NOT A NEW ISSUE

COMMERCIAL PAPER OFFERING MEMORANDUM
DATED SEPTEMBER 18, 2014

CITY OF AUSTIN, TEXAS
(TRAVIS WILLIAMSON AND HAYS COUNTIES)
COMBINED UTILITY SYSTEMS COMMERCIAL PAPER NOTES, SERIES A

OFFERING

Goldman, Sachs & Co., as Commercial Paper Dealer, is offering for sale on behalf of the City of Austin, Texas (the "City"), commercial paper notes styled "City of Austin, Texas Combined Utility Systems Commercial Paper Notes, Series A (the "Notes") from time to time and at any one time outstanding in an aggregate principal amount not to exceed $400,000,000. Interest on the Notes is payable on an actual/365-day year basis, and the Notes will be sold at par.

The Notes are exempt from registration under Section 3(a)(2) of the Securities Act of 1933, as amended. In the opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, acting as bond counsel to the City ("Bond Counsel"), the interest on the Notes is excludable from gross income for federal income tax purposes under existing law (see "TAX EXEMPTION" in this document and Appendix C).

THE CITY OF AUSTIN

The City of Austin, chartered in 1839, has a Council-Manager form of government with a Mayor and six Councilmembers of the City (the "City Council"). Currently, the Mayor and Councilmembers are elected at large for three-year staggered terms with a maximum of two consecutive terms. The City Manager, appointed by the City Council, is responsible to them for the management of all City employees and the administration of all City affairs.

With the passage of amendments to the City Charter at an election held on November 6, 2012, several changes to the City Council will take place beginning with the November 4, 2014 election. The City Council will expand from 7 to 11 members (10 who are residents of specific geographic districts, with the mayor elected citywide); elections will move from May to November in even-numbered years; and Council terms will lengthen from 3 years to 4. The City Auditor oversaw the process which resulted in selection of a 14-member Independent Citizens Redistricting Commission (the "Commission"). The Commission received extensive public input before certifying the final redistricting plan and delivering it to City Council in November 2013. Additional information may be found at http://www.austintexas.gov/news/city-launches-website-assist-residents-single-member-districts and http://www.austinredistricting.org/wp-content/uploads/2013/11/Austin_Final-Plan.pdf.

The City is the capital of Texas, is the fourth largest city in the state (behind Houston, Dallas, and San Antonio) and the eleventh largest city in the nation with a September 2013 population of 841,649, according to the City's estimates. Over the past ten years, Austin's population has increased by approximately 23.1% or 158,098 residents. Geographically, Austin consists of approximately 321 square miles. The current estimated median household income for Austin residents is $49,227 according to Claritas, a Nielsen company. Austin's per capita income is estimated to be $45,581 based on analysis of the Bureau of Economic Analysis information.

THE SYSTEMS

The City owns and operates an Electric Utility System (also referred to in this document as "Austin Energy") and a Water and Wastewater System (also referred to in this document as the "Austin Water Utility" or the "Water and Wastewater Utility") which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and wastewater services. The City owns all the facilities of the Water and Wastewater System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet Electric Utility System demand. As of September 30, 2014, the Electric Utility System had approximately 1,673 full-time regular employees and the Water and Wastewater System had approximately 1,157 full-time regular employees.

THE ELECTRIC UTILITY SYSTEM

Service Area

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

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

Real Estate Taxes

Austin Energy pays no real property taxes on facilities inside or outside the City, nor payments in lieu of taxes with respect to Austin Energy.

Physical Property

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

Fuel Type

Coal . . . Coal supply and rail transportation are procured through a portfolio of contracts designed to minimize cost. Typically, several weeks of coal inventory are maintained to protect against disruptions. Coal inventories are managed within targeted ranges, and depending on the efficiency of railroad performance, train sets are either removed from or added to service to maintain desired inventory levels.

Austin Energy's coal inventory share was at 62 days at April 30, 2014. Austin Energy's coal inventory is targeted to be 40-70 days.

Natural Gas . . . Austin Energy utilizes a portfolio of gas contracts and multiple pipelines in an effort to diversify risk and minimize cost. See "CUSTOMER RATES – Energy Risk Management".

Nuclear . . . The South Texas Project Nuclear Operating Company ("STPNOC"), on behalf of the owners of the South Texas Project (see "THE ELECTRIC UTILITY SYSTEM - South Texas Project Electric Generating Station" in this document), is responsible for the supply of nuclear fuel and for the disposal of spent fuel for the South Texas Project Electric Generating Station ("STP"). 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.

Fayette Power Project

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

FPP installed scrubbers on Units 1 and 2 in 2011 to meet SO2 permit levels and to help meet limits of air toxics in the recently finalized federal Mercury and Air Toxics Standards (MATS) rules. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental Regulation Related to Air Emissions – Mercury and Air Toxics Standards (MATS)" in this document. Austin Energy's share of the final cost is $197 million. The scrubbers, in combination with other existing control equipment, are equipped to help the facility meet the majority of the MATS limits; however, some smaller scale add-on enhancements is required to meet the mercury limits before the 2015 compliance deadline, at a projected cost of approximately $8 million for Austin Energy. For additional information regarding the FPP, see "STRATEGIC PLANS, GOALS AND POLICIES - Goals Summary" in this document.

South Texas Project Electric Generation Station

STP is a two-unit pressurized water reactor nuclear power plant system that produces 2,700 megawatts of electricity. 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. Mr. Dennis Koehl, a former Xcel Energy Inc. Sr. Vice President, assumed the position of CEO and Chief Nuclear Officer for STP on October 15, 2012.

South Texas Project Ownership

STP is a two-unit nuclear power plant with Unit 1 and Unit 2 (or Units 1 and 2) having a nominal output of approximately 1,350 MW each. Participant Ownership ("Participants") in STP Units 1 and 2 and their percentage of ownership are as follows:

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

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

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

STP Units 1 and 2 each have a 40-year Nuclear Regulatory Commission ("NRC") license that expires in 2027 and 2028, respectively. Under NRC regulations, the STP owners can request a 20-year license renewal. The STP license renewal project process is underway for Units 1 and 2. NRC review of the license renewal application is proceeding on schedule and with no significant challenges. Three hundred requests for additional information were received from the NRC. The NRC is presently preparing draft Supplemental Environmental Impact Statements in support of the new extended license. Contention petitions were denied and are now closed. While the process for licensing new and existing plants will move forward, the NRC has voted that no final licensing decisions will be made until burial waste issues (Waste Confidence Rule) are resolved. Presently, STP License Renewal Activities and NRC review were resumed January 2014. Several activities and confirmatory items are remaining before the final decision and granting of an extended license. The NRC approval timeline is forecasted to be in late 2014 to early 2015.

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

Low Pressure turbine upgrades were completed in 2007 for Units 1 and 2. The replacement resulted in an additional 136.9 MW of capacity, of which Austin Energy's share is 21.9 MW. A major capital project was the replacement of reactor vessel heads in 2009 and 2010 as a proactive move to eliminate reactor head corrosion issues found throughout the industry and reported at other facilities.

CUSTOMER RATES

Retail Service Rates

The City Council has original jurisdiction over Austin Energy's retail electric rates. Ratepayers outside the City can appeal rate changes to the PUCT under section 33.101 of the Public Utility Regulatory Act (Texas Utilities Code, Chapter 33, "PURA") by the filing of a petition with the PUCT containing the requisite number of valid signatures from residential ratepayers who take service outside the City's corporate limits.

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

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

- Power Supply Adjustment recovers dollar-for-dollar fuel and power supply costs.
- Regulatory Charge: recovers dollar-for-dollar Austin Energy's retail transmission expense and other regulatory expenses, such as environmental costs.
- Customer Assistance Program costs: All customers fund utility bill discounts for low income customers. Austin Energy was able to more than double the number of customers assisted annually, and is now providing assistance to 35,000.
- Service Area Streetlights costs: All customers living inside the city limit pay a charge to maintain and power the streetlights and traffic signals in the City. Outside the City customers do not pay this rate, and other City entities are charged for the costs to provide street lights in areas outside the City.
- Energy Efficiency Services costs: Austin Energy's energy efficiency programs costs are charged to all customers.

Residential rates and structure: Residential customers pay the pass through charges for Power Supply costs, Regulatory charges and a Community Benefit Charge to pay for low income and energy efficiency programs, and street lights.

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

Industrial rates: While new industrial rates were approved by City Council, most current industrial customers have signed contracts which are set to expire in 2015.

