OFFICIAL STATEMENT

Dated: May 11, 2016

Ratings: Moody's: "Aa2"
Standard & Poor's: "AA"
Fitch: "AA–"
(See "OTHER RELEVANT INFORMATION – Ratings" in this document)

NEW ISSUE – Book-Entry-Only

Delivery of the Bonds (as defined below) is subject to the receipt of the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the City, to the effect that, assuming continuing compliance by the City (as defined below) with certain covenants contained in the Twenty-Sixth Supplement described in this document, interest on the Bonds will be excludable from gross income for purposes of federal income taxation, subject to the matters described under "TAX MATTERS" in this document, including the alternative minimum tax on corporations.

$247,770,000
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Water and Wastewater System Revenue Refunding Bonds, Series 2016

Dated: Date of Delivery **Due: As shown on page ii of this document**

The bonds offered in this document are the $247,770,000 City of Austin, Texas Water and Wastewater System Revenue Refunding Bonds, Series 2016 (the "Bonds"). The Bonds represent the twenty-sixth encumbrance to be issued or incurred as "Parity Water/Wastewater Obligations" pursuant to an ordinance (the "Master Ordinance") adopted by the City Council of the City of Austin, Texas (the "City"), on June 8, 2000, and are authorized and being issued in accordance with a supplemental ordinance adopted by the City Council of the City on April 21, 2016 (the "Twenty-Sixth Supplement"). The Master Ordinance and Twenty-Sixth Supplement are collectively referred to in this document as the "Bond Ordinance." The Twenty-Sixth Supplement delegated to a designated "Pricing Officer" the authority to effect the sale of the Bonds, subject to the terms of the Twenty-Sixth Supplement. See "INTRODUCTION" in this document. The Master Ordinance contains the terms for the issuance of Parity Water/Wastewater Obligations and the covenants and security provisions related thereto. The City also has outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations, which are secured by joint and several pledges of the net revenues of both the Water and Wastewater System and Electric Utility System. The City must comply with the covenants and security provisions related to the Prior First Lien Obligations and Prior Subordinate Lien Obligations while such obligations remain outstanding. The Master Ordinance prohibits the issuance of additional revenue obligations secured by joint and several pledges of the net revenues of both the Water and Wastewater System and Electric Utility System such as Prior First Lien Obligations or Prior Subordinate Lien Obligations. Commercial Paper Obligations having a combined pledge of Electric Utility System and Water and Wastewater System net revenues may continue to be issued on a subordinate lien basis to the Parity Water/Wastewater Obligations. The Bonds are special obligations of the City, payable as to both principal and interest solely from and, together with the Previously Issued Parity Water/Wastewater Obligations and Outstanding Prior Subordinate Lien Obligations, equally and ratably secured by a lien on and pledge of the Net Revenues of the City's Water and Wastewater System (subject to the prior claim and lien on the Net Revenues of the Water and Wastewater System to the payment and security of the Outstanding Prior First Lien Obligations), as provided in the Master Ordinance and the Twenty-Sixth Supplement. Additionally, the Bonds and Previously Issued Parity Water/Wastewater Obligations referenced above are equally and ratably secured by a parity lien on the funds, if any, deposited to the credit of the Debt Service Fund (excluding any funds on deposit in the BAB Subsidy Subaccount, which was established for the exclusive benefit of the owners of the City's Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds)). The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or the Water and Wastewater System, except with respect to the Net Revenues. The holders of the Bonds do not have any right to moneys or other Reserve Fund Obligations held in the Reserve Fund. See "SECURITY FOR THE BONDS – Reserve Fund for Parity Water/Wastewater Obligations" in this document. **Neither the taxing power of the City nor the taxing power of the State of Texas (the "State") is pledged as security for the Bonds.** See "SECURITY FOR THE BONDS" in this document.

MATURITY SCHEDULE

See "Maturity Schedule" on page ii

The Bonds are issuable only in fully registered form in the denomination of $5,000 or any integral multiple thereof within a maturity. Interest on the Bonds shall accrue from the date of delivery of the Bonds and shall be payable on November 15, 2016 and each May 15 and November 15 thereafter until maturity or prior redemption. Interest to be paid on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act initially as securities depository of the Bonds, and individual purchases of the Bonds will be made in book-entry form only. See "DESCRIPTION OF THE BONDS" in this document.

The Bonds are offered for delivery when, as, and if issued and subject, among other things, to the opinions of the Attorney General of Texas and McCall, Parkhurst & Horton L.L.P., Bond Counsel for the City, as to the validity of the issuance of the Bonds under the Constitution and laws of the State. The opinion of Bond Counsel will be printed on or attached to the Bonds. (See APPENDIX E - "Form of Bond Counsel's Opinion" in this document). Certain legal matters will be passed on for the Underwriters by their co-counsel, Haynes & Boone, LLP and Kassahn & Ortiz, P.C. The Bonds are expected to be available for delivery on or about June 1, 2016.

Ramirez & Co., Inc.

Coastal Securities, Inc. **Goldman, Sachs & Co.**

Morgan Stanley **Fidelity Capital Markets** **Raymond James**

CITY OF AUSTIN, TEXAS

$247,770,000 Water and Wastewater System Revenue Refunding Bonds, Series 2016
Base CUSIP No. 052476 (1)

MATURITY SCHEDULE

Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix (1)	Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix (1)
11-15-2019	$1,960,000	5.000%	0.920%	T24	11-15-2030	16,440,000	5.000%	2.180% (2)	U22
11-15-2020	2,600,000	5.000%	1.050%	T32	11-15-2031	17,370,000	5.000%	2.240% (2)	U30
11-15-2021	1,760,000	5.000%	1.190%	T40	11-15-2032	18,355,000	5.000%	2.300% (2)	U48
***	***	***	***	***	11-15-2033	11,940,000	5.000%	2.360% (2)	U55
11-15-2025	4,835,000	5.000%	1.700%	T57	11-15-2034	12,545,000	5.000%	2.420% (2)	U63
11-15-2026	5,900,000	5.000%	1.860%	T65	11-15-2035	13,185,000	5.000%	2.480% (2)	U71
11-15-2027	12,425,000	5.000%	1.980% (2)	T73	11-15-2036	13,850,000	5.000%	2.530% (2)	V39
11-15-2028	8,260,000	5.000%	2.080% (2)	T81	11-15-2037	14,560,000	5.000%	2.560% (2)	U89
11-15-2029	15,550,000	5.000%	2.140% (2)	T99					

$34,405,000 Term Bond due November 15, 2041; Rate 5.000%; Initial Yield 2.670% (2), CUSIP 052476U97
$41,830,000 Term Bond due November 15, 2045; Rate 5.000%; Initial Yield 2.720% (2), CUSIP 052476V21

(Interest to accrue from Date of Initial Delivery)

Optional Redemption of the Bonds

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

Mandatory Sinking Fund Redemption of the Bonds

The Bonds having stated maturities of November 15, 2041 and November 15, 2045, respectively, are subject to mandatory redemption prior to maturity in part, in the manner described in this document under "DESCRIPTION OF THE BONDS - Mandatory Sinking Fund Redemption of the Bonds."

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

(2) Initial yield calculated based upon the assumption that the Bonds maturing on or after November 15, 2027 will be called on the first optional call date (November 15, 2026) at a redemption price of par plus accrued interest to the redemption date.

CITY OF AUSTIN

Elected Officials

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

Appointed Officials

Marc A. Ott	City Manager
Robert Goode	Assistant City Manager
Sue Edwards	Assistant City Manager
Bert Lumbreras	Assistant City Manager
Ray Arellano	Assistant City Manager
Mark Washington	Acting Assistant City Manager
Elaine Hart, CPA	Chief Financial Officer
Greg Canally	Deputy Chief Financial Officer
Ed Van Eenoo	Deputy Chief Financial Officer
Anne Morgan	City Attorney
Jannette S. Goodall	City Clerk

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

DISCLOSURE COUNSEL FOR THE CITY
Norton Rose Fulbright US LLP
Austin and Dallas, Texas

FINANCIAL ADVISOR
Public Financial Management, Inc.
Austin, Texas

INDEPENDENT AUDITORS
Deloitte & Touche LLP
Austin, Texas

For additional information regarding the City, please contact:

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SELECTED FINANCIAL INFORMATION

Combined Electric, Water and Wastewater Systems

The selected financial information below presents selected historical information related to the Electric Utility System and the Water and Wastewater System of the City, presented on a combined basis. The financial information for the fiscal years ended September 30, 2012 through 2015 is derived from the City's audited financial statements. This information should be read in conjunction with the information included in APPENDIX B – "AUDITED FINANCIAL STATEMENTS".

Operating Summary

		(000's) Fiscal Year Ended September 30			
	12 Months Ended 12-31-2015(2)	2015	2014	2013	2012
Combined Gross Revenues	$ 1,897,342	$1,876,350	$1,848,012	$1,772,129	$1,633,826
Combined Maintenance and Operating Expenses	1,204,286	1,186,590	1,246,865	1,137,184	1,054,566
Combined Net Revenues	$ 693,056	$ 689,760	$ 601,147	$ 634,945	$ 579,260
Principal and Interest on Revenue Bonds (1)	$ 33,027	$ 33,112	$ 16,137	$ 76,067	$ 116,773
Debt Service Coverage on Revenue Bonds (1)	20.98x	20.83x	37.25x	8.35x	4.96x

(1) Prior First Lien Obligations and Prior Subordinate Lien Obligations only.
(2) See "OTHER RELEVANT INFORMATION – Independent Auditors" in this document.

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Water and Wastewater System Only

The selected financial information below presents selected historical information related to the Water and Wastewater System of the City. The financial information for the fiscal years ended September 30, 2012 through 2015 is derived from the City's audited financial statements. This information should be read in conjunction with the audited financial statements included in APPENDIX B – "AUDITED FINANCIAL STATEMENTS".

Operating Summary

		(000's) Fiscal Year Ended September 30			
	12 Months Ended 12-31-2015(3)	2015	2014	2013	2012
Gross Revenues	$ 533,105	$ 517,253	$ 472,717	$ 477,013	$ 443,028
Maintenance and Operating Expenditures	212,711	208,307	218,071	209,890	178,891
Net Revenues	320,394	308,946	$ 254,646	$ 267,123	$ 264,137
Principal and Interest on Prior First Lien/Prior Subordinate Lien Obligations (1)	$ 22,344	$ 22,366	$ 8,473	$ 30,718	$ 44,386
Net Revenues Available for Water and Wastewater System Separate Lien Obligations	$ 298,050	$ 286,580	$ 246,173	$ 236,405	$ 219,751
Principal and Interest on Water and Wastewater System Separate Lien Obligations	182,558	198,944	$ 195,673	$ 158,294	$ 133,781
Debt Service Coverage (Separate Lien Obligations) (2)	1.63x	1.44x	1.26x	1.49x	1.64x

(1) Represents only the portion of Prior First Lien Obligations and Prior Subordinate Lien Obligations allocated to the Water and Wastewater System.
(2) The Bonds, the Previously Issued Parity Water/Wastewater Obligations, and any additional Parity Water/Wastewater Obligations issued in the future under the Master Ordinance are (a) "Separate Lien Obligations" under the Prior Lien Ordinance (as defined herein) and (b) equally and ratably secured, together with the Prior Subordinate Lien Obligations, by the Net Revenues of the City's Water and Wastewater System.
(3) See "OTHER RELEVANT INFORMATION – Independent Auditors" in this document.

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

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

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

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

CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau, and none of the City, Public Financial Management, Inc. or the Underwriters are responsible for the selection or correctness of CUSIP numbers.

None of the City, Public Financial Management, Inc., or the Underwriters make any representation regarding the information contained in this Official Statement regarding DTC or its book-entry-only system, as such information has been furnished by DTC. Neither the City nor Public Financial Management, Inc. make any representations regarding the information concerning the Underwriters contained in this document in "OTHER RELEVANT INFORMATION – UNDERWRITING."

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

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

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

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

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OFFICIAL STATEMENT

Relating to

$247,770,000

CITY OF AUSTIN, TEXAS

(Travis, Williamson and Hays Counties)

Water and Wastewater System Revenue Refunding Bonds, Series 2016

INTRODUCTION

This Official Statement, which includes the cover page and the appendices, is being furnished in connection with the proposed issuance by the City of Austin, Texas (the "City"), of its $247,770,000 City of Austin, Texas Water and Wastewater System Revenue Refunding Bonds, Series 2016 (the "Bonds"). The Bonds are authorized to be issued pursuant to the authority conferred by the laws of the State of Texas (the "State"), an ordinance adopted by the City Council of the City on June 8, 2000 (the "Master Ordinance") providing the terms upon which Parity Water/Wastewater Obligations (as defined in the Master Ordinance) are to be issued and the covenants and security provisions related thereto, and a supplemental ordinance adopted by the City Council of the City on April 21, 2016 (the "Twenty-Sixth Supplement"). The Master Ordinance and the Twenty-Sixth Supplement are collectively referred to in this document as the "Bond Ordinance." The Twenty-Sixth Supplement delegated to a designated "Pricing Officer" the authority to effect the sale of the Bonds, subject to the terms of the Twenty-Sixth Supplement. **Capitalized terms not otherwise defined in this document have the meanings assigned in the Bond Ordinance, or the Prior Lien Ordinance (hereinafter defined), as applicable (see APPENDICES C and D in this document)**. As noted under "PLAN OF FINANCING" below, the City is not permitted to issue any additional Prior First Lien Obligations or Prior Subordinate Lien Obligations, but must comply with the covenants contained in the bond ordinances authorizing the issuance of such obligations (collectively, the "Prior Lien Ordinance") while such obligations are outstanding. A copy of the Master Ordinance is attached to this document as APPENDIX C, and a summary of certain provisions of the Prior Lien Ordinance is attached to this document as APPENDIX D. All descriptions of documents contained in this document are only summaries and are qualified in their entirety by reference to each such document.

References to website addresses presented in this document are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless otherwise specified in this document, references to websites and the information or links contained therein are not incorporated into, and are not part of, this document.

The Bonds represent the twenty-sixth encumbrance to be issued or incurred as Parity Water/Wastewater Obligations under the Master Ordinance. The City has issued, and there currently remain outstanding, certain Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations secured by a joint and several pledge of the net revenues of the City's Water and Wastewater System and Electric Utility System. Pursuant to the Master Ordinance, no additional Prior First Lien Obligations or Prior Subordinate Lien Obligations may be issued. Commercial Paper Obligations having a combined pledge of Water and Wastewater System and Electric Utility System net revenues may continue to be issued on a subordinate lien basis to the Parity Water/Wastewater Obligations. As of May 31, 2016, there will be $28,594,668 in aggregate principal amount of Prior First Lien Obligations outstanding, with the final maturity of the outstanding Prior First Lien Obligations occurring on May 15, 2019. As of May 31, 2016, there will be $119,001,511 in aggregate principal amount of Prior Subordinate Lien Obligations outstanding, with the final maturity of the outstanding Prior Subordinate Lien Obligations occurring on May 15, 2025. See "DEBT PAYABLE FROM SYSTEMS REVENUES" in this document. In the Prior Lien Ordinance, the City also reserved the right to issue, and the City did issue, obligations referred to therein as Previously Issued Separate Lien Obligations, which were secured by a lien on and pledge of Net Revenues of the Water and Wastewater System on a parity with the Parity Water/Wastewater Obligations. Such Previously Issued Separate Lien Obligations are no longer outstanding. See "SECURITY FOR THE BONDS – Pledges of Net Revenues" in this document.

At such time as the Prior First Lien Obligations and the Prior Subordinate Lien Obligations have been fully paid or discharged in a manner that such obligations are no longer deemed to be outstanding under the terms of their respective ordinances and by law, all revenue obligations secured by a pledge of Net Revenues of the Water and Wastewater System either shall be Parity Water/Wastewater Obligations or obligations subordinate to the Parity Water/Wastewater Obligations (such as the Commercial Paper Obligations), shall be payable only from and secured only by a lien on a pledge of the Net Revenues of the Water and Wastewater System and the revenues deposited to the credit of the accounts and funds maintained in the ordinances providing for their issuance. The Master Ordinance governs the issuance of Parity Water/Wastewater Obligations and contains covenants and security provisions related thereto. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations and the Prior Subordinate Lien Obligations while any such obligations remain outstanding. No assurances can be given as to when or if such obligations will be defeased or paid prior to their stated maturities so as to allow the Parity Water/Wastewater Obligations (including the Bonds) to be secured by and payable from a first lien on the Net Revenues of the Water and Wastewater System. See "SECURITY FOR THE BONDS – Credit Agreement" in this document for a discussion of the treatment of the City's obligations under an interest rate swap agreement as Parity Water/Wastewater Obligation.

