960,563</u> |
| Nondepreciable capital assets | | | | |
| Land and improvements | 96,381 | -- | -- | 96,381 |
| Arts and treasures | 3,375 | -- | -- | 3,375 |
| Construction in progress | 33,140 | 235,751 | (119,239) | 149,652 |
| Total nondepreciable assets | <u>132,896</u> | <u>235,751</u> | <u>(119,239)</u> | <u>249,408</u> |
| Total capital assets | <u>\$ 1,008,716</u> | <u>321,562</u> | <u>(120,307)</u> | <u>1,209,971</u> |

(1) Components of accumulated depreciation/amortization increases:
Current year depreciation

\$ 33,723

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2018, 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 | \$ 342,679 | 2,107 | (922) | 343,864 |
| Plant and equipment | 216,680 | 11,430 | (702) | 227,408 |
| Vehicles | 129,701 | 7,590 | (2,995) | 134,296 |
| Total depreciable capital assets | <u>689,060</u> | <u>21,127</u> | <u>(4,619)</u> | <u>705,568</u> |
| Less accumulated depreciation for | | | | |
| Building and improvements | (163,258) | (8,827) | 13 | (172,072) |
| Plant and equipment | (82,658) | (8,716) | 653 | (90,721) |
| Vehicles | (77,443) | (11,594) | 2,771 | (86,266) |
| Total accumulated depreciation | <u>(323,359)</u> | <u>(29,137)</u> (2) | <u>3,437</u> | <u>(349,059)</u> |
| Depreciable capital assets, net | <u>365,701</u> | <u>(8,010)</u> | <u>(1,182)</u> | <u>356,509</u> |
| Nondepreciable capital assets | | | | |
| Land and improvements | 283,676 | 16,851 | -- | 300,527 |
| Arts and treasures | 612 | -- | -- | 612 |
| Construction in progress | 27,986 | 34,028 | (38,585) | 23,429 |
| Total nondepreciable assets | <u>312,274</u> | <u>50,879</u> | <u>(38,585)</u> | <u>324,568</u> |
| Total capital assets | <u>\$ 677,975</u> | <u>42,869</u> | <u>(39,767)</u> | <u>681,077</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 | \$ 9,026 |
| Environmental and health services | 8,863 |
| Public recreation | 716 |
| Urban growth management | 10,532 |
| Total increases in accumulated depreciation/amortization | <u>\$ 29,137</u> |

Service Concession Arrangements

The City has recorded net capital assets of \$168.5 million, other assets of \$19.1 million and deferred inflows of \$184.3 million derived from four 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 City 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. 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.

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

The City entered into an agreement with the Young Men's Christian Association (YMCA) in 2010 to develop and operate a new joint-use recreational facility for public use. The facility is owned by the City and operated by the YMCA under a 20 year agreement extending through 2032.

The City entered into a Master Lease Agreement with Austin CONRAC LLC, a corporation established to operate Austin's consolidated rent-a-car facility ("CONRAC"). The master lease, with a 20 year initial term and a 10 year extension option, provides for construction, financing, and management of a joint use facility. CONRAC began operations October 1, 2015. The operator pays annual rent of \$900,000 to the Airport. The present value of the future rent payments was \$13 million at lease inception. As of September 30, 2018, the unamortized balance was \$10.6 million and is presented in other assets. The related deferred inflow balance is \$11.7 million. The CONRAC was financed with \$143 million in City issued Rental Car Special Facility Bonds, conduit debt secured by customer facilities charges (CFC). CFC funds are remitted by rental car concessionaires directly to the bond trustee. See Note 16 for conduit debt information. Construction costs totaled \$152.5 million and the City has recorded the asset with a corresponding deferred inflow of resources to be amortized over the 30 year term of the master lease agreement.

The City entered into a Lease and Development Agreement with Scott Airport Parking, LLC (Scott) to develop and operate a 2,000-space covered parking facility and full service pet boarding facility (Bark and Zoom). The lease has a 40 year term which began on October 2016. Scott pays a monthly square footage rate, a monthly percentage rate, and a fixed monthly rate in exchange for the right to operate the facilities, as defined in the lease and development agreement. The fixed monthly rate for the first 5 years is \$5,000. The present value of the future payments was \$9.2 million at lease inception. As of September 30, 2018, the unamortized balance was \$8.4 million and is presented in other assets. The related deferred inflow balance is \$8.8 million. Construction costs totaled \$26.8 million and the City has recorded the asset with a corresponding deferred inflow of resources to be amortized over the 40 year term of the master lease agreement.

As of September 30, 2018, the City reported the following SCA activities (in thousands):

| | Beginning Asset Construction Cost | Current year Additions | Beginning Accumulated Depreciation | Current Year Depreciation | Ending Accumulated Depreciation | Net Book Value |
|---------------------------------------|--|---------------------------|--|------------------------------|---------------------------------------|-------------------------------|
| Service Concession Arrangement | | | | | | |
| Governmental Activities: | | | | | | |
| Umlauf Sculpture Garden | \$ 2,337 | -- | 1,515 | 58 | 1,573 | 764 |
| YMCA Northeast Recreation Center | 1,333 | -- | 159 | 32 | 194 | 1,139 |
| Total Governmental Activities | 3,670 | -- | 1,674 | 90 | 1,767 | 1,903 |
| Business-type Activities: | | | | | | |
| CONRAC facility | 152,496 | -- | 7,624 | 3,745 | 11,369 | 141,127 |
| Bark and Zoom facility | 26,558 | 213 | 664 | 675 | 1,339 | 25,432 |
| Total Business-type Activities | 179,054 | 213 | 8,288 | 4,420 | 12,708 | 166,559 |
| | Beginning Deferred Inflows | Current year Additions | Beginning Accumulated Amortization | Current Year Amortization | Ending Accumulated Amortization | Ending Deferred Inflows |
| Governmental Activities: | | | | | | |
| Umlauf Sculpture Garden | 319 | -- | 2,018 | 79 | 2,097 | 240 |
| YMCA Northeast Recreation Center | 855 | -- | 478 | 67 | 545 | 788 |
| Total Governmental Activities | 1,174 | -- | 2,496 | 146 | 2,642 | 1,028 |
| Business-type Activities: | | | | | | |
| CONRAC facility | 142,361 | -- | 10,135 | 5,083 | 15,218 | 137,278 |
| CONRAC base rent agreement | 12,170 | -- | 871 | 435 | 1,306 | 11,735 |
| Bark and Zoom facility | 25,673 | 213 | 885 | 453 | 1,338 | 25,433 |
| Bark and Zoom base rent agreement | 8,957 | -- | 307 | 154 | 461 | 8,803 |
| Total Business-type Activities | \$ 189,161 | 213 | 12,198 | 6,125 | 18,323 | 183,249 |

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 Austin Energy, Austin Water Utility, Airport, and internal service funds. 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, 2018, were as follows (in thousands):

| Description | October 1, 2017 | Increases | Decreases | September 30, 2018 | Amounts Due Within One Year |
|--|----------------------|------------------|--------------------|-----------------------|--------------------------------|
| Governmental activities | | | | | |
| General obligation bonds, net | \$ 1,109,766 | 99,852 | (86,163) | 1,123,455 | 65,913 |
| Certificates of obligation, net | 214,394 | 35,601 | (10,549) | 239,446 | 8,457 |
| Contractual obligations, net | 111,868 | -- | (17,804) | 94,064 | 15,485 |
| General obligation bonds and other tax supported debt total | <u>1,436,028</u> | <u>135,453</u> | <u>(114,516)</u> | <u>1,456,965</u> | <u>89,855</u> |
| Capital lease obligations | -- | 9,880 | -- | 9,880 | 2,115 |
| Debt service requirements total | <u>1,436,028</u> | <u>145,333</u> | <u>(114,516)</u> | <u>1,466,845</u> | <u>91,970</u> |
| Other long-term obligations | | | | | |
| Accrued compensated absences | 139,665 | 7,997 | (325) | 147,337 | 65,263 |
| Claims payable | 49,096 | 166,768 | (167,890) | 47,974 | 23,655 |
| Net pension liability | 1,203,405 | 295,759 | (431,712) | 1,067,452 | -- |
| Other postemployment benefits (1) | 1,294,634 | 371,444 | (92,815) | 1,573,263 | 33,071 |
| Other liabilities | 102,195 | 12,409 | (1,288) | 113,316 | 95,987 |
| Governmental activities total | <u>4,225,023</u> | <u>999,710</u> | <u>(808,546)</u> | <u>4,416,187</u> | <u>309,946</u> |
| Total business-type activities | | | | | |
| General obligation bonds, net | 20,303 | -- | (4,086) | 16,217 | 3,171 |
| Certificates of obligation, net | 55,242 | -- | (2,965) | 52,277 | 2,273 |
| Contractual obligations, net | 32,895 | 5,504 | (11,881) | 26,518 | 9,885 |
| Other tax supported debt, net | 7,116 | 860 | (1,071) | 6,905 | 790 |
| General obligation bonds and other tax supported debt total | <u>115,556</u> | <u>6,364</u> | <u>(20,003)</u> | <u>101,917</u> | <u>16,119</u> |
| Commercial paper notes, net | 146,097 | 108,670 | -- | 254,767 | -- |
| Revenue bonds, net | 4,881,202 | 45,175 | (224,576) | 4,701,801 | 108,584 |
| Capital lease obligations | 989 | -- | (55) | 934 | 56 |
| Debt service requirements total | <u>5,143,844</u> | <u>160,209</u> | <u>(244,634)</u> | <u>5,059,419</u> | <u>124,759</u> |
| Other long-term obligations | | | | | |
| Accrued compensated absences | 26,347 | 2,122 | (816) | 27,653 | 26,939 |
| Claims payable | 2,633 | 29 | (2,240) | 422 | 205 |
| Net pension liability | 656,565 | 163,364 | (234,877) | 585,052 | -- |
| Other postemployment benefits (1) | 760,993 | 240,007 | (49,366) | 951,634 | 20,005 |
| Accrued landfill closure and postclosure costs | 12,693 | 116 | (319) | 12,490 | 2,591 |
| Decommissioning expense payable | 165,946 | 42,333 | (2,909) | 205,370 | 3,753 |
| Other liabilities | 96,475 | 462 | (8,126) | 88,811 | 52,959 |
| Business-type activities total | <u>6,865,496</u> | <u>608,642</u> | <u>(543,287)</u> | <u>6,930,851</u> | <u>231,211</u> |
| Total liabilities (2) | <u>\$ 11,090,519</u> | <u>1,608,352</u> | <u>(1,351,833)</u> | <u>11,347,038</u> | <u>541,157</u> |

(1) Beginning balances have been restated. See Note 18.

(2) This schedule excludes select short-term liabilities of \$109,538 for governmental activities. For business-type activities, it excludes select short-term liabilities of \$281,034, capital appreciation bond interest payable of \$2,722 and derivative instruments of \$35,519.

6 – DEBT AND NON-DEBT LIABILITIES, continued
a -- Long-Term Liabilities, continued

| Description | October 1, 2017 | Increases | Decreases | September 30, 2018 | Amounts Due Within One Year |
|--|--------------------|----------------|------------------|-----------------------|--------------------------------|
| Business-type activities: | | | | | |
| Electric activities | | | | | |
| General obligation bonds, net | \$ 279 | -- | (116) | 163 | 109 |
| General obligation bonds and other tax supported debt total | 279 | -- | (116) | 163 | 109 |
| Commercial paper notes, net | 146,097 | 66,500 | -- | 212,597 | -- |
| Revenue bonds, net | 1,295,899 | -- | (42,056) | 1,253,843 | 37,007 |
| Capital lease obligations | 989 | -- | (55) | 934 | 56 |
| Debt service requirements total | 1,443,264 | 66,500 | (42,227) | 1,467,537 | 37,172 |
| Other long-term obligations | | | | | |
| Accrued compensated absences | 10,570 | 497 | -- | 11,067 | 11,067 |
| Claims payable | 2,070 | -- | (2,001) | 69 | 64 |
| Net pension liability | 273,451 | 62,600 | (95,558) | 240,493 | -- |
| Other postemployment benefits (1) | 255,926 | 74,746 | (15,817) | 314,855 | 6,619 |
| Decommissioning expense payable | 165,946 | 42,333 | (2,909) | 205,370 | 3,753 |
| Other liabilities | 67,580 | 462 | (3,445) | 64,597 | 28,745 |
| Electric activities total | 2,218,807 | 247,138 | (161,957) | 2,303,988 | 87,420 |
| Water and Wastewater activities | | | | | |
| General obligation bonds, net | 1,973 | -- | (753) | 1,220 | 239 |
| Certificates of obligation bonds, net | 1,693 | -- | (99) | 1,594 | 91 |
| Contractual obligations, net | 5,502 | -- | (1,703) | 3,799 | 1,352 |
| Other tax supported debt, net | 4,556 | 780 | (826) | 4,510 | 595 |
| General obligation bonds and other tax supported debt total | 13,724 | 780 | (3,381) | 11,123 | 2,277 |
| Commercial paper notes, net | -- | 42,170 | -- | 42,170 | -- |
| Revenue bonds, net | 2,554,169 | 45,175 | (140,901) | 2,458,443 | 33,888 |
| Debt service requirements total | 2,567,893 | 88,125 | (144,282) | 2,511,736 | 36,165 |
| Other long-term obligations | | | | | |
| Accrued compensated absences | 5,634 | 5 | (60) | 5,579 | 5,579 |
| Claims payable | 562 | 29 | (238) | 353 | 141 |
| Net pension liability | 146,090 | 34,054 | (53,129) | 127,015 | -- |
| Other postemployment benefits (1) | 174,317 | 49,771 | (10,734) | 213,354 | 4,485 |
| Other liabilities | 18,180 | -- | (3,712) | 14,468 | 14,468 |
| Water and Wastewater activities total | 2,912,676 | 171,984 | (212,155) | 2,872,505 | 60,838 |
| Airport activities | | | | | |
| General obligation bonds, net | 56 | -- | (23) | 33 | 20 |
| General obligation bonds and other tax supported debt total | 56 | -- | (23) | 33 | 20 |
| Revenue bonds, net | 881,363 | -- | (27,882) | 853,481 | 24,249 |
| Debt service requirements total | 881,419 | -- | (27,905) | 853,514 | 24,269 |
| Other long-term obligations | | | | | |
| Accrued compensated absences | 2,194 | 161 | -- | 2,355 | 2,355 |
| Claims payable | 1 | -- | (1) | -- | -- |
| Net pension liability | 46,242 | 14,990 | (17,517) | 43,715 | -- |
| Other postemployment benefits (1) | 68,041 | 24,917 | (4,839) | 88,119 | 1,852 |
| Other liabilities | 3,173 | -- | (372) | 2,801 | 2,801 |
| Airport activities total | 1,001,070 | 40,068 | (50,634) | 990,504 | 31,277 |
| Nonmajor activities | | | | | |
| General obligation bonds, net | 17,995 | -- | (3,194) | 14,801 | 2,803 |
| Certificates of obligation, net | 53,549 | -- | (2,866) | 50,683 | 2,182 |
| Contractual obligations | 27,393 | 5,504 | (10,178) | 22,719 | 8,533 |
| Other tax supported debt, net | 2,560 | 80 | (245) | 2,395 | 195 |
| General obligation bonds and other tax supported debt total | 101,497 | 5,584 | (16,483) | 90,598 | 13,713 |
| Revenue bonds, net | 149,771 | -- | (13,737) | 136,034 | 13,440 |
| Debt service requirements total | 251,268 | 5,584 | (30,220) | 226,632 | 27,153 |
| Other long-term obligations | | | | | |
| Accrued compensated absences | 7,949 | 1,459 | (756) | 8,652 | 7,938 |
| Net pension liability | 190,782 | 51,720 | (68,673) | 173,829 | -- |
| Other postemployment benefits (1) | 262,709 | 90,573 | (17,976) | 335,306 | 7,049 |
| Accrued landfill closure and postclosure costs | 12,693 | 116 | (319) | 12,490 | 2,591 |
| Other liabilities | 7,542 | -- | (597) | 6,945 | 6,945 |
| Nonmajor activities total | \$ 732,943 | 149,452 | (118,541) | 763,854 | 51,676 |

(1) Beginning balances have been restated. See Note 18.