Residential ratepayers taking service outside the City's corporate limits appealed the rate change to the PUCT (PUC Docket No. 40627). The parties to the appeal signed a settlement agreement on March 22, 2013, and the settlement was approved by the PUCT on April 29, 2013. The settlement which became effective on June 1, 2013, sets rates for the outside City customers.

Transmission Rates

The PUCT has exclusive jurisdiction over rates and terms and conditions for the provision of transmission services by the City. On June 9, 2006, the PUCT approved the City's most recent wholesale transmission rate of $1.002466/kW. Transmission revenues totaled $63 million in fiscal year 2013 and are expected to total approximately $63 million in fiscal year 2014 as well. 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

In March 2001, Austin Energy adopted a GreenChoice® Energy charge for renewable energy. Customers who subscribe to the GreenChoice program will pay, in lieu of the fuel adjustment factor, a renewable energy charge as determined by Austin Energy. Austin Energy's GreenChoice program has led all voluntary utility green-pricing programs in the nation in kilowatt-hours of renewable energy sold during its first decade of operation, as ranked by the National Renewable Energy Laboratory. Subscribers see the fuel charge on their electric bill replaced with a GreenChoice charge that remains fixed for 5 years or more, depending on the contracted renewable energy source. The GreenChoice program is Green-e Energy certified. Green-e Energy is the nation's leading independent consumer protection program for the sale of renewable energy and greenhouse gas reductions in the retail market.

GreenChoice Sales (kWh) by Calendar Year	
2004	344,446,101
2005	434,040,739
2006	580,580,401
2007	577,636,840
2008	723,824,901
2009	764,895,830
2010	754,203,479
2011	698,703,263
2012	744,442,709
2013	863,956,193

Power and Energy Sales Contracts

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

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, which consists of seven members (four Austin Energy representatives, two City Financial Services representatives and one Assistant City Attorney). Under this program, Austin Energy enters into futures contracts, options, and swaps for the purpose of reducing exposure to natural gas and energy price risk over a five year time horizon. Use of these types of instruments for the purpose of reducing exposure to price risk is performed as a hedging activity. These contracts may be settled in cash or delivery of certain commodities. Austin Energy typically settles these contracts in cash.

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

Premiums paid for options are deferred until the contract is settled. As of September 30, 2013, $0.7 million in premiums was deferred. As of September 30, 2013, the fair value of Austin Energy's futures, options, swaps, and congestion rights was an unrealized loss of $52.6 million, of which $55.4 million is reported as derivative instruments in liabilities and $2.8 million is reported as derivative instruments in assets. The fair values of these derivative instruments are deferred until future periods on the balance sheet using deferred outflows and deferred inflows.

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, 2013.

Power and Energy Purchase Contracts

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

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

In March 1995, the City signed a 25-year contract with LCRA to purchase up to 10 MW of electric energy per year from the LCRA Texas Wind Power Project located in the Delaware Mountains east of El Paso. The project went into commercial operation in September 1995.

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

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

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

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

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

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

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

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

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

In February 2014, Austin Energy signed an 18-year contract with TX Jumbo Road Wind, LLC, an affiliate of Lincoln Renewable Energy, to purchase the output of a 300 MW wind energy facility located in Castro County, Texas. Commercial operation is expected to begin the fourth quarter of 2015.

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.

Transmission and Distribution System

The City and LCRA entered into the Fayette Power Project Transmission Agreement dated March 17, 1977, setting forth the duties, obligations and responsibilities with respect to the transmission of energy from the FPP. 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.

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

Historically, electric utilities operating in the State have not had any significant interstate connections, and hence investor owned utilities have not been subject to regulation by the Federal Energy Regulatory Commission ("FERC") and its predecessor agencies under the Federal Power Act. Over the past several years, successive 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's have earned their ISO 9001 registration. The Electric Service Delivery ("ESD") division responsible for the construction, maintenance and operation of Austin's electric system became the first of any utility in the nation to earn ISO 9001:2000 registration. ISO (International Organization for Standardization) 9000 is a series of international quality standards

designed to ensure that all activities related to providing and delivering a product or service are appropriately quality assured. To earn the registration, applicants must develop a Quality Management System that reflects standards of performance for every major process, in this case, related to building, maintaining and repairing the electric system. Auditors from the National Standards Authority of Ireland ("NSAI"), the worldwide entity that certifies ISO quality management program, issued the registration on January 3, 2008. The certification followed a rigorous four-day review in December 2007 of the Electric Service Delivery Quality Management System by NSAI auditors. In June 2012, Austin Energy's Electric Service Delivery Quality Management System was re-registered under the ISO 9001:2008 standard. ESD continues to maintain their ISO certification.

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

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

Planning is underway to determine which Austin Energy business unit will be next to pursue this important business management endeavor.

Conventional System Improvements

In September 2013, the 2014-2018 Capital Improvements Spending Plan was approved by the City Council in the amount of $1,180,917,403. Austin Energy's five-year spending plan provides continued funding for distribution and street lighting additions including line extensions for new service, system modifications for increased load, and relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for transmission, generation and other general additions. Funding for the total Capital Plan is expected to be provided from current revenues and the issuance of commercial paper which from time to time will be refinanced with long-term debt.

Austin Energy Smart Meter Installation Program

Austin Energy initiated a pilot project in 2001 to evaluate the then new automated meter technology. Austin Energy installed (1-way) automated meter read ("AMR") meters at apartment buildings throughout Austin, 107,500 of which are still installed. These AMR meters communicate daily meter reads via radio signals. AMR metering is component of the Automated Metering Infrastructure (AMI), which has matured in technology and function over time. In 2008, Austin Energy began the second phase of its smart meter program to exchange the remaining 300,000 electro-mechanical customer meters with second generation-2-way AMR meters. These AMR meters also communicate daily meter reads via radio signals. The 2-Way AMR meter deployment was completed in 2010. Continued improvements in the AMI technology now provide for more robust functionality. Austin Energy is beginning the replacement of its remaining 1-way AMR meters to 2-way meters with the expected final conversion completed by 2018. (Austin Energy currently has approximately 434,000 AMR meters installed: 107,500 1-Way residential meters, 280,500 2-Way residential meters and 46,000 2-Way

commercial and industrial meters).

STRATEGIC PLANS, GOALS AND POLICIES

Strategic Plan

In December 2003, the City Council approved a strategic plan for Austin Energy. The plan identified three strategies to position Austin Energy for continued success.

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

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

Third, an Energy Resource strategy directs Austin Energy to seek cost-effective renewable energy and conservation solutions to meet customers' new energy needs before resorting to traditional fossil fuel sources. In keeping with the risk management approach, Austin Energy has developed a Resource, Generation and Climate Protection Plan to 2020 discussed further in the next section.

Austin Energy Resource, Generation, and Climate Protection Plan to 2020

In February 2007, the City Council passed Resolution 20070215-023, directing the City Manager to develop, implement, and report to the City Council annually upon the implementation and progress of policies, procedures, and targets as necessary to make Austin the leading city in the nation in the effort to reduce and reverse the negative impacts of global warming. This resulted in the creation of the Austin Climate Protection Program to implement this resolution and help the City build a more sustainable community.

The Austin Climate Protection Program has worked with all 23 departments with the City to create a tailored climate protection plan to ensure that departmental operations were reducing greenhouse gas emissions from energy, water, waste, purchasing, education and transportation. Austin Energy developed the Resource, Generation, and Climate Protection Plan to 2020 (the "Plan") to meet these objectives for utility operations. The City Council adopted the Plan on April 22, 2010, as a resource planning tool that brings together demand and energy management options over the planning horizon.

Developing the Plan involved extensive analysis of the expected risks, costs, and opportunities to meet the future demand for electricity services. The goals outlined in this document are based on Austin Energy's current understanding of technology and of national, state and local energy policies. The primary goals of the Plan are by 2020 to achieve 800 MW in energy efficiency, 35% renewable energy generation, and CO_2 emissions 20% below 2005 levels.

The Plan is designed to be flexible and dynamic. As circumstances change, the City must maintain the flexibility to modify elements to respond to a range of factors, including economic conditions, customer

load, fuel prices and availability, infrastructure build-out, technological development, law and regulations, policy direction, and customer needs. Therefore, as conditions change, the Plan will be adapted and modified to manage risk, maintain system and service reliability, achieve policy goals, and meet customer demand for excellence in all aspects of service. As each significant implementation step is undertaken through contracts, purchases or other arrangements, Austin Energy's recommendations to the City Council will be supported by assessment of impacts on all customers and by charting the progress each step will make toward achieving the goals outlined in this Plan.