The City has also issued revenue obligations secured solely by the net revenues of the Electric Utility System pursuant to a master ordinance, the terms and provisions of which differ substantially from those of the Master Ordinance.

PLAN OF FINANCING

Refunding

The Bonds are being issued in part to refund $188,785,000 in aggregate principal amount of the City's outstanding Commercial Paper Obligations issued for the Water and Wastewater System (the "Refunded Notes"), thereby restoring the City's available capacity under its commercial paper note program. Proceeds from the Bonds in an amount equal to the principal amount of the Refunded Notes will be deposited with U.S. Bank National Association, New York, New York, the issuing and paying agent for the Refunded Notes. Any interest due upon the maturity of the Refunded Notes is expected to be paid from available Water and Wastewater System Revenues. Additionally, the Bonds are being issued in part to refund $110,960,000 in aggregate principal amount of the City's currently outstanding Parity Water/Wastewater Obligations described in APPENDIX F – "SUMMARY OF REFUNDED BONDS" in this document. The remaining proceeds of the Bonds will be used to pay the costs of issuance of the Bonds.

The Parity Water/Wastewater Obligations to be refunded with proceeds of the Bonds are referred to as the "Refunded Bonds". The purpose of refunding the Refunded Bonds is to effect debt service savings. See "SOURCES AND USES OF FUNDS" in this document.

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

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

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

SOURCES AND USES OF FUNDS

The sources and uses of funds for the Bonds, together with funds contributed by the City, are as follows.

Sources	
Par Amount	$247,770,000.00
Premium	58,670,939.00
City Contribution	203,615.10
Total	$306,644,554.10
Uses:	
Deposit with Paying Agent for Refunded Notes	$188,785,000.00
Deposit to Escrow Fund for Refunded Bonds (1)	115,919,781.13
Cost of Issuance	824,333.54
Underwriters' Discount	$1,115,439.43
Total	$306,644,554.10

(1) Amount, together investment earnings thereon, to pay principal and interest on the Refunded Bonds payable at maturity or prior redemption.

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DEBT PAYABLE FROM SYSTEMS REVENUES
(As of May 31, 2016)

Combined Utility Systems Obligations	
Prior First Lien Obligations	$ 28,594,668
Prior Subordinate Lien Obligations	119,001,511
Sub-Total	$ 147,596,179
Parity Electric Utility Obligations (a)	$1,169,050,000
Water and Wastewater System Separate Lien Obligations	
Parity Water and Wastewater Obligations (b)	$2,258,615,000
Commercial Paper (c) (f)	$ 54,823,000
General Obligation Debt (d)	$ 10,331,579
Assumed Bonds and Obligations	
Assumed Municipal Utility District Bonds (e)	$ 5,153,606
TOTAL	$3,645,569,364

See "SECURITY FOR THE BONDS" in this document.

(a) The Parity Electric Utility Obligations are payable from the net revenues of the Electric Utility System only.

(b) Includes the Bonds, but excludes the Refunded Bonds.

(c) The City has a Tax-Exempt Commercial Paper Program in place for the combined utility systems in an amount not to exceed $400,000,000 and a Taxable Commercial Paper Program for the combined utility systems in an amount not to exceed $50,000,000. The obligations issued pursuant to each such program are referred to herein collectively as the "Commercial Paper Obligations." The outstanding amount shown above excludes the Refunded Notes. The Commercial Paper Obligations and the reimbursement obligations to the respective banks providing the direct pay letter of credit supporting the Commercial Paper Obligations are payable from the Net Revenues of both the Electric Utility System and the Water and Wastewater System after providing for the payment of the Prior First Lien Obligations, the Prior Subordinate Lien Obligations, the Parity Electric Utility Obligations and the Water and Wastewater System Separate Lien Obligations. Austin Water's current Financial Policy provides that the proceeds of Commercial Paper Obligation issued for the Water and Wastewater System can only be utilized to finance (i) new water and wastewater plans, (ii) capital expansions, (iii) growth-related projects, (iv) routine capital improvements required for normal business operation, and/or (v) improvements to comply with local, state and federal mandates or regulations. The Electric Utility System may utilize proceeds of Commercial Paper Obligations for all improvements, excluding major nuclear and coal needs.

(d) Contractual Obligations and Public Improvement Bonds are secured by City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.

(e) Assumed Municipal Utility District Bonds are secured by City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.

(f) Excludes the Refunded Notes.

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DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Prior Lien Bonds (a)	Outstanding Subordinate Lien Bonds (a)	Total Prior & Subordinate Lien Bond Requirements	The Series 2016 Bonds		Electric Utility System Obligations (a)	Austin Water Utility Separate Lien Obligation Bonds (a) (b)	Assumed MUD Obligations (a) (c)	Total Separate Lien and Combined Utility Systems
				Principal	Interest				
2016	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,366,680	$ 359,181	$ 1,725,861
2017	42,150,000	18,148,438	60,298,438	-	11,837,900	92,755,281	165,544,853	645,526	331,081,998
2018	62,050,000	18,383,013	80,433,013	-	12,388,500	86,169,576	131,076,900	648,483	310,716,472
2019	31,735,000	18,491,838	50,226,838	-	12,388,500	87,331,626	132,236,950	659,459	282,843,373
2020		21,090,425	21,090,425	1,960,000	12,339,500	89,327,128	161,624,744	661,645	287,003,442
2021		14,963,350	14,963,350	2,600,000	12,225,500	86,842,601	179,970,682	669,724	297,271,857
2022		20,964,250	20,964,250	1,760,000	12,116,500	87,833,999	176,226,262	663,681	299,564,693
2023		19,950,225	19,950,225	-	12,072,500	83,506,315	172,094,511	666,568	288,290,119
2024		19,666,450	19,666,450	-	12,072,500	84,272,030	178,169,280	664,896	294,845,156
2025		15,834,863	15,834,863	-	12,072,500	84,070,049	173,061,396	668,673	285,707,480
2026				4,835,000	11,951,625	86,651,349	160,863,704	604,005	264,905,683
2027				5,900,000	11,683,250	97,777,473	159,134,097		274,494,821
2028				12,425,000	11,225,125	97,562,311	159,419,867		280,632,303
2029				8,260,000	10,708,000	84,657,269	148,694,515		252,319,784
2030				15,550,000	10,112,750	71,229,555	134,895,771		231,788,075
2031				16,440,000	9,313,000	71,122,574	94,513,650		191,389,224
2032				17,370,000	8,467,750	61,553,008	80,063,833		167,454,591
2033				18,355,000	7,574,625	61,270,462	79,984,589		167,184,675
2034				11,940,000	6,817,250	57,082,517	87,111,688		162,951,455
2035				12,545,000	6,205,125	56,916,905	86,955,481		162,622,511
2036				13,185,000	5,561,875	56,898,315	87,204,915		162,850,105
2037				13,850,000	4,886,000	56,654,568	85,163,347		160,553,914
2038				14,560,000	4,175,750	56,513,054	74,285,642		149,534,445
2039				7,985,000	3,612,125	55,270,256	74,043,184		140,910,565
2040				8,380,000	3,203,000	31,494,251	73,786,829		116,864,080
2041				8,800,000	2,773,500	31,343,035	60,318,177		103,234,712
2042				9,240,000	2,322,500	30,947,500	49,045,000		91,555,000
2043				9,705,000	1,848,875	28,333,875	35,935,375		75,823,125
2044				10,190,000	1,351,500	29,412,125	24,246,375		65,200,000
2045				10,700,000	829,250	29,038,625			40,567,875
2046				11,235,000	280,875	29,110,000			40,625,875
Total	$ 135,935,000	$ 167,492,850	$ 303,427,850	$ 247,770,000	$ 234,417,650	$ 1,962,947,631	$ 3,227,038,297	$ 6,911,840	$ 5,982,513,268

(a) Debt outstanding as of May 31, 2016. The payment obligation of the City for debt service due on May 15, 2016 is $93,247,133. Additionally, while not reflected in the debt service requirements, the City has additionally taken action to authorize the use of $18.2 million in available funds to defease certain outstanding bonds during fiscal year 2016.

(b) Excludes the Refunded Bonds.

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

SECURITY FOR THE BONDS

Pledges of Net Revenues

Prior First Lien Obligations/Prior Subordinate Lien Obligations . . . The net revenues of both the City's Electric Utility System and Water and Wastewater System have been pledged, jointly and severally, (i) on a first lien basis to the payment and security of the Prior First Lien Obligations and (ii) on a second lien basis to the payment and security of the Prior Subordinate Lien Obligations. The outstanding Prior First Lien Obligations have maturities which extend through May 15, 2019. The outstanding Prior Subordinate Lien Obligations have maturities which extend through May 15, 2025. In the Prior Lien Ordinance, the City retained the right to issue "Separate Lien Obligations," which are defined in the Prior Lien Ordinance as obligations payable solely from the net revenues of either the Electric Utility System or the Water and Wastewater System, but not both, and such payments for their retirement by the terms of the ordinance authorizing their issuance are secured solely by a lien on and pledge of the net revenues of the Electric Utility System or the net revenues of the Water and Wastewater System, but not both, of equal dignity with the lien on and pledge of said net revenues securing the payment of the Prior Subordinate Lien Obligations.

Parity Water/Wastewater Obligations . . . The Bonds are Separate Lien Obligations under the terms of the Prior Lien Ordinance, and represent the twenty-sixth encumbrance issued or incurred as Parity Water/Wastewater Obligations for the benefit of the City's Water and Wastewater System. The encumbrances treated as Parity Water/Wastewater Obligations include the obligations incurred by the City under a credit agreement executed in support of bonds issued as Parity Water/Wastewater Obligations. See "SECURITY FOR THE BONDS - Credit Agreement" in this document. The Master Ordinance and the Twenty-Sixth Supplement pledge the Net Revenues of the Water and Wastewater System to the payment of the "Parity Water/Wastewater Obligations" (which consist of the Previously Issued Parity Water/Wastewater Obligations, the Bonds, and additional parity obligations issued and to be issued under the Master Ordinance). The Parity Water/Wastewater Obligations, together with the Prior Subordinate Lien Obligations, are equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Water and Wastewater System, subject to the prior claim on and lien on the Net Revenues of the Water and Wastewater System to the payment and security of the Outstanding Prior First Lien Obligations, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations.

Additionally, the Bonds and Previously Issued Parity Water/Wastewater Obligations are, and future Parity Water/Wastewater Obligations may be, equally and ratably secured by a parity lien on the funds, if any, deposited to the credit of the Debt Service Fund and any special fund or funds created and maintained for the payment and security of the Parity Water/Wastewater Obligations pursuant to a Supplemental Ordinance (excluding any funds on deposit in the BAB Subsidy Subaccount, which was established for the exclusive benefit of the owners of the City's Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds)(the "Taxable Series 2010B Bonds") issued as Parity Water/Wastewater Obligations), and funds on deposit in any construction fund maintained and established with the proceeds of the sale of Parity Water/Wastewater Obligations pending expenditure in accordance with the terms of the Master Ordinance and any Supplemental Ordinance.

Previously Issued Separate Lien Obligations . . . In the Prior Lien Ordinance, the City reserved the right to issue, and the City did issue, obligations referred to therein as Previously Issued Separate Lien Obligations, which were secured by a lien on and pledge of the Net Revenues of the Water and Wastewater System on a parity with the Parity Water/Wastewater Obligations. Such Previously Issued Separate Lien Obligations are no longer outstanding. Pursuant to the terms of the Master Ordinance, any additional obligations payable from and secured by a lien on the Net Revenues of the Water and Wastewater System must satisfy the covenants with respect thereto in the Master Ordinance. See "SECURITY FOR THE BONDS – Separate Lien Obligations" in this document.

Federal Subsidy on Build America Bonds . . . Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act, 2 U.S.C. 901a, as amended, certain automatic reductions took place as of March 1, 2013. The required reductions included a reduction to refundable credits under section 6341 of the Internal Revenue Code applicable to certain qualified bonds, including Build America Bonds. The sequester reduction applied to any section 6431 amounts claimed by an issuer on any Form 8038-CP filed with the U.S. Treasury which results in a payment to such issuer on or after March 1, 2013. According to the Office of Tax Exempt Bonds within the Internal Revenue Service (IRS-TEB), direct pay bond subsidy payments processed from and after October 1, 2013 through September 30, 2014 were reduced by a federal fiscal year 2014 sequestration rate of 7.2 percent. The sequestration rate for federal fiscal year 2015 was 7.3% and 6.8% for fiscal year 2016. For federal fiscal years 2017 through 2023, the sequestration rate will be set from time to time in the future, unless Congress takes additional action to change or eliminate the sequestration percentage. The

Taxable Series 2010B Bonds are the only obligations of the City secured by the Net Revenues of the Water and Wastewater System that are payable in part from the federal subsidy payments to be received pursuant to the "Build America Bond" program. Such subsidy payment for the Taxable Series 2010B Bonds was reduced by approximately 6.8 percent in federal fiscal year 2016. The City is not aware of any funding impacts from sequestration on the City's Water and Wastewater System other than the reduction in the federal subsidy payment received by the City for the interest due on the Taxable Series 2010B Bonds. The City makes no representation as to if the federal subsidy payments will be restored to the levels prior to the reduction of the subsidy described in this section, or whether future reductions in the subsidy may occur at any time while the Taxable Series 2010B Bonds are outstanding.

Rate Covenant Required By Prior Lien Ordinance

In the Prior Lien Ordinance, the City has agreed to establish rates and charges for the facilities and services of the Electric Utility System and the Water and Wastewater System to provide Gross Revenues in each Fiscal Year sufficient (i) to pay the Maintenance and Operating Expenses, (ii) to fund the reserves required for Prior First Lien Obligations, Prior Subordinate Lien Obligations, Separate Lien Obligations (as defined in the Prior Lien Ordinance) and other obligations or evidences of indebtedness payable solely from and secured solely by a lien on and pledge of the combined Net Revenues of the Electric Utility System and the Water and Wastewater System, and (iii) to produce Net Revenues (after satisfaction of the amount required in (ii) above) equal to at least (a) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior First Lien Obligations and Separate Lien Obligations plus (b) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Prior Subordinate Lien Obligations and all other indebtedness, except Prior First Lien Obligations and Separate Lien Obligations, payable solely from and secured solely by a lien on and pledge of the Net Revenues of either the Electric Utility System or the Water and Wastewater System, or both.

Rate Covenant Required by Master Ordinance

In the Master Ordinance, the City has agreed to fix, establish, maintain and collect such rates, charges and fees for water and wastewater services furnished by the Water and Wastewater System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues in each Fiscal Year sufficient: (i) to pay all current Operating Expenses, (ii) to produce Net Revenues, after deducting amounts expended during the current Fiscal Year from the Water and Wastewater System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, equal to the greater of either (x) an amount to pay the actual annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations or (y) an amount, when added to Other Available Water and Wastewater System Revenues, that would pay 125% of Annual Debt Service Requirements due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations, and (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Water and Wastewater System reasonably anticipated to be paid from Gross Revenues.