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, 2018, 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 - 2004 | 2005 | \$ 2,630 | 405 | 24 (1)(3) | 4.25 - 4.30% | 9/1/2019-2020 |
| NW Austin MUD - 2006 | 2006 | 7,995 | 6,165 | 1,620 (1)(3) | 4.10 - 4.25% | 9/1/2019-2026 |
| Mueller Contractual Obligation - 2006 | 2006 | 12,000 | 6,520 | 1,395 (1)(4) | 4.00 - 5.00% | 9/1/2019-2026 |
| Public Improvement Refunding - 2008 | 2008 | 172,505 | 19,725 | 2,001 (1) | 5.00% | 9/1/2019-2021 |
| Public Improvement - 2009B | 2009 | 78,460 | 68,980 | 21,953 (1) | 4.45 - 5.31% | 9/1/2019-2029 |
| Certificates of Obligation - 2009 | 2009 | 12,500 | 7,825 | 3,676 (1) | 3.13 - 4.75% | 9/1/2019-2039 |
| Contractual Obligation - 2009 | 2009 | 13,800 | 895 | 28 (2) | 3.00 - 3.25% | 11/1/2018-2019 |
| Mueller Contractual Obligation - 2009 | 2010 | 15,000 | 9,835 | 2,619 (1)(4) | 4.00 - 4.25% | 9/1/2019-2029 |
| Public Improvement - 2010A | 2011 | 79,528 | 65,930 | 18,792 (1) | 2.38 - 4.00% | 9/1/2019-2030 |
| Public Improvement - 2010B | 2011 | 26,400 | 24,470 | 7,816 (1) | 3.45 - 4.65% | 9/1/2019-2030 |
| Certificates of Obligation - 2010 | 2011 | 22,300 | 15,855 | 3,656 (1) | 2.25 - 3.50% | 9/1/2019-2030 |
| Public Improvement Refunding - 2010 | 2011 | 91,560 | 63,950 | 8,459 (1) | 4.34 - 5.00% | 9/1/2019-2023 |
| Public Improvement - 2011A | 2012 | 78,090 | 68,040 | 23,309 (1) | 2.00 - 4.00% | 9/1/2019-2031 |
| Public Improvement - 2011B | 2012 | 8,450 | 7,700 | 2,482 (1) | 2.75 - 4.50% | 9/1/2019-2031 |
| Certificates of Obligation - 2011 | 2012 | 51,150 | 43,875 | 22,387 (1) | 3.00 - 5.00% | 9/1/2019-2041 |
| Contractual Obligation - 2011 | 2012 | 26,725 | 2,160 | 22 (2) | 2.00% | 11/1/2018 |
| Public Improvement Refunding - 2011A | 2012 | 68,285 | 15,920 | 2,458 (1) | 4.00 - 5.00% | 9/1/2019-2023 |
| Public Improvement - 2012A | 2013 | 74,280 | 70,945 | 22,514 (1) | 3.00 - 5.00% | 9/1/2023-2032 |
| Public Improvement - 2012B | 2013 | 6,640 | 4,800 | 1,242 (1) | 2.00 - 3.50% | 9/1/2019-2032 |
| Certificates of Obligation - 2012 | 2013 | 24,645 | 19,500 | 5,512 (1) | 3.00 - 4.00% | 9/1/2019-2037 |
| Contractual Obligation - 2012 | 2013 | 27,135 | 6,320 | 231 (2) | 3.00 - 4.00% | 11/1/2018-2019 |
| Mueller Contractual Obligation - 2012 | 2013 | 16,735 | 13,630 | 4,054 (1)(4) | 2.00 - 3.38% | 9/1/2019-2032 |
| Public Improvement - 2013 | 2014 | 104,665 | 93,380 | 39,968 (1) | 4.00 - 5.00% | 9/1/2019-2033 |
| Certificates of Obligation - 2013 | 2014 | 25,355 | 22,940 | 11,302 (1) | 3.25 - 5.00% | 9/1/2019-2038 |
| Contractual Obligation - 2013 | 2014 | 50,150 | 17,865 | 575 (2) | 2.00 - 3.00% | 11/1/2018-2020 |
| Public Improvement Refunding - 2013A | 2014 | 43,250 | 23,825 | 4,511 (1) | 5.00% | 9/1/2019-2024 |
| Public Improvement Refunding - 2013B | 2014 | 71,455 | 21,340 | 707 (1) | 2.42 - 2.72% | 9/1/2019-2020 |
| Public Improvement - 2014 | 2015 | 89,915 | 89,205 | 52,632 (1) | 3.00 - 5.00% | 9/1/2020-2034 |
| Public Improvement - 2014 | 2015 | 10,000 | 9,700 | 4,362 (1) | 2.16 - 4.02% | 9/1/2019-2034 |
| Certificates of Obligation - 2014 | 2015 | 35,490 | 30,565 | 14,174 (1) | 2.00 - 5.00% | 9/1/2019-2034 |
| Certificates of Obligation - 2014 | 2015 | 9,600 | 8,155 | 2,835 (1) | 2.11 - 3.92% | 9/1/2019-2034 |
| Contractual Obligation - 2014 | 2015 | 14,100 | 9,680 | 879 (2) | 4.00 - 5.00% | 11/1/2018-2021 |
| Mueller Contractual Obligation - 2014 | 2015 | 15,845 | 15,010 | 5,369 (1)(4) | 3.00 - 5.00% | 9/1/2019-2029 |
| Public Improvement and Refunding - 2015 | 2016 | 236,905 | 220,410 | 69,181 (1) | 2.95 - 5.00% | 9/1/2019-2035 |
| Public Improvement - 2015 | 2016 | 10,000 | 9,220 | 3,549 (1) | 2.89 - 4.27% | 9/1/2019-2035 |
| Certificates of Obligation - 2015 | 2016 | 43,710 | 39,255 | 19,622 (1) | 3.25 - 5.00% | 9/1/2019-2035 |
| Contractual Obligation - 2015 | 2016 | 14,450 | 9,775 | 1,257 (2) | 4.00 - 5.00% | 11/1/2018-2022 |
| Public Improvement and Refunding - 2016 | 2017 | 98,365 | 89,135 | 34,588 (1) | 3.00 - 5.00% | 9/1/2019-2036 |
| Certificates of Obligation - 2016 | 2017 | 44,015 | 41,065 | 21,241 (1) | 3.00 - 5.00% | 9/1/2019-2036 |
| Contractual Obligation - 2016 | 2017 | 22,555 | 17,985 | 2,301 (2) | 2.00 - 5.00% | 11/1/2018-2023 |
| Public Improvement - 2016 | 2017 | 12,000 | 11,070 | 3,243 (1) | 1.81 - 4.00% | 9/1/2019-2036 |
| Certificates of Obligation - 2016 | 2017 | 8,700 | 8,030 | 2,349 (1) | 1.81 - 4.00% | 9/1/2019-2036 |
| Public Improvement - 2017 | 2018 | 63,580 | 50,145 | 26,069 (1) | 5.00% | 9/1/2019-2037 |
| Certificates of Obligation - 2017 | 2018 | 29,635 | 28,585 | 16,262 (1) | 5.00% | 9/1/2019-2037 |
| Contractual Obligation - 2017 | 2018 | 5,075 | 4,750 | 609 (2) | 2.00 - 5.00% | 11/1/2018-2024 |
| Public Improvement - 2017 | 2018 | 25,000 | 24,350 | 9,122 (1) | 2.35 - 5.00% | 9/1/2019-2037 |
| River Place MUD - 2009 (5) | 2018 | 7,010 | 335 | 15 (1)(3) | 4.50% | 9/1/2019 |
| | | | <u>\$ 1,439,220</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 \$4,510 and interest of \$1,066 and Drainage fund principal of \$2,395 and interest of \$593.

(4) Included with contractual obligations are Mueller Local Government Corporation contract revenue bonds.

(5) The City assumed the River Place MUD debt during fiscal year 2018.

6 – DEBT AND NON-DEBT LIABILITIES, continued

b -- Governmental Activities Long-Term Liabilities, continued

In October 2017, the City issued \$63,580,000 of Public Improvement Bonds, Series 2017. The net proceeds of \$74,000,000 (after issue costs, discounts, and premiums) from the issue will be used as follows: streets and mobility (\$43,000,000), parks and recreation (\$15,300,000), and facility improvements (\$15,700,000). These bonds will be amortized serially on September 1 of each year from 2018 to 2037. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2018. Total interest requirements for these bonds, at a rate of 5.0%, are \$28,965,422.

In October 2017, the City issued \$29,635,000 of Certificates of Obligation, Series 2017. The net proceeds of \$35,325,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: watershed home buyouts (\$22,000,000), central library (\$5,000,000), animal shelter improvements (\$5,425,000), and women and children's shelter (\$2,900,000). These certificates of obligation will be amortized serially on September 1 of each year from 2018 to 2037. Interest is payable on March 1 and September 1 of each year, commencing on March 1, 2018. Total interest requirements for these obligations, at rates ranging from 4.0% to 5.0%, are \$17,602,222.

In October 2017, the City issued \$5,075,000 of Public Property Finance Contractual Obligations, Series 2017. The net proceeds of \$5,460,000 (after issue costs, discounts, and premiums) from this issue will be used for capital equipment. These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2018 to 2024. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2018. Total interest requirements for these obligations, at rates ranging from 2.0% to 5.0%, are \$702,034.

In October 2017, the City issued \$25,000,000 of Public Improvement Taxable Bonds, Series 2017. The net proceeds of \$25,000,000 (after issue costs, discounts, and premiums) from the issuance will be used for affordable housing. Interest is payable March 1 and September 1 of each year from 2018 to 2037, commencing on March 1, 2018. Principal payments are due September 1 of each year from 2018 to 2037. Total interest requirements for this obligation, at rates ranging from 2.3% to 5.0% are \$9,890,858.

General obligation bonds authorized and unissued amounted to \$767,420,000 at September 30, 2018. Bond ratings at September 30, 2018 were Aaa (Moody's Investors Service, Inc.), AAA (Standard & Poor's), and AAA (Fitch).

c -- Business-Type Activities Long-Term Liabilities

Utility Debt -- The City has previously issued combined debt for the Austin Energy and Austin Water Utility. The City began issuing separate debt for electric and water and wastewater activities in 2000. The following paragraphs describe both combined and separate debt.

Combined Utility Systems Debt -- General - Austin Energy and Austin Water Utility comprise the combined utility systems, which issue combined utility systems revenue bonds to finance capital projects. Principal and interest on these bonds are payable solely from the combined net revenues of Austin Energy and Austin Water Utility.

The total combined utility systems revenue bond obligations at September 30, 2018, exclusive of discounts, premiums, and loss on refundings consists of \$5,685,218 prior lien bonds and \$100,538,544 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are \$52,772,638 at September 30, 2018. Revenue bonds authorized and unissued amount to \$1,492,642,660 at that date. Bond ratings at September 30, 2018, 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.

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

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 refunding revenue bonds outstanding at September 30, 2018 (in thousands):

| Series | Fiscal Year | Original Amount Issued | Principal Outstanding | Aggregate Interest Requirements Outstanding | Interest Rates of Debt Outstanding | Maturity Dates of Serial Debt |
|-----------------|-------------|------------------------|-----------------------|---|------------------------------------|-------------------------------|
| 1994 Refunding | 1995 | \$ 142,559 | 5,685 | 22,350 (2) | 6.60% | 5/15/2019 |
| 1998 Refunding | 1999 | 139,965 | 96,035 | 22,542 (1) | 5.25% | 5/15/2019-2025 |
| 1998A Refunding | 1999 | 105,350 | 4,504 | 7,881 (2) | 4.25% | 5/15/2019-2020 |
| | | | <u>\$ 106,224</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, 2018, were P-1 (Moody's Investors Service, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch). The notes are in denominations of \$100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of Austin Energy and Austin Water Utility.

At September 30, 2018, Austin Energy had tax exempt commercial paper notes of \$156,655,000 outstanding and Austin Water Utility had \$42,170,000 of commercial paper notes outstanding with interest ranging from 1.57% to 2.75%, 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):

| Note Series | Liquidity Provider | Commitment Fee Rate | Remarketing | Remarketing Fee Rate | Outstanding | Expiration |
|-------------|-------------------------|---------------------|---------------|----------------------|-------------------|------------|
| Various | JP Morgan Chase Bank NA | 0.25% | Goldman Sachs | 0.05% | <u>\$ 198,825</u> | 10/9/2020 |

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 \$75,000,000 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, 2018, 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.

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

At September 30, 2018, Austin Energy had outstanding taxable commercial paper notes of \$55,942,000 with interest rates ranging from 2.05% to 3.36%. 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 | JP Morgan Chase Bank NA | 0.25% | Goldman Sachs | 0.05% | <u>\$ 55,942</u> | 10/9/2020 |

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 JP Morgan Chase Bank 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 JP Morgan Chase Bank, 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, 2018, were Aa3 (Moody's Investors Service, Inc.), AA (Standard & Poor's), and AA-(Fitch).

Electric Utility System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all electric system refunding revenue bonds outstanding at September 30, 2018 (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> |
|-----------------|--------------------|-------------------------------|------------------------------|--|---|--------------------------------------|
| 2007 Refunding | 2007 | \$ 146,635 | 22,010 | 1,541 (1) | 5.00% | 11/15/2018-2020 |
| 2008 Refunding | 2008 | 50,000 | 38,475 | 20,794 (1) | 5.20 - 6.26% | 11/15/2018-2032 |
| 2010A Refunding | 2010 | 119,255 | 95,090 | 46,591 (1) | 4.00 - 5.00% | 11/15/2018-2040 |
| 2010B Refunding | 2010 | 100,990 | 100,990 | 76,304 (1) | 4.54 - 5.72% | 11/15/2019-2040 |
| 2012A Refunding | 2013 | 267,770 | 255,175 | 154,489 (1) | 2.50 - 5.00% | 11/15/2018-2040 |
| 2012B Refunding | 2013 | 107,715 | 83,615 | 17,279 (1) | 1.53 - 3.16% | 11/15/2019-2027 |
| 2015A Refunding | 2015 | 327,845 | 327,845 | 267,155 (1) | 5.00% | 11/15/2021-2045 |
| 2015B Refunding | 2015 | 81,045 | 72,355 | 23,548 (1) | 1.70 - 4.66% | 11/15/2018-2037 |
| 2017 Refunding | 2017 | 101,570 | 101,570 | 73,339 (1) | 4.00 - 5.00% | 11/15/2019-2038 |
| | | | <u>\$ 1,097,125</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, 2018 (in thousands):

| <u>Gross Revenue (1)</u> | <u>Operating Expense (2)</u> | <u>Net Revenue</u> | <u>Debt Service Requirement</u> | <u>Revenue Bond Coverage</u> |
|--------------------------|------------------------------|--------------------|---------------------------------|------------------------------|
| \$ 1,417,232 | 1,083,928 | 333,304 | 93,628 | 3.56 |

(1) Gross revenue includes revenues from operations and interest income.

(2) Excludes depreciation, other postemployment benefits and net pension liability accruals.

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

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. Bond ratings at September 30, 2018, were Aa2 (Moody's Investors Service, Inc.), AA (Standard & Poor's), and AA- (Fitch).

Water and Wastewater System Revenue Debt -- Revenue Bond Issue - In November 2017, the City issued \$45,175,000 of Water and Wastewater System Revenue Bonds, Series, 2017A. This is a private placement structured through a memorandum with the Texas Water Development Board (TWDB). Project funds of \$42,363,027 will be used to improve and extend the water/wastewater system. The debt service requirements on the bonds are \$54,326,741 with interest rates ranging from 0.6% to 2.3%. Interest payments are due May 15 and November 15 of each year from 2018 to 2037. Principal payments are due November 15 of each year from 2018 to 2037.

Water and Wastewater System Revenue Debt -- Revenue Bond In-Substance Defeasance - In May 2018, the City defeased \$5,680,000 of separate lien revenue refunding bonds, series 2004A, \$7,740,000 of separate lien revenue refunding bonds, series 2009, \$2,480,000 of separate lien revenue refunding bonds, series 2009A, \$5,450,000 of separate lien revenue refunding bonds, series 2010A, \$26,570,000 of separate lien revenue refunding bonds, series 2011, \$10,055,000 of separate lien revenue refunding bonds, series 2012, \$1,060,000 of separate lien revenue refunding bonds, series 2015A, and \$2,210,000 of separate lien revenue refunding bonds, taxable series 2015B, with a \$63,406,607 cash payment. The funds were deposited in an irrevocable escrow account, that holds essentially risk-free U.S. Treasury Notes, to provide for the future debt service payments on the defeased bonds. The City is legally released from the obligation for the defeased debt. Revenue bond debt service savings from the 2018 defeasance were \$67.5 million over a seven-year period. These savings were an integral part of Austin Water's 2018 Water and Wastewater rate reduction. In addition, these savings, coupled with future planned debt defeasance transactions, will help achieve rate stability over the next few years. An accounting loss of \$1,179,652 was recorded and recognized in the current period on the defeasance.

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, 2018 (in thousands):

| Series | Fiscal Year | Original Amount Issued | Principal Outstanding | Aggregate Interest Requirements Outstanding | Interest Rates of Debt Outstanding | Maturity Dates of Serial Debt |
|-----------------|-------------|------------------------|-----------------------|---|------------------------------------|-------------------------------|
| 2008 Refunding | 2008 | \$ 170,605 | 105,690 | 30,732 (2) | 0.87 - 1.82% | 11/15/2018-2031 (3) |
| 2009 Refunding | 2009 | 175,000 | 1,700 | 102 (1) | 4.00% | 11/15/2019 |
| 2010 | 2010 | 31,815 | 25,445 | -- (4) | 0.00% | 11/15/2018-2041 |
| 2010A Refunding | 2011 | 76,855 | 64,215 | 47,560 (1) | 5.00 - 5.13% | 11/15/2019-2040 |
| 2010B Refunding | 2011 | 100,970 | 93,145 | 71,735 (1) | 3.90 - 6.02% | 11/15/2018-2040 |
| 2011 Refunding | 2012 | 237,530 | 208,100 | 135,279 (1) | 3.00 - 5.00% | 11/15/2019-2041 |
| 2012 Refunding | 2012 | 336,820 | 255,590 | 153,387 (1) | 2.50 - 5.00% | 5/15/2019-2042 |
| 2013A Refunding | 2013 | 282,460 | 263,125 | 165,973 (1) | 3.00 - 5.00% | 11/15/2018-2043 |
| 2014 Refunding | 2014 | 282,205 | 279,785 | 194,385 (1) | 5.00% | 5/15/2019-2043 |
| 2015A Refunding | 2015 | 249,145 | 245,535 | 96,886 (1) | 2.85 - 5.00% | 11/15/2019-2036 |
| 2015B Refunding | 2015 | 40,000 | 32,625 | 1,269 (1) | 1.52 - 2.54% | 11/15/2018-2021 |
| 2016 Refunding | 2016 | 247,770 | 247,770 | 210,191 (1) | 5.00% | 11/15/2019-2045 |
| 2016A | 2017 | 20,430 | 19,510 | 3,309 (1) | 0.55 - 2.12% | 11/15/2018-2036 |
| 2017 Refunding | 2017 | 311,100 | 311,100 | 208,303 (1) | 2.50 - 5.00% | 11/15/2020-2046 |
| 2017A | 2018 | 45,175 | 45,175 | 8,809 (1) | 0.58 - 2.29% | 11/15/2018-2037 |
| | | | <u>\$ 2,198,510</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 of 3.60% in effect at the end of the fiscal year.

(3) Series matures on May 15 of the final year.

(4) Zero interest bond placed with Texas Water Development Board.

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

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 | Citibank | 0.28% | Goldman Sachs | 0.05% | <u>\$ 105,690</u> | 10/15/2018 (1) |

(1) In October 2018, the City extended the letter of credit agreement with Barclays Bank PLC. The new agreement expires on October 28, 2022, thus the City has classified this debt as long-term at the end of the fiscal year.

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. The remarketing agent takes the variable debt to auction on a weekly basis; the winning bid determines the weekly rate paid.

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, 2018 (in thousands):

| Gross Revenue (1) | Operating Expense (2) | Net Revenue | Debt Service Requirement | Revenue Bond Coverage (3) |
|-------------------|-----------------------|-------------|--------------------------|---------------------------|
| \$ 581,324 | 250,223 | 331,101 | 210,284 | 1.57 |

(1) Gross revenue includes revenues from operations and interest income.

(2) Excludes depreciation, other postemployment benefits and net pension liability accruals.

(3) 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 -- General - 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, 2018, the total airport system obligation for prior lien bonds is \$789,189,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are \$584,867,972 at September 30, 2018. Revenue bonds authorized and unissued amount to \$735,795,000. Bond ratings at September 30, 2018, for the revenue bonds were A (Standard & Poor's) and A1 (Moody's Investors Service, Inc.).

The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2018 (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 | 176,100 | 27,575 (2) | 0.84 - 1.86% | 11/15/2018-2025 |
| 2013 Revenue | 2013 | 60,000 | 52,265 | 6,675 (3) | 2.25% | 11/15/2018-2028 (4) |
| 2013A Refunding | 2014 | 35,620 | 1,364 | 11 (3) | 1.56% | 11/15/2018 |
| 2014 Revenue | 2015 | 244,495 | 244,495 | 231,573 (3) | 5.00% | 11/15/2026-2044 |
| 2017A Revenue | 2017 | 185,300 | 185,300 | 187,695 (3) | 5.00% | 11/15/2026-2046 |
| 2017B Revenue | 2017 | 129,665 | 129,665 | 131,339 (3) | 5.00% | 11/15/2026-2046 |
| | | | <u>\$ 789,189</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 of 4.05% 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 15 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 \$176,100,000. The associated letter of credit agreement has 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> |
|------------------------|-------------------------------------|----------------------------|--------------------------|-----------------------------|--------------------|-------------------|
| 2005-1 | Sumitomo Mitsui Banking Corporation | 0.62% | Morgan Stanley | 0.10% | \$ 44,025 | 4/15/2019 |
| 2005-2 | Sumitomo Mitsui Banking Corporation | 0.62% | Morgan Stanley | 0.10% | 44,000 | 4/15/2019 |
| 2005-3 | Sumitomo Mitsui Banking Corporation | 0.62% | Morgan Stanley | 0.10% | 44,050 | 4/15/2019 |
| 2005-4 | Sumitomo Mitsui Banking Corporation | 0.62% | Morgan Stanley | 0.10% | 44,025 | 4/15/2019 |
| | | | | | <u>\$ 176,100</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 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, 2018. 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. The remarketing agent takes the variable debt to auction on a weekly basis; the winning bid determines the weekly rate paid.