Austin Energy will review the Plan annually and issue a report on performance against goals. Austin Energy expects that it will reassess the Plan in a public forum every two years, the first of which took place in 2012. Every major resource decision and Plan change will be taken before the City Council for review and authorization. The Plan demonstrates that customers and the community can indeed expect equitable, economic, and environmentally responsible electric services.

Goals Summary

Austin Energy has adopted the following changes and additions to its current resource planning goals, with a target of meeting these goals by 2020:

- Increase the energy efficiency goal from 700 MW to 800 MW
- Increase the renewable energy goal from 30% to 35%
- Increase the solar component of the renewable energy goal from 100 MW to 200 MW including 100 MW of local solar, at least half of which will come from customer based systems.
- Establish a CO_2 reduction goal of 20% below 2005 level

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

Coal/Nuclear. The Plan recognizes current ownership levels in the STP and the FPP. Plan implementation would effectively reduce by about 24% the amount of energy Austin Energy receives from the FPP by 2020 to meet customer load. That reduction figures prominently in the Austin Energy goal to reduce its greenhouse gas emissions within the planning horizon by 20% from 2005 levels.

Natural Gas. The Plan calls for the build out of the gas-fueled Sand Hill Energy Center to add 200 megawatts of combined cycle capacity. This is in addition to the recently completed installation of 90 MW of peaking units at the facility.

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

Wind. The majority of the Austin Energy renewables goal will be met through wind-generated power. As of September 30, 2013, wind generation totals 850.9 MW of capacity. Austin Energy has executed

additional wind contracts for 700.0 MW of capacity which will begin commercial operation in 2015 and 2016. The Plan that was updated in 2012 calls for total wind capacity by 2020 of 1,137 MW. See "CUSTOMER STATISTICS - Power and Energy Purchase Contracts" in this document.

Solar. Installed solar capacity will increase from 30 MW to 200 MW by 2020. In February 2009, the City Council approved a 25-year contract under which Austin Energy now purchases the annual output of a 30 MW solar farm located near Webberville on Austin Energy property in Travis County, Texas. That project commenced commercial operation in December 2011 and is one of the nation's largest solar projects. On October 24, 2013, the City Council passed a resolution to amend the existing Austin Energy Resource, Generation and Climate Protection to 2020 to specify that 50% of the previously adopted 200 MW goal will be local solar, and at least 25% of the 200 MW goal will be local customer-owned solar.

On June 27, 2013, the City Council passed Resolution 20130627-066, directing the City Manager to develop a comprehensive plan to eliminate coal from Austin Energy's portfolio by 2015-18, including options for retirement, sale and further reduction and replacement of generation facilities. A presentation to the City Council on February 4, 2014 included an update on this resolution. The presentation noted that eliminating FPP from Austin Energy's portfolio has near term financial impacts, regulatory and contractual implications, regardless of replacement strategy. The report also noted that all elimination options result in large impacts to customer rates and cash reserves, but did recommend establishing a target retirement date of 2025 for FPP and continue with the current plan to reduce FPP output starting in 2020. Future actions to build, acquire, replace or remove resources will be presented to City Council in September 2014. On February 25, 2014, Austin Energy officially commenced a public process to update the Resources, Generation and Climate Protection Plan to 2020 and expects to present the updated plan to the City Council before the end of calendar year 2014.

Financial Policies

In a constantly changing electric utility industry, Austin Energy continues to follow strong financial policies aimed at maintaining financial integrity while allowing for flexibility to respond to market and regulatory challenges. Some of the more significant financial policies reviewed and approved annually by the City Council during the budget process are:

- Current revenue, which does not include the beginning balance, will be sufficient to support current expenditures (defined as "structural balance"). However, if projected revenue in future years is not sufficient to support projected requirements, the ending balance may be budgeted to achieve structural balance.

- Debt Service coverage of a minimum of 2.0x shall be targeted for the Electric Utility Bonds. All short-term debt, including commercial paper, and non-revenue obligations will be included at 1.0x.

- A Strategic Reserve Fund shall be created and established, replacing the Debt Management Fund. It will have three components:
  - An Emergency Reserve with a minimum of 60 days of non-power supply operating requirements.

- Up to a maximum of 60 days of additional non-power supply operating requirements set aside as a Contingency Reserve.
- Any additional funds over the maximum 120 days of non-power supply operating requirements may be set aside in a Rate Stabilization Reserve.

- The Emergency Reserve shall only be used as a last resort to provide funding in the event of an unanticipated or unforeseen extraordinary need of an emergency nature, such as costs related to a natural disaster, emergency or unexpected costs created by Federal or State legislation. The Emergency Reserve shall be used only after the Contingency Reserve has been exhausted. The Contingency Reserve shall be used for unanticipated or unforeseen events that reduce revenue or increase obligations such as extended unplanned plant outages, insurance deductibles, unexpected costs created by Federal or State legislation, and liquidity support for unexpected changes in fuel costs or purchased power which stabilize fuel rates for Austin Energy customers. In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted amount within two years. A Rate Stabilization Reserve shall be created and established, replacing the Competitive Reserve in FY 2011-2012, for the purpose of stabilizing electric utility rates in future periods. The Rate Stabilization Reserve may provide funding for: (1) deferring or minimizing future rate increases, (2) new generation capacity construction and acquisition costs and (3) balancing of annual power supply costs (net power supply/energy settlement cost). The balance shall not exceed 90 days of net power supply costs. Funding may be provided from net revenue available after meeting the General Fund Transfer, capital investment (equity contributions from current revenue), Repair and Replacement Fund, and 45 days of working capital.

- The General Fund Transfer shall not exceed 12% of Austin Energy's three-year average revenues, calculated using the current year estimate and the previous two years' actual revenues from the City's Comprehensive Annual Financial Report.

A decommissioning trust shall be established external to the City to hold the proceeds for moneys collected for the purpose of decommissioning the STP. An external investment manager may be hired to administer the trust investments.

- A Non-Nuclear Plant Decommissioning Fund shall be established to fund plant retirement. The amount set aside will be based on a decommissioning study of the plant site. Funding will be set aside over a minimum of four years prior to the expected plant closure.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Rate Regulation

The City Council has original jurisdiction over Austin Energy's retail electric rates, while the PUCT sets Austin Energy's recoverable Transmission Cost of Service. Certain residential ratepayers outside the City 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, 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 leaves 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 offer Austin Energy's generation resources into the ERCOT markets. All power to serve Austin Energy's load is procured from the ERCOT market as well. Participation in the centralized ERCOT wholesale market allows Austin Energy to procure the cheapest source of supply possible to service its customers, whether that power is produced from Austin Energy's own generation resources or procured from the ERCOT market.

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

Federal Rate Regulation

Austin Energy is not subject to Federal statutes and regulation in the establishment of rates, the issuance of securities or the operation, maintenance or expansion of Austin Energy. Austin Energy submits various reports to FERC.

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

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

Environmental Regulation - General

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

Environmental Regulation Related to Air Emissions

CO_2, GHG New Source Performance Standard for new and existing Power Plants

The United States Environmental Protection Agency ("USEPA") in 2013 proposed New Source Performance Standards (NSPS) that set Greenhouse Gas (GHG) limits on any newly built power plants.

That rule is not expected to impact Austin Energy. The USEPA continues to gather stakeholder input to meet its June 2014 deadline for proposing a GHG NSPS for all existing power plants. The proposal is expected to provide directives to states on what to consider in setting a limit for existing plants and possibly ensure that some level of emissions reduction is achieved. However, unlike the new source NSPS, the details of how utilities can comply are expected to be left mostly up to individual states. For Austin Energy, this means working with the Texas Commission on Environmental Quality ("TCEQ") and other ERCOT utilities after the guidelines are proposed in June.

Mercury and Air Toxics Standards (MATS)

Published in February 2012, USEPA's final MATS rule sets new emissions limits for mercury and other toxic air emissions from coal and oil-fired electric utility boilers to be achieved by 2015. For Austin Energy, this rule applies to FPP units 1 and 2. The flue gas desulphurization ("FGD") units or "scrubbers" that were put in operation in 2011 remove a significant portion of the air toxics to below the new limits. Although the scrubbers remove some mercury, some additional "add-on" equipment will be necessary to enhance the removal of mercury in existing emissions control equipment to below the new limit. Austin Energy and co-owner LCRA are proceeding with the engineering and planning phase of installing that equipment. A preliminary estimate of Austin Energy's share of that capital expense is approximately $8 million. With the scrubbers already in operation, Austin Energy and LCRA are well-positioned to comply with the MATS rule.

Maintenance Start-up and Shutdown Permits

In 2011, Austin Energy and all owners of large electric generating units in Texas applied to the TCEQ for permits to cover routine Maintenance, Start-up and Shut-down emissions ("MSS"). Amended permits that account for MSS emissions have been issued to all Austin Energy facilities.