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

Reserve Fund for Parity Water/Wastewater Obligations

The Master Ordinance creates and establishes the "Water/Wastewater System Revenue Obligation Reserve Fund" (the "Reserve Fund"). The City may fund the Reserve Fund with respect to a series of Parity Water/Wastewater Obligations in accordance with the terms of the Master Ordinance and the provisions of any Supplemental Ordinance. The City, in accordance with the provisions of any Supplemental Ordinance, may choose **not** to fund the Reserve Fund in connection with the issuance of Parity Water/Wastewater Obligations issued under the terms of such Supplemental Ordinance. The City determined not to fund the Reserve Fund in connection with the issuance of its Water and Wastewater System Revenue Refunding Bonds, Series 2013A (the "Series 2013A Bonds"), issued in the aggregate principal amount of

$282,460,000 on July 25, 2013, its Water and Wastewater System Revenue Refunding Bonds, Series 2014 (the "Series 2014 Bonds"), issued in the aggregate principal amount of $282,205,000 on June 6, 2014, its Water and Wastewater System Revenue Refunding Bonds, Series 2015A (the "Series 2015A Bonds"), issued in the aggregate principal amount of $249,145,000 on August 18, 2015, and its Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2015B (the "Series 2015B Taxable Bonds"), issued in the aggregate principal amount of $40,000,000 on August 18, 2015. **Pursuant to the terms of the Twenty-Sixth Supplement, the City has determined not to fund the Reserve Fund in connection with the issuance of the Bonds, and therefore, the holders of the Bonds do not have any right to any moneys or any other Reserve Fund Obligations held in the Reserve Fund.**

Except as provided below with respect to Commercial Paper Obligations, obligations of the City incurred under certain Credit Agreements, the Series 2013A Bonds, the Series 2014 Bonds, the Series 2015A Bonds, the Series 2015B Taxable Bonds, and the Bonds, the Reserve Fund shall be maintained for the benefit of the owners of the Parity Water/Wastewater Obligations secured by the Reserve Fund. There shall be deposited into the Reserve Fund any Reserve Fund Obligations so designated by the City. Reserve Fund Obligations in the Reserve Fund shall be used for the purpose of retiring the last of the related Parity Water/Wastewater Obligations secured by the Reserve Fund as they become due or paying principal of and interest on the applicable Parity Water/Wastewater Obligations when and to the extent the amounts in the Debt Service Fund are insufficient for such purpose. The amount to be accumulated and maintained in the Reserve Fund is required to be an amount equal to 50% of the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations secured by the Reserve Fund (the "Required Reserve Amount"). The City may, at its option, withdraw and transfer to the Debt Service Fund all surplus in the Reserve Fund over the Required Reserve Amount. The City may replace or substitute a Credit Facility for cash or Eligible Investments on deposit in the Reserve Fund or in substitution for or replacement of any existing Credit Facility. Upon such replacement or substitution, the cash or Eligible Investments on deposit in the Reserve Fund, taken together with the face amount of any existing Credit Facilities, in excess of the Required Reserve Amount may be withdrawn by the City, at its option, and transferred to the System Fund unless such excess was funded with the proceeds of sale of Parity Water/Wastewater Obligations in which case such excess shall be deposited to the credit of the Debt Service Fund; provided that the face amount of any Credit Facility may be reduced at the option of the City in lieu of such transfer. If the City is required to make a withdrawal from the Reserve Fund, the City shall promptly notify the issuer of a Credit Facility of the necessity for a withdrawal from the Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys and cash resulting from the sale or liquidation of Eligible Investments then on deposit in the Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency. In the event of a draw on a Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Net Revenues; however, such reimbursement from Net Revenues shall be subject to the following paragraph and, dependent on the terms of the Credit Facility, may be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Parity Water/Wastewater Obligations.

In accordance with the provisions of the Master Ordinance and Supplemental Ordinances authorizing the issuance of the Previously Issued Parity Water/Wastewater Obligations secured by the Reserve Fund, the Required Reserve Amount currently on deposit in the Reserve Fund (without giving effect to the refunding of the Refunded Bonds) is funded with a combination of cash ($41,393,861) and surety bonds originally issued by MBIA Insurance Corporation ($2,075,370), Financial Security Assurance Inc. ($1,882,766), Ambac Assurance Corporation ($5,959,371) and XL Capital Assurance Inc. ($2,873,918).

In the event of a deficiency in the Reserve Fund, or in the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund sufficient Reserve Fund Obligations, all in an aggregate amount at least equal to the Required Reserve Amount, then the City shall, subject to satisfying or making provision for the uses having a priority on the Gross Revenues before any deposits for the payment and security of the Parity Water/Wastewater Obligations and after making required deposits to the Debt Service Fund in accordance with the terms of the Master Ordinance and any Supplemental Ordinance, cause the aggregate Required Reserve Amount then required to be on deposit in the Reserve Fund to be fully restored within 12 months from the date such deficiency, termination or expiration occurred by (i) making substantially equal cash deposits to the Reserve Fund on or before the last day of each month from the available Net Revenues, (ii) depositing Eligible Investments or a Credit Facility to the credit of the Reserve Fund or (iii) a combination of (i) and (ii).

As Parity Water/Wastewater Obligations secured by the Reserve Fund are paid, redeemed or defeased and cease to be Outstanding under the terms of the Master Ordinance or a Supplemental Ordinance, the Required Reserve Amount may be recalculated and redetermined, and any Reserve Fund Obligations on deposit in the Reserve Fund in excess of the Required Reserve Amount may be withdrawn and transferred, at the option of the City, to (i) the System Fund, if an amount equal to such excess was funded with Net Revenues, or (ii) the Debt Service Fund.

The Reserve Fund does not secure the Bonds, the Series 2013A Bonds, the Series 2014 Bonds, the Series 2015A Bonds, the Series 2015B Taxable Bonds, Parity Water/Wastewater Obligations issued in the form of commercial paper, or any Credit Agreement issued in support of such Parity Water/Wastewater Obligations issued in the form of commercial paper, except as otherwise may be provided in any Supplemental Ordinance.

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

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

The amount on deposit to the credit of the Reserve Fund under the Prior Lien Ordinance as of March 31, 2016, is $27,058,763.31 and is funded with cash. The City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following such substitution, the cash and securities released from the Reserve Fund shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior First Lien Obligations and Prior Subordinate Lien Obligations in a manner that reduces the principal amount and Maturity Amount of outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations.

Issuance of Additional Prior Lien Bonds and Subordinate Lien Bonds Precluded

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

Separate Lien Obligations

In the Prior Lien Ordinance, the City reserved the right to issue or incur, by contract or otherwise, Separate Lien Obligations payable solely from the Net Revenues of either the Electric Utility System or the Water and Wastewater System, but not both, on a parity with the lien and pledge securing the payment of the Prior Subordinate Lien Bonds as to the appropriate utility system. In the case of such obligations secured by Net Revenues of the Water and Wastewater System, such obligations are to be issued on parity with the Parity Water/Wastewater Obligations in accordance with the terms of the Master Ordinance.

Issuance of Parity Water/Wastewater Obligations

Under the Master Ordinance, the City reserves the right and power to issue or incur Parity Water/Wastewater Obligations for any purpose authorized by law. The City may issue, incur, or otherwise become liable in respect of any Parity Water/Wastewater Obligations if: (i) a Designated Financial Officer shall execute a certificate stating that, to his or her knowledge, the City is in compliance with all covenants contained in the Master Ordinance and any Supplemental Ordinance, is not in default in the performance and observance of any of the terms, provisions and conditions contained in the Master Ordinance and any Supplemental Ordinance, and the Funds and Accounts securing the Parity Water/Wastewater Obligations then Outstanding as established in accordance with the terms of the Master Ordinance and any Supplemental Ordinance contain the amount then required to be therein or the proceeds of the sale of the Parity Water/Wastewater Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts; and (ii) an Accountant shall certify or render an opinion to the effect that, for the last completed Fiscal Year preceding the date of the then proposed Parity Water/Wastewater Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Water/Wastewater Obligations, the Net Revenues of the Water and Wastewater System, after deducting amounts expended from the Water and Wastewater System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, together with Other Available Water and Wastewater Revenues (see "SECURITY FOR THE BONDS – Surplus Revenue Account" in this document), are equal to 1.25 times the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations to be Outstanding, after giving effect to the issuance of the then proposed Parity Water/Wastewater Obligations. The Bonds are being issued in satisfaction of the requirements described in this paragraph.

For purposes of the Accountant's certification or opinion noted in clause (ii) above, if Parity Water/Wastewater Obligations are issued to refund less than all of the Parity Water/Wastewater Obligations then Outstanding, the aforesaid certificate, report or opinion of the Accountant shall give effect to the issuance of the proposed refunding of Parity Water/Wastewater Obligations (and shall not give effect to the Parity Water/Wastewater Obligations being refunded).

In making a determination of Net Revenues, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the Water and Wastewater System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Water and Wastewater System for the period of time covered by the Accountant's certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion.

Short-Term Parity Water/Wastewater Obligations

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

Special Facilities Debt and Subordinated Debt

Special Facilities Debt and Subordinated Debt may be incurred by the City without limitation.

Credit Agreement

Under the Master Ordinance, payments made under a Credit Agreement may be treated as Parity Water/Wastewater Obligations payable solely from and equally and ratably secured by a lien on the Net Revenues of the Water and Wastewater System of equal rank and dignity with the lien and pledge securing the payment of Parity Water/Wastewater Obligations if the governing body of the City makes a finding in the Supplemental Ordinance authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Water and Wastewater System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Water/Wastewater Obligations then outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

The City has outstanding one series of Parity Water/Wastewater Obligations for which the City has executed a Credit Agreement and treated its obligations under the Credit Agreement as a Parity Water/Wastewater Obligation.

In conjunction with the delivery of the City of Austin, Texas Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008, issued in the aggregate principal amount of $170,605,000 (the "2008 Variable Rate Bonds"), and delivered on May 15, 2008, and pursuant to a fifteenth supplemental ordinance to the Master Ordinance, the City entered into an Interest Rate Management Agreement (the "2008 Swap Agreement") with Goldman Sachs Capital Markets, L.P. ("Goldman"), pursuant to which the City is obligated to make payments to Goldman calculated on a notional amount equal to the scheduled outstanding principal amount of the 2008 Variable Rate Bonds and a fixed interest rate of 3.60% per annum, and Goldman is obligated to make reciprocal payments to the City calculated on a notional amount equal to the scheduled outstanding principal amount of the 2008 Variable Rate Bonds and a variable rate equal to the SIFMA index for obligations having a maturity of 2031. Payments under the 2008 Swap Agreement are made on a net basis on the fifteenth day of each month, commencing in May 2008 and ending in May 2031. Interest on the 2008 Variable Rate Bonds is determined in a manner that differs from the SIFMA index used to calculate amounts payable to the City under the terms of the 2008 Swap Agreement. The City entered into the 2008 Swap Agreement in conjunction with the issuance of the 2008 Variable Rate Bonds in order to effect and quantify a debt service savings on outstanding bonds that were refunded with the proceeds of the 2008 Variable Rate Bonds. Payments to be made by the City, if any, under the terms of the 2008 Swap Agreement (other than a "termination payment" as discussed below) are payable solely from and equally and ratably secured by a lien on the Net Revenues of the Water and Wastewater System of equal rank and dignity with the lien and pledge securing the payment of Parity Water/Wastewater Obligations. See APPENDIX B – "AUDITED FINANCIAL STATEMENTS–Note 9b–Variable Rate Debt Management Program" in this document for a discussion relating to the valuation of and risks associated with the 2008 Swap Agreement. As of March 31, 2016, the net aggregate monthly payments the City has made under the 2008 Swap Agreement equal $37,833,723.08.

If either party to the 2008 Swap Agreement commits an event of default, suffers a reduction in creditworthiness, or merges with a materially weaker entity, or in certain other circumstances, the 2008 Swap Agreement may be terminated at the option of the other party. Accordingly, no assurance can be given that the 2008 Swap Agreement will continue in existence until May 2031. If the 2008 Swap Agreement is terminated, then current market conditions will determine whether the City will owe a termination payment to Goldman or be entitled to receive a termination payment from Goldman. Such termination payment generally would be based on the market value of the 2008 Swap Agreement on the date of termination and could be substantial. In addition, a partial termination of the 2008 Swap Agreement could occur to the extent any 2008 Variable Rate Bonds are redeemed pursuant to the City exercising its right to effect an optional redemption of 2008 Variable Rate Bonds. If such optional redemption were to occur, termination payments related to the portion of the 2008 Swap Agreement to be terminated will be owed by either the City or Goldman, depending on the existing market conditions. The obligation of the City to pay a termination payment to Goldman could result in the City issuing Parity Water/Wastewater Obligations or Subordinated Debt to enable the City to make such a termination payment.

System Fund

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

> FIRST: To the payment of Operating Expenses, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.
>
> SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior First Lien Obligations, including the amounts required to be deposited to the credit of the common reserve fund established for the Prior First Lien Obligations and Prior Subordinate Lien Obligations.
>
> THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable, (ii) the funds maintained for the payment of Previously Issued Separate Lien Obligations currently Outstanding and (iii) the special Funds and Accounts for the payment of the Parity Water/Wastewater Obligations.

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

FIFTH: To the payment of the amount, if any, approved and authorized by action of the governing body of the City, to be deposited to the credit of the Water and Wastewater System Surplus Revenue Account.

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

The City has established the "Revenue Stability Reserve Fund" as an account within the System Fund, and, therefore, the Revenue Stability Reserve Fund is separate and distinct from the Reserve Fund established by the Master Ordinance and described in "SECURITY FOR THE BONDS – Reserve Fund for Parity Water/Wastewater Obligations" in this document. The Revenue Stability Reserve Fund is funded by the "Water Revenue Stability Reserve Fund Surcharge" described in "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Service Rates Effective as of November 1, 2015 – TABLE SEVEN" in this document. Moneys in the Revenue Stability Reserve Fund are Gross Revenues under the Master Ordinance. The City Council of the City has established certain policy restrictions with respect to the use of moneys in the Revenue Stability Reserve Fund, which are described in "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates" in this document. Notwithstanding these policy restrictions, the provisions of the Master Ordinance regarding the use of moneys on deposit in the System Fund (including the Revenue Stability Reserve Fund therein) that are described above in this "SECURITY FOR THE BONDS – System Fund" caption, govern and control. For additional information regarding the Revenue Stability Reserve Fund, see "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates" in this document.

Surplus Revenue Account

At the end of each Fiscal Year and after satisfying all payments and transfers having a priority on the revenues deposited to the credit of the System Fund, an amount approved and authorized by action of the governing body of the City may be transferred from the System Fund and deposited to the credit of a "Water and Wastewater System Surplus Revenue Account" to be established and maintained on the books and records of the City. The amounts deposited to the credit of the Water and Wastewater System Surplus Revenue Account may be used to make capital improvements to the Water and Wastewater System, to pay Operating Expenses or for any other lawful purpose. Prior to the beginning of each Fiscal Year, an amount deposited to the credit of the Water and Wastewater System Surplus Revenue Account may by action of the governing body of the City in the approval of the annual budget, or by a separate action, be designated as "Other Available Water and Wastewater Funds." The amount so designated as "Other Available Water and Wastewater Funds" shall be transferred on the books of the City to the credit of the System Fund as of the beginning of such Fiscal Year.

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DESCRIPTION OF THE BONDS

General

The Bonds will be dated the date of delivery. Interest on the Bonds will accrue from their dated date and will be payable on November 15, 2016, and each May 15 and November 15 thereafter until maturity or prior redemption. The Bonds will mature on the dates and in the principal amounts and bear interest at per annum rates set forth on page ii of this document. Accrued interest to be paid on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Principal of the Bonds is payable at maturity, subject only to prior redemption of the Bonds as described in this document.

Optional Redemption of the Bonds

The City reserves the right, at its option, to redeem Bonds maturing on or after November 15, 2027, in whole or in part, in the principal amounts of $5,000 or any integral multiple thereof on November 15, 2026, or any date thereafter, at the par value plus accrued interest to the date fixed for redemption.

Upon any optional redemption of the Bonds, if less than all of the Bonds are to be redeemed, the City shall determine the respective maturities and amounts to be redeemed and, if less than all of a maturity are to be redeemed, the Bonds, or portion of the Bonds, within such maturity will be selected at random, by lot or other customary method selected by the Paying Agent/Registrar.

Mandatory Sinking Fund Redemption of the Bonds

The Bonds having stated maturities of November 15, 2041 and November 15, 2045, respectively (the "Term Bonds"), shall be subject to mandatory redemption in part prior to maturity at the par value plus accrued interest to the date of redemption on November 15 in each of the years and in the principal amounts as follows:

5.000% Term Bond due November 15, 2041		5.000% Term Bond due November 15, 2045	
Year	Principal Amount	Year	Principal Amount
11-15-2038	$7,985,000	11-15-2042	$9,705,000
11-15-2039	8,380,000	11-15-2043	10,190,000
11-15-2040	8,800,000	11-15-2044	10,700,000
11-15-2041*	9,240,000	11-15-2045*	11,235,000

*Stated maturity.

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

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

Notice of Redemption

Not less than thirty (30) days before a redemption date for the Bonds, a notice of redemption shall be sent by United States mail, first-class postage prepaid, in the name of the City and at the City's expense, to the registered owner of a Bond to be redeemed in whole or in part at the address of the bondholder appearing on the registration books of the Paying

Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the registered owner.

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

Defeasance

The City may defease and discharge its obligation to the holders of any or all of the Bonds to pay the principal of, redemption premium, and interest thereon by depositing with the Paying Agent/Registrar, or other authorized escrow agent, in trust: (a) cash in an amount equal to the principal amount of, redemption premium, and interest to become due on the Bonds to the date of maturity or prior redemption, or (b) Government Obligations, consisting of (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent; or (iii) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of acquisition by the City are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. Government Obligations deposited in trust to defease the Bonds are required to be affirmed by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to pay the principal of, redemption premium, and interest on the defeased Bonds.