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, 2018 (in thousands):

| <u>Gross Revenue (1)</u> | <u>Other Available Funds (2)</u> | <u>Operating Expense (3)</u> | <u>Net Revenue and Other Available Funds</u> | <u>Debt Service Requirement (4)</u> | <u>Revenue Bond Coverage</u> |
|--------------------------|----------------------------------|------------------------------|--|-------------------------------------|------------------------------|
| \$ 176,235 | 5,469 | 108,045 | 73,659 | 21,875 | 3.37 |

(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, other postemployment benefits and net pension liability accruals.

(4) Excludes debt service amounts paid with passenger facility charge revenues and restricted bond proceeds applied to current interest payments.

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

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, 2018, the total convention center obligation for prior and subordinate lien bonds is \$135,055,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are \$24,853,366 at September 30, 2018. Revenue bonds authorized and unissued amount to \$760,000 at September 30, 2018.

Bond ratings at September 30, 2018, 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 refunding revenue bonds outstanding at September 30, 2018 (in thousands):

| Series | Fiscal Year | Original Amount Issued | Principal Outstanding | Aggregate Interest Requirements Outstanding | Interest Rates of Debt Outstanding | Maturity Dates of Serial Debt |
|------------------|-------------|------------------------|-----------------------|---|------------------------------------|-------------------------------|
| 2008AB Refunding | 2008 | \$ 125,280 | 82,325 | 16,230 (2) | 0.81 - 1.85% | 11/15/2018-2029 |
| 2012 Refunding | 2012 | 20,185 | 16,020 | 4,987 (1) | 3.63 - 5.00% | 11/15/2018-2029 |
| 2013 Refunding | 2014 | 26,485 | 9,640 | 488 (1) | 5.00% | 11/15/2018-2019 |
| 2016 Refunding | 2017 | 29,080 | 27,070 | 3,148 (1) | 1.88% | 11/15/2018-2029 |
| | | | <u>\$ 135,055</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 of 3.25% in effect at the end of the fiscal year.

The Series 2008 A and B refunding bonds are variable rate demand bonds. The associated letter of credit agreements have the following terms (in thousands):

| Bond Sub-Series | Liquidity Provider | Commitment Fee Rate | Remarketing Agent | Remarketing Fee Rate | Outstanding | Expiration |
|-----------------|-------------------------------------|---------------------|--|----------------------|------------------|------------|
| 2008-A | Citibank | 0.28% | Raymond James | 0.06% | \$ 41,160 | 10/9/2020 |
| 2008-B | Sumitomo Mitsui Banking Corporation | 0.33% | Merrill Lynch, Pierce, Fenner & Smith Inc. | 0.05% | 41,165 | 10/9/2020 |
| | | | | | <u>\$ 82,325</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, 2018. 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. The remarketing agent takes the variable debt to auction on a weekly basis; the winning bid determines the weekly rate paid.

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 |
| 2019 | \$ 65,913 | 45,351 | 8,457 | 9,329 | 15,485 | 3,428 |
| 2020 | 68,976 | 42,559 | 8,734 | 9,003 | 13,824 | 2,879 |
| 2021 | 73,507 | 39,362 | 9,107 | 8,660 | 11,455 | 2,387 |
| 2022 | 73,876 | 35,840 | 9,507 | 8,300 | 8,953 | 1,935 |
| 2023 | 74,385 | 32,338 | 9,929 | 7,913 | 7,228 | 1,555 |
| 2024-2028 | 365,655 | 113,317 | 56,698 | 32,925 | 21,335 | 4,564 |
| 2029-2033 | 258,765 | 43,687 | 65,197 | 19,611 | 10,395 | 802 |
| 2034-2038 | 55,680 | 4,209 | 42,726 | 6,105 | -- | -- |
| 2039-2043 | -- | -- | 6,395 | 552 | -- | -- |
| | <u>1,036,757</u> | <u>356,663</u> | <u>216,750</u> | <u>102,398</u> | <u>88,675</u> | <u>17,550</u> |
| Less: Unamortized bond discounts | (1,025) | -- | (605) | -- | (207) | -- |
| Add: Unamortized bond premiums | 87,723 | -- | 23,301 | -- | 5,596 | -- |
| Net debt service requirements | <u>1,123,455</u> | <u>356,663</u> | <u>239,446</u> | <u>102,398</u> | <u>94,064</u> | <u>17,550</u> |

| Fiscal Year Ended September 30 | Capital Lease Obligations | | Total Governmental Debt Service Requirements | | |
|--------------------------------------|------------------------------|--------------|---|----------------|------------------|
| | Principal | Interest | Principal | Interest | Total |
| | 2019 | 2,115 | 74 | 91,970 | 58,182 |
| 2020 | 2,043 | 146 | 93,577 | 54,587 | 148,164 |
| 2021 | 1,973 | 215 | 96,042 | 50,624 | 146,666 |
| 2022 | 1,907 | 282 | 94,243 | 46,357 | 140,600 |
| 2023 | 1,842 | 347 | 93,384 | 42,153 | 135,537 |
| 2024-2028 | -- | -- | 443,688 | 150,806 | 594,494 |
| 2029-2033 | -- | -- | 334,357 | 64,100 | 398,457 |
| 2034-2038 | -- | -- | 98,406 | 10,314 | 108,720 |
| 2039-2043 | -- | -- | 6,395 | 552 | 6,947 |
| | <u>9,880</u> | <u>1,064</u> | <u>1,352,062</u> | <u>477,675</u> | <u>1,829,737</u> |
| Less: Unamortized bond discounts | -- | -- | (1,837) | -- | (1,837) |
| Add: Unamortized bond premiums | -- | -- | 116,620 | -- | 116,620 |
| Net debt service requirements | <u>\$ 9,880</u> | <u>1,064</u> | <u>1,466,845</u> | <u>477,675</u> | <u>1,944,520</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 |
| 2019 | \$ 3,171 | 714 | 2,273 | 2,090 | 9,885 | 753 |
| 2020 | 3,119 | 588 | 2,371 | 2,016 | 7,551 | 470 |
| 2021 | 3,254 | 443 | 2,488 | 1,935 | 4,000 | 276 |
| 2022 | 2,574 | 297 | 2,603 | 1,849 | 1,986 | 158 |
| 2023 | 1,650 | 168 | 2,730 | 1,753 | 1,158 | 81 |
| 2024-2028 | 1,715 | 85 | 15,788 | 6,991 | 1,170 | 51 |
| 2029-2033 | -- | -- | 14,953 | 3,382 | -- | -- |
| 2034-2038 | -- | -- | 5,314 | 584 | -- | -- |
| 2039-2043 | -- | -- | 380 | 18 | -- | -- |
| 2044-2048 | -- | -- | -- | -- | -- | -- |
| | <u>15,483</u> | <u>2,295</u> | <u>48,900</u> | <u>20,618</u> | <u>25,750</u> | <u>1,789</u> |
| Less: Unamortized bond discounts | -- | -- | (88) | -- | (3) | -- |
| Add: Unamortized bond premiums | 734 | -- | 3,465 | -- | 771 | -- |
| Net debt service requirements | <u>16,217</u> | <u>2,295</u> | <u>52,277</u> | <u>20,618</u> | <u>26,518</u> | <u>1,789</u> |

| Fiscal Year Ended September 30 | Other Tax Supported Debt | | Commercial Paper Notes (1) | | Revenue Bonds (2) | |
|--------------------------------------|-----------------------------|--------------|-------------------------------|------------|----------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| | 2019 | 790 | 590 | 254,767 | 516 | 108,584 |
| 2020 | 775 | 258 | -- | -- | 149,178 | 197,279 |
| 2021 | 820 | 226 | -- | -- | 171,500 | 187,060 |
| 2022 | 845 | 191 | -- | -- | 187,560 | 179,629 |
| 2023 | 885 | 156 | -- | -- | 188,516 | 170,888 |
| 2024-2028 | 2,790 | 238 | -- | -- | 1,051,284 | 719,539 |
| 2029-2033 | -- | -- | -- | -- | 802,854 | 500,721 |
| 2034-2038 | -- | -- | -- | -- | 744,646 | 323,137 |
| 2039-2043 | -- | -- | -- | -- | 634,370 | 146,591 |
| 2044-2048 | -- | -- | -- | -- | 287,611 | 22,812 |
| | <u>6,905</u> | <u>1,659</u> | <u>254,767</u> | <u>516</u> | <u>4,326,103</u> | <u>2,671,454</u> |
| Less: Unamortized bond discounts | -- | -- | -- | -- | (1,906) | -- |
| Add: Unamortized bond premiums | -- | -- | -- | -- | 377,604 | -- |
| Net debt service requirements | <u>\$ 6,905</u> | <u>1,659</u> | <u>254,767</u> | <u>516</u> | <u>4,701,801</u> | <u>2,671,454</u> |

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

(2) A portion of these bonds are variable rate bonds with rates ranging from 0.81% to 1.86%.

(Continued)

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 |
| | 2019 | \$ 56 | 75 | 379,526 | 228,536 |
| 2020 | 60 | 73 | 163,054 | 200,684 | 363,738 |
| 2021 | 63 | 69 | 182,125 | 190,009 | 372,134 |
| 2022 | 67 | 66 | 195,635 | 182,190 | 377,825 |
| 2023 | 70 | 64 | 195,009 | 173,110 | 368,119 |
| 2024-2028 | 407 | 257 | 1,073,154 | 727,161 | 1,800,315 |
| 2029-2033 | 211 | 78 | 818,018 | 504,181 | 1,322,199 |
| 2034-2038 | -- | -- | 749,960 | 323,721 | 1,073,681 |
| 2039-2043 | -- | -- | 634,750 | 146,609 | 781,359 |
| 2044-2048 | -- | -- | 287,611 | 22,812 | 310,423 |
| | <u>934</u> | <u>682</u> | <u>4,678,842</u> | <u>2,699,013</u> | <u>7,377,855</u> |
| Less: Unamortized bond discounts | -- | -- | (1,997) | -- | (1,997) |
| Add: Unamortized bond premiums | -- | -- | 382,574 | -- | 382,574 |
| Net debt service requirements | <u>\$ 934</u> | <u>682</u> | <u>5,059,419</u> | <u>2,699,013</u> | <u>7,758,432</u> |

6 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Business-type Activities: Austin Energy
(in thousands)

| Fiscal Year Ended September 30 | General Obligation Bonds | | Commercial Paper Notes (1) | | Revenue Bonds | |
|--------------------------------------|-----------------------------|----------|-------------------------------|------------|------------------|----------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| | 2019 | \$ 109 | 4 | 212,597 | 462 | 37,007 |
| 2020 | 50 | 2 | -- | -- | 46,993 | 52,724 |
| 2021 | 4 | -- | -- | -- | 47,106 | 50,835 |
| 2022 | -- | -- | -- | -- | 54,593 | 48,794 |
| 2023 | -- | -- | -- | -- | 51,983 | 46,323 |
| 2024-2028 | -- | -- | -- | -- | 284,474 | 192,169 |
| 2029-2033 | -- | -- | -- | -- | 219,915 | 129,890 |
| 2034-2038 | -- | -- | -- | -- | 203,565 | 80,494 |
| 2039-2043 | -- | -- | -- | -- | 141,430 | 35,958 |
| 2044-2048 | -- | -- | -- | -- | 81,340 | 6,221 |
| | <u>163</u> | <u>6</u> | <u>212,597</u> | <u>462</u> | <u>1,168,406</u> | <u>697,771</u> |
| Less: Unamortized bond discounts | -- | -- | -- | -- | (190) | -- |
| Add: Unamortized bond premiums | -- | -- | -- | -- | 85,627 | -- |
| Net debt service requirements | <u>163</u> | <u>6</u> | <u>212,597</u> | <u>462</u> | <u>1,253,843</u> | <u>697,771</u> |

| Fiscal Year Ended September 30 | Capital Lease Obligations | | Total Austin Energy Debt Service Requirements | | |
|--------------------------------------|------------------------------|------------|--|----------------|------------------|
| | Principal | Interest | Principal | Interest | Total |
| | 2019 | 56 | 75 | 249,769 | 54,904 |
| 2020 | 60 | 73 | 47,103 | 52,799 | 99,902 |
| 2021 | 63 | 69 | 47,173 | 50,904 | 98,077 |
| 2022 | 67 | 66 | 54,660 | 48,860 | 103,520 |
| 2023 | 70 | 64 | 52,053 | 46,387 | 98,440 |
| 2024-2028 | 407 | 257 | 284,881 | 192,426 | 477,307 |
| 2029-2033 | 211 | 78 | 220,126 | 129,968 | 350,094 |
| 2034-2038 | -- | -- | 203,565 | 80,494 | 284,059 |
| 2039-2043 | -- | -- | 141,430 | 35,958 | 177,388 |
| 2044-2048 | -- | -- | 81,340 | 6,221 | 87,561 |
| | <u>934</u> | <u>682</u> | <u>1,382,100</u> | <u>698,921</u> | <u>2,081,021</u> |
| Less: Unamortized bond discounts | -- | -- | (190) | -- | (190) |
| Add: Unamortized bond premiums | -- | -- | 85,627 | -- | 85,627 |
| Net debt service requirements | <u>\$ 934</u> | <u>682</u> | <u>1,467,537</u> | <u>698,921</u> | <u>2,166,458</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

Business-type Activities: Austin Water Utility
(in thousands)

| Fiscal Year Ended September 30 | General Obligation Bonds | | Certificates of Obligation | | Contractual Obligations | | Other Tax Supported Debt | |
|--------------------------------------|-----------------------------|------------|-------------------------------|------------|----------------------------|------------|-----------------------------|--------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| | 2019 | \$ 239 | 51 | 91 | 59 | 1,352 | 126 | 595 |
| 2020 | 207 | 43 | 92 | 56 | 1,052 | 83 | 496 | 165 |
| 2021 | 186 | 34 | 99 | 53 | 671 | 50 | 525 | 145 |
| 2022 | 187 | 27 | 102 | 50 | 419 | 24 | 541 | 122 |
| 2023 | 155 | 17 | 109 | 47 | 175 | 4 | 567 | 100 |
| 2024-2028 | 188 | 9 | 612 | 165 | -- | -- | 1,786 | 152 |
| 2029-2033 | -- | -- | 463 | 38 | -- | -- | -- | -- |
| 2034-2038 | -- | -- | -- | -- | -- | -- | -- | -- |
| 2039-2043 | -- | -- | -- | -- | -- | -- | -- | -- |
| 2044-2048 | -- | -- | -- | -- | -- | -- | -- | -- |
| | <u>1,162</u> | <u>181</u> | <u>1,568</u> | <u>468</u> | <u>3,669</u> | <u>287</u> | <u>4,510</u> | <u>1,066</u> |
| Less: Unamortized bond discounts | -- | -- | (5) | -- | -- | -- | -- | -- |
| Add: Unamortized bond premiums | 58 | -- | 31 | -- | 130 | -- | -- | -- |
| Net debt service requirements | <u>1,220</u> | <u>181</u> | <u>1,594</u> | <u>468</u> | <u>3,799</u> | <u>287</u> | <u>4,510</u> | <u>1,066</u> |

| Fiscal Year Ended September 30 | Commercial Paper Notes (1) | | Revenue Bonds (2) | | Total Austin Water Utility Debt Service Requirements | | |
|--------------------------------------|-------------------------------|-----------|----------------------|------------------|---|------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Total |
| | 2019 | 42,170 | 54 | 33,888 | 129,662 | 78,335 | 130,334 |
| 2020 | -- | -- | 62,085 | 106,267 | 63,932 | 106,614 | 170,546 |
| 2021 | -- | -- | 88,934 | 99,331 | 90,415 | 99,613 | 190,028 |
| 2022 | -- | -- | 97,927 | 95,195 | 99,176 | 95,418 | 194,594 |
| 2023 | -- | -- | 100,233 | 90,214 | 101,239 | 90,382 | 191,621 |
| 2024-2028 | -- | -- | 576,520 | 375,755 | 579,106 | 376,081 | 955,187 |
| 2029-2033 | -- | -- | 456,054 | 251,320 | 456,517 | 251,358 | 707,875 |
| 2034-2038 | -- | -- | 410,266 | 152,738 | 410,266 | 152,738 | 563,004 |
| 2039-2043 | -- | -- | 326,005 | 57,769 | 326,005 | 57,769 | 383,774 |
| 2044-2048 | -- | -- | 81,541 | 5,711 | 81,541 | 5,711 | 87,252 |
| | <u>42,170</u> | <u>54</u> | <u>2,233,453</u> | <u>1,363,962</u> | <u>2,286,532</u> | <u>1,366,018</u> | <u>3,652,550</u> |
| Less: Unamortized bond discounts | -- | -- | (1,443) | -- | (1,448) | -- | (1,448) |
| Add: Unamortized bond premiums | -- | -- | 226,433 | -- | 226,652 | -- | 226,652 |
| Net debt service requirements | <u>\$ 42,170</u> | <u>54</u> | <u>2,458,443</u> | <u>1,363,962</u> | <u>2,511,736</u> | <u>1,366,018</u> | <u>3,877,754</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 0.87% - 1.82%.