Cross-State Air Pollution Rule and Clean Air Interstate Rule

Austin Energy's large facilities have been complying with the Clean Air Interstate Rule ("CAIR"), a cap-and-trade program for annual NOx and SO2 emissions, since 2009. The USEPA finalized a court-mandated replacement for CAIR in 2011, called the Cross-State Air Pollution Rule ("CSAPR"), with compliance to begin in 2012 for annual NOx, annual SO2 and ozone season NOx emissions in 23 eastern- and mid-U.S. states including Texas. A federal court stayed CSAPR in late 2011 pending judicial review of the rule and in August 2012, the court vacated CSAPR holding that the USEPA had exceeded its authority in the way it apportioned cleanup responsibilities among the affected states. The USEPA appealed to the Supreme Court and in May 2014 won a reversal of the lower court decision to vacate the rule. It is now up to the lower court to reinstate CSAPR but it is not yet clear what the ultimate compliance requirements will be and when utilities will need to begin to comply. Austin Energy continues to comply with CAIR, the CSAPR predecessor, until the case is resolved, and Austin Energy continues to hold enough CAIR allowances for compliance in the foreseeable future.

On April 29, 2014, the United States Supreme Court ruled in *Environmental Protection Agency v. EME Homer City Generation, L.P.* (572 U.S. ___ (2014)) that the USEPA reasonably exercised its authority under the federal Clean Air Act in adopting CSAPR that had been vacated by lower federal court decisions. Specifically, the United States Supreme Court held that the federal Clean Air Act does not require states be giving a second opportunity to file a State Implementation Plan, that USEPA is not required to disregard costs and consider exclusively each upwind state's physically proportionate

responsibility for each downwind air quality problem, and that USEPA's cost-effective allocation of emission reductions among upwind states is a permissible and equitable interpretation of the federal Clean Air Act. The United States Supreme Court remanded this case and an accompanying case to the lower federal courts for further proceedings consistent with its opinion. Austin Energy continues to comply with CAIR, the CSAPR predecessor, until the cases are resolved and CSAPR, or a new rule supplementing or replacing CSAPR, is put in place.

Proposed revisions to the federal ozone National Ambient Air Quality Standard

In 2009 USEPA sought to revise the federal ozone national ambient air quality standards (NAAQS). However, despite proposing a more stringent standard in 2010, in 2011, the Obama Administration elected to incorporate the 2010 proposal into the subsequent review cycle, expected in 2014. A more stringent ozone NAAQS, such as USEPA proposed in 2010, has the potential to require emissions reductions at the state and local levels which may impact Decker Power Plant. EPA is expected to propose a revised NAAQS in December 2014.

Environmental Regulation Related to Water

Final 316(b) cooling water intake structure standards.

USEPA finalized rules in May 2014 that require power plants to ensure they meet "best available technology" to mitigate the impact on aquatic life of power plants' drawing in water to cool generators. The rule requires several characterization studies to occur in the next one to five years, which in turn will provide the state environmental agency with the information they will need to set site-specific requirements for Austin Energy's facilities. Those requirements may or may not include capital improvements to cooling water intake structures, however, notably, the rule recognizes the use of reservoirs built for the purpose of plant cooling as an acceptable technology for one major rule requirement, and Austin Energy facilities that use once-through cooling have such reservoirs. Additional financial risks will not be known for at least another year.

Proposed national power plant wastewater effluent standards.

The proposed rule would apply to wastewater discharges from steam generating electric facilities through incorporation into National Pollution Discharge Elimination Systems (NPDES) permits issued by USEPA or authorized states. The proposal considered a number of regulatory options for each of seven waste streams common to steam generating units: flue gas desulfurization (FGD) wastewater, fly ash transport water, bottom ash transport water, combustion residual leachate, flue gas mercury control (FGMC) wastewater, gasification wastewater, and nonchemical metal cleaning wastes. It is likely that electric generating units (EGUs) will be subject to several different standards based on which waste streams they possess, leading to significant increases in costs. The final rule is expected to be released in 2015.

Environmental Regulation Related to Hazardous Wastes and Remediation

The USEPA proposed a rule in 2010 that would set new requirements for the storage of Coal Combustion Residuals ("CCRs") and potentially reclassify those CCRs as a hazardous waste when stored in a landfill. The Fayette Power Project, like all coal burning plants, generates CCRs such as fly ash, bottom ash and gypsum. FPP currently recycles the majority of their 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 costs of the USEPA's proposed retrofit requirements for that ash pond would be avoided in the future since it is no longer active. A hazardous classification would result in new liability to Austin Energy and LCRA and likely costs to upgrade or design compliant landfills at the facility. The USEPA did not propose a hazardous classification for CCRs that are recycled for beneficial use, only stored; however, a hazardous classification could also result in reduced demand for CCRs and therefore greater volumes that would need to be stored in new onsite landfills. Austin Energy is in a similar position to all coal plants in the United States that burn coal and produce CCRs. The final rule is expected to be released in December 2014.

Environmental - Other

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

Nuclear Regulation

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

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

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

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

The owners of STP currently maintain $2.75 billion of nuclear property insurance, which is above the legally required amount of $1.06 billion, but is less than the total amount available for such losses ($2.75 billion is the maximum amount available for purchase from NEIL). Nuclear property insurance consists of $1.5 billion in primary property damage insurance and $1.25 billion of excess property damage insurance, both subject to a retrospective assessment being paid by all members of NEIL. In the event that property losses as a result of an accident at any nuclear plant insured by NEIL exceed the accumulated fund available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is $54.45 million during any one policy year. This number changes annually and is calculated as 10 times the current premium for each policy.

The NRC regulations set forth minimum amounts required to demonstrate reasonable financial assurance of funds for decommissioning of nuclear reactors. Beginning in 1990, each holder of an operating license is required to submit to the NRC a bi-annual report indicating how reasonable assurance would be provided. The City provides the required report on its share of STP to the NRC which is based on the minimum amount for decommissioning, excluding waste disposal, as required by the NRC regulations of $105 million per unit (January 1986 dollars). This minimum is required to be adjusted annually in accordance with the adjustment factor formula set forth in the regulations. The 2008 report provided by the City based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City has established an external irrevocable trust for decommissioning with JPMorgan Chase Bank, N.A. The City has been collecting for its share of anticipated decommissioning activities which may begin as early as 2027 through its rates since Fiscal Year 1989. The decommissioning trust market value on September 30, 2013 was $190,055,611.01. For Fiscal Year 2014, Austin Energy estimates that it will continue to collect approximately $5 million for decommissioning expense. In 2007 dollars, the minimum amount for decommissioning the City's share of STP is $221 million.

Recent Events Affecting the Nuclear Industry

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

issued draft versions of the ISGs on May 31, 2012 and asked for public input; the final ISGs reflect information gained from the month-long comment period and subsequent public meetings.

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

The second NRC order applies only to U.S. boiling-water 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.

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.

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 538 square miles. The City also has contracted to supply treated water on a wholesale basis to five municipal utility districts ("MUDs"), two water control and improvement districts ("WCIDs"), eight private water supply corporations, one private utility, the Cities of Manor, Rollingwood and Sunset Valley, and West Lake Hills. In addition, the City has had a Water Reclamation Initiative for nearly twenty years to develop facilities and processes to make treated wastewater effluent available for irrigation and cooling processes. The City established operating and capital funds for a Reclaimed Water Utility in addition to the Water and Wastewater operating and capital funds during fiscal year 2013.

The City has previously acquired the systems and assets of eleven WCIDs. The City has paid off and canceled the bonded indebtedness of all of these WCIDs. The TCEQ is empowered to grant the City a certificate of convenience and necessity to provide water and wastewater service to retail customers

outside the City's boundaries. The City is not required to obtain such a certificate. References to the TCEQ in this Offering Memorandum 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. 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 dam (which is 150 feet high, 11,000 feet long), and the lake it forms is thirty-two miles long and two miles wide, covering 22,000 surface acres.

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 dams are owned by LCRA.

The combined storage capacity of the six lakes is around 3,300,000 acre-feet (AF) of water, or more than a trillion gallons. Approximately 800,000 AF of this capacity are 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 Austin and managed by LCRA, is approximately 2 million AF.

The City has 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 AF, is created by Longhorn Dam. Decker Dam creates Lake Walter E. Long, which has a permitted capacity of approximately 34,000 AF.