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is U.S. Bank National Association, Houston, Texas. The City retains the right to replace the Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City will promptly cause written notice thereof to be given to each registered owner of the Bonds then outstanding, which notice will also give the address of the new Paying Agent/Registrar. Any Paying Agent/Registrar selected by the City shall be a bank, trust company, financial institution or other entity duly qualified and legally authorized to serve in the capacity and perform the duties of Paying Agent/Registrar for the Bonds.

Interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent by United States mail, first-class postage prepaid, to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at their stated maturity or redemption prior to maturity upon their presentation to the designated payment/transfer office of the Paying Agent/Registrar. If a date for making a payment on the Bonds, the taking of any action or the mailing of any notice by the Paying Agent Registrar shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment, taking action or mailing of a notice will be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and a payment, action or mailing on such date shall have the same force and effect as if made on the original date the payment was due, or the action was required to be taken or the mailing was required to be made.

Record Date for Interest Payment

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

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued (see "BOOK-ENTRY-ONLY SYSTEM" in this document), the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated payment/transfer office of the Paying Agent/Registrar, or sent by United States mail, first-class postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar.

Bondholders' Remedies

If the City defaults in the payment of principal, interest or redemption price on the Bonds when due, or the City defaults in the observation or performance of any other covenants, conditions, or obligations set forth in either the Master Ordinance or the Twenty-Sixth Supplement, or the City declares bankruptcy, the registered owners may seek a writ of mandamus to compel the City or City officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds, the Master Ordinance or the Twenty-Sixth Supplement and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the courts, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Neither the Master Ordinance nor the Twenty-Sixth Supplement provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Twenty-Sixth Supplement, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The City may exercise authority to issue obligations and enter into credit agreements pursuant to Chapter 1371, Texas Government Code ("Chapter 1371"), secured by the revenues of the Water and Wastewater System. In the proceedings authorizing the issuance of obligations or the execution and delivery of credit agreements, the City may agree to waive sovereign immunity from suit or liability for the purposes of adjudicating a claim to enforce the credit agreement or obligation or for damages for breach of the credit agreement or obligation. The City has not waived the defense of sovereign immunity with respect to the Bonds under Chapter 1371. On June 30, 2006, the Texas Supreme Court ruled in Tooke v. City of Mexia, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. In Tooke, the Court noted the enactment in 2005 of sections 271.151 through .160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities under certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods and services. Because it is unclear whether the State legislature has effectively waived the City's sovereign immunity from a suit for money damages outside of Chapter 1371, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or covenants contained in the Master Ordinance or the Twenty-Sixth Supplement. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property.

On April 1, 2016, the Texas Supreme Court ruled in Wasson Interests, Ltd. v. City of Jacksonville, ___ S.W. 3d ___ (Tex. 2016) that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to restrict the waiver of immunity when a city performs a proprietary function.

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

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

BOOK-ENTRY-ONLY SYSTEM

DTC will act as securities depository for the Bonds (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 Security 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 collectively 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 an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue 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 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).

Redemption proceeds and principal and interest 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 the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest 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. Subject to DTC's policies and guidelines, the City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the City, Public Financial Management, Inc. and the Underwriters each believes to be reliable, but neither the City, Public Financial Management, Inc. nor the Underwriters takes any responsibility for the accuracy thereof.

THE SYSTEMS

The City owns and operates an Electric Utility System (also referred to in this document as "Austin Energy") and a Water and Wastewater System (also referred to in this document as the "Water and Wastewater Utility" or "Austin Water") which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and wastewater services. The City owns all the facilities of the Water and Wastewater System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet Electric Utility System demand. For fiscal year 2015-16, the Electric Utility System had approximately 1,672 full-time regular employees and the Water and Wastewater System had approximately 1,148 full-time regular employees.

THE WATER AND WASTEWATER SYSTEM

Management

Name	Title	Length of Service with City*
Greg Meszaros	Director	8 Years
David Anders	Assistant Director, Financial Services	28 Years
Jane Burazer	Assistant Director, Treatment	22 Years
Rick Coronado, P.E.	Assistant Director, Pipeline Operations	21 Years
Chris Chen, P.E.	Assistant Director, Engineering Services	3 Years
Kevin Critendon, P.E.	Assistant Director, Water Resources Management	4 Years
Daryl Slusher	Assistant Director, Environmental Affairs and Conservation	19 Years**

*As of January 1, 2016.
**Length of service not continuous.

WATER SYSTEM

Service Area

The City supplies treated water to residential and commercial customers within the corporate limits of the City and to a portion of Travis and Williamson Counties. The presently defined service area totals approximately 544 square miles. The City also has contracted to supply treated water on a wholesale basis to five municipal utility districts (individually, a "MUD"; collectively "MUDs"); two water control and improvement districts (individually, a "WCID"; collectively "WCIDs"); several water supply corporations and private utilities; the cities of Manor, Rollingwood, Sunset Valley, West Lake Hills; and the Village of San Leanna. In addition, the City has had a Water Reclamation Initiative for more than twenty years to develop facilities and processes to make treated wastewater effluent available for irrigation and cooling processes. The City established operating and capital funds for a Reclaimed Water Utility in addition to the Water and Wastewater operating and capital funds during fiscal year 2013. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Reuse Facilities" in this document. The City has previously acquired the systems and assets of eleven WCIDs. The City has paid off and canceled the bonded indebtedness of all of these WCIDs.

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

Water Supply

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

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

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

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

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

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

* Data from 2006 to 2015 is referenced from USGS Water-Year Summary Statistics.

Using the last twenty-nine years from 1987-2015, the average flow was 1,173,600 acre-feet per year. (As a result of recent drought conditions, the flows in water years 2012 through 2015 were lower, in accordance with TCEQ approval, due to LCRA cutting off most Highland Lakes interruptible stored water releases for agricultural irrigation operations). The gauging station referenced above is located on the Colorado River downstream of Longhorn Dam and downstream of the City's intakes.

Water Rights

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

The City's independent water rights have been adjudicated before the TCEQ in accordance with the Water Rights Adjudication Act, Texas Water Code, Section 11.301, et seq. The City's rights, as determined by the TCEQ, are set forth in the Final Determination of all claims of Water Rights in the Lower Colorado River Segment of the Colorado River Basin issued by the TCEQ on July 29, 1985. Both the City and LCRA appealed the Final Determination, seeking additional rights and contesting the rights awarded to each other, in a proceeding styled *In Re: The Exceptions of the Lower Colorado River Authority and the City of Austin to the Adjudication of Water Rights in the Lower Colorado River Segment of the Colorado River Basin*, Cause No. 115,414-A-1 in the District Court of Bell County, Texas, 264th Judicial District ("Cause No. 115,414-A-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 long as consumptive use does not exceed 24,000 acre-feet per year; the right to divert and circulate water from Lake Walter E. Long for industrial (cooling) purposes so long as consumptive use does not exceed 16,156 acre-feet per year; and the right to divert and use water through Tom Miller Dam for the generation of hydroelectric power. LCRA's independent water rights, as determined by the TCEQ, include the rights to maintain Lakes Travis and Buchanan and to divert and use water therefrom. Pursuant to the Settlement Agreement and the final judgment in Cause No. 115,414-A-1, certain other pending water-related disputes between the City and LCRA were settled. LCRA was granted an option to acquire up to a 50% undivided interest in the City's proposed Water Treatment Plant No. 4 (discussed under "Water Treatment Plants" below and referred to as "WTP No. 4"). The District Court issued a final judgment consistent with the Settlement Agreement. Certificates of Adjudication have been issued by the TCEQ.

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

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

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

Water Treatment Plants

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

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

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

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

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

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

Water Use Management Plan and LCRA Water Management Plan

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

For the majority of time since September 2011, the City has been in Stage 2 watering restrictions, which resulted in lower than forecasted Gross Revenues in fiscal years 2012 through 2014. Among other measures, Stage 2 watering restrictions limit lawn watering to no more than one day per week. In accordance with the DCP, Stage 2 implementation was triggered in response to the combined storage of water supply in Lakes Travis and Buchanan dropping to 900,000 acre-feet in late summer 2011. Water use restrictions have achieved their intended effect, as water use has declined significantly since their imposition; however, water use declined more than forecasted by the Water and Wastewater Utility for fiscal years 2012 through 2014. Rainfall throughout fiscal year 2015 significantly increased the combined storage of Lakes Travis and Buchanan to 1.96 million acre-feet, as of April 2016. However, the City currently is considering a modified one-day-per-week watering on a permanent basis. Public input meetings were conducted in early 2016; based on community input and City management feedback a final determination regarding watering schedules is expected to be made in May 2016. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates" in this document.

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

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

Water Storage and Pumping Facilities

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

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

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

Historical Water Pumpage - TABLE ONE

The following table summarizes historical demand and maximum day water pumpage from fiscal years 2006 through 2015.

Fiscal Year	Total Pumpage (Millions of Gallons)	Percent Change	Maximum Day Pumpage (Millions of Gallons)
2006	56,603	---%	241
2007	45,868	(19.0)%	180
2008	53,066	15.7%	227
2009	53,331	0.5%	240
2010	43,827	(17.8)%	190
2011	52,824	20.5%	231
2012	47,094	(10.8)%	203
2013	45,902	(2.5)%	183
2014	43,239	(5.8)%	184
2015	43,481	0.6%	207

Source: Austin Water.

Projected Water Pumpage - TABLE TWO

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

Fiscal Year	Total Pumpage (Millions of Gallons)	Maximum Day Pumpage (Millions of Gallons)
2016	43,521	208
2017	43,996	209
2018	44,502	212
2019	45,031	215
2020	45,565	218

Source: Austin Water.

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Information Concerning Water Sales - TABLE THREE

	Fiscal Year Ended September 30									
	2011		2012		2013		2014		2015	
	Average # of Customers	Thousand Gallons	Average # of Customers	Thousand Gallons	Average # of Customers	Thousand Gallons	Average # of Customers	Thousand Gallons	Average # of Customers	Thousand Gallons
Thousand Gallons Pumped		52,823,662		47,094,082		45,901,736		43,239,355		43,480,893
Less: Sales to Other Water Utilities (1)		3,572,029		3,071,606		2,974,131		2,574,163		2,296,977
Thousand Gallons to System		49,251,633		44,022,476		42,927,605		40,665,192		41,183,916
Water Sales:										
Retail (2)	211,185	44,502,550	212,466	38,974,582	215,328	38,531,557	216,348	35,523,917	220,946	35,043,691
City Departments	575	1,410,791	498	725,182	554	671,997	549	589,856	560	602,121
Total Sales to Ultimate Consumer	211,760	45,913,341	212,964	39,699,764	215,882	39,203,554	216,897	36,113,773	221,506	35,645,812
Used by Water Utility		69,262		55,685		56,242		52,023		52,483
Other Unmetered Usage		1,553,016		1,384,566		1,349,511		1,271,237		1,278,338
Loss and Unaccounted For		1,716,014		2,882,461		2,318,298		3,228,159		4,207,283
Thousand Gallons to System		49,251,633		44,022,476		42,927,605		40,665,192		41,183,916
Maximum Daily Consumption		231,172		202,544		182,907		183,990		206,966
Average Daily Consumption		135,532		117,182		115,555		105,994		103,953

(1) Includes sales to all wholesale customers.
(2) Includes residential, multifamily, commercial, and industrial customers.
Source: Austin Water.

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Large Water Customers - TABLE FOUR

Water and Wastewater Utility
Large Water Customers (1)
Five Year Comparative Data (2011-2015)

	Fiscal Year Ended September 30 (Gallons and Dollars in Thousands)									
	2011		2012		2013		2014		2015	
	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue
Samsung	1,212,413	$5,346	1,614,098	$7,608	1,436,772	$7,034	1,547,938	$8,382	1,558,196	$10,010
The University of Texas (2)	1,147,002	$4,424	821,457	$4,395	849,204	$4,867	827,424	$5,022	746,252	$5,517
Freescale, Inc. (3)	690,252	$3,044	599,530	$2,767	648,085	$3,116	689,059	$3,544	708,784	$4,164
Water District 10	977,849	$3,427	856,658	$3,350	850,565	$3,432	753,777	$3,183	708,235	$3,374
Wells Branch MUD	554,683	$1,697	518,536	$1,777	469,564	$1,798	423,443	$1,641	420,508	$1,937
North Austin MUD	479,142	$1,884	402,928	$1,490	387,759	$1,405	299,028	$1,232	391,524	$1,796
Austin Independent School District (4)	440,017	$2,441	393,177	$2,191	362,688	$2,208	351,478	$2,397	313,672	$2,461
Spansion	578,465	$1,884	384,288	$1,823	389,113	$1,919	329,313	$1,801	299,686	$1,868
Northtown MUD	310,965	$1,029	304,387	$1,086	289,610	$1,117	276,343	$1,081	267,479	$1,193
Texas Facilities Commission (4)	198,206	$1,044	238,646	$1,268	231,552	$1,309	210,128	$1,345	207,324	$1,495
Total:	6,588,994	$26,220	6,133,705	$27,755	5,914,912	$28,205	5,707,931	$29,629	5,621,660	$33,814

(1) Reflects the ten largest water customers from the most recent fiscal year; previous fiscal years' totals are based on the current list of ten largest customers.
(2) Includes all accounts.
(3) Includes east Austin and west Austin plant sites.
(4) Includes all locations.
Source: Austin Water.

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WASTEWATER SYSTEM

Service Area

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

Facilities

Austin Water has two main wastewater treatment plants with a total permitted capacity of 150 mgd, one biosolids treatment and beneficial reuse facility, over 2,776 miles of sanitary wastewater mains and lines, and 134 city-owned, in-service lift stations. The two treatment plants are the Walnut Creek Wastewater Treatment Plant, which began operations in 1977, and the South Austin Regional Wastewater Treatment Plant, which started operating in 1986. The Hornsby Bend Biosolids Treatment Plant operates as a sludge treatment and beneficial reuse facility and was placed in operation in 1956. The Hornsby Bend Biosolids Management Plant permit was renewed by TCEQ in October 2012 and will be renewable again in 2017. The Walnut Creek Wastewater Treatment Plant permit was renewed in January 2015 and is renewable again in 2019. The South Austin Regional Wastewater Treatment Plant permit was renewed in May 2015 and is renewable again in 2019.

The Walnut Creek Wastewater Treatment Plant is permitted to discharge an average flow of 75 mgd. During fiscal year 2015, average flows to the plant were approximately 62 mgd. A 15 mgd upgrade to this plant (which resulted in the plant's current capacity of 75 mgd) was completed in 2004.

The South Austin Regional Wastewater Treatment Plant began operation in April 1986. The plant is now permitted to discharge at a rate of 75 mgd after a 25 mgd upgrade was completed in August 2006. During fiscal year 2015, average flows to the plant were approximately 50 mgd.

The Hornsby Bend Biosolids Treatment Plant serves as the City's central biosolids treatment and beneficial reuse facility. Waste biosolids from the Walnut Creek and the South Austin Regional plants are pumped to anaerobic digesters at Hornsby Bend for treatment and beneficial reuse. Biosolids received at Hornsby Bend are thickened, anaerobically digested, dewatered in sludge-drying basins or mechanically dewatered using belt presses for beneficial reuse through on-site and off-site agricultural land application, and composted for marketing and distribution. Excess water from thickeners, anaerobic digesters and belt presses is treated in a side-stream treatment plant and polished by treatment in large on-site ponds. A greenhouse enclosed aquaculture pond is used to treat the pond water before it is used for irrigation on utility-owned land at the site. Major improvements recently completed at Hornsby Bend include sludge thickening facilities. A Center for Environmental Research was established in 1989 at Hornsby Bend with the cooperation of the City, The University of Texas at Austin and Texas A&M University. The City provides laboratory, offices and research facilities at Hornsby Bend for the two universities to conduct environmental research.