6 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Business-type Activities: Airport
(in thousands)

| Fiscal Year Ended September 30 | General Obligation | | Revenue Bonds (1) | |
|--------------------------------------|--------------------|----------|-------------------|----------------|
| | Bonds | | Principal | Interest |
| | Principal | Interest | | |
| 2019 | \$ 20 | 1 | 24,249 | 35,646 |
| 2020 | 10 | 1 | 26,135 | 34,682 |
| 2021 | 2 | -- | 26,150 | 33,702 |
| 2022 | 1 | -- | 25,430 | 32,748 |
| 2023 | -- | -- | 26,430 | 31,769 |
| 2024-2028 | -- | -- | 135,820 | 143,741 |
| 2029-2033 | -- | -- | 102,495 | 118,931 |
| 2034-2038 | -- | -- | 130,815 | 89,905 |
| 2039-2043 | -- | -- | 166,935 | 52,864 |
| 2044-2048 | -- | -- | 124,730 | 10,880 |
| | <u>33</u> | <u>2</u> | <u>789,189</u> | <u>584,868</u> |
| Less: Unamortized bond discounts | -- | -- | (204) | -- |
| Add: Unamortized bond premiums | -- | -- | 64,496 | -- |
| Net debt service requirements | <u>33</u> | <u>2</u> | <u>853,481</u> | <u>584,868</u> |

| Fiscal Year Ended September 30 | Total Airport | | |
|--------------------------------------|---------------------------|----------------|------------------|
| | Debt Service Requirements | | |
| | Principal | Interest | Total |
| 2019 | 24,269 | 35,647 | 59,916 |
| 2020 | 26,145 | 34,683 | 60,828 |
| 2021 | 26,152 | 33,702 | 59,854 |
| 2022 | 25,431 | 32,748 | 58,179 |
| 2023 | 26,430 | 31,769 | 58,199 |
| 2024-2028 | 135,820 | 143,741 | 279,561 |
| 2029-2033 | 102,495 | 118,931 | 221,426 |
| 2034-2038 | 130,815 | 89,905 | 220,720 |
| 2039-2043 | 166,935 | 52,864 | 219,799 |
| 2044-2048 | 124,730 | 10,880 | 135,610 |
| | <u>789,222</u> | <u>584,870</u> | <u>1,374,092</u> |
| Less: Unamortized bond discounts | (204) | -- | (204) |
| Add: Unamortized bond premiums | 64,496 | -- | 64,496 |
| Net debt service requirements | <u>\$ 853,514</u> | <u>584,870</u> | <u>1,438,384</u> |

(1) Portions of these bonds are variable rate bonds with rates ranging from 0.84% - 1.86%.

6 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Business-type Activities: Nonmajor Enterprise
(in thousands)

| Fiscal Year Ended September 30 | General Obligation Bonds | | Certificates of Obligation | | Contractual Obligations | |
|--------------------------------------|-----------------------------|--------------|-------------------------------|---------------|----------------------------|--------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| | 2019 | \$ 2,803 | 658 | 2,182 | 2,031 | 8,533 |
| 2020 | 2,852 | 542 | 2,279 | 1,960 | 6,499 | 387 |
| 2021 | 3,062 | 409 | 2,389 | 1,882 | 3,329 | 226 |
| 2022 | 2,386 | 270 | 2,501 | 1,799 | 1,567 | 134 |
| 2023 | 1,495 | 151 | 2,621 | 1,706 | 983 | 77 |
| 2024-2028 | 1,527 | 76 | 15,176 | 6,826 | 1,170 | 51 |
| 2029-2033 | -- | -- | 14,490 | 3,344 | -- | -- |
| 2034-2038 | -- | -- | 5,314 | 584 | -- | -- |
| 2039-2043 | -- | -- | 380 | 18 | -- | -- |
| | <u>14,125</u> | <u>2,106</u> | <u>47,332</u> | <u>20,150</u> | <u>22,081</u> | <u>1,502</u> |
| Less: Unamortized bond discounts | -- | -- | (83) | -- | (3) | -- |
| Add: Unamortized bond premiums | 676 | -- | 3,434 | -- | 641 | -- |
| Net debt service requirements | <u>14,801</u> | <u>2,106</u> | <u>50,683</u> | <u>20,150</u> | <u>22,719</u> | <u>1,502</u> |

| Fiscal Year Ended September 30 | Other Tax Supported Debt | | Revenue Bonds (1) | | Total Nonmajor Enterprise Debt Service Requirements | | |
|--------------------------------------|-----------------------------|------------|-------------------|---------------|--|---------------|----------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Total |
| | 2019 | 195 | 208 | 13,440 | 4,127 | 27,153 | 7,651 |
| 2020 | 279 | 93 | 13,965 | 3,606 | 25,874 | 6,588 | 32,462 |
| 2021 | 295 | 81 | 9,310 | 3,192 | 18,385 | 5,790 | 24,175 |
| 2022 | 304 | 69 | 9,610 | 2,892 | 16,368 | 5,164 | 21,532 |
| 2023 | 318 | 56 | 9,870 | 2,582 | 15,287 | 4,572 | 19,859 |
| 2024-2028 | 1,004 | 86 | 54,470 | 7,874 | 73,347 | 14,913 | 88,260 |
| 2029-2033 | -- | -- | 24,390 | 580 | 38,880 | 3,924 | 42,804 |
| 2034-2038 | -- | -- | -- | -- | 5,314 | 584 | 5,898 |
| 2039-2043 | -- | -- | -- | -- | 380 | 18 | 398 |
| | <u>2,395</u> | <u>593</u> | <u>135,055</u> | <u>24,853</u> | <u>220,988</u> | <u>49,204</u> | <u>270,192</u> |
| Less: Unamortized bond discounts | -- | -- | (69) | -- | (155) | -- | (155) |
| Add: Unamortized bond premiums | -- | -- | 1,048 | -- | 5,799 | -- | 5,799 |
| Net debt service requirements | <u>\$ 2,395</u> | <u>593</u> | <u>136,034</u> | <u>24,853</u> | <u>226,632</u> | <u>49,204</u> | <u>275,836</u> |

(1) A portion of these bonds are variable rate bonds with rates ranging from 0.81% - 1.85%.

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, 2018, defeased bonds remaining unredeemed or unmatured are provided below (in thousands):

| Refunded Bonds | Escrow Maturity Dates | Balance (1) |
|--|--------------------------|-------------------|
| Austin Energy | | |
| Series 2008A | 11/15/2018 | \$ 165,200 |
| Austin Water Utility | | |
| Series 2004A | 11/15/2018 - 11/15/2019 | 14,010 |
| Series 2009 | 11/15/2018 - 11/15/2019 | 126,100 |
| Series 2009A | 11/15/2018 - 11/15/2019 | 139,690 |
| Series 2010A | 11/15/2018 - 11/15/2020 | 5,450 |
| Series 2011 | 11/15/2018 - 11/15/2021 | 26,570 |
| Series 2012 | 11/15/2018 - 11/15/2020 | 10,055 |
| Series 2014 | 5/15/2019 | 1,000 |
| Series 2015A | 11/15/2018 | 1,060 |
| Series 2015B | 11/15/2018 | 2,210 |
| Combined Utility System Revenue | | |
| Series 1994 Subordinate Lien | 5/15/2019 | 3,700 |
| | | <u>\$ 495,045</u> |

(1) The balances shown have been escrowed to their respective call dates.

7 – RETIREMENT PLANS
a -- General Information

Plan Description. The City participates in funding three contributory, defined benefit retirement plans: the City of Austin Employees' Retirement and Pension Fund (City Employees), the City of Austin Police Officers' Retirement and Pension Fund (Police Officers), and the Fire Fighters' Relief and Retirement Fund of Austin, Texas (Fire Fighters). An Independent Board of Trustees administers each plan. These plans are City-wide single employer funded plans each with a fiscal year end of December 31.

All three plans were created by state law and can be found in Vernon's Texas Civil Statutes as follows:

| | |
|-----------------------|-----------------|
| City Employees' Fund | Article 6243n |
| Police Officers' Fund | Article 6243n-1 |
| Fire Fighters' Fund | Article 6243e.1 |

State law governs benefit and contribution provisions. Amendments may be made by the Legislature of the State of Texas.

Plan Financial Statements. The most recently available financial statements of the pension funds are for the year ended December 31, 2017. Stand-alone financial reports that include financial statements and supplementary information for each plan are publicly available at the locations and internet addresses shown below.

| Plan | Address | Telephone |
|---|---|---------------|
| City of Austin Employees' Retirement and Pension Fund | 418 E. Highland Mall Blvd. Austin, Texas 78752-3720 www.coaers.org | (512)458-2551 |
| City of Austin 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 of Austin, Texas | 4101 Parkstone Heights Dr., Ste. 270 Austin, Texas 78746 www.afrs.org | (512)454-9567 |

Classes of Employees Covered. The three pension plans cover substantially all full-time employees. The City Employees' fund covers all regular, full-time employees working 30 hours or more except for civil service police officers and fire fighters. Membership in this fund is comprised of two tiers. Group A includes all employees hired before January 1, 2012. Group B includes all employees hired on or after this date. The Police Officers' fund covers all commissioned law enforcement officers and cadets upon enrollment in the Austin Police Academy. The Fire Fighters' fund covers all commissioned civil service and Texas state-certified fire fighters with at least six months of service employed by the Austin Fire Department.

Benefits Provided. Each plan provides service retirement, death, and disability benefits as shown in the following chart. For the City Employees' fund, vesting occurs after 5 years of creditable service. For the other two systems, vesting occurs after 10 years of creditable service. For all three systems, creditable service includes employment at the City plus purchases of certain types of service where applicable. Withdrawals from the systems include actual contributions plus interest at varying rates depending on the system. This applies to both non-vested employees who leave the City as well as vested employees who leave the City and wish to withdraw their contributions. In addition, each plan offers various Deferred Retirement Option Programs (DROP). These are not included in the discussion of benefits provided.

7 – RETIREMENT PLANS, continued
a -- General Information, continued

| | <u>City Employees</u> | <u>Police Officers</u> | <u>Fire Fighters</u> |
|-----------------------------------|---|---|---|
| Eligibility | Group A members qualify for retirement benefits at age 62; age 55 with 20 years creditable service; or any age with 23 years creditable service. No reduced benefits are available. Group B members qualify for normal retirement benefits at age 65 with 5 years creditable service or at age 62 with 30 years creditable service. Reduced benefits are available at age 55 with 10 years of creditable service. | Members are eligible for retirement benefits at any age with 23 years creditable service (excluding pre-membership military service), age 55 and 20 years creditable service (excluding pre-membership military service), or age 62 and any number of creditable service years. | Members are eligible for normal retirement benefits upon the earlier of age 50 with 10 years of service or 25 years of service regardless of age. Members are eligible for early retirement at 45 with 10 years of service or with 20 years of service regardless of age. |
| Calculation | Average of 36 highest months of base pay multiplied by years and months of creditable service multiplied by 3.0% for Group A and 2.5% for Group B. | Average of 36 highest months of base salary plus longevity pay multiplied by years and months of service multiplied by 3.2%. | Average of 36 highest months of base salary plus longevity pay multiplied by years of service multiplied by 3.3% with a \$2,000 monthly minimum. |
| Death Benefits | Retiree or active member eligible for retirement, \$10,000 lump sum and continuation of benefits to beneficiary if this option was selected. If not eligible for retirement, refund of accumulated deposits plus death benefit from COAERS equal to those deposits excluding purchases of time. | For retirees and members eligible for retirement, \$10,000 lump sum and the member's accrued benefit as of the date of death based on annuity selected. Non-vested members receive the greater of \$10,000 or twice the amount of the member's accumulated contributions. | Surviving spouse receives 75% of retiree benefits based on the greater of 20 years or years of service at time of death. If surviving spouse exists, each dependent receives 15% of the payment paid to the surviving spouse. If no surviving spouse exists, dependents split equally the amount that would have been paid to surviving spouse. |
| Disability Benefits | After approved for disability benefits, active members may choose from several different disability retirement options. Must have 5 years of service if disability is not job related. | After approved for disability benefits, if disability is the result of employment duties, benefit is based on the greater of 20 years or normal retirement calculation. Must have 10 years of service if disability is not job related. | For the first 30 months, eligible for retiree benefits based on the greater of service at time of disability or 20 years. After 30 months, continuance of annuity may be reevaluated. |
| Cost of Living Adjustments (COLA) | The plan does not require COLAs. Such increases must be deemed sustainable by the actuary and approved by the City Council and Board of Trustees of the fund. The most recent COLA was put into effect in 2002. | The plan does not require COLAs. Such increases must be approved by the Board of Trustees and the actuary of the fund. The most recent COLA was put into effect in 2007. | The plan does not require COLAs. Such increases must be approved by the Board of Trustees and the actuary of the fund. The most recent COLA was put into effect for 2018. |

7 – RETIREMENT PLANS, continued
a -- General Information, continued

Employees Covered by Benefit Terms: Membership in the plans as of December 31, 2017, is as follows:

| | <u>City Employees</u> | <u>Police Officers</u> | <u>Fire Fighters</u> |
|-------------------------------------|-----------------------|------------------------|----------------------|
| Inactive employees or beneficiaries | | | |
| currently receiving benefits | 6,225 | 867 | 786 |
| Inactive employees entitled to but | | | |
| not yet receiving benefits | 2,657 | 98 (1) | 9 |
| Active employees | <u>9,612</u> | <u>1,866</u> | <u>1,045</u> |
| Total | <u>18,494</u> | <u>2,831</u> | <u>1,840</u> |

(1) Includes 45 terminated vested members and 53 nonvested terminated members due refunds

Contributions. For all three systems, minimum contributions are determined by the enabling legislation cited above. In certain cases the City may contribute at a level greater than that stated in the law. While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted.

| | <u>City Employees</u> | <u>Police Officers</u> | <u>Fire Fighters</u> |
|-----------------------------------|-----------------------|------------------------|----------------------|
| Employee contribution | | | |
| (percent of earnings) | 8.00% | 13.00% | 18.70% |
| City contribution | | | |
| (percent of earnings) | 18.00% (1) | 21.313% | 22.05% |
| City contributions year ended | | | |
| September 30, 2018 (in thousands) | \$114,149 | 34,944 | 19,809 |

(1) The City contributes two-thirds of the cost of prior service benefit payments. A rate of 18% was effective October 1, 2012.

The City's net pension liability was measured as of December 31, 2017 for all three systems. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date for the City Employees' and Police Officers' funds. For the Fire Fighters fund, the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016 using the final 2017 assumptions and then was rolled forward to the plan's year ending December 31, 2017.

Actuarial Assumptions. Actuarial assumptions used in the most recent actuarial valuations include:

| | <u>City Employees</u> | <u>Police Officers</u> | <u>Fire Fighters</u> |
|---|--|---|---|
| Inflation rate | 2.75% | 3.00% | 3.50% |
| Projected annual salary increases | 4.00% to 6.25% | 0.00% to 22.50% Service based (1)(2) | 1.00% to 8.50% Service based (2) |
| Investment rate of return | 7.50% | 7.70% | 7.70% |
| Ad hoc postemployment benefit changes including COLAs | None | None | None |
| Dates of experience studies | 2011 - 2015 | 2012 - 2016 | 2004 - 2014 |
| Source for mortality assumptions | RP-2014 Mortality Table with Blue Collar adjustment. Generational mortality improvements in accordance with Scale BB are projected from the year 2014. | RP-2000 Combined Healthy without projection - Sex Distinct. | RP2000 (Fully Generational using Scale AA) set back two years for males and females - Sex Distinct. |

(1) This includes the classification status change upon graduation from the academy.

(2) This does not include assumed general wage inflation increases of 3.25% and 3.00% for Police and Fire, respectively.

7 – RETIREMENT PLANS, continued

b -- Net Pension Liability

Development of Long-Term Rate of Return on Investments. Each pension plan utilizes different asset allocations and assumed rates of return in developing the long-term rate of return on investments. However, all three use the same methodology as follows:

The long-term rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The following provides asset allocations and long-term expected real rate of return for each asset class for the three funds.

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|-------------------|--|
| City Employees: | | |
| US equity | 30.00% | 5.30% |
| International equity | 20.00% | 6.38% |
| Emerging markets equities | 10.00% | 6.62% |
| Fixed income | 24.50% | 3.33% |
| Alternative investments | 10.00% | 3.95% to 6.34% |
| Real estate | 5.50% | 5.52% |
| Total | 100.00% | |
| Police Officers: | | |
| Domestic equity | 42.50% | 7.50% |
| International equity | 15.00% | 8.50% |
| Other equity | 7.50% | 7.50% |
| US and non-US fixed income | 10.00% | 3.00% |
| Other fixed income | 5.00% | 3.50% |
| Real estate | 15.00% | 4.50% |
| Timber | 0.00% | 2.50% |
| Multi asset class | 5.00% | 5.00% |
| Total | 100.00% | |
| Fire Fighters: | | |
| Public domestic equity | 20.00% | 5.30% |
| Public foreign equity | 22.00% | 6.90% |
| Private equity fund of funds | 15.00% | 5.60% |
| Investment grade bonds | 13.00% | 1.10% |
| Treasury inflation protected securities | 5.00% | 0.80% |
| High yield/bank loans | 5.00% | 3.80% |
| Emerging market debt | 7.00% | 3.60% |
| Core real estate | 5.00% | 3.40% |
| Non-core real estate | 5.00% | 5.00% |
| Natural resources | 3.00% | 5.90% |
| Total | 100.00% | |

7 – RETIREMENT PLANS, continued
b -- Net Pension Liability, continued

Discount Rate. The following provides information on the discount rate used to measure the City's total pension liability. Based on the assumptions presented below, the fiduciary net position for all three pension funds was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

| | <u>City Employees</u> | <u>Police Officers</u> | <u>Fire Fighters</u> |
|---|--|--|--|
| Single discount rate | 7.50% | 7.70% | 7.70% |
| Change since last measurement date | None | None | None |
| Long-term expected rate of return on pension plan investments | 7.50% | 7.70% | 7.70% |
| Cash flow assumptions | Plan member contributions will be made at the current rate. City contributions will be made at the current rate for 28 years and then will decrease to 8%. | Plan member contributions and City contributions will be made at current contribution rates and will remain a level percentage of payroll. | Plan member contributions will be made at current contribution rates. City contributions will be continued at the currently negotiated rate of 22.05%. |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of each of the pension funds of the City calculated using the long-term expected rate of return on pension plan investments, as well as what the net pension liability (in thousands) would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher than the current rate.

| | <u>1% Decrease</u> | | <u>Current Discount Rate</u> | | <u>1% Increase</u> | |
|-----------------|--------------------|------------------------------|------------------------------|------------------------------|--------------------|--------------------------------------|
| | <u>Rate</u> | <u>Net Pension Liability</u> | <u>Rate</u> | <u>Net Pension Liability</u> | <u>Rate</u> | <u>Net Pension Liability (Asset)</u> |
| City Employees | 6.50% | \$ 1,608,628 | 7.50% | \$ 1,147,385 | 8.50% | \$ 762,471 |
| Police Officers | 6.70% | 553,553 | 7.70% | 420,116 | 8.70% | 307,089 |
| Fire Fighters | 6.70% | 189,653 | 7.70% | 85,003 | 8.70% | (3,088) |

Pension Plan Fiduciary Net Position. Detailed information about the pension plans' fiduciary net position is available in the separately issued financial report of each of the pension systems.