Using the last twenty-seven years from 1987-2013, the average flow was 1,214,551 AF per year. (Note: As a result of drought conditions, the water year 2012 and 2013 flows of 212,849 and 210,530 acre feet (approximately 69 billion gallons), respectively, are atypical. A key reason for the lower amount of flow is that years 2012 and 2013 are the first and second years that, in accordance with TCEQ approval, most interruptible stored water was not released by LCRA from Lakes Travis and Buchanan for downstream farming operations). This gauging station is located on the Colorado River downstream of Longhorn Dam and downstream of the City of Austin 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-l").

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

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

The City and LCRA executed the First Amendment to the Settlement Agreement (the "First Amendment") on October 7, 1999. This First Amendment extends the existing Settlement Agreement through the year 2050, and gives the City a 50-year assured water supply by providing additional water from the Highland Lakes system, a chain of lakes formed on the Colorado River that includes Lake Travis, Lake Austin and Lady Bird Lake, and other sources. Additionally, the First Amendment includes an option for the City to renew the Settlement Agreement through the year 2100. The City paid a discounted amount of $100.0 million to the LCRA as part of the First Amendment contract provisions. The $100.0 million payment to LCRA included compensation for the following terms:

- Pre-paid reservation fee for an additional 75,000 firm AF of water supply, which increased the City's total water supply from 250,000 firm AF to 325,000 firm AF per year for the additional 50-year period with an option to renew for another additional 50-year period.

- Pre-paid water use charges that would be paid by the City for water use above 150,000 firm AF up

to 201,000 firm AF.

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

Water Treatment Plants

Austin Water Utility has two water treatment plants (Davis and Ullrich) which have a combined rated capacity of 285 million gallons per day ("mgd"). These water treatment plants have a combined clear well storage capacity of 35 million gallons on site. In September 2008, the City decommissioned a third water treatment plant, the 80-year old Green Water Treatment Plant, which had reached the end of its functional life.

Austin Water Utility water distribution system includes approximately 3,714 miles of water mains of varying diameters, 29 major distribution storage facilities with a storage capacity of approximately 167 million gallons, 26,158 City maintained fire hydrants, and 41 booster pump stations.

The City receives its water supply from the Colorado River through the two water treatment plants. The Davis Plant and the Ullrich Plant both take water from Lake Austin.

The Davis Water Treatment Plant, located at Mount Bonnell Road and West 35th Street, has a rated capacity of 118 mgd. The plant is of conventional design, with rapid mix basins, flocculation basins, sedimentation basins, gravity filters, clearwell storage, raw water, system chlorine disinfection, and finished water pumping stations. The plant was constructed in 1954 and expanded in 1963, 1975 and 1986.

The Ullrich Water Treatment Plant, located on a site south of Red Bud Trail and Forest View Drive, has a rated capacity of 167 mgd. The existing plant facilities consist of an intake and raw water pumping station, raw water transmission main, seven upflow-solids contact clarifiers, eighteen filters, chlorine disinfection, clearwell reservoirs, high service and medium service pumping stations, and sludge handling facilities. A 67 mgd upgrade to the Ullrich Plant was completed in 2006. This expansion increased the rated capacity of the plant from 100 mgd to 167 mgd.

WTP No. 4 is under construction and is on schedule to be in service in 2014. Located in northwest Austin, WTP No. 4 will draw its water from Lake Travis. To meet projected needs, the construction will add initial capacity of 50 mgd with expansion capability up to 300 mgd with future phases. Funding for the construction of WTP No. 4 comes from a combination of cash transferred from the operation fund and Commercial Paper Obligations.

Water Use Management Plan

Austin Water Utility has both a water conservation plan and a drought contingency plan, as required in Texas for large municipal water suppliers. Austin's Water Conservation Plan details incentive programs, educational efforts and regulations designed to reduce both peak and average day water use. Austin'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 not more than twice per week for outdoor irrigation, the plan calls for more restrictive stages if combined storage levels in the Highland Lakes (see "WATER SYSTEM – Water Supply – *Water Rights*" in this document) fall below certain levels, or if daily pumpage exceeds limits established by the Austin Water Utility 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 Austin's City Charter, Chapter 6-4, which was revised by the Austin City Council on August 16, 2012. Through these strategies, Austin Water Utility is striving to continue strengthening conservation efforts while also protecting the City's urban landscape and tree canopy.

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

Stage 3 restrictions have an estimated impact of a $30 million reduction in revenues that the proposed drought rate design would recover.

Inclining block rates, implemented April 1, 1994, are designed to promote water conservation by single family residential customers; it is believed that Austin has one of the highest rates in the country for customers using more than 20,000 gallons per month. Seasonal rates implemented in 2000 for commercial and multifamily customers are also designed to promote water conservation.

WASTEWATER SYSTEM

Service Area

Austin Water Utility provides wastewater service to customers within the corporate limits of the City and a portion of Travis and Williamson Counties. The City has entered into wholesale service contracts with five MUDs, two WCIDs, and the Cities of Manor, Rollingwood, Sunset Valley, and West Lake Hills to provide wastewater service.

Facilities

Austin Water Utility has two main wastewater treatment plants with a total permitted capacity of 150 mgd, one biosolids treatment and disposal facility, over 2,693 miles of sanitary wastewater mains and lines, and 124 lift stations. The two treatment plants are the Walnut Creek Wastewater Treatment Plant,

which began operations in 1977, and the South Austin Regional Wastewater Treatment Plant, which started operating in 1986. A third plant, the Govalle Wastewater Treatment Plant, constructed in 1937 with permitted capacity of 10 mgd, was decommissioned in October 2006 after completion of a 25 mgd expansion at the South Austin Regional Wastewater Treatment Plant. The Hornsby Bend Biosolids Treatment Plant operates as a sludge treatment and disposal facility and was placed in operation in 1956. In 2009 and 2010, the City received from the TCEQ renewals of discharge permits (TPDES permits) for all its wastewater treatment plants. The permits are renewable again in 2014.

The Walnut Creek Wastewater Treatment Plant is permitted to discharge an average flow of 75 mgd. During fiscal year 2013, average flows to the plant were approximately 51 mgd. Sludge from this plant is pumped to the anaerobic digesters at Hornsby Bend for stabilization and disposal. A 15 mgd upgrade to this plant (which resulted in the plant's current capacity of 75 mgd) was completed in 2004.

The South Austin Regional Wastewater Treatment Plant began operation in April 1986. The plant is now permitted to discharge at a rate of 75 mgd after a 25 mgd upgrade was completed in August 2006. During fiscal year 2013, average flows to the plant were approximately 44 mgd. An interceptor transfers wastewater from the former Govalle plant to the South Austin Regional Wastewater Treatment Plant. Waste sludge is pumped to the Hornsby Bend facility to anaerobic digesters which were constructed simultaneously with the plant.

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

In 1985, the City entered into a contract with the Brushy Creek Water Control and Improvement District No. 1, Williamson County MUD No. 2, Williamson County MUD No. 3 and the City of Round Rock to fund, construct, and operate a regional wastewater collection and treatment system (the "Project") serving the upper Brushy Creek watershed. In 1994, the Project participants terminated the agreement. The City and the City of Round Rock subsequently entered an interlocal agreement where the two cities assumed the obligations and divided the Project assets and entered an interim operations and maintenance agreement. LCRA and the Brazos River Authority ("BRA") purchased Round Rock's share in the Project and have also purchased a portion of the City's share relating to the area now included in the City of Cedar Park's extraterritorial jurisdiction. The City of Cedar Park entered into a wastewater service agreement with LCRA and BRA in 1997. Final negotiations were completed, selling the City's remaining assets to the LCRA, effective October 1, 2000, with the City becoming a customer of the LCRA and BRA wastewater system. The agreement, which requires the City to pay for its portion of capital expansions and operations and maintenance costs on an annual basis, reserves enough wastewater capacity to adequately serve all of the area inside the City's city limits or extraterritorial jurisdiction and within the Brushy Creek watershed. In December 2009, the City purchased an operating interest from LCRA for approximately $12 million.

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

COMBINED UTILITY SYSTEMS DEBT AND FINANCIAL INFORMATION

As of July 31, 2014, the City has outstanding $30,561,469 of Prior First Lien Bonds outstanding and $148,104,711 of Prior Subordinate Lien Bonds. In addition, as of July 31, 2014, the City has outstanding $2,303,590,000 of Water and Wastewater System Separate Lien Obligations, $1,095,765,000 of Electric Utility Separate Lien Obligations, and $9,194,994 of assumed bonds and/or obligations which are payable from ad valorem taxes and/or surplus Waterworks and Wastewater System revenues.