In 1985, the City entered into a contract with the Brushy Creek Water Control and Improvement District No. 1, Williamson County MUD No. 2, Williamson County MUD No. 3 and the City of Round Rock to fund, construct, and operate a regional wastewater collection and treatment system (the "Brushy Creek Project") serving the upper Brushy Creek watershed. In 1994, the Brushy Creek Project participants terminated the agreement. The City and the City of Round Rock subsequently entered into an interlocal agreement whereby the two cities assumed the obligations and divided the Project assets and entered into an interim operations and maintenance agreement. LCRA and the Brazos River Authority ("BRA") purchased Round Rock's share in the Brushy Creek Project and have also purchased a portion of the City's share relating to the area now included in the City of Cedar Park's extraterritorial jurisdiction. The City of Cedar Park entered into a wastewater service agreement with LCRA and BRA in 1997. Effective October 1, 2000, final negotiations were complete, resulting in the City selling its remaining assets to the LCRA, and in the City becoming a customer of the LCRA and BRA wastewater system. While ownership interests and contractual relationships have changed over the years, in December 2009, the City purchased an operating interest in the Brushy Creek Project from LCRA for approximately $12 million. The City pays its portion of capital expansions and operations and maintenance costs on an annual basis, and reserves sufficient wastewater capacity to adequately serve all of the area inside the City's jurisdiction within the Brushy Creek watershed. The City of Austin, City of Round Rock, City of Leander, and the City of Cedar Park all own joint interests in the wastewater system. The Brazos River Authority operates and maintains the system for the cities.

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

Lift Stations

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

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

Source: Austin Water.

Historical Wastewater Flows – TABLE FIVE

The following table summarizes the historical influent wastewater flows to the City's wastewater treatment facilities from fiscal years 2006 through 2015.

Fiscal Year	Total Wastewater Flow (Millions of Gallons)	Percent Change
2006	30,324	----%
2007	37,208	22.7%
2008	32,011	(14.0)%
2009	32,177	0.5%
2010	37,254	15.8%
2011	32,946	(11.6)%
2012	37,756	14.6%
2013	34,813	(7.8%)
2014	37,298	7.1%
2015	40,711	9.2%

Source: Austin Water.

Projected Wastewater Flows – TABLE SIX

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

Fiscal Year	Total Wastewater Flow (Millions of Gallons)
2016	39,940
2017	40,733
2018	41,554
2019	42,290
2020	43,066

Source: Austin Water.

COMBINED WATER AND WASTEWATER SYSTEM INFORMATION

Future Capital Improvements for Water and Wastewater System

Based on the proposed FY 2017-2021 capital spending plan, it is anticipated that the Water and Wastewater System will require approximately $884.4 million for system improvements for such period. Such improvements will include treatment facilities, reservoir, pump station and lift station improvements, and major transmission distribution and collection improvements. It is anticipated that such improvements will be financed as follows: (1) the issuance of $607.9 million additional Parity Water/Wastewater Obligations (including refunding of commercial paper issued to provide interim financing for such improvements) and (2) the application of $276.5 million of anticipated transfers from current Water and Wastewater System revenues and amounts on hand.

Additionally, the City intends to submit applications to the Texas Water Development Board ("TWDB") in fiscal year 2016 for the purposes of obtaining approximately $167.2 million in low-interest rate loans for the following purposes: (1) development and implementation of a smart meter system for Austin Water and (2) multiple capital improvement projects associated with reclaimed water systems. The low-interest loans being sought from the TWDB would come from the State Water Implementation Fund for Texas ("SWIFT") program that was established by the Texas Legislature in 2013. Subject to approval by the City Council, funding would be requested in annual increments between fiscal years 2017 and 2023. If approved by the TWDB, the loan closings for annual funding requests are expected to begin in December 2016.

Services Financed by Utility Districts

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

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

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

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

In February 2011, the City Council approved a resolution establishing a policy and general criteria under which the City Council will consider requests to create MUDs. The policy states that the City Council shall consider the following criteria: adherence to the comprehensive plan; extension of public infrastructure with MUD or developer financing; affordable housing; environmental improvement; public transportation facilities; open space; green building; development standards; amenities; school and public safety sites; City provision of water and wastewater services; and financial viability.

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

Water Reuse Facilities

The City has implemented a water reclamation initiative to develop facilities and processes to make treated wastewater effluent available for irrigation, manufacturing, toilet flushing, and cooling uses. The water reuse facilities operated as part of the Water and Wastewater System include three pump stations, two pressure zones with a boosted area, three water storage facilities with 4.0 MG in storage, and 51.2 miles of mains. A water storage tank, on which construction just concluded, holds 1.5 MG of the 4.0 MG. Additionally, a 4.0 MG water storage tank with associated pump station is in the final stages of design. An additional 5.3 miles of mains are in design or under construction. The water reuse facilities presently serve a total of 76 metered customers. City codes were recently revised to facilitate new customer connections and a mandatory connection ordinance was implemented effective as of May 1, 2015.

Customer demand is highly dependent on weather conditions. In 2015, customers used 1.26 billion gallons (BG) of reclaimed water. Efforts to promote the use of reclaimed water focus on existing large-volume commercial and industrial potable water users that can convert a portion of their use of treated potable water to reclaimed water. The water reuse facilities extend from the eastern edge of the City, where the water originates at the wastewater treatment plants, to the center of the City, where most of the reclaimed water customers are located.

Water and Wastewater Rates

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

In fiscal year 2014, the Water and Wastewater Utility implemented a fixed revenue goal of 20%, new volumetric rates and block intervals. A Revenue Stability Reserve Fund ("Stability Fund") was established to help cover costs during extreme weather or economic events. The Stability Fund is an account within the System Fund that is funded by a volumetric surcharge applied both to retail and wholesale monthly bills, which became effective in February 2013. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Service Rates Effective as of November 1, 2015 – TABLE SEVEN" in this document. The Stability Fund exists separate and distinct from the Reserve Fund established by the Master Ordinance. See "SECURITY FOR THE BONDS – Reserve Fund for Parity Water/Wastewater Obligations" in this document. Monthly transfers to the Stability Fund are anticipated to continue until the Stability Fund's balance is at least equal to 120 days of budgeted Operating Expense requirements. Moneys in the Stability Fund are Gross Revenues under the Master Ordinance. The Stability Fund cannot be used for purposes other than for Water and Wastewater Utility purposes, is primarily intended to pay Operating Expenses or debt service on Parity Water/Wastewater Obligations, and may only be used to offset current year shortfalls in Gross Revenues that exceed 10% of budgeted levels. The City Council must approve any use of funds in the Stability Fund, no more than 50% of the balance would be used in any one year, and, if used, the Stability Fund balance would be replenished to the 120-day level within a five-year period. As of March 31, 2016, the balance of the Stability Fund was nearly $24.14 million; the balance of the Stability Fund is forecast to be $26.5 million by September 30, 2016; it is forecast to be fully funded to the 120-day goal by fiscal year 2018, which is currently anticipated to be approximately $43 million. No assurance can be given that these forecasted balances will be achieved. Once the 120-day level goal is met, the volumetric surcharge for the Stability Fund is anticipated to be reduced to a level to maintain the 120-days of Operating Expenses funding goal. As of the date of this document, the Water and Wastewater Utility has not drawn any moneys from the Stability Fund. Notwithstanding the foregoing policy restrictions of the City currently in effect with respect to the use of moneys within the Stability Fund, the provisions of the Master Ordinance regarding the use of moneys on deposit in the System Fund (including the Stability Fund therein) govern and control. See "SECURITY FOR THE BONDS – System Fund" in this document.

To continue improving the financial position, the Water and Wastewater Utility implemented a 4.9% combined rate increase for the fiscal year ending September 30, 2016. Additionally, a refunding bond sale transacted during fiscal year 2015 allowed the Water and Wastewater Utility to realize approximately $70 million in debt service savings between fiscal years 2015 and 2020. Although the approved budget for fiscal year 2016 reflected increased requirements over fiscal year 2015, it was still lower than the fiscal year 2014 budget. That is because the fiscal year 2015 budget reduced budgeted Operating Expenses and transfers to the City's general fund by $30 million as compared to fiscal year 2014.

While projected Gross Revenues have declined since the imposition of the water use restrictions in September 2011, there has not been an unanticipated increase in debt service on Parity Water/Wastewater Obligations or in Operating Expenses of the Water and Wastewater System since fiscal year 2012, when the water use restrictions were imposed. The Water and Wastewater Utility prepares a five-year financial forecast each year as part of the City's forecast and budget development process, which includes a City Council-approved policy to forecast Gross Revenues and Operating Expenses that will provide for at least 1.5 times debt service coverage for the Parity Water/Wastewater Obligations by Net Revenues of the Water and Wastewater System. The forecast prepared by the Water and Wastewater Utility in April 2016 projects debt service coverage levels in fiscal year 2017 of 1.69 times debt service coverage, increasing to 1.81 times debt service coverage by fiscal year 2020; the forecasted coverage levels assume that rate increases will be implemented at various times during the forecast period. No assurance can be given that these debt service coverage levels will be achieved.

Any increase in the rates, charges or fees for water and wastewater services furnished by the Water and Wastewater System must be approved by the City Council. As a result of the Water and Wastewater Utility's annual budgeting process for the 2016 fiscal year, the City Council approved the Water and Wastewater Utility's requested 4.9% combined rate increase. These rates went into effect on November 1, 2015. If any rate increase is approved by City Council as part of the fiscal year 2017 approved budget the rates would not take effect prior to November 1, 2016. No assurance can be given that the City Council will approve any rate increase, or that the City Council will approve rate increases in the amounts proposed by the Water and Wastewater Utility; however, the City is committed to complying with the agreements and covenants of the City in the Prior Lien Ordinance and the Master Ordinance with respect to establishing, maintaining and collecting rates, charges and fees for water and wastewater services furnished by the Water and Wastewater System. See "DESCRIPTION OF THE BONDS – Bondholders' Remedies," "SECURITY FOR THE BONDS – Rate Covenant Required by Prior Lien Ordinance" and "– Rate Covenant Required by Master Ordinance" in this document. See also, Section 4 of "APPENDIX C – COPY OF MASTER ORDINANCE" and "Rates and Charges" in "APPENDIX D – SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS" in this document.

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

Water Service Rates Effective as of November 1, 2015 – TABLE SEVEN

Monthly Customer Charges

Customer Account Charge	Meter Size	Retail Equivalent Meter Charge per Month (1)	Multifamily Charge per Month (2)	Commercial Charge per Month (2)
Retail Customer Account Charge($/Month)	5/8	$ 7.10	$ 18.60	10.85
	3/4	13.00	28.00	16.00
	1	15.00	47.00	27.00
	1¼	17.00	65.00	41.00
	1½	25.00	93.00	54.00
	2	41.00	149.00	87.00
	3	68.00	298.00	174.00
	4	139.00	465.00	271.00
	6	283.00	930.00	543.00
	8	1,046.00	1,488.00	868.00
	10	1,236.00	2,139.00	1,248.00
	12	1,466.00	3,162.00	1,845.00

Volumetric Surcharge

	Retail per 1,000 Gals. (3)	Wholesale per 1,000 Gals. (3)
Water Revenue Stability Reserve Fund Surcharge	$0.19	$0.10

Residential Monthly Tiered Minimum Charge	Min. Charge per Month (4)
0 – 2,000 Gallons	$ 1.20
2,001 – 6,000 Gallons	3.45
6,001 – 11,000 Gallons	8.75
11,001 – 20,000 Gallons	27.35
20,001 – Over Gallons	27.35

Large Volume Fixed Minimum Charge	Min. Charge per Month (5)
Freescale	$ 46,500
Samsung	111,000
Novati (formerly Sematech)	3,700
Spansion	22,000
University of Texas	20,000

(1) Charge is applied to all customer classes.
(2) Fee is charged in addition to the Retail Equivalent Meter Charge.
(3) Surcharge is assessed to all water customers per 1,000 gallons of water billed for the billing period to fund the Water Revenue Stability Reserve Fund. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates" in this document.
(4) Fee is charged in addition to the Retail Equivalent Meter Charge and is applied based on the total billed consumption for the billing period as it falls within the rate block, not as a volumetric charge per 1,000 gallons.
(5) Fee is charged in addition to the Retail Equivalent Meter Charge.
Source: Austin Water.

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Volume Unit Charge (1)

	Charge per 1,000 Gals.
Single-Family Residential (2)	
0 – 2,000 Gallons	$ 3.16
2,001 – 6,000 Gallons	4.84
6,001 – 11,000 Gallons	7.88
11,001 – 20,000 Gallons	11.90
20,001 – Over Gallons	14.16
Multifamily (3)	
Off Peak	4.90
Peak	5.39
Commercial (3)	
Off Peak	5.82
Peak	6.40
Large Volume (3)	
Freescale	
Off Peak	5.17
Peak	5.69
Samsung	
Off Peak	5.30
Peak	5.83
Novati (formerly Sematech)	
Off Peak	5.48
Peak	6.03
Spansion	
Off Peak	5.22
Peak	5.75
University of Texas	
Off Peak	5.82
Peak	6.40

(1) Wholesale unit charges vary between $3.46 and $5.09 per 1,000 gallons.
(2) The City has approved an inclining block rate structure to promote water conservation for Single Family Residential customers. These rates will be administered on the basis of 100 gallon increments.
(3) Off Peak: November 1 – June 30 bills. Peak: July 1 – October 31 bills.
Source: Austin Water.

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Wastewater Service Rates Effective as of November 1, 2015 – TABLE EIGHT

Customer Account Charge

	Retail Customers	Wholesale Customers
Customer Account Charge ($/month)	$10.30	$10.30

Volume Unit Charge (1)

	Unit Cost per 1,000 Gallons (2)
Retail	
Single-Family	
0 - 2,000 Gallons	4.90
2,001 - Over Gallons	9.94
Multifamily	9.20
Commercial	9.26
Large Volume:	
Freescale	8.52
Samsung	7.89
Novati (formerly Sematech)	7.63
Spansion	7.95
University of Texas	9.08

(1) Wholesale unit charges vary between $3.80 and $5.73 per 1,000 gallons.
(2) Applied to average water consumption during December, January and February billing periods, or actual water consumption, whichever is lower.

Source: Austin Water.

The combined water and wastewater minimum charge and volumetric service rates effective as of November 1, 2015 reflect a 4.9% increase over the rates charged in the prior year.

Wholesale and Outside City Rate Challenges

On September 1, 2014, all appellate jurisdiction to determine municipal water and wastewater rates outside the City's boundaries was transferred from TCEQ to the Public Utilities Commission of Texas ("PUCT"). The City is not subject to regulation by the PUCT (or any other State regulatory entity) with regard to the rates charged for water and wastewater services to customers within the boundaries of the City. State law, however, does allow water districts to appeal the City's water and wastewater rates to the PUCT.

On April 12, 2013, four of the Water and Wastewater Utility's eighteen wholesale water customers submitted a water rate petition challenging the City's wholesale water rates to the TCEQ. In their petition, the four wholesale customers (North Austin MUD, Northtown MUD, Travis County WCID #10 (Westlake), and Wells Branch MUD) allege that the City's wholesale rates are not just or reasonable. The petition alleges the new rates disproportionately increase the monthly fixed charges; collect for costs unrelated to water service; discourage conservation; and unfairly burden commercial and large volume customers. The petition also asks the TCEQ to set interim rates while the appeal is pending. The TCEQ reviewed the petition and recommended referral to the State Office of Administrative Hearings. The hearing concluded in February 2015 and the City received a final ruling from the PUCT in November 2015, which found in favor of the petitioners. The City filed a Motion for Rehearing with the PUCT, which was denied in February 2016. Subsequently, the City filed an appeal in Travis County District Court in March 2016, which is pending.

The four wholesale water customers represented $8.2 million, or 3.0%, of the approximate $276.7 million annual water revenue for fiscal year 2015. The petition only challenges a small portion of their revenue or how the Water and Wastewater Utility has designed its rates, and therefore would not be a significant revenue impact to the Water and Wastewater Utility if the appeal was upheld.

On December 22, 2014, outside city residents of newly acquired and former River Place MUD submitted a water and wastewater rate petition to the PUCT. The petition alleges the rates adopted by the City are unjust, unreasonable and unfairly burden customers to pay for City charges unrelated to the cost of service for these customers. The case was settled and dismissed in October 2015.

The City can make no predication as to whether any additional wholesale water or outside city customers will petition or challenge the City's water rates.

Water and Wastewater Capital Recovery Fees

On September 3, 1982, the City Council adopted an ordinance under which all new non-industrial and non-commercial customers of the Water and Wastewater System must pay a Capital Recovery Fee at the time that the customer's new tap is purchased. The fee has been revised a number of times since that date and is currently applied to all connections added to the Water and Wastewater System unless expressly waived by the City Council. In 1989, the City Council appointed an Impact Fee Advisory Committee and reauthorized the Capital Recovery Fee in compliance with procedures and methodology established by State law. The total Water and Wastewater Capital Recovery Fee was implemented August 5, 1999 and revised effective January 1, 2014. The revised fees are shown below, and under the terms of the Master Ordinance, such fees do not constitute Gross Revenues. There are a number of express exemptions from payment of these fees. The City's policy is to use Capital Recovery Fee receipts to either service debt, defease debt or finance growth-related capital improvement projects, thus reducing the amount required to be debt financed and saving the Water and Wastewater System the related financing costs. The fees listed below are based on one service unit (5/8" meter).