7 – RETIREMENT PLANS, continued
b -- Net Pension Liability, continued

Schedule of Changes in Net Pension Liability. Changes in net pension liability for all three funds and the City for the measurement period ended December 31, 2017 are as follows (in thousands):

| | <u>City Employees</u> | <u>Police Officers</u> | <u>Fire Fighters</u> | <u>Total</u> |
|---|---------------------------|----------------------------|----------------------|------------------|
| Total pension liability at December 31, 2016 (a) | \$ 3,591,376 | 1,106,189 | 977,723 | 5,675,288 |
| Changes for the year: | | | | |
| Service cost | 107,767 | 35,322 | 23,830 | 166,919 |
| Interest | 266,257 | 84,472 | 75,812 | 426,541 |
| Benefit changes | -- | -- | 8,964 | 8,964 |
| Differences between expected and actual experience | 22,755 | 17,241 | 4,360 | 44,356 |
| Contribution buyback | -- | 2,915 | -- | 2,915 |
| Benefit payments including refunds | (190,332) | (56,548) | (51,888) | (298,768) |
| Net change in total pension liability | 206,447 | 83,402 | 61,078 | 350,927 |
| Total pension liability at December 31, 2017 (b) | \$ 3,797,823 | 1,189,591 | 1,038,801 | 6,026,215 |
| Total plan fiduciary net position at December 31, 2016 (c) | \$ 2,299,688 | 686,020 | 829,610 | 3,815,318 |
| Changes for the year: | | | | |
| Employer contributions | 110,846 | 35,141 | 19,242 | 165,229 |
| Employee contributions | 56,194 | 21,437 | 16,319 | 93,950 |
| Contribution buyback | -- | 2,915 | -- | 2,915 |
| Pension plan net investment income (loss) | 376,820 | 82,072 | 141,915 | 600,807 |
| Benefits payments and refunds | (190,332) | (56,548) | (51,888) | (298,768) |
| Pension plan administrative expense | (2,778) | (1,562) | (1,400) | (5,740) |
| Net change in total plan fiduciary net position | 350,750 | 83,455 | 124,188 | 558,393 |
| Total plan fiduciary net position at December 31, 2017 (d) | \$ 2,650,438 | 769,475 | 953,798 | 4,373,711 |
| Net pension liability at December 31, 2016 (a-c) | \$ 1,291,688 | 420,169 | 148,113 | 1,859,970 |
| Net pension liability at December 31, 2017 (b-d) | \$ 1,147,385 | 420,116 | 85,003 | 1,652,504 |

7 – RETIREMENT PLANS, continued
b -- Net Pension Liability, continued

The City Employees' fund had no changes of assumptions or benefit terms that affected the total pension liability for the measurement period. The Police Officers' fund also had no changes of assumptions or benefit terms that affected the total pension liability for the measurement period.

The Fire Fighters' fund had no significant changes of assumptions during the measurement period but did have a change in benefit term that affected the total pension liability. Effective January 1, 2018 a cost-of-living adjustment increase of 2.20% went into effect.

c -- Pension Expense

Total pension expense recognized by the City for the fiscal year ended September 30, 2018, was comprised of the following (in thousands):

| | Pension Expense |
|-----------------|----------------------------|
| City Employees | \$ 203,901 |
| Police Officers | 59,126 |
| Fire Fighters | 32,775 |
| Total | \$ 295,802 |

d -- Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2018, the City reported deferred outflows and inflows of resources related to pensions from the following sources (in thousands):

| Source | City Employees | Police Officers | Fire Fighters | Total |
|--|---------------------------|----------------------------|----------------------|----------------|
| Deferred Outflows of Resources | | | | |
| Contributions to the plans subsequent to the measurement date | \$ 84,001 | 25,478 | 14,558 | 124,037 |
| Differences between expected and actual experience | 43,447 | 21,257 | 14,903 | 79,607 |
| Changes in assumptions | 52,369 | 15,334 | 2,713 | 70,416 |
| Net difference between projected and actual earnings on pension plan investments | -- | 8,140 | -- | 8,140 |
| Changes in proportionate share (between funds) | 2,013 | -- | -- | 2,013 |
| Total | 181,830 | 70,209 | 32,174 | 284,213 |
| Deferred Inflows of Resources | | | | |
| Differences between expected and actual experience | -- | 4,423 | -- | 4,423 |
| Net difference between projected and actual earnings on pension plan investments | 69,347 | -- | 35,527 | 104,874 |
| Changes in proportionate share (between funds) | 2,013 | -- | -- | 2,013 |
| Total | \$ 71,360 | 4,423 | 35,527 | 111,310 |

7 – RETIREMENT PLANS, continued

d -- Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

The portion of deferred outflows and inflows of resources that will be recognized as an increase (decrease) in pension expense is as follows (in thousands):

| Fiscal Year Ended September 30 | City Employees | Police Officers | Fire Fighters | Total |
|--------------------------------------|-------------------|--------------------|-----------------|---------------|
| 2019 | \$ 55,007 | 13,895 | 2,285 | 71,187 |
| 2020 | 34,929 | 11,549 | (865) | 45,613 |
| 2021 | (30,005) | 1,353 | (11,675) | (40,327) |
| 2022 | (35,301) | (1,134) | (12,567) | (49,002) |
| 2023 | 1,839 | 4,381 | 3,176 | 9,396 |
| Thereafter | -- | 10,264 | 1,735 | 11,999 |
| Total | <u>\$ 26,469</u> | <u>40,308</u> | <u>(17,911)</u> | <u>48,866</u> |

8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

a -- General Information

Plan Description. In addition to the contributions made to the three pension systems, the City provides certain other postemployment benefits to its retirees. The City of Austin OPEB Plan is a defined-benefit single-employer plan. Allocation of City funds to pay postemployment benefits other than pensions 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 is under no obligation to pay any portion of the cost of other postemployment benefits for retirees or their dependents. The City does not accumulate assets in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Day-to-day accounting and administration of the OPEB activities is provided by the City and recorded in the Employee Benefits fund. However, at year end an adjustment was made to recognize OPEB expense in the operating funds that provide funding to the Employee Benefits fund to pay for these benefits. No separate plan report is available.

Unlike pensions, State law does not provide specific requirements or authority for OPEB. Instead, the City relies on its status as a municipal corporation under Article XI, Section 5 of the Constitution of the State of Texas, the Home Rule Amendment, as the authority under which OPEB is provided to retirees. Any amendments to the OPEB Plan are approved by City Council through the annual budget approval process.

Benefits Provided. Other postemployment 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 as described in Note 7 are eligible for other postemployment benefits. Retirees may also enroll eligible dependents under the medical, dental, and vision plan(s) in which they participate.

Plan members do not pay into the OPEB plan while in active employment nor does the City pay on behalf of active employees. The City pays actual claims for medical and prescription drug coverage as a primary provider for non-Medicare eligible, and as a secondary provider for Medicare eligible retirees through either a PPO, HMO, or CDHP, (Consumer Driven Health Plan), medical plan as selected by the retiree. The City subsidizes a maximum of 80% of the projected medical premium for retirees, 50% for dependents, and 70% (75% if pre-Medicare) for surviving spouses. Subsidies are based on years of service at retirement as displayed in the table below and are applied to the corresponding maximum reflected above. For example, a retiree with less than five years of service would be eligible for a subsidy of 16% (20% of 80%). Retirees must pay the unsubsidized portion of the premium.

For the 2017 plan year, (January 1 to December 31), the percentage of the maximum subsidy paid by the City was as follows:

| Years of Service at Retirement | Percent of Maximum Subsidy Paid by the City |
|-----------------------------------|--|
| <5 | 20% |
| 5-9 | 30% |
| 10-14 | 50% |
| 15-19 | 70% |
| 20 and over | 100% |

8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued
a -- General Information, continued

The City pays 100% of the retiree's basic life insurance premium. The cost of coverage above the \$1,000 level is paid by the retiree. 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. If excise tax is payable in the future, it is assumed that these costs will also be paid by the retirees.

Employees Covered by Benefit Terms: Membership in the plan as of December 31, 2017, is as follows:

| | |
|--|---------------|
| Inactive employees or beneficiaries currently receiving benefits | 7,178 |
| Inactive employees entitled to but not yet receiving benefits | 2,763 |
| Active employees | <u>12,557</u> |
| Total | <u>22,498</u> |

b – Total OPEB Liability

The City's total OPEB liability of \$2,524,897 (in thousands) was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date. Of the total liability, \$53,076 (in thousands) is considered to be due within one year and the remaining \$2,471,821 (in thousands) is considered to be a long-term liability.

Actuarial Assumptions and Other Inputs. Actuarial assumptions used in the most recent actuarial valuations are shown below. The majority of the demographic assumptions used in the OPEB valuation are identical to those used in the pension valuation from the previous reporting period. As a result, experience studies performed by the pension systems as discussed in Note 7a were also relied upon.

| | |
|------------------------------|---|
| Inflation rate | NA |
| Salary increases | Vary by retirement group, age, and years of service |
| Discount rate | 3.44% |
| Healthcare cost trend rates: | |
| Medical (pre-65) | 7.00% graded to 4.50% over 5 years |
| Medical (post-65) | 6.00% graded to 4.50% over 3 years |
| Prescription drug | 9.00% graded to 4.50% over 9 years |
| Administrative costs | 2.50% |
| Experience studies | Experience for healthcare cost trend rates was based on activity from November 1, 2015 to October 31, 2017 for medical costs and December 1, 2015 to November 30, 2017 for prescriptions. |

Sources for mortality rate assumptions include:

| | |
|-----------------------------|--|
| General (Actives) | RP-2014 Blue Collar Employee Mortality Tables projected generationally using scale BB from 2014 |
| General (Healthy retirees) | RP-2014 Blue Collar Healthy Annuitant Mortality Tables projected generationally using scale BB from 2014 |
| General (Disabled retirees) | RP-2014 Blue Collar Healthy Annuitant Mortality Tables, set forward 3 years, projected generationally using Scale BB from 2014, with a minimum 3% rate of mortality applicable at all ages |
| Police (All lives) | RP-2000 Combined Healthy Mortality Tables |
| Fire (Healthy lives) | RP-2000 Combined Healthy Mortality Tables, set back 2 years, projected generationally using Scale AA from 2000 |
| Fire (Disabled lives) | RP-2000 Disabled Retiree Mortality Tables |

Discount Rate. The discount rate for OPEB funded entirely on a pay-as-you-go basis is the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). For the OPEB measurement at December 31, 2017, the City's actuaries used the Bond Buyer US Weekly Yields 20 General Obligation Bond Index of 3.44%. The discount rate as of December 31, 2016 used in calculating the total OPEB liability as of September 30, 2017 for restating the financial statements was 3.78%. The discount rate decreased 0.34% between these two measurement dates.

8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

b – Total OPEB Liability, continued

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the City calculated using the discount rate discussed above, as well as what the total OPEB liability (in thousands) would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher than the current rate.

| <u>1% Decrease</u> | | <u>Current Discount Rate</u> | | <u>1% Increase</u> | |
|--------------------|------------------|------------------------------|------------------|--------------------|------------------|
| <u>Total OPEB</u> | | <u>Total OPEB</u> | | <u>Total OPEB</u> | |
| <u>Rate</u> | <u>Liability</u> | <u>Rate</u> | <u>Liability</u> | <u>Rate</u> | <u>Liability</u> |
| 2.44% | \$ 3,043,665 | 3.44% | \$ 2,524,897 | 4.44% | \$ 2,123,411 |

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the total OPEB liability of the City calculated using the healthcare cost trend rates displayed above, as well as what the total OPEB liability (in thousands) would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower and 1-percentage point higher than the current rates.

| <u>1% Decrease</u> | <u>Current Rate</u> | <u>1% Increase</u> |
|-----------------------------|-----------------------------|-----------------------------|
| <u>Total OPEB Liability</u> | <u>Total OPEB Liability</u> | <u>Total OPEB Liability</u> |
| \$ 2,087,263 | \$ 2,524,897 | \$ 3,101,315 |

Schedule of Changes in Total OPEB Liability. Changes in the total OPEB liability for measurement period ended December 31, 2017 is as follows (in thousands):

| | |
|--|---------------------|
| Total OPEB liability at December 31, 2016 | <u>\$ 2,055,627</u> |
| Changes for the year: | |
| Service cost | 86,687 |
| Interest | 80,132 |
| Differences between expected and actual experience | 64,227 |
| Assumption changes | 283,099 |
| Expected benefit payments | (44,875) |
| Net change in total OPEB liability | <u>469,270</u> |
| Total OPEB liability at December 31, 2017 | <u>\$ 2,524,897</u> |

The OPEB plan had no changes in benefit terms during the period. Assumption changes included:

- Lowering the discount rate from 3.78% to 3.44% based on Bond Buyer US Weekly Yields 20 General Obligation Bond Index as of the measurement date,
- Updating medical and prescription drug claim costs to reflect more recent experience,
- Modifying medical and prescriptions drug trend rates by splitting the single category from the previous valuation into three categories for the current valuation, grading these categories for different periods, and lowering the ultimate trend rate from 5.0% to 4.5%, and
- Updating third-party administrator and vendor administrative expenses to reflect more recent contracts and assumed trends on such costs.

c – Other Postemployment Benefits Expense

Total OPEB expenses recognized by the City for the fiscal year ended September 30, 2018 were \$213,006 (in thousands).

8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

d -- Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2018, the City reported deferred outflows and inflows of resources related to OPEB from the following sources (in thousands):

| | <u>Deferred Outflows</u> | <u>Deferred Inflows</u> |
|--|------------------------------|-----------------------------|
| Benefit payments subsequent to the measurement date | \$ 35,830 | -- |
| Differences between expected and actual experience | 55,720 | -- |
| Changes in assumptions | 245,603 | -- |
| Changes in proportionate share (between funds) | 11,713 | 11,713 |
| Total | <u>\$ 348,866</u> | <u>11,713</u> |

The portion of deferred outflows and inflows of resources that will be recognized in OPEB expense is as follows (in thousands):

| <u>Fiscal Year Ended September 30</u> | |
|---|-------------------|
| 2019 | \$ 46,004 |
| 2020 | 46,004 |
| 2021 | 46,004 |
| 2022 | 46,004 |
| 2023 | 46,004 |
| Thereafter | 71,303 |
| Total | <u>\$ 301,323</u> |

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.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, which is the City's fiscal year end date of September 30. This requires consideration of nonperformance risk when measuring the fair value of a liability and considers the effect of the government's own credit quality and any other factors that might affect the likelihood that the obligation will or will not be fulfilled.

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 revenue 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.

9 – DERIVATIVE INSTRUMENTS, continued
a -- Energy Risk Management Program, continued

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, using a hierarchy level 2 market approach. 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 is categorized as hierarchy level 2, 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, including any necessary price analysis adjustments, risk free interest rate, time to maturity, and the NYMEX forward price of the underlier as of the last day of the reporting period.

Premiums paid for options are deferred until the contract is settled. As of September 30, 2018, \$96 thousand in premiums was deferred. As of September 30, 2018, the fair value of Austin Energy's futures, options, and swaps was an unrealized loss of \$7.7 million, of which \$7.8 million is reported as derivative instruments in liabilities and \$50 thousand is reported as derivative instruments in assets. The fair values of these derivative instruments are deferred until future periods on the statement of net position 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. While the instruments exhibit all three characteristics - settlement, leverage, and net settlement - to classify them as derivative instruments, they are generally used by Austin Energy as factors in the cost of transmission, and therefore meet the Normal Purchases and Normal Sales scope exception allowing them to be reported at cost.

In fiscal year 2018, Austin Energy sold PCRRs and recorded a gain of \$193 thousand; however, this gain was deferred under the accounting requirements for regulated operations. At September 30, 2018, \$344 thousand remained deferred.

On September 30, 2018, Austin Energy had the following outstanding hedging derivative instruments (in thousands):

| Type of Transaction | Reference Index | Fair Value at September 30, 2018 | | | Change in Fair Value | Premiums Deferred |
|-----------------------|-----------------|--------------------------------------|------------------|------------|----------------------|-------------------|
| | | Maturity Dates | Notional Volumes | Fair Value | | |
| Long OTC Call Options | Henry Hub | Oct 2018 - Sept 2021 | 5,945,000 (1) | \$ 50 | (257) | 1,246 |
| | | Derivative instruments (assets) | | 50 | (257) | 1,246 |
| Short OTC Put Options | Henry Hub | Oct 2018 - Sep 2021 | (5,945,000) (1) | (2,743) | 82 | (1,150) |
| Long OTC Basis Swaps | WAHA | Oct 2018 | 155,000 (1) | (189) | (187) | -- |
| Long OTC Swaps | Henry Hub | Oct 2018 - Sep 2020 | 4,645,000 (1) | (4,864) | (492) | -- |
| | | Derivative instruments (liabilities) | | (7,796) | (597) | (1,150) |
| | | Total | | \$ (7,746) | (854) | 96 |

(1) Volume in MMBTUs

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 Power Supply Adjustment expense in the period realized.

9 – DERIVATIVE INSTRUMENTS, continued
a -- Energy Risk Management Program, continued

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. At September 30, 2018, the brokerages had credit ratings of A.

The over-the-counter agreements expose Austin Energy to credit risk; however, at September 30, 2018, none of the counterparties had outstanding obligations with Austin Energy. The contractual provisions applied to these contracts under the International Swaps and Derivatives Association (ISDA) agreement include collateral provisions. At September 30, 2018, no collateral was required under these provisions.

The congestion revenue rights expose Austin Energy to custodial credit risk in the event of default or nonperformance by ERCOT, a regulatory entity of the State of Texas. In the event of default of nonperformance, Austin Energy's operations will not be materially affected.

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 i.e. NYMEX (Henry Hub). As of September 30, 2018, the NYMEX price was \$3.02 per MMBTU (one million British thermal unit, a measurement of heating value), the WAHA Hub price was \$1.21 per MMBTU, Katy was \$3.20 per MMBTU, and the HSC Hub price was \$3.17 per MMBTU.

Risks

As of September 30, 2018, 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.

9 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

As of September 30, 2018, the City has three outstanding swap transactions with initial and outstanding notional amounts totaling \$602.1 million and \$364.1 million, respectively. The fair values of the interest rate derivative transactions were estimated based on an independent pricing service. The valuations provided were derived from proprietary models based upon well-recognized principles and estimates about relevant future market conditions. The expected transaction cash flows are calculated using the zero-coupon discounting method which takes into consideration the prevailing benchmark interest rate environment, the specific terms and conditions of a given transaction, and assumes that the current forward rates implied by the benchmark yield curve are the market's best estimate of future spot interest rates. The income approach is then used to obtain the fair value of the transactions, where future amounts (the expected transaction cash flows) are converted to a single current amount, discounted using a rate of return that takes into account the relative risk of nonperformance associated with the cash flows. Where applicable under the income approach an option pricing model is applied such as the Black-Scholes-Merton model, the Black-Derman-Toy model, one of the short-rate models, or other market standard models consistent with accepted practices in the market for interest rate option products. The option models consider probabilities, volatilities, time, settlement prices, and other variables pertinent to the transactions. This valuation technique is applied consistently across all the transactions. Given the observability of inputs significant to the measurements, the fair values of the transactions are categorized as Level 2.

On September 30, 2018, 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 | \$ 105,690 | (9,653) |
| AIR1 | Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005 | Pay 4.051%, receive 71% of LIBOR | 8/17/2005 | 11/15/2025 | 176,100 | (12,349) |
| 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 | 82,325 | (5,721) |
| | | | | | <u>\$ 364,115</u> | <u>(27,723)</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, 2018 (in thousands):

| Item | Outstanding | | Fair Value and Classification | Change in fair value | |
|---|-----------------|-----------------|-------------------------------|----------------------|------------------|
| | Notional Amount | Fair Value | | Deferred Outflows | Deferred Inflows |
| Business-Type Activities: | | | | | |
| Hedging derivative instruments (cash flow hedges): | | | | | |
| WW2 | \$ 105,690 | (9,653) | Non-current liability | 5,856 | -- |
| AIR1 | 176,100 | (12,349) | Non-current liability | 9,187 | -- |
| HOT1 | 82,325 | (5,721) | Non-current liability | 4,193 | -- |
| <u>\$ 364,115</u> | | <u>(27,723)</u> | | <u>19,236</u> | <u>--</u> |

Due to the continued low interest rate levels during fiscal year 2018, the City's interest rate swap hedging derivative instruments had negative fair values as of September 30, 2018. The fair value takes into consideration nonperformance risk, the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received.