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

SELECTED FINANCIAL INFORMATION
Combined Electric, Water and Wastewater Systems
Operating Summary (000's)

		(000's) Fiscal Year Ended September 30			
	12 Months Ended 12-31-13 (2)	2013	2012	2011	2010
Combined Gross Revenues	$1,794,285	$1,772,129	$1,633,826	$1,707,338	$1,520,637
Combined Maintenance and Operating Expenses	1,156,945	1,137,184	1,054,566	1,084,484	1,033,821
Combined Net Revenues	$ 637,340	$ 634,945	$ 579,260	$ 622,854	$ 486,816
Principal and Interest on Revenue Bonds (1)	$ 25,750	$ 76,067	$ 116,773	$ 122,169	$ 125,671
Debt Service Coverage on Revenue Bonds (1)	24.75x	8.35x	4.96x	5.10x	3.87x

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

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

COMPARATIVE ANALYSIS OF ELECTRIC LIGHT AND POWER SYSTEM AND WATERWORKS AND WASTEWATER SYSTEM OPERATIONS
FISCAL YEARS 2009-2013
(in thousands rounded)

	Fiscal Year Ended September 30				
INCOME	2013	2012	2011	2010	2009
Revenue	$1,772,129	$1,633,140	$1,707,190	$1,518,352	$1,573,459
Operating Expense	(1,137,184)	(1,054,566)	(1,071,056)	(1,026,312)	(1,041,685)
Balance Available for Debt Service	634,945	578,574	636,134	492,040	531,774
Depreciation and Amortization Expense	(249,029)	(241,884)	(224,995)	(209,019)	(196,620)
Earnings Before Interest Expense	385,916	336,690	411,139	283,021	335,154
Interest Incurred on Debt	(164,692)	(177,954)	(181,665)	(174,497)	(181,899)
Other	(1,908)	4,580	(1,741)	(6,378)	(26,632)
INCOME (LOSS) BEFORE OPERATING TRANSFERS (a) (b) (c) (d)	$ 219,316	$ 163,316	$ 227,733	$ 102,146	$ 126,623
PERCENTAGES					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	(64.17%)	(64.57%)	(62.74%)	(67.59%)	(66.20%)
Balance Available for Debt Service	35.83%	35.43%	37.26%	32.41%	33.80%
Depreciation and Amortization Expense	(14.05%)	(14.81%)	(13.18%)	(13.77%)	(12.50%)
Earnings Before Interest Expense	21.78%	20.62%	24.08%	18.64%	21.30%
Interest Incurred on Debt	(9.29%)	(10.90%)	(10.64%)	(11.49%)	(11.56%)
Other	(0.11%)	0.28%	(0.10%)	(0.42%)	(1.69%)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	12.38%	10.00%	13.34%	6.73%	8.05%

(a) Income before transfers to the General Fund and Other Funds for the 12 months ended September 30, 2013, are as follows (in thousands rounded):
Transfer to General Fund $139,548
Transfers to Other Funds $ 7,399

(b) Excludes Combined Utility Funds' deferred costs recovered in future years of $29,945 for the 12 months ended September 30, 2013.

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

(d) Excludes capital contributions of $47,167 for the 12 months ended September 30, 2013.

Source: City Controller's Office.

THE COMMERCIAL PAPER NOTES

The City is authorized pursuant to an ordinance adopted by the City Council on August 28, 2014 (the "Ordinance") to issue the Notes, in an aggregate principal amount not to exceed $400,000,000 outstanding at any one time; to pay project costs for additions, improvements and extensions to the City's Water and Wastewater System and the City's Electric Utility System, and to refinance, renew or refund maturing Notes. Notes also may be issued to refinance Priority Lien Obligations with the approval of the City Council and the Bank (as defined below in this document). The Notes will be in denominations of $100,000 or integral multiples of $1,000 in excess of $100,000 and mature not less than five calendar days nor more than 270 calendar days from the date of issuance, but in no event later than October 6, 2017. The Notes shall be payable at the office of U.S. Bank National Association or its successor, the Issuing and Paying Agent, shall be issued through the Depository Trust Company's Book-Entry-Only System, and bear interest at rates not to exceed the Maximum Interest Rate (as defined in the Ordinance to be 12%), calculated on the basis of actual days elapsed and on a 365 day year.

The Notes and any amounts due under the Letter of Credit Reimbursement Agreement (the "Agreement") dated as of September 1, 2014, between the City and the Bank (as defined below in this document) are payable from and secured by (i) the proceeds from (a) the sale of Bonds issued and to be used to pay outstanding Notes and (b) the sale of Notes issued pursuant to the Ordinance to refund outstanding Notes, (ii) for maturing Notes only, draws under the Letter of Credit, (iii) the amounts held in the Series A Note Payment Fund until the amounts deposited therein are used for authorized purposes, provided however, amounts in the Series A Note Payment Fund attributable to and derived from drawings under and pursuant to the Letter of Credit shall be used only to pay, the principal of, and interest on the Notes in full, and (iv) the amounts remaining in the Note Construction Account after the payment of project costs. Additionally, to provide security for the payment of the Notes and the amounts due under the Agreement, Pledged Revenues of the System are pledged; which pledge is on a parity with the City's Combined Utility Systems Taxable Commercial Paper Notes (the "Taxable Notes") currently authorized in an amount not to exceed $50,000,000 and advances made under the Taxable Agreement (as defined below in this document). The Taxable Notes are secured by a direct pay letter of credit issued by Citibank, N.A. pursuant to a letter of credit reimbursement agreement (the "Taxable Agreement") between the City and Citibank, N.A. Such lien, however, is subordinate to the payment of the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations issued for the benefit of the Systems. Pledged Revenues includes Net Revenues of the Systems plus any additional revenues, income or other resources which in the future may at the option of the City be pledged to the payment of the Notes. (All terms not otherwise defined are defined in the Ordinance or the Agreement.) A description of the Book-Entry-Only issuance is set forth in APPENDIX B hereto.

BANK CREDIT ARRANGEMENTS

The Notes will be paid at maturity by properly presented and conforming drawings under the irrevocable transferable direct-pay letter of credit (the "Letter of Credit") issued by The Bank of Tokyo–Mitsubishi UFJ, Ltd., acting through its New York Branch (the "Bank") pursuant to the Agreement, which permits draws for the payment of principal and interest on maturing Notes. The Letter of Credit will expire on October 13, 2017, unless extended by the Bank pursuant to the terms of the Letter of Credit.

The initial Stated Amount under the Letter of Credit is $435,506,850 representing $400,000,000 in principal and $35,506,850 in interest calculated as 270 days of interest at the maximum rate of 12%

calculated on the basis of a 365 day year. The Stated Amount shall be subject to automatic reduction and reinstatement in the amounts and upon the terms and conditions set forth in the Letter of Credit. The commitment of the Bank expires on October 13, 2017, unless extended or earlier terminated in accordance with the terms of the Letter of Credit. Drawings made under the Letter of Credit are immediately due and payable by the City from the resources more fully described under "The Commercial Paper Notes". The City has covenanted in the Ordinance not to terminate the Letter of Credit while any Notes issued thereunder are outstanding.

All capitalized terms used under the below captions "**Events of Default**" and "**Remedies**" shall have the meanings assigned to them in the Agreement.

Events of Default and Termination

The following events shall be considered "Events of Default" for purposes of the Agreement:

(i) the City shall fail to pay when due any amount due and payable under the Agreement or under the Fee Letter or the Bank Note; or

(ii) any representation, warranty, certification or statement made by the City in the Agreement or in any Related Document or in any certificate, financial statement or other document delivered pursuant to the Agreement or any Related Document shall (in any such case) prove to have been incorrect or untrue in any material respect when made or deemed to have been made; or

(iii) the City shall default in the due performance or observance of (A) certain specified covenants set forth in the Agreement or (B) any other term, covenant (other than a covenant as described in clause (A) of this paragraph (iii)) or agreement contained in the Agreement and such default in the due performance or observance of any such other term, covenant or agreement shall remain unremedied for a period of sixty (60) days after the Bank shall have given the City written notice of such default; or

(iv) any of the Agreement, the Bank Note or any other Related Document or any provision of the Agreement or thereof at any time after its execution and delivery, or any Note, shall, for any reason, cease to be valid and binding on the City or in full force and effect or shall be declared to be null and void, or the validity or enforceability of the Agreement, the Bank Note or any other Related Document or any Notes shall be contested by the City or by any Governmental Authority having jurisdiction over the City, or the City shall deny that it has any or further liability or obligation under the Agreement, the Bank Note or any other Related Document or any Notes; or