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

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

Fees for lots that were platted on or after January 1, 2014.

	Water	Wastewater	Total
All Areas	$5,400	$2,200	$7,600

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Analysis of Water Bills - TABLE NINE A

	Fiscal Year Ended September 30				
	2011	2012	2013	2014	2015
Average Monthly Bill Per Customer - Water					
Residential (1)	$ 46.56	$ 45.04	$ 41.89	$ 38.97	$ 43.16
Multifamily (1)	554.14	591.68	660.89	701.04	820.44
Commercial (1)	302.33	303.72	306.23	324.91	343.17
Large Volume	187,302.62	216,445.74	211,176.57	228,692.44	260,155.12
City Departments	697.92	738.96	598.67	641.05	683.60
Average Monthly Bill – Above Customers	$ 86.42	$ 87.09	$ 85.53	$ 85.65	$ 94.84
Sales to Other Water Utilities (2)	$ 55,663.29	$ 55,877.81	$ 55,207.74	$ 53,960.56	$ 42,146.05
Average Monthly Bill – All Customers	$ 91.14	$ 91.80	$ 90.12	$ 89.87	$ 98.26
Average Monthly Use in 1,000 Gallons – Water					
Residential (1)	8.81	7.62	6.92	6.10	5.77
Multifamily (1)	133.75	126.46	131.78	127.52	128.84
Commercial (1)	60.14	54.87	54.76	48.99	45.45
Large Volume	41,983.88	45,339.01	33,551.21	42,919.67	42,053.37
City Departments	201.22	124.96	100.44	89.81	89.16
Average Monthly Use – Above Customers	17.75	15.96	15.01	13.89	13.33
Sales to Other Water Utilities (2)	16,270.57	14,634.11	13,677.20	12,651.94	10,588.02
Average Monthly Use – All Customers	19.13	17.20	16.15	14.88	14.19
Average Revenue Per 1,000 Gallons – Water					
Residential (1)	$ 5.28	$ 5.91	$ 6.05	$ 6.39	$ 7.48
Multifamily (1)	4.14	4.68	5.02	5.50	6.37
Commercial (1)	5.03	5.54	5.59	6.63	7.55
Large Volume	4.46	4.77	6.29	5.33	6.19
City Departments	3.47	5.91	5.96	7.14	7.67
Average Revenue – Above Customers	$ 4.87	$ 5.46	$ 5.70	$ 6.17	$ 7.11
Sales to Other Water Utilities (2)	$ 3.42	$ 3.82	$ 4.04	$ 4.27	$ 3.98
Average Revenue – All Customers	$ 4.76	$ 5.34	$ 5.58	$ 6.04	$ 6.92

(1) Inside and Outside City-limit customers combined.
(2) Includes all Wholesale customers.
Source: Austin Water.

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Analysis of Wastewater Bills - TABLE NINE B

	Fiscal Year Ended September 30				
	2011	2012	2013	2014	2015
Average Monthly Bill Per Customer – Wastewater					
Residential (1)	$ 35.16	$ 36.79	$ 40.94	$ 37.90	$ 36.35
Multifamily (1)	847.28	895.83	1,058.16	1,096.47	1,172.57
Commercial (1)	322.84	350.13	367.56	383.79	395.74
Large Volume	196,261.93	219,013.24	216,581.48	231,555.45	224,832.98
City Departments	371.53	352.98	387.69	397.24	450.32
Average Monthly Bill – Above Customers	$ 79.46	$ 83.42	$ 91.05	$ 89.91	$ 89.62
Sales to Other Utilities (2)	$ 49,363.10	$ 50,635.47	$ 54,488.52	$ 58,764.29	55,611.39
Average Monthly Bill – All Customers	$ 81.94	$ 85.94	$ 93.73	$ 92.78	$ 92.27
Average Monthly Use in 1,000 Gallons – Wastewater					
Residential (1)	4.28	4.33	4.53	4.15	3.88
Multifamily (1)	112.22	115.40	128.20	126.49	132.58
Commercial (1)	42.47	43.78	43.58	43.85	43.79
Large Volume	29,344.27	31,493.39	29,857.14	30,354.38	29,135.26
City Departments	47.05	45.07	46.45	45.43	47.91
Average Monthly Use – Above Customers	10.26	10.39	10.69	10.25	9.97
Sales to Other Utilities (2)	9,911.86	9,868.40	10,128.19	10,691.69	10,020.74
Average Monthly Use – All Customers	10.76	10.88	11.19	10.78	10.45
Average Revenue Per 1,000 Gallons – Wastewater					
Residential (1)	$ 8.21	$ 8.50	$ 9.03	$ 9.13	9.36
Multifamily (1)	7.55	7.76	8.25	8.67	8.84
Commercial (1)	7.60	8.00	8.43	8.75	9.04
Large Volume	6.69	6.95	7.25	7.63	7.72
City Departments	7.90	7.83	8.35	8.74	9.40
Average Revenue – Above Customers	$ 7.74	$ 8.03	$ 8.52	$ 8.77	$ 8.99
Sales to Other Utilities (2)	$ 4.98	$ 5.13	$ 5.38	$ 5.50	$ 5.55
Average Revenue – All Customers	$ 7.61	$ 7.90	$ 8.38	$ 8.61	$ 8.83

(1) Inside and Outside City-limit customers combined.
(2) Includes all Wholesale customers.
Source: Austin Water.

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ELECTRIC SYSTEM
"AUSTIN ENERGY"

Management (as of March 31, 2016)

	Years at City	Additional Years of Experience	Total
Interim General Manager			
Mark Dombroski, *Chief Financial Officer* (1)	1	22	23
Deputy General Managers			
Elaina Ball, *Interim Chief Operating Officer*	3.5	12	15.5
Kerry Overton, *Chief Administrative Officer*	16	11	27
Vice Presidents			
Mark Dreyfus, Ph.D., *Regulatory Affairs and Corporate Communications*	16.5	12	28.5
Jawana Gutierrez, PMP, *Customer Care Services*	24	5	29
Elaine Kelly-Diaz, *Customer Account Management*	8	12	20
Debbie Kimberly, *Customer Energy Solutions*	3	30	33
Khalil Shalabi, *Market Operations and Resources Planning*	2	20	22
Dan Smith, *PE, Electric Service Delivery*	12.5	15	27.5
John Wester, Interim VP, *Power Production*	15	18	33

(1) Mark Dombroski became Interim General Manager on February 1, 2016, following the resignation of former General Manager Larry Weis.

Service Area

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

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

Real Estate Taxes

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

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Customer Base – Average Monthly Number of Customers

For Period ended September 30, 2015	Average Monthly Number of Customers	Percent
Residential	401,556	89.15
Commercial	46,286	10.27
Industrial	132	0.03
Public Street & Highway	6	0
Governmental Authorities	2,499	0.55
Total Service Area Customers	450,479	100.00

Source: Austin Energy.

Physical Property

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

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Generation Facilities – TABLE TEN

As of January 1, 2016, generation facilities wholly or partially owned by Austin Energy are as follows.

Unit	Year Installed	Nameplate Rating (MW)	Fuel
Fayette Power Project			
Unit No. 1	1979	285.0	Coal
Unit No. 2	1980	285.0	Coal
Decker Power Station			
Unit No. 1	1970	321.0	Gas
Unit No. 2	1977	405.0	Gas
Gas Turbines	1988	200.0	Gas
Sand Hill Energy Center			
Gas Turbines	2001	180.0	Gas
Gas Turbines	2010	90.0	Gas
Combined Cycle	2004	300.0	Gas
MEC CHP (Dell Children's Hospital)	2006	4.6	Gas
South Texas Project Electric Generating Station			
Unit No. 1	1988	200.0	Nuclear
Unit No. 2	1989	200.0	Nuclear
Total Capacity owned by Austin Energy		2,470.6	
Purchased Power (1)(2):			
Leeward Sweetwater Wind	2005	126.0	Wind
RES North America Whirlwind Energy LLC	2007	59.8	Wind
RES North America Hackberry Wind LLC	2008	165.6	Wind
Exelon Whitetail Wind Energy	2012	92.3	Wind
Duke Energy Los Vientos IB	2012	201.6	Wind
Longsol LLC Webberville Solar	2011	30.0	Solar
Duke Energy Los Vientos III	2015	200.0	Wind
TX Jumbo Road Wind, LLC	2015	300.0	Wind
Sunset Farms Energy, LLC	1994-2003	4.0	Landfill Methane
Energy Developments, Inc.	2002-2003	7.8	Landfill Methane
Nacogdoches Power LLC	2012	100.0	Biomass
Total Capacity from Purchased Power		1,287.1	
Total Capacity including Purchased Power		3,357.7	

(1) The City has also signed contracts to purchase electric energy to be provided in future years. See "CUSTOMER STATISTICS - Power and Energy Purchase Contracts" in this document.
(2) Purchased power portfolio is comprised of 100% renewable energy.
Source: Austin Energy.

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

Fuel Supply

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

	Percentage of Generation As of September 30				
Fuel Type	2011	2012	2013	2014	2015
Coal	28.9%	27.0%	25.9%	27.5%	24.4%
Natural Gas & Oil (1)	25.8	20.5	15.7	13.1	16.1
Nuclear	21.3	21.9	22.8	23.1	26.0
Renewable Energy	9.5	14.9	20.7	22.0	23.1
Purchased Power	14.5	15.7	14.9	14.3	10.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(1) No fuel oil since FY 2013.
Source: Austin Energy.

Fuel Type

Coal . . . Coal supply and rail transportation are procured through a portfolio of contracts designed to minimize cost. Typically, several weeks of coal inventory are maintained to protect against disruptions. Coal inventories are managed within targeted ranges, and depending on the efficiency of railroad performance, train sets are either removed from or added to service to maintain desired inventory levels. Austin Energy's coal inventory share was 128 days as of March 31, 2016. Austin Energy's coal inventory is targeted to be 40-70 days. The above target inventory is due to a combination of factors including an extended unplanned outage on one unit, improved transportation delivery, and impacts from low natural gas prices. Inventory is carefully managed and will move back toward normal levels in 2016.

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

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

DESCRIPTION OF PHYSICAL PROPERTY

Fayette Power Project

The Fayette Power Project ("FPP") is a power project co-owned by 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 four Subcommittees (Environmental, Fiscal/Budget, Fuels, and Technical) composed of representatives from each participant to direct the operation of the project. FPP is a 7,500 acre site located 8½ miles east of LaGrange, Texas, which is approximately 65 miles southeast of the City.

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

Austin Energy Gas Generation Facilities

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

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

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

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

South Texas Project

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

	Ownership Effective February 2, 2006 (1)	
	%	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 for Units 1 and 2 is in process and the NRC review of the license renewal application is proceeding on schedule and with no significant challenges. Three hundred requests for additional information were received from the NRC. The NRC is presently preparing draft Supplemental Environmental Impact Statements in support of the new extended license. Contention petitions were denied and are now closed. In 2012, the NRC voted that no final licensing decisions would be made until burial waste issues (Waste Confidence Rule) were resolved. In August 2014, the NRC adopted the final Continued Storage Rule (resolving the Waste Confidence Rule issues) and lifted suspension on all final licensing decisions for affected applications as of the effective date of the final rule. Several activities and confirmatory items are remaining before the final decision and granting of an extended license. The NRC approval timeline is forecasted to be the fourth quarter of 2017.

On November 13, 2008, NRG South Texas LP, one of the STP partners, provided Austin Energy with notice of an updated proposal to add Units 3 and 4 at the South Texas Project site. The City had the right to participate in the ownership of the proposed new units, up to its existing 16 percent share of the South Texas Project. Austin Energy evaluated the City's ownership option and provided City Council with an analysis on which to base a decision. The City Council elected to decline participation in this expansion as then proposed. Nuclear Innovation North America ("NINA"), operating as a subsidiary of NRG Energy, Inc., became the lead applicant for the license and assumed responsibility for design, construction, and licensing prior to operation of STP 3 and 4 on January 24, 2011. The NRC issued the Combined License for Units 3 and 4 on February 12, 2016. A press release from NINA at the time of the license issuance stated "NINA plans to hold these licenses until market economics support construction."

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

CUSTOMER RATES

Retail Service Rates

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

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

In June 2012, following a 17-year period with no change in its base electric rates, the City Council approved a system average 7% rate increase for Austin Energy, which was reflected on electric bills beginning in October 2012. It is expected that rates will be reviewed at least every five years. The City Council reaffirmed that future rate increases should not exceed 2% per year and that Austin Energy rates remain in the lower 50% among Texas electric utilities. The rates approved by the City Council in 2012 also include several line item charges that are reviewed and updated annually:

- Power Supply Adjustment: recovers dollar-for-dollar fuel and power supply costs.
- Regulatory Charge: recovers dollar-for-dollar Austin Energy's retail transmission expense and other regulatory expenses, such as ERCOT Administrative Fees. Congestion Revenue Rights are netted against the system regulatory costs.
- Customer Assistance Program: funds utility bill discounts for low income customers (more than 40,000 customers assisted as of September 2015).
- Service Area Streetlights: maintains and powers the streetlights and traffic signals in the City (outside-the-city customers are not assessed this fee).
- Energy Efficiency Services: funds energy efficiency programs, the least expensive offset to new generation.

Proposed Base Rate Decrease: In January 2016, Austin Energy proposed a $17.5 million (2.8 percent) base rate decrease, resulting in an overall 1.4 percent system revenue reduction. In addition to reducing base revenues, the proposal also eliminates the seasonal base rate differential, creates a seasonal adjustment for PSA rates, modifies and flattens the residential tiered rates, redefines the boundaries of the Secondary Voltage 2 and Secondary Voltage 3 rate classes, and provides a level of price protection for low load factor customers. Final review of the rate proposal by the City Council is expected by September 1, 2016.

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

Residential ratepayers taking service outside the City's corporate limits appealed the 2012 rate change to the PUCT (PUC Docket No. 40627). The parties to the appeal signed a settlement agreement on March 22, 2013, and the settlement was approved by the PUCT on April 29, 2013. The settlement set rates for the outside City customers and became effective June 1, 2013.

Commercial rates: Commercial rates generally include a customer charge, demand and electric delivery charges (based on demand), energy charges, and the pass-through charges for the Power Supply Adjustment, Regulatory Charge, and the Community Benefit Charge (see "Residential Rates and Structure" above).

Industrial rates: Industrial rates were approved by the City Council in the 2012 rate review. At the time, most industrial customers were served under long-term contracts which have since expired. In December of 2014, the State of Texas contract was extended through May 2017; the new contract replaced the Fuel Adjustment Clause with the Power Supply Adjustment. The City Council approved a new tariff in May 2015 for Austin Energy's largest transmission customer that replaced their prior long-term contract. Austin Energy's two largest customers are served under a tariff that requires the customer to sign a new long-term contract. All remaining industrial customers, following the expiration of their contracts, are billed under the approved tariffs.

Power Supply Adjustment

During the annual budget process, the City Council reviews Austin Energy's proposal for updating the Power Supply Adjustment ("PSA"), which recovers ERCOT Settlements, fuel costs, and purchased power agreement costs, plus an adjustment for the prior year over/under-recovery.

Typical Residential Electric Bills of Large Texas Cities

City	Electric Bill*
Dallas/Fort Worth	$91.83
Houston	100.06
San Antonio	105.21
AUSTIN	**107.67**
Corpus Christi	108.03
El Paso	113.33

* Average residential bill for 1,000 KWh during the period October 2014 – September 2015, including fuel costs. The cities shown, other than the City and San Antonio, are served by competitive retail service providers.
Source: Public Utility Commission of Texas and powertochoose.org.

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CUSTOMER STATISTICS

Five Year Electric Customer Statistics – TABLE ELEVEN

TABLE ELEVEN shows service area billed customer sales for fiscal years 2011 through 2015. The revenue per year varies in large degree due to the price of fuel which is passed through to customers in the fuel adjustment clause as stated above. MWH sales variances are due to a combination of customer growth and weather.