9 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

Risks

Credit risk. As of September 30, 2018, 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 counterparty credit ratings for the City's interest rate swap hedging derivative instruments at September 30, 2018, 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 | A1 | A+ | A+ |
| AIR1 | Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005 | Morgan Stanley Capital Services, LLC | A3 | BBB+ | A |
| HOT1 | Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008 | Morgan Keegan Financial Products (MKFP) | Baa2 | BBB+ | BBB+ |

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, 2018, 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, | \$ (3,830) | 1,309 | (2,521) | (1,326) | (3,847) |
| AIR1 | Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005 | (7,218) | 2,122 | (5,096) | (2,258) | (7,354) |
| HOT1 | Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008 | (2,721) | 960 | (1,761) | (1,042) | (2,803) |
| | | <u>\$ (13,769)</u> | <u>4,391</u> | <u>(9,378)</u> | <u>(4,626)</u> | <u>(14,004)</u> |

9 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

Basis and interest rate risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City does not bear basis risk on Swap WW2. At September 30, 2018, the City bears basis risk on the two remaining swaps. These swaps have basis risk since the City receives a percentage of LIBOR to offset the actual variable rate the City pays on the related bonds. The City is exposed to basis risk should the floating rate that it receives on a swap drop below the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is the risk of a permanent mismatch occurring between the interest rate paid on the City's underlying variable rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds. For example, a grandfathering of the elimination of federal tax-exemption on existing tax-exempt bonds, or a tax cut, would result in the yields required by investors on the City's bonds coming close to or being equal to taxable yields. This would result in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 71% of LIBOR on AIR1, and 67% of LIBOR on Swap HOT1 and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Nonperformance/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, 2018, the City did not have any investment derivative instruments related to interest rate swaps.

c -- Swap Payments and Associated Debt

As of September 30, 2018, 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 (1) | | |
| 2019 | \$ 28,525 | 234 | 12,501 | 12,735 |
| 2020 | 31,935 | 197 | 11,338 | 11,535 |
| 2021 | 31,010 | 159 | 10,177 | 10,336 |
| 2022 | 27,710 | 121 | 9,123 | 9,244 |
| 2023 | 39,185 | 84 | 7,931 | 8,015 |
| 2024-2028 | 149,125 | (31) | 19,882 | 19,851 |
| 2029-2032 | 56,625 | (42) | 2,863 | 2,821 |
| Total | \$ 364,115 | 722 | 73,815 | 74,537 |

(1) The net effect of the reference rate projected to be paid to the City versus the variable interest rate projected to be paid to bondholders utilizing rates in effect at 9/30/2018.

10 – DEFICITS IN FUND BALANCES AND NET POSITION

At September 30, 2018, 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: | |
| Auto Theft Interdiction | \$ 27 |
| Fiscal Surety - Land Development | 947 |
| Town Lake Beautification | 16 |
| Capital Projects Funds: | |
| 2016 fund | |
| Mobility | 1,260 |
| Other funds | |
| General Government Projects | 1,915 |
| Build Austin | 5 |
| Public Works | 711 |
| City Hall, plaza, parking garage | 6,232 |
| Nonmajor Enterprise | |
| Austin Resource Recovery | 86,927 |
| Transportation | 79,298 |

11 – INTERFUND BALANCES AND TRANSFERS

a -- Interfund receivables, payables, and advances

Interfund receivables, payables, and advances at September 30, 2018, are as follows (in thousands):

| <u>Due To</u> | <u>Due From</u> | | | | |
|-----------------------|----------------------------------|--------------------------|---------------------------------|--------------------------------|---------------|
| | <u>Nonmajor Governmental</u> | <u>Austin Energy</u> | <u>Austin Water Utility</u> | <u>Nonmajor Enterprise</u> | <u>Total</u> |
| General Fund | \$ 16 | 215 | -- | -- | 231 |
| Nonmajor governmental | 11,112 | -- | -- | -- | 11,112 |
| Airport | -- | 166 | -- | -- | 166 |
| Nonmajor enterprise | -- | -- | 301 | 1,148 | 1,449 |
| Total | <u>\$ 11,128</u> | <u>381</u> | <u>301</u> | <u>1,148</u> | <u>12,958</u> |

Interfund receivables (due from) and payables (due to) reflect short term loans between funds, mainly the result of short term deficits in pooled investments and cash (\$11.9 million). Deficits in grant funds awaiting reimbursement from grantors (\$10.7 million) was borrowed from the Fiscal Surety fund.

| <u>Advance From</u> | <u>Advance To</u> | | | | | | |
|-----------------------|----------------------------------|--------------------------|---------------------------------|----------------|--------------------------------|-----------------------------|---------------|
| | <u>Nonmajor Governmental</u> | <u>Austin Energy</u> | <u>Austin Water Utility</u> | <u>Airport</u> | <u>Nonmajor Enterprise</u> | <u>Internal Service</u> | <u>Total</u> |
| General Fund | \$ -- | 441 | -- | -- | -- | -- | 441 |
| Nonmajor governmental | 7,779 | 152 | -- | 32 | 229 | 12 | 8,204 |
| Austin Water Utility | 556 | 10,821 | -- | -- | -- | -- | 11,377 |
| Airport | -- | 341 | -- | -- | -- | -- | 341 |
| Nonmajor enterprise | 348 | -- | 1,803 | -- | -- | -- | 2,151 |
| Total | <u>\$ 8,683</u> | <u>11,755</u> | <u>1,803</u> | <u>32</u> | <u>229</u> | <u>12</u> | <u>22,514</u> |

Advances to and advances from reflect borrowing that will not be liquidated within one year. The advance to Austin Water Utility from Austin Energy funded the Combined Utility System Revenue Bond Retirement Reserve Account. Austin Energy funded the entire reserve, which replaced an insurance policy previously held for combined lien reserve, on behalf of both enterprise funds. Of the \$7.8 million between nonmajor governmental funds, \$6.3 million represents a long-term borrowing by the City Hall fund from the TPSD general improvements fund as a result of a deficit in pooled investments and cash.

11 – INTERFUND BALANCES AND TRANSFERS

b -- Transfers

Transfers at September 30, 2018, are as follows (in thousands):

| Transfers Out | Transfers In | | | | | | Total |
|-----------------------|--------------|-----------------------|---------------|----------------------|---------------------|------------------|---------|
| | General Fund | Nonmajor Governmental | Austin Energy | Austin Water Utility | Nonmajor Enterprise | Internal Service | |
| General Fund | \$ -- | 7,553 | -- | -- | 1,853 | 2,370 | 11,776 |
| Nonmajor governmental | 5,721 | 36,143 | 45 | -- | 101,770 | -- | 143,679 |
| Austin Energy | 115,873 | -- | -- | 12 | -- | -- | 115,885 |
| Austin Water Utility | 49,148 | 75 | 2,625 | -- | -- | 9 | 51,857 |
| Airport | -- | -- | 182 | -- | -- | -- | 182 |
| Nonmajor enterprise | 635 | 5,794 | 27 | 53 | 84 | -- | 6,593 |
| Internal service | 2,237 | 19,677 | -- | -- | 180 | 28 | 22,122 |
| Total | \$ 173,614 | 69,242 | 2,879 | 65 | 103,887 | 2,407 | 352,094 |

Interfund transfers are authorized through City council approval. Significant transfers include: Austin Energy and Austin Water Utility transfers to the General Fund (\$165 million), which are comparable to a return on investment to owners. Tax collections from the Hotel-Motel Occupancy Tax (\$69.5 million) and the Vehicle Rental Tax (\$9.9 million), special revenue funds, are transferred to the Convention Center in support of convention operations and debt service. In addition, there was a transfer of (\$22.1 million) from the Watershed Protection Annexed Areas fund to reimburse the Drainage fund for the buyouts of single family homes in flood-prone areas.

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 July 2, 2018, the PUC approved the City's most recent wholesale transmission rate of \$1.187214/KW. Transmission revenues totaled approximately \$79 million in fiscal year 2018. 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, 2018, 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 costs differ from amounts billed to customers, then regulatory assets or deferred inflows are recorded by Austin Energy. Pass-through rates are set annually and the power supply factor can be adjusted 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.

12 – SELECTED REVENUES, continued
a -- Major Enterprise Funds, continued

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 2018, the Airport fund revenues included minimum concession guarantees of \$22,090,118.

The following is a schedule by year of minimum future rentals on non-cancelable operating leases with remaining terms of up to 80 years for the Airport fund as of September 30, 2018 (in thousands):

| Fiscal Year Ended September 30 | Airport Lease Receipts |
|---|---------------------------------------|
| 2019 | \$ 28,359 |
| 2020 | 29,560 |
| 2021 | 29,507 |
| 2022 | 27,902 |
| 2023 | 27,728 |
| 2024-2028 | 105,933 |
| 2029-2033 | 11,441 |
| 2034-2038 | 8,331 |
| 2039-2043 | 3,568 |
| Thereafter | 1,780 |
| Totals | <u>\$ 274,109</u> |

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 |
|---|---|
| 2019 | \$ 2,607 |
| 2020 | 2,425 |
| 2021 | 1,866 |
| 2022 | 1,731 |
| 2023 | 1,594 |
| 2024-2028 | 6,945 |
| Totals | <u>\$ 17,168</u> |

13 – TAX ABATEMENTS

The City grants tax abatements under one of two programs, the Chapter 380 Performance Based Economic Development Incentive Program under which sales and property taxes may be rebated if the entity meets performance criteria, and the Media Production Development Zone program under which sales, excise, and use taxes may be abated.

13 – TAX ABATEMENTS, continued
Performance Based Rebate Program

To promote local economic development and stimulate business and commercial activity in the municipality, the City has granted tax rebate agreements under the authority of Chapter 380 of the Texas Local Government Code through the City's Chapter 380 Performance Based Economic Development Incentive Program. All or a portion of property taxes, sales taxes, or a combination of the two were abated as a part of these agreements. To be eligible to participate in the program an entity must make a commitment to move or expand its business in the City through investments in real and/or personal property or leasehold improvements as well as commitments about the number of new jobs it will create. Some agreements also require the participants in this program to meet other City requirements such as salary levels of employees and local business participation. Each agreement is negotiated individually and the terms vary depending on the type of development and the economic benefits to the City.

Sales taxes abated may either be all or a portion of those generated by the entity or its actions. The amount of property taxes abated may be all or a portion of property taxes on the entity's real and personal property or leasehold investment. Agreements generally run for a certain number of years and also may be subject to a not-to-exceed maximum of taxes to be abated. All taxes are collected and then rebated if the entity meets commitments made under the agreement. If the criteria are not met, no taxes are refunded.

During fiscal year 2018, the City had four agreements under this program which resulted in rebates that meet the definition of tax abatements of approximately \$10.2 million. The City had no commitments related to these agreements other than the timeframe during which a compliance review will occur and a deadline for the refund of the taxes.

Exemption Program

There were no active agreements under the Media Production Development Zone Program during fiscal year 2018.

The City is not subject to any tax abatement agreements entered into by other governmental entities.

14 – 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 \$17.8 million as of September 30, 2018. The decrease in the pro-rata interest from 2017 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, 2018, Austin Energy's investment in the STP was approximately \$361.8 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.

14 – COMMITMENTS AND CONTINGENCIES, continued
b -- South Texas Project, continued

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 20 year license renewal was issued by the NRC in September 2017. Unit 1 and 2 are currently licensed through 2047 and 2048, respectively.

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, 2018, the trust's assets were in excess of the estimated liability by \$20.9 million which is reported as part of deferred inflows of resources (in thousands).

| | |
|------------------------------------|------------------|
| Decommissioning trust assets | \$ 222,505 |
| Pro rata decommissioning liability | <u>(201,617)</u> |
| | <u>\$ 20,888</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, 2016, showed that the trust assets exceeded the minimum required assurance by \$49.0 million.

d -- Purchased Power

Austin Energy has commitments totaling \$6.2 billion to purchase energy and capacity through purchase power agreements. This amount includes provisions for wind power through 2041, landfill power through 2018, biomass through 2032, and solar through 2043.

e -- Decommissioning and Environmental/Pollution Remediation Contingencies

Austin Energy may incur costs for environmental/pollution remediation of certain sites including the Holly, Fayette, and Decker Power Plants. At September 30, 2018, the financial statements includes a \$3.8 million short-term decommissioning liability related to Holly and a \$404 thousand short-term environmental liability related to Fayette and Decker, classified as other liabilities. The amount is based on 2018 cost estimates to perform remediation and decommissioning. 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, 2018.

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 grantor 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 2018 Capital Budget has substantial contractual commitments relating to its capital improvement plan.

14 – COMMITMENTS AND CONTINGENCIES, continued
h -- Capital Improvement Plan, continued

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.

| <u>Project</u> | <u>Remaining Commitment (in thousands)</u> |
|--|--|
| Governmental activities: | |
| General government | \$ 154,178 |
| Public safety | 39,003 |
| Transportation, planning, and sustainability | 206,795 |
| Public health | 3,642 |
| Public recreation and culture | 54,570 |
| Urban growth management | 13,980 |
| Business-type activities: | |
| Electric | 124,808 |
| Water | 117,755 |
| Wastewater | 146,555 |
| Airport | 283,530 |
| Convention | 69,557 |
| Environmental and health services | 9,282 |
| Public recreation and culture | 123 |
| Urban growth management | 111,594 |
| Total | <u>\$ 1,335,372</u> |

i -- Encumbrances

The City utilizes encumbrances to track commitments against budget in governmental funds. The amount of outstanding encumbrances at September 30, 2018, is as follows (in thousands):

| | <u>Encumbrances</u> |
|-----------------------|---------------------|
| General Fund | \$ 25,033 |
| Nonmajor governmental | |
| Special Revenue | 23,865 |
| Capital Projects | 136,487 |
| | <u>\$ 185,385</u> |

Significant encumbrances include reservations for the 2016 bond program (\$38,165), 2012 bond program (\$31,535), Communications and Technology Management (\$26,717), and General government projects (\$16,465).

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. Flooding in fiscal year 2015 has delayed final closure, which is expected in fiscal year 2019. 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, 2018, is as follows (in thousands):

| | <u>Closure</u> | <u>Postclosure</u> | <u>Total</u> |
|-----------------------------------|-----------------|--------------------|---------------|
| Total estimated costs | \$ 23,706 | 9,899 | 33,605 |
| % capacity used | 100% | 100% | 100% |
| Cumulative liability accrued | 23,706 | 9,899 | 33,605 |
| Costs incurred | (21,115) | -- | (21,115) |
| Closure and postclosure liability | <u>\$ 2,591</u> | <u>9,899</u> | <u>12,490</u> |

14 – COMMITMENTS AND CONTINGENCIES, continued
j -- Landfill Closure and Postclosure Liability, continued

These amounts are based on the 2018 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:

| <u>Fund Name</u> | <u>Description</u> |
|-----------------------|--|
| Employee Benefits | City employees and retirees may choose a self-insured PPO, HMO, or CDHP with HSA for health coverage. Approximately 17% of City employees and 24% of retirees use the HMO option; approximately 73% of City employees and 75% of retirees use the PPO option; and approximately 11% of City employees and 1% of retirees use the CDHP with HSA 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. Third-party claims activities are also reported directly in the Austin Energy, Austin Water Utility, and Airport enterprise funds. |
| 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, HMO, and CDHP plans. This stop-loss insurance covers individual claims that exceed \$500,000 per calendar year, up to a maximum of \$5 million. In fiscal year 2018, eleven claims exceeded the stop-loss limit of \$500,000; during fiscal year 2017, four claims exceeded the stop-loss limit of \$500,000, and during fiscal year 2016, ten 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 four 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 Austin Energy, Austin Water Utility, Airport and Liability Reserve funds are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. Possible losses are estimated to range from \$48.4 to \$53.5 million. In accordance with GAAP, \$48.4 million is recognized as claims payable in the financial statements with \$23.9 million recognized as a current liability and \$24.5 million recognized as long term. For Employee Benefits and Workers Compensation, city funds contribute amounts to these internal service funds based on an estimate of anticipated costs for claims each year. Austin Energy, Austin Water utility, and Airport report their respective claims activities for third-party claims. All other funds contribute amounts to the Liability Reserve fund based on an estimate of anticipated costs for claims each year.

14 – COMMITMENTS AND CONTINGENCIES, continued
k -- Risk-Related Contingencies, continued

Changes in the balances of claims liability are as follows (in thousands):

| | Austin Energy | | Austin Water Utility | | Airport | |
|---------------------------------------|----------------------|--------------|-----------------------------|-------------|----------------|-------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Liability balances, beginning of year | \$ 2,070 | -- | 562 | -- | 1 | -- |
| Claims and changes in estimates | (1,708) | 2,221 | 29 | 1,839 | -- | 9 |
| Claim payments | (293) | (151) | (238) | (1,277) | (1) | (8) |
| Liability balances, end of year | <u>69</u> | <u>2,070</u> | <u>353</u> | <u>562</u> | <u>--</u> | <u>1</u> |

| | Employee Benefits (1) | | Liability Reserve | | Workers' Compensation | |
|---------------------------------------|------------------------------|---------------|--------------------------|--------------|------------------------------|---------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Liability balances, beginning of year | 18,822 | 14,310 | 4,975 | 9,364 | 25,299 | 25,664 |
| Claims and changes in estimates | 158,704 | 18,568 | 2,963 | 3,984 | 5,101 | 3,524 |
| Claim payments | (161,001) | (14,056) | (3,498) | (8,373) | (3,391) | (3,889) |
| Liability balances, end of year | <u>\$ 16,525</u> | <u>18,822</u> | <u>4,440</u> | <u>4,975</u> | <u>27,009</u> | <u>25,299</u> |

- (1) For the Employee Benefits Fund, claim payments as reported above, represent amounts paid against claims outstanding at the beginning of the year. Claims initiated after the beginning of the year, but not yet settled, are reported in claims and changes in estimates. Cash paid for claims was \$160,180 for the year ended September 30, 2017.

The Austin Water Utility fund claims liability balance at fiscal year-end included liabilities of \$238 thousand discounted at 4.44% in 2018 and \$216 thousand discounted at 3.75% in 2017. The Liability Reserve fund claims liability balance at fiscal year-end included liabilities of \$2.8 million discounted at 4.44% in 2018 and \$3.1 million discounted at 3.75% in 2017.

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.

The MLGC has three additional debt issuances: October 2009 (\$15,000,000), October 2012 (\$16,735,000), and October 2014 (\$15,845,000). 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 2.1 million square feet of civic, institutional, hotel and Class A office space, including over 600,000 square feet of retail space that is either complete or under construction. Over 100 employers provide approximately 5,800 jobs at Mueller. From the start of home sales in 2007, the community has been well received. As of September 30, 2018, approximately 2,040 single-family homes and 2,110 multi-family units were either complete or under construction. Catellus has also recently completed the infrastructure for an additional 140 single-family homes, and commercial and multi-family sites in the Town Center.