(v) the City shall admit in writing its inability to pay its debts as they mature or shall declare a moratorium on the payment of its debts or apply for, consent to or acquiesce in the appointment of a trustee or receiver for itself or any part of its property, or shall take any action to authorize or effect any of the foregoing; or in the absence of any such application, consent or acquiescence, a trustee, receiver, examiner, liquidator, custodian or other similar official shall be appointed for it or for a substantial part of its property or revenues; or any bankruptcy, reorganization, debt arrangement or other proceeding under any bankruptcy or insolvency law or any dissolution or liquidation proceeding shall be instituted by or against the City (or any

action shall be taken to authorize or effect the institution by it of any of the foregoing) and if instituted against it, shall be consented to or acquiesced in by it, or shall not be dismissed within a period of thirty (30) days; or a debt moratorium, debt restructuring, debt adjustment or comparable restriction is imposed on the repayment when due and payable of the principal of or interest on any debt of the City by the City or any Governmental Authority with appropriate jurisdiction; or

(vi) there shall be commenced against the City any case, proceeding or action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of the Systems, which results in the entry of an order for relief which shall not have been vacated, discharged, stayed or bonded pending appeal within thirty (30) days from the entry thereof; or

(vii) any lien, pledge or security interest created to secure any amount due under the Agreement should fail to be fully enforceable with the same priority as and when such lien, pledge or security interest was first acquired; or

(viii) an "Event of Default" shall have occurred under the Ordinance, any of the Related Documents, the Parity Reimbursement Agreement or the Parity Ordinance as "Event of Default" is defined in such documents; or

(ix) a final, nonappealable judgment or order for the payment of money in excess of $15,000,000 shall be rendered against the City and such judgment or order shall continue unsatisfied and unstayed for a period of sixty (60) days; or

(x) the City shall fail to pay when due any non-debt obligation in excess of $5,000,000, which is payable from the City's General Fund or the revenues of the Systems, except for the City's failure to pay any such non-debt obligation where the payment of such non-debt obligation is being contested in good faith by the City and defended in an appropriate proceeding; or

(xi) the City shall (a) fail to pay any indebtedness of the City for borrowed money, or any interest or premium thereon, when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such indebtedness, or (b) fail to perform or observe any term, covenant or condition on its part to be performed or observed under any ordinance, indenture, agreement or other instrument relating to any such indebtedness when required to be performed or observed, and such failure shall not be waived and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such failure to perform or observe is to accelerate, or permit the acceleration of, with the giving of notice if required, the maturity of such indebtedness; or any such indebtedness shall be declared to be due and payable or be required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof; or

(xii) the ratings assigned to any of the City's Parity Electric Utility Obligations, Parity Water/Wastewater Obligations, or the Priority Lien Obligations by S&P, Moody's or Fitch shall be lower than A-/A3/A-, respectively; or

(xiii) the ratings assigned to any of the City's Parity Electric Utility Obligations, or Parity Water/Wastewater Obligations, or Priority Lien Obligations by S&P, Moody's or Fitch shall be withdrawn or suspended for reasons other than debt maturity, redemption or defeasance, or non-provision of information; or

(xiv) a court of competent jurisdiction has found any of the City's Parity Electric Utility Obligations, Parity Water/Wastewater Obligations or Priority Lien Obligations to have been issued illegally or in violation of the additional debt test in the related ordinance.

Remedies

If an Event of Default shall have occurred and be continuing or the representations and warranties of the City set forth in the Agreement shall, in the reasonable opinion of the Bank, no longer be true and correct in any material respect, then, and in every such event, the Bank, in its sole discretion, may immediately declare the City in default of its obligations under the Agreement and provide written notice (substantially in the form attached to the Agreement) to the City, the Dealers, the Issuing and Paying Agent and the credit provider under the Parity Reimbursement Agreement that that the Letter of Credit will terminate upon the earlier of (i) payment at maturity of the Notes that are outstanding as of the effective date of such notice and instructing the Issuing and Paying Agent to cease issuing Notes (a *"No-Issuance Notice"*) and (ii) a Final Drawing. Any notice given pursuant to this Section and received by the Dealer and the Issuing and Paying Agent as of 8:30 a.m. on any Business Day shall be effective as of such Business Day and any such notice received by the Dealers and the Issuing and Paying Agent after 8:30 a.m. on any Business Day shall be effective on the immediately succeeding Business Day. As of the effective date of such notice, the Issuing and Paying Agent shall cease to issue Notes and shall provide written notice to the Bank, the Dealers and the City listing the maturity dates of all outstanding Notes. Upon the earlier of (i) payment in full of all such Notes at maturity and (ii) a Final Drawing, the Letter of Credit shall terminate and the Issuing and Paying Agent shall promptly surrender the Letter of Credit to the Bank for cancellation.

Upon the occurrence of an Event of Default and the giving of notice by the Bank as provided in the Agreement or upon the receipt by the City or the Bank of notice from a Parity Bank that an Event of Default has occurred under the Parity Reimbursement Agreement, the Bank may, in its sole discretion:

(a) declare the outstanding principal balance of all amounts owing under the Agreement, the Fee Letter and the Bank Note together with interest accrued thereon and remaining unpaid, immediately due and payable;

(b) issue the Final Drawing Notice (the effect of which shall be to cause the Termination Date of the Letter of Credit to occur on the 10th day after the date of receipt thereof by the Trustee/Paying Agent);

(c) (i) exercise its banker's lien, or right of set off or (ii) exercise its rights under the Security and exercise any right it or the Bank Note Holders may have under the Ordinance to take any action, including without limitation any right it or the Bank Note Holders may have to collect, foreclose, marshal, dispose of or otherwise realize on the Pledged Revenues and moneys in the funds and accounts under the Ordinance, pursuant to and in compliance with the Ordinance, and to cause the application and payment of Pledged Revenues and amounts on deposit in the Electric Fund and the Water and Sewer System Fund in accordance with the

provisions of Section 26 of the Ordinance and payment of amounts owing to the Bank, and to otherwise direct or control the enforcement of remedies and proceedings taken under the Related Documents, and foreclose, marshal, dispose of and otherwise realize on any other collateral of the City pledged under the Agreement or under the Related Documents, on such terms and in such manner as the Bank may determine; and

(d) either personally or by attorney or agent without bringing any action or proceeding, or by a receiver to be appointed by a court in any appropriate action or proceeding, take whatever action at law or in equity may appear necessary or desirable to collect the amounts due and payable under the Agreement or the Ordinance or to enforce performance or observance of any obligation, agreement or covenant of the City under the Agreement or the Ordinance, whether for specific performance of any agreement or covenant of the City or in aid of the execution of any power granted to the Bank in the Agreement or the Ordinance.

The provisions of the Agreement and the Ordinance shall be a contract with the Bank and the duties of the City shall be enforceable by the Bank and each and every Bank Note Holder by mandamus or other appropriate suit, action, or proceeding in any court of competent jurisdiction.

TAX EXEMPTION

Opinion

Upon the original delivery of the Notes, McCall, Parkhurst & Horton L.L.P., acting on the date of original delivery of the Notes as Bond Counsel to the City (referred to herein as "Bond Counsel"), will render its opinion that, as of the date thereof, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Notes is excludable from the "gross income" of the owners thereof for federal income tax purposes and (2) the Notes are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the City has expressed no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Notes, including any opinion relating to the status of the Notes, as of the conversion date, as obligations described in section 103 of the Code.

In rendering its opinion, Bond Counsel relied upon (i) information furnished by the City, and particularly written representations of officers and representatives of the City with respect to certain material facts that are solely within their knowledge relating to the use of the proceeds of the Notes, and the construction, use and management of the facilities financed with the proceeds of the Notes and (ii) covenants of the City contained in the instruments authorizing the issuance of the Notes and related certificates with respect to arbitrage, the application of the proceeds received from the issuance and sale of the Notes and certain other matters. Failure to comply with these representations or covenants could cause the interest on the Notes to become includable in gross income retroactively to the date of issuance of the Notes.

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

would adversely affect the tax treatment of the purchase, ownership or disposition of the Notes.

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

Bond Counsel's opinion provides that it may be relied upon unless certain events occur subsequent to the date of the opinion. See Appendix C - "ORIGINAL OPINION OF BOND COUNSEL."

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Notes. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE NOTES.

Interest on the Notes will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

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

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Notes, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount Notes" to the extent such gain does not exceed the accrued market discount of such Notes; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an

original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

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

AVAILABLE INFORMATION

Copies of the City's Comprehensive Annual Financial Report are available on the City's website at https://www.ci.austin.tx.us/financeonline/finance/financial_docs.cfm. The City has several outstanding continuing disclosure undertakings with respect to certain series of its Combined Utility Systems Revenue Bonds and its filings are hereby incorporated by reference, including but not limited to the annual filing for the Fiscal Year ended September 30, 2013. The City has not made a disclosure undertaking with respect to the Notes.