	Fiscal Year Ended September 30				
	2011	2012	2013	2014	2015
Revenue (000's)					
Residential	$ 457,263	$ 422,195	$ 458,657	$ 488,625	$ 466,598
Commercial	433,887	409,330	474,659	496,085	483,536
Industrial	145,553	158,727	184,517	200,340	185,646
Public Street & Highway	8,591	7,881	4,625	3,047	2,405
Sales to Government Authorities	85,447	83,476	61,407	66,990	63,700
Total	$1,130,741	$1,081,609	$1,183,865	$1,255,087	$1,201,885
MWH					
Residential	4,561,858	4,381,194	4,162,387	4,314,699	4,320,492
Commercial	4,675,615	4,633,557	4,475,629	4,512,469	4,645,752
Industrial	2,342,538	2,648,487	2,735,012	2,850,111	2,795,815
Public Street & Highway	48,327	46,949	40,549	50,816	50,315
Sales to Government Authorities	1,094,965	1,005,961	857,156	871,591	877,904
Total	12,723,303	12,716,148	12,270,733	12,599,686	12,690,278
Average Monthly Number of Customers					
Residential	372,329	376,614	383,257	391,410	401,556
Commercial	43,814	44,006	44,857	45,436	46,286
Industrial	82	82	138	151	132
Public Street & Highway	4	4	5	5	6
Sales to Government Authorities	1,636	1,664	2,325	2,401	2,499
Total	417,865	422,370	430,582	439,403	450,479
Average Monthly KWH per Customer					
Residential	1,021	969	905	919	897
Commercial	8,893	8,774	8,315	8,276	8,364
Industrial	2,380,628	2,688,273	1,651,577	1,575,518	1,761,698
Public Street & Highway	1,006,813	978,104	422,388	846,926	653,436
Sales to Government Authorities	55,775	50,376	30,722	30,249	29,280
Average Monthly Bill per Customer					
Residential	$ 102.34	$ 93.42	$ 99.73	$ 104.03	$ 96.83
Commercial	825.24	775.14	881.86	909.85	870.56
Industrial	147,919.72	161,111.45	111,423.40	110,746.49	116,979.21
Public Street & Highway	178,979.17	164,187.50	48,173.89	50,784.01	31,234.97
Sales to Government Authorities	4,352.43	4,180.24	2,200.98	2,324.92	2,124.53
Average Revenues per KWH					
Residential	$0.10024	$0.09637	$0.11019	$0.11325	$0.10800
Commercial	0.09280	0.08834	0.10605	0.10994	0.10408
Industrial	0.06213	0.05993	0.06746	0.07029	0.06640
Public Street & Highway	0.17777	0.16786	0.11405	0.05996	0.04780
Sales to Government Authorities	0.07804	0.08298	0.07164	0.07686	0.07256

Source: Austin Energy.

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Electric Rates

The PSA, Regulatory Charge, and Community Benefit Charge are updated each year and the new rate is effective as of November 1. Austin Energy's approved rates schedules are contained in the City's annual continuing disclosure filing for the fiscal year ending September 30, 2015 for the City's outstanding Parity Water/Wastewater Obligations, which filing is available on the MSRB's Electronic Municipal Market Access system Internet website (see "CONTINUING DISCLOSURE OF INFORMATION – Availability of Information" in this document), and such rate schedules are incorporated into this document by reference.

Transmission Rates

The PUCT has exclusive jurisdiction over rates and terms and conditions for the provision of transmission services by the City. On June 3, 2014, the PUCT approved the City's most recent wholesale transmission rate of $1.160111/kW. Transmission revenues totaled $74 million in fiscal year 2015 and are expected to total approximately $76 million in fiscal year 2016. Austin Energy will continue to manage and review the need for wholesale transmission rate increases as necessitated by its investment and cost to serve.

GreenChoice® Energy Rider

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

Green Choice Sales (kWh) by Calendar Year	
2004	344,446,101
2005	434,040,739
2006	580,580,401
2007	577,636,840
2008	723,824,901
2009	764,895,830
2010	754,203,479
2011	698,703,263
2012	744,442,709
2013	863,956,193
2014	683,986,607
2015	637,462,000

Power and Energy Sales Contracts

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

Generation and Use Data – TABLE TWELVE

	Fiscal Year Ended September 30									
	2011		2012		2013		2014		2015	
	Average Customer	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		10,142,406,000		9,060,948,000		8,271,499,000		10,784,975,000		11,610,500,640
kWh Received from ERCOT		3,433,333,000		4,299,061,000		4,916,439,000		2,496,345,000		1,990,108,990
Less: kWh Delivered to ERCOT		(184,992,000)		(155,105,000)		(160,812,000)		(134,287,000)		(215,343,640)
Less: kWh Delivered to Other Utilities		(30,221,000)		(112,900,000)		(143,496,000)		-		-
Total kWh Delivered to Service Area		13,360,526,000		13,092,004,000		12,883,630,000		13,147,033,000		13,385,265,990
Service Area Energy Use:										
Residential	372,329	4,561,857,688	376,614	4,381,193,546	383,257	4,162,387,287	391,410	4,314,699,441	401,556	4,320,491,678
General Service (Less UT & ENW)	44,660	7,766,695,257	44,863	7,957,928,155	46,290	7,682,153,871	46,886	7,847,048,954	47,850	7,930,287,974
	416,989	12,328,552,945	421,477	12,339,121,701	429,547	11,844,541,158	438,296	12,161,748,395	449,406	12,250,779,652
Public Street Lighting	4	48,327,221	4	46,948,693	8	40,549,265	5	50,815,562	6	50,314,561
City Utility Departments (*)	235	219,180,770	191	198,728,570	345	264,950,503	352	265,731,532	349	265,271,198
Other City Departments (*)	636	113,612,914	697	117,686,130	681	108,493,578	749	105,998,996	717	110,732,138
	875	381,120,905	892	363,363,393	1,034	413,993,346	1,106	422,546,090	1,072	426,317,897
Total Service Area Sales	417,864	12,709,673,850	422,369	12,702,485,094	430,581	12,258,534,504	439,402	12,584,294,485	450,478	12,677,097,549
Sales to UT & ENW (Nightwatchman)	1	13,629,431	1	13,662,906	1	12,198,496	1	15,391,515	1	13,179,451
Loss and Unaccounted For		637,222,719		375,856,000		612,897,000		547,347,000		694,988,990
Total kWh Delivered to Service Area	417,865	13,360,526,000	422,370	13,092,004,000	430,582	12,883,630,000	439,403	13,147,033,000	450,479	13,385,265,990
System Peak Demand (kW)		2,714,000		2,702,000		2,592,000		2,578,000		2,735,000

Source: Austin Energy.

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Energy Risk Management

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

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

Premiums paid for options are deferred until the contract is settled. As of September 30, 2015, $202,000 in premiums was deferred. As of September 30, 2015, the fair value of Austin Energy's futures, options, swaps, and congestion rights was an unrealized loss of $46.2 million, of which $51.8 million is reported as derivative instruments in liabilities and $5.6 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, 2015. See APPENDIX B – "AUDITED FINANCIAL STATEMENTS – Note 9a – Energy Risk Management Program" in this document.

Power and Energy Purchase Contracts

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

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 transferred to Gas Recovery Systems, LLC ("GRS"), the former general partner of APLP. Another megawatt of capacity was added in 2003, bringing the total capacity to 4 MW. In 2012, GRS's parent company, Fortistar Methane LLC, in connection with a refinancing of certain subsidiary obligations, including those of its subsidiary, Fortistar Methane 3 LLC (FM3), caused GRS to assign all of its right, title and interest in the landfill project to Sunset Farms Energy, LLC, a subsidiary of FM3.

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

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

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

In May 2015, Austin Energy and a subsidiary of Power Fin Texas Solar Projects, LLC entered into a 25-year Power Purchase Agreement for the purchase and sale of up to 3.2 MWac of solar generated renewable energy from a facility to be constructed in the Austin Energy service territory; this purchase will be considered a component of Austin Energy's local solar goal. Commercial operation is expected in 2019.

In October 2015, Austin Energy entered into 3 separate transactions for the purchase and sale of energy from 3 solar projects in west Texas: (1) a 15-year Power Purchase Agreement with East Pecos Solar, LLC, a subsidiary of First Solar Development, LLC, for up to 118.5 MW of capacity from a facility to be constructed in east Pecos County, commercial operation of which is expected to begin the first quarter of 2017; (2) a 25-year Power Purchase Agreement with Midway Solar LLC, a subsidiary of Hanwha Q Cells for up to 170 MW of capacity from a facility to be constructed in east Pecos County, commercial operation of which is expected to begin the fourth quarter of 2017; and (3) a 25-year Power Purchase Agreement with CED Upton County Solar LLC, a subsidiary of Consolidated Edison Development, for up to 150 MW of capacity from a facility to be constructed in Upton County, commercial operation of which is expected to begin in the third quarter of 2017.

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

Electric Transmission and Distribution System Statistics

The transmission and distribution plant statistics of Austin Energy as of April 1, 2016 are as follows:

	Number of Substations	Miles of Lines	Kilovolts
Transmission	14	624	345/138/69
Distribution	60	11,496	35/12.5/7.2
Overhead Primary		2,385	
Overhead Secondary		2,667	
Underground Primary		3,237	
Underground Secondary		3,207	

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

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

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

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

ISO 9001 Registration

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

In June 2010, Austin Energy's Customer Care unit was also registered as an ISO 9001:2008 organization. The Customer Care unit is responsible for receiving customer requests, responding to customer requests, billing customers, processing customer payments, and managing customer accounts. In June 2013, Austin Energy's Customer Care Quality Management System was re-registered under the ISO 9001: 2008 standard. Customer Care continues its ISO Certification.

In January 2013, Austin Energy's Power Supply and Market Operations ("PSMO") received ISO registration for their quality management system. The PSMO quality management system includes over fifty (50) work processes related to operations, maintenance, planning, environmental compliance, plant engineering and market operations. In June 2015, Austin Energy's Power Supply and Market Operations Quality Management System was re-registered under the ISO

9001:2008 standard. PSMO continues to maintain its ISO certification.

Austin Energy's 311 business unit will be next to pursue ISO registration and is tentatively projected to achieve certification to the ISO 9001:2015 standard by 2017 through National Standards Authority of Ireland (NSAI). The Austin 311 organization has partnered with both Austin Energy's Customer Care Business Performance Quality Improvement (BPQI) and Corporate Quality Services (CQS) to develop its Quality Management System. Currently, the organization is completing a gap analysis to identify areas where documented information will need to be developed to ensure conformance to the ISO 9001:2015 Standard.

Conventional System Improvements

In September 2015, the 2016-2020 Capital Improvements Spending Plan was approved by the City Council in the amount of $1,476,979,931. Austin Energy's five-year spending plan provides continued funding for distribution and street lighting additions including line extensions for new service, system modifications for increased load, and relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for transmission, generation and other general additions. Funding for the total Capital Plan is expected to be provided from current revenues and the issuance of commercial paper which from time to time will be refinanced with long-term debt.

$1.5 Billion Five Year Capital Spending Plan

$ in Millions	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Distribution	$ 76	$ 75	$ 76	$ 76	$ 80	$ 383
Distribution Substation	11	14	6	20	15	66
Transmission	28	25	32	19	25	129
Electric Service Delivery	115	114	114	115	120	578
Power Production	74	66	152	228	208	728
Customer Service Billing & Metering	12	11	1	1	--	25
Facilities, Technology & Support Services	28	39	41	27	11	146
Total	$ 229	$ 230	$ 308	$ 371	$ 339	$ 1,477

Austin Energy Smart Meter Installation Program

Austin Energy maintains an Advanced Metering Infrastructure ("AMI") program. A component of the AMI program is the installation of AMI meters, which send and receive commands related to acquiring consumptive and diagnostic data, including daily meter reads via radio signals. Austin Energy has approximately 454,000 Automated Meter Reading ("AMR") and AMI meters: 18,000 1-way communicating, AMR- residential meters; 390,000 2-way communicating residential meters and 46,000 2-way communicating commercial and industrial meters. Austin Energy has begun the replacement of its 1-way AMR meters to 2-way AMI meters. The replacement program is expected to be completed by September 2016. Continued improvements in AMI technology utilized at Austin Energy have provided demonstrable enhancements to customer service and reliability while reducing operating costs.

STRATEGIC PLANS, GOALS AND POLICIES

Strategic Plan

In December 2003, the City Council approved a strategic plan for Austin Energy. The plan identified three strategies to position Austin Energy for continued success. Austin Energy operates under the approved 2003 strategic plan but new initiatives are underway, including the Technology Roadmap Project, the Facilities Master Plan, and the New Generation Plan. See "STRATEGIC PLANS, GOALS AND POLICIES – Austin Energy Resource, Generation, and Climate Protection Plan to 2025: An Update of the 2020 Plan" in this document.

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

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

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

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

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

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

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

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

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

2014 Plan Summary

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

- Maintain the current goal of 800 MW of energy efficiency and Demand Response by 2020, and add an incremental 100 MW of Demand Response to achieve a total of at least 900 MW of Demand Side Management (DSM) by 2025.
- Increase the renewable energy goal from 35% to 55%.
- Increase the solar component of the renewable energy goal by 600 MW.
- Establish a CO_2 reduction goal of 20% below 2005 level in 2020 and beyond with retirement of Austin Energy's share of FPP by 2023 through creation of a cash reserve fund.
- Develop an implementation plan for distribution connected local storage of at least 10 MW complemented by as much as 20 MW of thermal storage.

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

1- An additional 100 MW of Demand Response or energy efficiency to increase the DSM achieved to 1000 MW by 2025.
2- Issuing a Request For Information ("RFI") for 170 MW of large scale storage such as Compressed Air Energy Storage.

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

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

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

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

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

Wind. The 2014 Plan calls for the majority of the Austin Energy renewables goal to be met through wind-generated power. As of September 30, 2015, wind generation totals 1,340.9 MW of capacity. Austin Energy has executed additional wind contracts for 200.0 MW of capacity which will begin commercial operation in the third quarter of 2016. Under the 2025 Plan, Austin Energy will pursue additional wind energy PPAs and ownership opportunities. Austin Energy expects to contract a minimum of 450 MW of additional coastal and western wind resources to reach at least 55 percent renewable energy goal by 2025 totaling the wind capacity by 2025 to 1,503 MW. See "CUSTOMER STATISTICS - Power and Energy Purchase Contracts" in this document.

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

In February 2009, the City Council approved a 25-year contract under which Austin Energy purchases the annual output of a 30 MW solar farm built near Webberville on utility property, which went into operation in 2012. In addition, the 2014 Plan assumes full build-out of the announced 150 MW of solar power currently contracted with Canadian Solar that is expected to be online by the fourth quarter of 2016.

In accordance with the 2014 Plan, Austin Energy issued an RFP in May 2015 for up to 600 MW of utility-scale solar in 2015 and contracted about 439 MW of utility scale solar that are expected to be online by 2017. The City Council also directed Austin Energy to continue to explore the procurement of the remainder MW that makes up 600 MW either through PPA or ownership with a start date of 2019. These additions bring a combined total of 750 MW of utility-scale solar.

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

Financial Policies

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

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

- Austin Energy shall maintain operating cash equivalent to 45 days of budgeted operations and maintenance expense, less fuel. As of September 30, 2015, Austin Energy's operating cash was $250 million and the actual Days Cash on Hand (DCOH) was 148 days.

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

- A Strategic Reserve Fund shall be created and established, replacing the Debt Management Fund. It will have three components listed below. As of September 30, 2015, Austin Energy's strategic reserve balance was $152 million.
  - An Emergency Reserve with a minimum of 60 days of non-power supply operating requirements.
  - A maximum of 60 days of additional non-power supply operating requirements set aside as a Contingency Reserve.
  - Any additional funds over the maximum 120 days of non-power supply operating requirements may be set aside in a Rate Stabilization Reserve. Rate Stabilization Reserve balance shall not exceed 90 days of net power supply.

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

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

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

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

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Rate Regulation

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

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

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

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

ERCOT Wholesale Market Design

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

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

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

Federal Rate Regulation

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

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

Environmental Regulation - General

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

Environmental Regulation Related to Air Emissions

CO_2, GHG New Source Performance Standard for New and Existing Power Plants

In 2013, the United States Environmental Protection Agency ("USEPA") proposed New Source Performance Standards ("NSPS") that set Greenhouse Gas ("GHG") limits on any newly built power plants. That rule will not impact Austin Energy at this time unless new steam or gas units are built. In June 2014, the USEPA proposed a GHG NSPS for all existing power plants, also called the Clean Power Plan ("CPP"). The proposal would require significant reductions in CO2 emissions in Texas, including via increased energy efficiency and renewable energy, and directed each state to develop their own plan to achieve those reductions from the power sector. The CPP rule went final on August 3, 2015. The rule, along with a set of Model Trading Rules and a Federal Implementation Plant, was published in the Federal Register on October 23, 2015. Twenty-seven states and numerous industry groups filed a combined 39 lawsuits from a total of 157 petitioners asking the D.C. Circuit to review the rule. Petitions were filed in the DC Circuit Court to stay the CPP. The DC Circuit denied the petitions to stay the CPP on January 21, 2016. The DC Circuit Court has accelerated the timing for the Briefings and oral arguments. Briefings are to be completed by April, 22, 2016 and oral arguments scheduled for June 2, 2016. Requests to stay the CPP were filed on January 27, 2016 to the Supreme Court. The Supreme Court stayed the CPP rule on February 9, 2016, pending review in the DC Circuit Court. The USEPA solicited comments on these rules through January 21, 2016. Austin Energy's fleet is less carbon intense than the state-wide fleet as a whole because of investments already made in zero-and-low-carbon generation sources. Austin Energy is well-positioned to comply with this rule, should it go into effect as currently drafted.