14 – COMMITMENTS AND CONTINGENCIES, continued
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. \$2,111,882 in total assessments were levied in the year ended September 30, 2018. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2018 are \$13,705,000 and \$4,827, 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. \$366,873 in total assessments were levied in the year ended September 30, 2018. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2018 are \$2,525,000 and \$365, 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. \$1,786,810 in total assessments were levied during the fiscal year ended September 30, 2018. The aggregate principal outstanding at September 30, 2018 is \$10,615,000.

n -- Capital Leases

The City has entered into a lease agreement to finance equipment for both governmental and 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, 2018, under capital lease obligations (in thousands):

| Capital Assets | Governmental Activities | Austin Energy |
|---------------------------|------------------------------------|--------------------------|
| Building and improvements | \$ -- | 1,405 |
| Equipment | 14,257 | -- |
| Accumulated depreciation | -- | (562) |
| Net capital assets | <u>\$ 14,257</u> | <u>843</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, 2018, was \$24.3 million.

| Fiscal Year Ended September 30 | Future Lease Payments |
|---|--------------------------------------|
| 2019 | \$ 23,285 |
| 2020 | 19,845 |
| 2021 | 18,872 |
| 2022 | 17,340 |
| 2023 | 17,319 |
| 2024-2028 | 17,316 |
| Totals | <u>\$ 113,977</u> |

15 – 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 Austin Energy, Austin Water Utility, Airport, and Liability Reserve funds for claims payable at September 30, 2018. These liabilities, reported in the government-wide statement of net position, include amounts for claims and lawsuits settled subsequent to year-end.

16 – 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, 2018, \$155.5 million in housing revenue bonds were outstanding with an original issue value of \$163 million.

Revenue bonds have been issued by various related entities to provide for facilities located at the international airport. 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, 2018, \$145 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.

17 – 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 | \$ 189,334 |
| Capital assets | 207,327 |
| Other noncurrent assets | 21,876 |
| Total assets | <u>418,537</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>26,521</u> |
| LIABILITIES | |
| Other current liabilities | 24,138 |
| Other noncurrent liabilities | 218,914 |
| Total liabilities | <u>243,052</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>1,803</u> |
| NET POSITION | |
| Net investment in capital assets | 68,515 |
| Restricted | 36,716 |
| Unrestricted | 94,972 |
| Total net position | <u>\$ 200,203</u> |

17 – SEGMENT INFORMATION – CONVENTION CENTER, continued

| Condensed Statement of Revenues, Expenses, and Changes in Net Position | |
|---|--------------------------|
| OPERATING REVENUES | |
| User fees and rentals | \$ 33,752 |
| Total operating revenues | <u>33,752</u> |
| OPERATING EXPENSES | |
| Operating expenses before depreciation | 67,889 |
| Depreciation and amortization | 9,026 |
| Total operating expenses | <u>76,915</u> |
| Operating income (loss) | (43,163) |
| Nonoperating revenues (expenses) | (3,752) |
| Transfers | 76,681 |
| Change in net position | <u>29,766</u> |
| Beginning net position, as restated | 170,437 |
| Ending net position | <u><u>\$ 200,203</u></u> |

| Condensed Statement of Cash Flows | |
|---|--------------------------|
| Net cash provided (used) by: | |
| Operating activities | \$ (26,910) |
| Noncapital financing activities | 76,698 |
| Capital and related financing activities | (23,512) |
| Investing activities | <u>3,909</u> |
| Net increase (decrease) in cash and cash equivalents | 30,185 |
| Cash and cash equivalents, beginning | 157,807 |
| Cash and cash equivalents, ending | <u><u>\$ 187,992</u></u> |

18 – RESTATEMENT

During fiscal year 2018, the City implemented a new accounting standard, GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." This statement revised the standards for determination of the OPEB liability, for accounting and reporting for OPEB expenses and liabilities, and for deferral of certain OPEB expense elements. As a result of implementing this statement, net position was restated at October 1, 2017. The City's other postemployment benefits payable was eliminated and replaced by a larger OPEB liability which was divided into short- and long-term components. In addition, net contributions made by the City for retiree healthcare benefits from January 1 to September 30, 2017, are recorded as deferred outflows of resources. The impact of these changes on the beginning balances reported in the financial statements is shown below (in thousands):

| | Government-wide | | Proprietary Funds | | |
|--|------------------------------------|-------------------------------------|--------------------------|--|-------------------------------------|
| | Governmental Activities | Business-Type Activities | Airport | Nonmajor Enterprise Funds | Business-Type Activities |
| September 30, 2017 | | | | | |
| Net position, as previously reported | \$ 455,353 | 3,976,814 | 615,880 | 555,915 | 3,930,170 |
| Adjustments to properly record implementation of GASB Statement No. 75 | (639,689) | (188,749) | (40,600) | (148,149) | (188,749) |
| Net position, as restated | <u><u>\$ (184,336)</u></u> | <u><u>3,788,065</u></u> | <u><u>575,280</u></u> | <u><u>407,766</u></u> | <u><u>3,741,421</u></u> |

The adjustments associated with the implementation of this standard were deferred in accordance with accounting for regulated operations for Austin Energy and Austin Water Utility. The amount deferred is \$103 million and \$75.1 million respectively; therefore, there was no restatement to net position in these funds.

19 – SUBSEQUENT EVENTS

a -- General Obligation Bond Issue

In October 2018, the City issued \$65,595,000 of Public Improvement Bonds, Series 2018. The net proceeds of \$69,055,000 (after issue costs, discounts, and premiums) from the issue will be used as follows: streets and mobility (\$63,670,000), parks and recreation (\$3,790,000), and facility improvements (\$1,595,000). These bonds will be amortized serially on September 1 of each year from 2019 to 2038. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2019. Total interest requirements for these bonds, at rates ranging from 3.0% to 5.0%, are \$12,395,116.

In October 2018, the City issued \$7,140,000 of Certificates of Obligation, Series 2018. The net proceeds of \$7,500,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: watershed home buyouts (\$6,000,000), and fire station improvements (\$1,500,000). These certificates of obligation will be amortized serially on September 1 of each year from 2019 to 2038. Interest is payable on March 1 and September 1 of each year, commencing on March 1, 2019. Total interest requirements for these obligations, at rates ranging from 3.0% to 5.0%, are \$3,121,116.

In October 2018, the City issued \$21,215,000 of Public Property Finance Contractual Obligations, Series 2018. The net proceeds of \$23,115,000 (after issue costs, discounts, and premiums) from this issue will be used for capital equipment. These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2019 to 2025. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2019. Total interest requirements for these obligations, at rates ranging from 4.0% to 5.0%, are \$4,060,563.

In October 2018, the City issued \$6,980,000 of Public Improvement Taxable Bonds, Series 2018. The net proceeds of \$7,000,000 (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 2019 to 2038, commencing on March 1, 2019. Principal payments are due September 1 of each year from 2019 to 2038. Total interest requirements for this obligation, at rates ranging from 3.4% to 5.0% are \$3,184,623.

b -- Water and Wastewater – System Revenue Bond Issue

In November 2018, the City issued \$3,000,000 of Water and Wastewater System Revenue Bonds, Series, 2018. This is a private placement structured through a memorandum with the Texas Water Development Board (TWDB). Project funds of \$2,769,600 will be used to improve and extend the Water/Wastewater system. The total debt service requirements on the bonds are \$3,740,207, with interest rates ranging from 1.2% to 2.6%. Interest payments are due May 15 and November 15 of each year from 2019 to 2038. Principal payments are due November 15 of each year from 2019 to 2038.



**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, 2018
(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 | \$ 702,761 | 100 | 702,861 | 691,467 | 691,467 | 11,394 |
| Franchise fees | 35,738 | (76) | 35,662 | 36,936 | 36,936 | (1,274) |
| Fines, forfeitures and penalties | 10,330 | -- | 10,330 | 14,075 | 14,075 | (3,745) |
| Licenses, permits and inspections | 54,103 | (7) | 54,096 | 59,943 | 59,943 | (5,847) |
| Charges for services/goods | 61,705 | 2,565 | 64,270 | 65,457 | 65,457 | (1,187) |
| Interest and other | 21,389 | (10,568) | 10,821 | 6,982 | 7,850 | 2,971 |
| Total revenues | 886,026 | (7,986) | 878,040 | 874,860 | 875,728 | 2,312 |
| EXPENDITURES | | | | | | |
| General government | | | | | | |
| Municipal Court | 22,021 | 703 | 22,724 | 22,555 | 22,555 | (169) |
| Public safety | | | | | | |
| Police | 338,547 | 49,056 | 387,603 | 402,536 | 402,536 | 14,933 |
| Fire | 172,356 | 20,356 | 192,712 | 195,713 | 195,713 | 3,001 |
| Emergency Medical Services | 73,857 | 9,016 | 82,873 | 86,320 | 86,320 | 3,447 |
| Public health | | | | | | |
| Public Health | 38,673 | (826) | 37,847 | 39,123 | 39,123 | 1,276 |
| Animal Services | 10,915 | 1,653 | 12,568 | 13,266 | 13,266 | 698 |
| Social Services | 34,822 | (783) | 34,039 | 33,965 | 33,965 | (74) |
| Public recreation and culture | | | | | | |
| Parks and Recreation | 75,509 | 9,334 | 84,843 | 86,026 | 85,745 | 902 |
| Austin Public Library | 44,611 | 5,380 | 49,991 | 50,446 | 50,446 | 455 |
| Urban growth management | | | | | | |
| Development Services | 41,125 | 6,286 | 47,411 | 53,342 | 53,342 | 5,931 |
| Planning and Zoning | 6,148 | 1,636 | 7,784 | 8,722 | 8,722 | 938 |
| Other urban growth management | 35,020 | 3,422 | 38,442 | 39,846 | 40,864 | 2,422 |
| General city responsibilities (4) | 113,140 | (105,665) | 7,475 | 7,744 | 7,744 | 269 |
| Total expenditures | 1,006,744 | (432) | 1,006,312 | 1,039,604 | 1,040,341 | 34,029 |
| Excess (deficiency) of revenues over expenditures | (120,718) | (7,554) | (128,272) | (164,744) | (164,613) | 36,341 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | 173,614 | 50,826 | 224,440 | 192,692 | 192,842 | 31,598 |
| Transfers out | (11,776) | (57,817) | (69,593) | (37,714) | (37,995) | (31,598) |
| Total other financing sources (uses) | 161,838 | (6,991) | 154,847 | 154,978 | 154,847 | -- |
| Excess (deficiency) of revenues and other sources over expenditures and other uses | 41,120 | (14,545) | 26,575 | (9,766) | (9,766) | 36,341 |
| Fund balance at beginning of year | 171,814 | 7,815 | 179,629 | 151,180 | 151,180 | 28,449 |
| Fund balance at end of year | \$ 212,934 | (6,730) | 206,204 | 141,414 | 141,414 | 64,790 |

- (1) Includes adjustments to expenditures for current year encumbrances, payments against prior year encumbrances, 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 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 fourteen separately budgeted funds: the Budgetary General Fund, as budgeted by the City, plus the Budget Stabilization Reserve, Barton Springs Conservation, Community Development Incentives, Economic Development, Economic Incentives Reserve, Emergency Reserve, Long Center Capital Improvements, Music Venue Assistance Program, Neighborhood Housing-Housing Trust, Parks and Recreation Special Events, Pay for Success, Property Tax Reserve, and Seaholm Parking Garage Revenue.

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 interdepartmental charges (\$7,156,713).

b -- Budget Amendments

During fiscal year 2018 an amendment to the General Fund Interest and other revenue budget increased it by \$868,240 to reflect proceeds related to the Aspen Heights Density Bonus Program. This was the sole revenue budget amendment. The budget for Transfers in was increased by \$150,000 related to a settlement with an apartment complex. Budgeted expenditures in Other urban growth management were increased by \$868,240 to provide housing subsidies to the homeless and by \$150,000 to fund relocation costs related to the apartment settlement. The expenditure budget related to Parks and Recreation was decreased by \$280,630 and the budget for Transfers out was increased by the same amount. Upgrades to the Millennium Youth Entertainment Complex that were originally budgeted to be spent in 2018 were delayed resulting in this amendment which moved the funds from the operating to the capital budget.

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 | \$ 41,120 |
| Adjustments - increases (decreases) due to: | |
| Unbudgeted revenues | 3,011 |
| Net compensated absences accrual | (325) |
| Outstanding encumbrances established in current year | (22,292) |
| Payments against prior year encumbrances | 14,685 |
| Other | (9,624) |
| Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis | <u>\$ 26,575</u> |

RETIREMENT PLANS-TREND INFORMATION

Changes in net pension liability for each pension plan for the measurement periods ended December 31, 2014, 2015, 2016, and 2017 are presented in the next three schedules:

Schedule of Changes in the City Employees' Net Pension Liability and Related Ratios (in thousands)

| | 2014 | 2015 | 2016 | 2017 |
|---|-------------------|------------------|------------------|------------------|
| Beginning total pension liability (a) | \$ 2,909,918 | 3,094,056 | 3,391,796 | 3,591,376 |
| Changes for the year: | | | | |
| Service cost | 89,235 | 93,506 | 107,111 | 107,767 |
| Interest | 222,710 | 236,844 | 251,684 | 266,257 |
| Differences between expected and actual experience | 33,911 | 13,414 | 19,914 | 22,755 |
| Assumption changes | -- | 123,493 | -- | -- |
| Benefit payments including refunds | (161,718) | (169,517) | (179,129) | (190,332) |
| Net change in total pension liability | <u>184,138</u> | <u>297,740</u> | <u>199,580</u> | <u>206,447</u> |
| Ending total pension liability (b) | <u>3,094,056</u> | <u>3,391,796</u> | <u>3,591,376</u> | <u>3,797,823</u> |
| Beginning total plan fiduciary net position (c) | <u>2,130,624</u> | <u>2,209,800</u> | <u>2,144,804</u> | <u>2,299,688</u> |
| Changes for the year: | | | | |
| Employer contributions | 93,331 | 100,485 | 104,273 | 110,846 |
| Employee contributions | 50,490 | 54,066 | 60,801 | 56,194 |
| Pension plan net investment income (loss) | 99,704 | (47,608) | 171,640 | 376,820 |
| Benefits payments and refunds | (161,718) | (169,517) | (179,129) | (190,332) |
| Pension plan administrative expense | (2,631) | (2,422) | (2,701) | (2,778) |
| Net change in plan fiduciary net position | <u>79,176</u> | <u>(64,996)</u> | <u>154,884</u> | <u>350,750</u> |
| Ending total plan fiduciary net position (d) | <u>2,209,800</u> | <u>2,144,804</u> | <u>2,299,688</u> | <u>2,650,438</u> |
| Beginning net pension liability (a-c) | <u>779,294</u> | <u>884,256</u> | <u>1,246,992</u> | <u>1,291,688</u> |
| Ending net pension liability (b-d) | <u>\$ 884,256</u> | <u>1,246,992</u> | <u>1,291,688</u> | <u>1,147,385</u> |
| Plan fiduciary net position as a percentage of the total pension liability (d/b) | 71.42% | 63.24% | 64.03% | 69.79% |
| Covered payroll | \$ 514,787 | 546,058 | 573,308 | 609,553 |
| City's net pension liability as a percentage of covered payroll | 171.77% | 228.36% | 225.30% | 188.23% |

Notes to Changes in the City Employees' Net Pension Liability and Related Ratios

The City Employees' fund had no significant changes of benefit terms in any of the years presented. There were no other significant factors that affected measurement of the total pension liability during the years ended December 31, 2017, 2016 or 2014; however, significant changes to assumptions were made as the result of an experience study of the five years ended December 31, 2015, including:

- Decreasing the inflation assumption from 3.25% to 2.75%,
- Reducing the investment rate of return assumption from 7.75% to 7.5%,
- Decreasing the salary increase assumption from 4.5% to 4.0%,
- Increasing new entrant pay from 3.75% to 4.0%,
- Reducing the assumed retirement rates at most ages to better reflect the emerging trend of members retiring at later ages,
- Lowering termination rates and using a select table based on a three year select period for withdrawal rates, and
- Using the RP-2014 blue collar mortality table for males and females project from 2014 to 2026 using mortality improvement scale BB with a 62% weighting of males and a 38% weighting of females. Previously the RP-2000 white collar mortality tables were used.

RETIREMENT PLANS-TREND INFORMATION, continued

Schedule of Changes in the Police Officers' Net Pension Liability and Related Ratios (in thousands)

| | 2014 | 2015 | 2016 | 2017 |
|---|-------------------|------------------|------------------|------------------|
| Beginning total pension liability (a) | \$ 909,000 | 971,623 | 1,028,909 | 1,106,189 |
| Changes for the year: | | | | |
| Service cost | 30,254 | 32,138 | 32,990 | 35,322 |
| Interest | 72,443 | 76,999 | 80,846 | 84,472 |
| Benefit changes | (11,015) | (4,080) | -- | -- |
| Differences between expected and actual experience | -- | (6,318) | 7,455 | 17,241 |
| Assumption changes | 14,137 | 3,904 | 5,148 | -- |
| Contribution buy back | 2,207 | 4,648 | 1,668 | 2,915 |
| Benefit payments including refunds | (45,403) | (50,005) | (50,827) | (56,548) |
| Net change in total pension liability | <u>62,623</u> | <u>57,286</u> | <u>77,280</u> | <u>83,402</u> |
| Ending total pension liability (b) | <u>971,623</u> | <u>1,028,909</u> | <u>1,106,189</u> | <u>1,189,591</u> |
| Beginning total plan fiduciary net position (c) | <u>595,110</u> | <u>638,019</u> | <u>644,174</u> | <u>686,020</u> |
| Changes for the year: | | | | |
| Employer contributions | 32,400 | 33,239 | 33,814 | 35,141 |
| Employee contributions | 19,458 | 20,061 | 20,623 | 21,437 |
| Contribution buy back | 2,207 | 4,648 | 1,668 | 2,915 |
| Pension plan net investment income (loss) | 35,574 | (322) | 37,965 | 82,072 |
| Benefits payments and refunds | (45,403) | (50,005) | (50,827) | (56,548) |
| Pension plan administrative expense | (1,327) | (1,466) | (1,397) | (1,562) |
| Net change in plan fiduciary net position | <u>42,909</u> | <u>6,155</u> | <u>41,846</u> | <u>83,455</u> |
| Ending total plan fiduciary net position (d) | <u>638,019</u> | <u>644,174</u> | <u>686,020</u> | <u>769,475</u> |
| Beginning net pension liability (a-c) | <u>313,890</u> | <u>333,604</u> | <u>384,735</u> | <u>420,169</u> |
| Ending net pension liability (b-d) | <u>\$ 333,604</u> | <u>384,735</u> | <u>420,169</u> | <u>420,116</u> |
| Plan fiduciary net position as a percentage of the total pension liability (d/b) | 65.67% | 62.61% | 62.02% | 64.68% |
| Covered payroll | \$ 149,686 | 152,696 | 157,303 | 163,995 |
| City's net pension liability as a percentage of covered payroll | 222.87% | 251.96% | 267.11% | 256.18% |

Notes to Changes in the Police Officers' Net Pension Liability and Related Ratios

The Police Officers' fund had no significant changes of benefit terms, and no other significant factors that affected measurement of the total pension liability during the years ended December 31, 2017, 2015 or 2014. For the year ended December 31, 2016 there were no changes to benefit terms that affected measurement of the total pension liability; there were, however, the following assumption changes:

- The investment return assumption has been decreased from 7.80% to 7.70% (decreasing 0.30% over the last three years)
- The core inflation rate assumption has been decreased from 3.25% to 3.00%,
- The general wage inflation rate assumption has been decreased from 3.50% to 3.25%,
- The assumed rates of salary increase have been amended at most service points, and
- The payroll growth assumption has been increased from 3.50% to 4.00%.