RATINGS

Commercial Paper Ratings:

P-1	(Moody's Investors Service)
A-1	(Standard & Poor's Corporation)
F1	(Fitch, Inc.)

Combined Utility Revenue Bonds (Prior Lien):

Aa1	(Moody's Investors Service)
AA	(Standard & Poor's Corporation)
AA	(Fitch, Inc.)

Combined Utility Revenue Bonds (Subordinate Lien):

Aa2	(Moody's Investors Service)
AA	(Standard & Poor's Corporation)
AA-	(Fitch, Inc.)

Separate Lien (Water and Wastewater System):

Aa2	(Moody's Investors Service)
AA	(Standard & Poor's Corporation)
AA-	(Fitch, Inc.)

Separate Lien (Austin Energy):

A1	(Moody's Investors Service)
AA-	(Standard & Poor's Corporation)
AA-	(Fitch, Inc.)

Signatory Bank – Bank of Tokyo Ratings:

Aa3/P-1	(Moody's Investors Service)
A+/A-1	(Standard & Poor's Corporation)
A/F1	(Fitch, Inc.)

FOR FURTHER INFORMATION - PLEASE CONTACT:

Art Alfaro
Treasurer
City of Austin, Texas
700 Lavaca, Suite 940
Austin, TX 78701
Telephone: 512/974-7882
Facsimile: 512/370-3838

APPENDIX A

The Bank of Tokyo–Mitsubishi UFJ, LTD.

The Bank of Tokyo Mitsubishi UFJ, Ltd. ("BTMU"), is a Japanese banking corporation with its head office in Tokyo, Japan. It is a wholly owned subsidiary of Mitsubishi UFJ Financial Group Inc. (the "Parent"). With 37,527 employees and approximately 839 branches worldwide (as of March 31, 2014), BTMU is Japan's largest bank. BTMU also provides a wide range of banking and financial services worldwide, and is one of the largest banks in the world by deposits and loan portfolio. Mitsubishi UFJ Financial Group is one of the top 10 banks in the world as measured by assets and market capitalization.

As of March 31, 2014, BTMU and subsidiaries had total assets of approximately ¥201,615 billion (U.S. $1,959 billion) and deposits of approximately ¥132,732 billion (U.S. $1,290 billion). Net income for BTMU and subsidiaries for the Fiscal Year ended March 31, 2014, was approximately ¥754 billion (U.S. $7.3 billion). These figures are extracted from The Annual Securities Report (Excerpt) for the Fiscal Year ended March 31, 2014, for BTMU and subsidiaries (the "Annual Securities Report"). The Annual Securities Report can be found at www.bk.mufg.jp.

The financial information presented above was translated into U.S. dollars from the Japanese yen amounts set forth in the audited financial statements in the Annual Securities Report, which were prepared in accordance with the auditing standards generally accepted in Japan ("JGAAP"), and not in accordance with U.S. GAAP. The translations of the Japanese yen amounts into U.S. dollar amounts were included solely for the convenience of readers outside Japan, and were made at the rate of ¥102.92 to U.S. $1, the approximate rate of exchange at March 31, 2014. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

The Letter of Credit will be solely an obligation of BTMU, and will not be an obligation of, or otherwise guaranteed by, the Parent, and no assets of the Parent or any affiliate of BTMU or the Parent will be pledged to the payment thereof.

The information contained in this APPENDIX A, including financial information, relates to and has been obtained from BTMU, and is furnished solely to provide limited introductory information regarding BTMU, and does not purport to be comprehensive. Any financial information provided in this APPENDIX A is qualified in its entirety by the detailed information appearing in the Annual Securities Report referenced above. The delivery hereof shall not create any implication that there has been no change in the affairs of BTMU since March 31, 2014.

The information contained in this Appendix relates to and has been obtained from the Bank. The delivery of the Offering Memorandum shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this Appendix is correct as of any time subsequent to its date.

APPENDIX B

DESCRIPTION OF BOOK-ENTRY-ONLY ISSUANCE

The City has elected to utilize the book-entry-only system of The Depository Trust Company, New York, New York ("DTC"), as described under this heading. The City is obligated to timely pay the Paying Agent/Registrar the amount due under the Ordinance. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owner of the Notes (the "Securities") are described below.

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

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

DTC will act as securities depository for the Securities. The Securities will be issued as fully-registered Securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Securities, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Direct Participants and Indirect Participants are referred to as "Participants". DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Securities within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect

from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Participants.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

CITY OF AUSTIN, TEXAS COMBINED UTILITY SYSTEMS
COMMERCIAL PAPER NOTES, SERIES A

AS BOND COUNSEL for the City of Austin, Texas (the "City"), we have reviewed a record of proceedings relating to the issuance from time to time of up to an aggregate principal amount of Four Hundred Million Dollars ($400,000,000) of Combined Utility Systems Commercial Paper Notes, Series A (the "Commercial Paper Notes"), all in accordance with the ordinance of the City Council of the City authorizing the issuance of such Commercial Paper Notes (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the System relating to the authorization, issuance, sale, and delivery of the Commercial Paper Notes, including the Ordinance, certificates and opinions of officials of the System, and other pertinent instruments relating to the issuance of the Commercial Paper Notes.

WE ARE FURTHER OF THE OPINION THAT, under existing laws, upon due execution, authentication, the Commercial Paper Notes, together with the Taxable Notes (as defined in the Ordinance) and the Bank Note (the "Bank Note"), authorized by the Ordinance to evidence borrowings under a Letter of Credit issued pursuant to a Letter of Credit Reimbursement Agreement between the City and the Bank named therein (the "Credit Agreement"), are payable from and equally secured by a lien on and security interest in the Pledged Revenues (as defined in the Ordinance); that, under existing laws, upon due execution and authentication, the Commercial Paper Notes will be legal, valid and binding special obligations of the City, which together with the Bank Note, are also payable from and secured by (i) the proceeds from (a) the sale of obligations hereafter issued by the City for such purpose and (b) the sale of other Commercial Paper Notes issued for such purpose, (ii) advances under the Letter of Credit issued in accordance with the terms of the Credit Agreement, (iii) the amounts held in the Note Payment Fund established by the Ordinance until the amounts deposited therein are used for authorized purposes, provided, however, amounts in the Taxable Note Payment Fund attributable to and derived from borrowings under and pursuant to the Letter of Credit shall be used solely to pay, prior to any application to the payment of the Bank Note, the principal of and interest on the Commercial Paper Notes in full, and (iv) the amounts held in the Note Construction Account established by the Ordinance that are not necessary for the payment of "Project Costs" (as defined in the Ordinance).

THE AGREEMENTS, COVENANTS AND OBLIGATIONS described in the foregoing paragraph, however, may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally, and the exercise of judicial discretion in accordance with general principles of equity.

THE OWNERS OF THE COMMERCIAL PAPER NOTES shall never have the right to demand payment of the Commercial Paper Notes from any sources raised or to be raised from taxation of from any sources or properties of the City except as identified above.

IN OUR OPINION, except as discussed below, the interest on the Commercial Paper Notes is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Commercial Paper Notes are not "specified private activity bonds" and that accordingly, interest on the Commercial Paper Notes will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the "Code"). In expressing the aforementioned opinions, we have relied on certain representations of the City, the accuracy of which we have not independently verified, and assume compliance by the City with certain covenants, regarding the use and investment of the proceeds of the Commercial Paper Notes and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or if the City fails to comply with such covenants, interest on the Commercial Paper Notes may become includable in gross income retroactively to the date of issuance of the Commercial Paper Notes.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Commercial Paper Notes, nor do we express any opinion with respect to any legislation affecting the Commercial Paper Notes which is enacted after the date of this opinion.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Commercial Paper Notes, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code. Under the Code, owners of tax-exempt obligations, such as the Commercial Paper Notes, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Commercial Paper Notes, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Commercial Paper Notes is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Commercial Paper Notes under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Commercial Paper Notes for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Commercial Paper Notes, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Commercial Paper Notes.

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 federal income tax law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether the Service will commence an audit of the Commercial Paper Notes. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Commercial Paper Notes as includable in gross income for federal income tax purposes.

YOU MAY CONTINUE to rely on this opinion to the extent (i) there is no change in existing law subsequent to the date of this opinion and (ii) the representatives, warranties and covenants contained in the Ordinance, and certificates dated the date of this opinion and executed and delivered by authorized officials of the City, remain true and accurate.

Respectfully,