RETIREMENT PLANS-TREND INFORMATION, continued

Schedule of Changes in the Fire Fighters' Net Pension Liability and Related Ratios (in thousands)

| | 2014 | 2015 | 2016 | 2017 |
|---|------------------|----------------|----------------|------------------|
| Beginning total pension liability (a) | \$ 806,282 | 861,468 | 913,618 | 977,723 |
| Changes for the year: | | | | |
| Service cost | 25,319 | 23,309 | 24,323 | 23,830 |
| Interest | 62,977 | 66,405 | 70,893 | 75,812 |
| Benefit Changes | -- | -- | 5,491 | 8,964 |
| Differences between expected and actual experience | -- | 7,193 | 8,893 | 4,360 |
| Assumption changes | 4,883 | -- | -- | -- |
| Benefit payments including refunds | (37,993) | (44,757) | (45,495) | (51,888) |
| Net change in total pension liability | <u>55,186</u> | <u>52,150</u> | <u>64,105</u> | <u>61,078</u> |
| Ending total pension liability (b) | <u>861,468</u> | <u>913,618</u> | <u>977,723</u> | <u>1,038,801</u> |
| Beginning total plan fiduciary net position (c) | <u>752,622</u> | <u>789,433</u> | <u>785,211</u> | <u>829,610</u> |
| Changes for the year: | | | | |
| Employer contributions | 18,670 | 19,222 | 19,104 | 19,242 |
| Employee contributions | 14,660 | 15,547 | 15,884 | 16,319 |
| Pension plan net investment income | 42,005 | 6,328 | 55,569 | 141,915 |
| Benefits payments and refunds | (37,993) | (44,757) | (45,496) | (51,888) |
| Pension plan administrative expense | (531) | (562) | (662) | (1,400) |
| Net change in plan fiduciary net position | <u>36,811</u> | <u>(4,222)</u> | <u>44,399</u> | <u>124,188</u> |
| Ending total plan fiduciary net position (d) | <u>789,433</u> | <u>785,211</u> | <u>829,610</u> | <u>953,798</u> |
| Beginning net pension liability (a-c) | <u>53,660</u> | <u>72,035</u> | <u>128,407</u> | <u>148,113</u> |
| Ending net pension liability (b-d) | <u>\$ 72,035</u> | <u>128,407</u> | <u>148,113</u> | <u>85,003</u> |
| Plan fiduciary net position as a percentage of the total pension liability (d/b) | 91.64% | 85.95% | 84.85% | 91.82% |
| Covered payroll | \$ 84,589 | 83,979 | 86,632 | 87,266 |
| City's net pension liability as a percentage of covered payroll | 85.16% | 152.90% | 170.97% | 97.41% |

Notes to Changes in the Fire Fighters' Net Pension Liability and Related Ratios

There were no significant assumption or benefit changes or any other significant factors that affected measurement of the total pension liability for the Fire Fighter's Fund during the years ended December 31, 2017, 2016, 2015, or 2014.

RETIREMENT PLANS-TREND INFORMATION, continued

Information pertaining to City contributions to the retirement systems for the fiscal year ending September 30, 2018, is shown in the following two tables (in thousands). An actuarially determined contribution was calculated for the City Employees' fund but was not calculated for the other two funds.

Schedule of Actuarially Determined City Contributions to the City Employees' Fund
 (in thousands)

| Fiscal Year Ended September 30 | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as a % of Covered Payroll |
|--------------------------------|-------------------------------------|---------------------|----------------------------------|-----------------|---|
| | \$ | \$ | \$ | \$ | |
| 2015 | 96,554 | 97,655 | (1,101) | 540,110 | 18.08% |
| 2016 | 109,725 | 102,609 | 7,116 | 566,227 | 18.12% |
| 2017 | 119,038 | 108,929 | 10,109 | 600,726 | 18.13% |
| 2018 | 123,058 | 114,149 | 8,909 | 630,631 | 18.10% |

Notes to Schedule of Actuarially Determined City Contributions to the City Employees' Fund

Valuation Date: December 31 of each calendar year occurring during the fiscal year.
Notes: Members and employers contribute based on statutorily fixed or negotiated rates. A funding period is solved for through open group projections.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method: Entry Age Normal (all years)
 Asset Valuation Method: 2017 forward - Expected actuarial value plus 20% recognition of prior years' differences between expected and actual investment income
 2016 and 2015 - 20% of market plus 80% of expected actuarial value
 Inflation: 2.75% for 2016 forward, 3.25% for 2015
 Salary Increases: 4.00% to 6.25% for 2016 forward, 4.50% to 6.00% for 2015
 Investment Rate of Return: 7.50% for 2016 forward, 7.75% for 2015
 Retirement Age: 2016 forward - Experience-based table of rates that are gender specific. Last updated for December 31, 2015 valuation pursuant to an experience study of the 5-year period ending December 31, 2015.
 2015 - For previous valuation updated on December 31, 2012 valuation pursuant to an experience study of the 5-year period ending December 31, 2011.
 Mortality: 2016 forward - RP-2014 Mortality Table with Blue Collar adjustment. Generational mortality improvements in accordance with Scale BB are projected from the year 2014.
 For 2015 RP-2000 Mortality Table with White Collar adjustment and multipliers of 110% for males and 120% for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.

Other Information: There were no benefit changes during the periods displayed.

RETIREMENT PLANS-TREND INFORMATION, continued

Schedule of Statutorily Required City Contributions to the Police Officers' Fund and the Fire Fighters' Fund
 (in thousands)

| Fiscal Year Ended September 30 | Statutorily Required Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as a % of Covered Payroll (1) |
|--------------------------------|-----------------------------------|---------------------|----------------------------------|-----------------|---|
| | \$ | \$ | \$ | \$ | |
| Police Officers | | | | | |
| 2015 | 32,942 | 32,942 | -- | 152,229 | 21.64% |
| 2016 | 33,141 | 33,141 | -- | 155,476 | 21.32% |
| 2017 | 34,717 | 34,717 | -- | 162,891 | 21.31% |
| 2018 | 34,944 | 34,944 | -- | 163,956 | 21.31% |
| Fire Fighters | | | | | |
| 2015 | 18,327 | 18,327 | -- | 83,118 | 22.05% |
| 2016 | 19,145 | 19,145 | -- | 86,826 | 22.05% |
| 2017 | 19,104 | 19,104 | -- | 86,642 | 22.05% |
| 2018 | 19,809 | 19,809 | -- | 89,834 | 22.05% |

(1) Statutorily required contribution for Police Officers decreased from 21.63% in 2015 to 21.313% in 2016.

Supplementary information for each plan as well as information on where to obtain plan financial statements can be found in Note 7.

OTHER POSTEMPLOYMENT BENEFITS-TREND INFORMATION

Schedule of Changes in the City of Austin OPEB Liability and Related Ratios (in thousands)

| | |
|--|---------------------|
| | 2017 |
| Beginning total OPEB liability | <u>\$ 2,055,627</u> |
| Changes for the year: | |
| Service cost | 86,687 |
| Interest | 80,132 |
| Differences between expected and actual experience | 64,227 |
| Assumption changes | 283,099 |
| Expected benefit payments | (44,875) |
| Net change in total OPEB liability | <u>469,270</u> |
| Ending total OPEB liability | <u>\$ 2,524,897</u> |
| Covered-employee payroll | \$ 968,403 |
| City's total OPEB liability as a percentage of covered-employee payroll | 260.73% |

The OPEB plan had no changes in benefit terms during the period. Assumption changes included:

- Lowering the discount rate from 3.78% to 3.44% based on Bond Buyer US Weekly Yields 20 General Obligation Bond Index as of the measurement date,
- Updating medical and prescription drug claim costs to reflect more recent experience,
- Modifying medical and prescriptions drug trend rates by splitting the single category from the previous valuation into three categories for the current valuation, grading these categories for different periods, and lowering the ultimate trend rate from 5.0% to 4.5%, and
- Updating third-party administrator and vendor administrative expenses to reflect more recent contracts and assumed trends on such costs.

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.

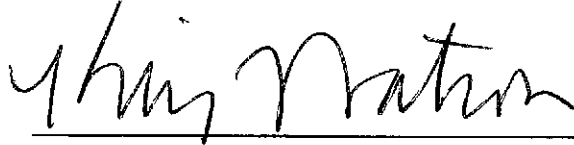
Section 18. SEVERABILITY. If any provision of this Ordinance or the application thereof to any circumstance shall be held to be invalid, the remainder of this Ordinance and the application thereof to other circumstances shall nevertheless be valid, and the City Council hereby declares that this Ordinance 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)

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APPENDIX D

SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO PRIOR SUBORDINATE LIEN OBLIGATIONS

References to the “Bonds” contained in this Appendix D refer to Prior Subordinate Lien Obligations previously issued and secured by the Net Revenues of the Combined Utility Systems, and do not refer to the current issuance of the Electric Utility System Revenue Bonds, Taxable Series 2019A, nor the Parity Electric Utility System obligations.

Additionally, references to Prior Lien Bonds in this Appendix D are not applicable due to the fact that no previously issued Prior Lien Bonds are outstanding as of May 15, 2019.

Definitions. The following definitions are provided:

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 [an ordinance related to Prior Subordinate Lien Obligations], 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.

Subordinate Lien Bonds-shall mean the outstanding revenue bonds of those series designated (i) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998," dated October 1, 1998 and (ii) "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.

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

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

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

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

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

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

Records and Accounts. The City hereby covenants and agrees that so long as any of the Bonds or any interest thereon remains Outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the Waterworks and Sewer System and the Electric Light and Power System in which complete and correct entries shall be made of all transactions relating thereto, as provided by Article 1113, V.A.T.C.S. The Holders of any Bonds or any duly authorized agent or agents of such Holders shall have the right at all reasonable times to inspect such records, accounts and data relating thereto, and to inspect the respective Systems and all properties comprising same. The City further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

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

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

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

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

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

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

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

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

(b) Any moneys so deposited with the Paying Agent/Registrar, or an authorized escrow agent, may at the direction of the City also be invested in Government Obligations, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Government Obligations not required for the payment of the obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City or deposited as directed by the City.

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

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

Remedy in Event of Default. In addition to all rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Interest and Redemption Fund or the Reserve Fund as required by the ordinances authorizing the issuance of the Prior Lien Bonds or the Subordinate Lien Bonds, as the case may be, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in such ordinances, the Holders of any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed

in the ordinance authorizing their issuance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

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

Special Obligations. The Bonds are special obligations of the City payable from the pledged Net Revenues of the Systems and the Holders shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

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APPENDIX E

FORM OF BOND COUNSEL'S OPINION

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[Closing Date]

Norton Rose Fulbright US LLP
2200 Ross Avenue, Suite 3600
Dallas, Texas 75201-7932
United States

Tel +1 214 855 8000
Fax +1 214 855 8200
nortonrosefulbright.com

IN REGARD to the authorization and issuance of the “City of Austin, Texas, Electric Utility System Revenue Bonds, Taxable Series 2019A,” dated _____, 2019, in the principal amount of \$464,540,000 (the “Bonds”), we have examined into their issuance by the City of Austin, Texas (the “City”), solely to express legal opinions as to the validity of the Bonds and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Bonds mature on November 15 in each of the years specified in the pricing certificate (the “Pricing Certificate”) executed pursuant to an ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (jointly with the Pricing Certificate, the “Ordinance”), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. 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 Ordinance.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Bonds, including the Ordinance, Ordinance No. 010118-53A adopted by the City on January 18, 2001 (the “Master Ordinance” and together with the Ordinance, the “Ordinances”) and an examination of the initial Bond executed and delivered by the City (which we found to be in due form and properly executed); (ii) certifications of officers of the City relating to certain facts within the knowledge and control of the City and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable laws of the State of Texas in force and effect on the date hereof, that the Bonds have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding and enforceable obligations of the City and, together with the outstanding and unpaid “Previously Issued Electric Utility Obligations” and “Prior Subordinate Lien Obligations” (identified and defined in the Ordinances), are payable solely from and equally and ratably secured by a lien on and pledge of the Net Revenues of the Electric Utility System (as defined in the Ordinances), except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency,

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Re: “City of Austin, Texas, Electric Utility System Revenue Bonds, Taxable Series 2019A”

reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with the general principles of equity.

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.

APPENDIX F

DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

The information set forth in this Appendix F is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream Banking (DTC, Euroclear and Clearstream Banking together, the "Clearing Systems") currently in effect. The information set forth in this Appendix F concerning the Clearing Systems has been obtained from sources that the City believes to be reliable, but none of the City, the Paying Agent/Registrar or the Underwriters take any responsibility for the accuracy, completeness or adequacy of the information in this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. The City will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

NEITHER THE CITY NOR THE PAYING AGENT/REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

DTC Book-Entry Only System

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

DTC 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," and together with Direct Participants, "Participants"). 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 the 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 Direct and Indirect 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 Direct or Indirect 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 Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect 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.

Redemption notices shall be sent to DTC. Subject to the provisions described in the forepart under the heading "DESCRIPTION OF THE BONDS - Redemption of the Bonds," if less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, Redemption Price and Make-Whole Redemption Price, if any, and interest 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 the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers registered in "street name," and will be the responsibility of such Participant and not of DTC, the Underwriters, 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 principal, Redemption Price, Make-Whole Redemption Price and interest 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 securities 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 securities depository is not obtained, such Bond certificates are required to be printed and delivered. The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Bond certificates will be printed and delivered to DTC.

Each person for whom a Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments.

NONE OF THE CITY, THE UNDERWRITERS OR THE PAYING AGENT/REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein to Bondholders or registered owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Paying Agent/Registrar to DTC only.

For every transfer and exchange of Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

The City, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Bonds if the City determines that (i) DTC is unable to discharge its responsibilities with respect to the Bonds, or (ii) a continuation of the requirement that all of the outstanding Bonds be registered in the registration books kept by the Paying Agent/Registrar in the name of Cede & Co., as nominee of DTC, is not in the best interests of the Beneficial Owners.

NONE OF THE CITY, THE UNDERWRITERS OR THE PAYING AGENT/REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO: (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE SIXTEENTH SUPPLEMENT; (III) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL, REDEMPTION PRICE OR MAKE-WHOLE REDEMPTION PRICE, OR INTEREST DUE WITH RESPECT TO THE BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE BONDS; OR (VI) ANY OTHER MATTER.

Euroclear and Clearstream Banking

Euroclear and Clearstream Banking each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream Banking provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream Banking also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream Banking have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream Banking customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream Banking is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system, either directly or indirectly.

Clearing and Settlement Procedures

The Bonds sold in offshore transactions will be initially issued to investors through the book-entry facilities of DTC, or Clearstream Banking and Euroclear in Europe if the investors are participants in those systems, or indirectly through organizations that are participants in the systems. For any of such Bonds, the record holder will be DTC's nominee. Clearstream Banking and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream Banking's and Euroclear's names on the books of their respective depositories.

The depositories, in turn, will hold positions in customers' securities accounts in the depositories' names on the books of DTC. Because of time zone differences, the securities account of a Clearstream Banking or Euroclear participant as a result of a transaction with a participant, other than a depository holding on behalf of Clearstream Banking or Euroclear, will be credited during the securities settlement processing day, which must be a business day for Clearstream Banking or Euroclear, as the case may be, immediately following the DTC settlement date. These credits or any transactions in the securities settled during the processing will be reported to the relevant Euroclear participant or Clearstream Banking participant on that business day. Cash received in Clearstream Banking or Euroclear as a result of sales of securities by or through a Clearstream Banking participant or Euroclear participant to a Direct Participant, other than the depository for Clearstream Banking or Euroclear, will be received with value on the DTC settlement date but will be available in the relevant Clearstream Banking or Euroclear cash account only as of the business day following settlement in DTC.

Transfers between DTC participants will occur in accordance with DTC rules. Transfers between Clearstream Banking participants or Euroclear participants will occur in accordance with their respective rules and operating procedures. Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Banking participants or Euroclear participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant depositories; however, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the system in accordance with its rules and procedures and within its established deadlines in European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream Banking participants or Euroclear participants may not deliver instructions directly to the depositories.

The City will not impose any fees in respect of holding the Bonds; however, holders of book-entry interests in the Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in DTC, Euroclear and Clearstream Banking.

Initial Settlement

Interests in the Bonds will be in uncertified book-entry form. Purchasers electing to hold book-entry interests in the Bonds through Euroclear and Clearstream Banking accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Bonds will be credited to Euroclear and Clearstream Banking participants' securities clearance accounts on the business day following the date of delivery of the Bonds against payment (value as on the date of delivery of the Bonds). Direct Participants acting on behalf of purchasers electing to hold book-entry interests in the Bonds through DTC will follow the delivery practices applicable to securities eligible for DTC's Same Day Funds Settlement system. Direct Participants' securities accounts will be credited with book-entry interests in the Bonds following confirmation of receipt of payment to the City on the date of delivery of the Bonds.

Secondary Market Trading

Secondary market trades in the Bonds will be settled by transfer of title to book-entry interests in DTC, Euroclear and Clearstream Banking. Title to such book-entry interests will pass by registration of the transfer within the records of DTC, Euroclear or Clearstream Banking, as the case may be, in accordance with their respective procedures. Book-entry interests in the Bonds may be transferred within DTC in accordance with procedures established for this purpose by DTC. Book-entry interests in the Bonds may be transferred within Euroclear and within Clearstream Banking and between Euroclear and Clearstream Banking in accordance with procedures established for these purposes by Euroclear and Clearstream Banking. Transfer of book-entry interests in the Bonds between DTC, Euroclear or Clearstream Banking may be effected in accordance with procedures established for this purpose by DTC, Euroclear and Clearstream Banking.

General

None of DTC, Euroclear or Clearstream Banking is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

None of the City, the Paying Agent/Registrar or the Underwriters will have any responsibility for the performance by DTC, Euroclear or Clearstream Banking or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

The information in this Appendix F concerning DTC, Euroclear and Clearstream Banking has been obtained from sources that the Underwriters believe to be reliable, but the Underwriters take no responsibility for the accuracy thereof or make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