Mercury and Air Toxics Standards (MATS)

Published in February 2012, USEPA's final MATS rule sets new emissions limits for mercury and other toxic air emissions from coal and oil-fired electric utility boilers to be achieved by 2015. For Austin Energy, this rule applies to the FPP units 1 & 2. The flue gas desulphurization ("FGD") units or "scrubbers" that were put in operation in 2011 remove a significant portion of the air toxics to below the new limits. Although the scrubbers remove some mercury, additional activated carbon injection will be necessary to enhance the removal of mercury in existing emissions control equipment to below the new limit. Austin Energy and co-owner LCRA have installed the activated carbon injection equipment and are currently testing and commissioning this equipment for the MATS rule. LCRA applied for and received a one-year extension of the compliance deadline to April 2016 for mercury to reduce the risk of non-compliance and allow more time, as needed, to optimize the new equipment. Austin Energy anticipates its share of the associated capital expense will be approximately $5 million. With the scrubbers already in operation, Austin Energy and LCRA are well-positioned to comply with the MATS rule.

On June 29, 2015, the United States Supreme Court held in *Michigan et al. v. Environmental Protection Agency et al.* that the USEPA must take cost, including cost of compliance, into consideration in exercising its authority under the federal Clean Air Act to regulate power plants, and that it unreasonably interpreted the federal Clean Air Act in adopting the MATS rule by failing to take into account the billions of dollars in economic costs imposed by the MATS rule. The MATS rule was remanded to lower courts. On March 3, 2016, the Supreme Court denied the motion to stay the MATS Rule. The USEPA intends to complete its consideration of costs by April 15, 2016, according to their briefs filed in the D.C. Circuit. Austin Energy and its operating partner at FPP have already made the necessary investment to comply with MATS and will continue with plans to comply until further direction is provided from the courts and USEPA. Full compliance with the MATS rule as currently drafted is expected in April 2016.

Cross-State Air Pollution Rule and Clean Air Interstate Rule

Austin Energy's large facilities have been complying with the Clean Air Interstate Rule ("CAIR"), a cap-and-trade program for annual 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. The USEPA has reinstated CSAPR beginning 2015 and officially removed CAIR requirements. Austin Energy holds more allowances relative to expected emissions for all CSAPR trading programs (annual and seasonal NOx and annual SO2) for the first phase of CSAPR (2015, 2016). With scrubbers in place at FPP, Austin Energy owns a large surplus of SO2 allowances that have the potential to generate revenue if sold to other utilities.

On November 12, 2015, the USEPA published a proposed rule to update the CSAPR rule. The update was to address the 2008 ozone NAAQS. The update also responds to the July 28, 2015 remand of certain states' 2014 ozone season NOx emissions budgets by the D.C. Circuit. The rule will lower Phase II ozone season allowance allocations (Phase II begins in 2017). Texas' allocations will be lowered by approximately 8%. In addition, the rule states that Phase I ozone season NOx allocations (2015 and 2016) will have to be retired at a usage rate of 4 to 1 for compliance in Phase II and beyond. The rule update does not affect Phase I ozone season NOx. The rule also does not affect any phase of annual NOx and SO2 CSAPR allowances. Austin Energy will remain in compliance with CSAPR.

Proposed revisions to the federal ozone National Ambient Air Quality Standard

In November 2014, the USEPA proposed to lower the national ambient air quality standards ("NAAQS") for ozone from 75 ppb to a value between 65 and 70 ppb. On October 1, 2015 the USEPA finalized the new ground-level ozone standard. The standard was set at 70 ppb. The Travis County ozone design value for the years 2013-2015 (what TCEQ must use to show compliance with the new standard) will be 68-69 ppb. The design values are expected to drop steadily. The USEPA must designate areas within 2 years of a new standard being established. It is anticipated that Travis County will continue to remain classified as attainment for ozone.

Environmental Regulation Related to Water Discharges

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

Effluent Limit Guideline (ELG) regulations: On April 19, 2013, the USEPA announced proposed technology-based effluent limitation guidelines and standards (mainly for metals) for steam electric power generating units. The standards provide for a phased-in approach and the use of technologies already installed at a number of plants. The USEPA published a final rule on November 3, 2015. The Steam Electric regulations are incorporated into NPDES permits. For existing steam plants, the regulation includes pretreatment standards for discharges to Publically Owned Treatment Works (POTW) Plants. Routinely, wastewater is not discharged to POTWs. The non-chemical metals cleaning processes (that generate wastewater) that happen occasionally at Decker and Sand Hill are already in compliance with the standards in the ELG regulations. FPP's FGD system is not expected to impact the waters of the United States. The wet fly ash and bottom ash pond has been closed and FPP converted to a dry ash system as a result of which any discharges are expected to be in compliance with ELG regulations. Austin Energy estimates that FPP is in compliance with ELG regulations.

Environmental Regulation Related to Hazardous Wastes and Remediation

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

Environmental - Other

Austin Energy began decommissioning the Holly Street Power Plant in 2011. This project includes the removal of the main power plant and adjacent support structures and the cleanup of historical contamination and site closure approval by the State. This project is expected to be completed by August 2016.

Nuclear Regulation

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

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

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

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

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

The NRC regulations set forth minimum amounts required to demonstrate reasonable financial assurance of funds for decommissioning of nuclear reactors. Beginning in 1990, each holder of an operating license is required to submit to the NRC a bi-annual report indicating how reasonable assurance would be provided. The City provides the required report on its share of STP to the NRC which is based on the minimum amount for decommissioning, excluding waste disposal, as required by the NRC regulations of $105 million per unit (January 1986 dollars). This minimum is required to be adjusted annually in accordance with the adjustment factor formula set forth in the regulations. The 2014 report provided by the City based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City has established an external irrevocable trust for decommissioning with JPMorgan Chase Bank, N.A. The City has been collecting for its share of anticipated decommissioning activities, which may begin as early as 2027, through its rates since Fiscal Year 1989. The decommissioning trust market value on September 30, 2015 was $205,108,001. For Fiscal Year 2016, Austin Energy estimates that it will continue to collect approximately $5 million for decommissioning expense. In 2007 dollars, the minimum amount for decommissioning the City's share of STP is $221 million. See "INVESTMENTS – Legal Investments" in this document.

Events Affecting the Nuclear Industry

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

The first NRC order requires all U.S. plants to better protect portable safety equipment put in place after the 9/11 terrorist attacks and to obtain sufficient equipment to support all reactors and spent fuel pools at a given site simultaneously. The

ISG for this order endorses the industry's updated guidance for dealing with a scenario that knocks out all of a plant's alternating current electric sources. The updated approach includes the use of backup power supplies for devices that would burn off accident-generated hydrogen before it could accumulate to explosive levels. The staff concludes the updated approach will successfully implement the first NRC order. The ISG is available in the Agencywide Document Access and Management System ("ADAMS") under accession number ML12229A174; the associated industry document is available under accession number ML12242A378. STP has completed engineering design and installation of equipment and modifications to address these requirements, and is currently waiting for final approval for the modifications from the NRC.

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

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

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COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM OPERATIONS OCTOBER 1, 2011 TO SEPTEMBER 30, 2015

(in thousands rounded)

	Fiscal Year Ended September 30				
INCOME	2015	2014	2013	2012	2011
Revenue	$ 1,876,350	$ 1,848,012	$ 1,772,129	$ 1,633,826	$ 1,707,338
Operating Expense	(1,186,590)	(1,246,865)	(1,137,184)	(1,054,566)	(1,084,484)
Balance Available for Debt Service	689,760	601,147	634,945	579,260	622,854
Depreciation and Amortization Expense	(264,896)	(255,892)	(249,029)	(241,884)	(224,995)
Earnings Before Interest Expense	424,864	345,255	385,916	337,376	397,859
Interest Incurred on Debt	(160,881)	(169,567)	(164,692)	(177,954)	(181,665)
Other	(4,802)	(10,367)	(1,908)	4,580	(1,741)
INCOME (LOSS) BEFORE OPERATING TRANSFERS (1) (2) (3) (4) (5)	$ 259,181	$ 165,321	$ 219,316	$ 164,002	$ 214,453
PERCENTAGES					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	(63.24%)	(67.47%)	(64.17%)	(64.55%)	(62.74%)
Balance Available for Debt Service	36.76%	32.53%	35.83%	35.45%	37.26%
Depreciation and Amortization Expense	(14.12%)	(13.85%)	(14.05%)	(14.80%)	(13.18%)
Earnings Before Interest Expense	22.64%	18.68%	21.78%	20.65%	24.08%
Interest Incurred on Debt	(8.57%)	(9.18%)	(9.29%)	(10.89%)	(10.64%)
Other	(0.26%)	(0.56%)	(0.11%)	0.28%	(10.00%)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	13.81%	8.95%	12.38%	10.04%	13.34%

(1) Income before transfers to the General Fund and Other Funds for the 12 months ended September 30, 2015, are as follows (in thousands rounded):

Transfer to General Fund	$143,755
Transfers to Other Funds	$9,994

(2) Excludes Combined Utility Funds' deferred costs recovered in future years of ($23,838) for the 12 months ended September 30, 2015.
(3) There was no extraordinary gain or loss during each respective 12 month period.
(4) Excludes capital contributions of $80,682 for the 12 months ended September 30, 2015.
(5) Excludes other post-employment benefits ("OPEB") accrual of $22,375 and net pension obligation ("NPO") accrual of ($6,552) for the 12 months ended September 30, 2015.
Source: City Controller's Office.

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

	Fiscal Year Ended September 30				
	2015	2014	2013	2012	2011
REVENUE					
ELECTRIC UTILITY					
Domestic and Rural Residential	$ 332,685	$ 327,508	$ 459,211	$ 414,159	$ 457,272
Commercial General	853,547	897,019	705,009	615,588	641,510
City Utility Departments	0	0	5	21,356	19,065
Public Street Lighting	0	0	0	5,653	6,507
City General Government Departments	0	0	0	10,942	7,400
Sales to Other Utilities	27,798	19,305	6,358	4,057	943
Transmission	74,332	68,974	63,333	63,434	59,066
Rent from Electric Property	2,269	1,998	2,070	2,090	3,206
Customers' Forfeited Discounts and Penalties	6,854	6,966	8,185	1,144	5,031
Miscellaneous	53,953	45,385	44,088	41,449	49,139
Total Electric Utility	$1,351,438	$1,367,155	$1,288,259	$1,179,872	$1,249,139
WATER UTILITY					
Water Services	267,164	233,827	$229,300	$211,051	$239,769
Miscellaneous Revenue	2,168	158	1,644	1,198	3,036
Revenue Stability Fee	6,905	5,722	4,864	16,638	0
Reserve Fund Surcharge	0	0	3,410	0	0
Reclaimed Revenue	944	820	864	567	579
Total Water Utility	$ 277,181	$ 240,527	$ 240,082	$ 229,454	$ 243,384
WASTEWATER UTILITY					
Wastewater Services	$ 237,553	$ 231,336	$ 233,984	$ 210,534	$ 201,422
Miscellaneous Revenue	2,257	730	2,715	2,718	3,234
Reclaimed Revenue	0	0	0	0	8
Total Wastewater Utility	$ 239,810	$ 232,066	$ 236,699	$ 213,252	$ 204,664
Interest	$ 7,922	$ 8,264	$ 7,089	$ 11,247	$ 10,151
TOTAL REVENUE	$1,876,351	$1,848,012	$1,772,129	$1,633,825	$1,707,338

Source: City Controller's Office.

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

	Fiscal Year Ended September 30				
EXPENSE	2015	2014	2013	2012	2011
ELECTRIC UTILITY					
Production	$ 313,366	$ 278,893	$ 242,994	$ 330,066	$ 378,484
Joint Facility Production	81,338	200,373	186,035	189,914	202,217
System Control	16,989	15,286	13,979	17,366	13,663
Transmission and Distribution	166,016	154,556	126,902	116,884	107,035
Jobbing and Contract Work	645	998	(204)	181	415
Customer Accounting and Collection	15,501	15,030	12,678	13,454	18,374
Customer Services	4,391	4,138	3,924	20,926	20,163
Administrative and General	380,038	359,520	340,986	186,884	172,300
Total Electric Utility	$ 978,284	$ 1,028,794	$ 927,294	$ 875,675	$ 912,651
WATER UTILITY					
Treatment	$ 35,593	$ 35,915	$ 37,306	$ 33,464	$ 31,538
Pipeline Operations	23,169	23,889	23,251	22,317	20,932
Engineering Services	3,472	5,159	5,261	4,926	4,386
Water Resources Management	3,699	3,443	2,216	2,047	1,919
Environmental Affairs & Conservation	7,486	8,464	8,495	6,789	7,766
Support Services - Utility	11,022	12,064	9,843	9,233	8,138
One Stop Shop	264	270	226	219	167
Reclaimed Water Services	(1,609)	(3,575)	(20,409)	212	0
Other Operating Expenses	30,155	31,582	51,230	20,133	24,567
Total Water Utility	$ 113,251	$ 117,211	$ 117,419	$ 99,340	$ 99,413
WASTEWATER UTILITY					
Treatment	36,132	37,106	$38,187	$30,301	$28,502
Pipeline Operations	16,972	16,488	15,646	13,798	13,102
Engineering Services	4,966	5,789	5,955	5,716	5,431
Water Resources Management	3,911	3,779	2,248	2,105	1,987
Environmental Affairs & Conservation	2,911	2,343	2,062	1,877	1,967
Support Services - Utility	10,769	11,482	10,554	9,869	8,810
One Stop Shop	346	289	394	348	329
Other Operating Expenses	19,048	23,584	17,425	15,537	12,292
Total Wastewater Utility	$ 95,055	$ 100,860	$ 92,471	$ 79,551	$ 72,420
TOTAL EXPENSE (1)	$1,186,590	$1,246,865	$1,137,184	$1,054,566	$1,084,484
NET REVENUE AVAILABLE FOR DEBT SERVICE	$ 689,761	$ 601,147	$ 634,945	$ 579,259	$ 622,854
Electric Customers	450,479	439,403	430,582	412,552	418,968
Water Customers	223,162	217,035	217,070	214,971	212,754
Wastewater Customers	212,260	204,482	203,896	202,444	199,818

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

DISCUSSION OF OPERATING STATEMENT

Austin Energy Revenues

Variations in total Austin Energy revenues for the fiscal years ("FY") ended September 30, 2011 through September 30, 2015 were attributable to changes in cost of fuel for power generation and weather variations. Total fuel costs are passed through to the consumer.

Water and Wastewater System Revenues

Variations in Water and Wastewater System revenues for the period FY11 through FY15 were largely attributable to weather and system rate changes, including imposition of Stage 2 watering restrictions beginning in September 2011. See "WATER SYSTEM – Water Use Management Plan" and "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates" in this document.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY11 through FY15 were largely attributable to changes in the cost of fuel for power generation and general inflationary increases in other expense categories.

Water and Wastewater System Expenses

Changes in Water and Wastewater System expenses for the period FY11 through FY15 were primarily attributable to inflationary increases in the cost of power and chemicals, along with system growth.

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

	Fiscal Year Ended September 30				
	2015	2014	2013	2012	2011
Plant Cost					
Utility Systems					
Electric	$5,141,259	$4,980,357	$4,851,811	$4,723,204	$4,585,408
Water	2,663,637	2,576,314	2,415,970	2,209,639	2,046,462
Wastewater	2,352,947	2,299,833	2,255,208	2,205,455	2,111,926
Total Cost	$10,157,843	$9,856,504	$9,522,989	$9,138,298	$8,743,796
Allowance for Depreciation:					
Electric	$2,537,491	$2,392,899	$2,265,036	$2,131,588	$1,995,831
Water	701,383	650,103	607,609	564,937	555,727
Wastewater	876,532	817,485	760,206	707,281	654,436
Total Depreciation	$4,115,406	$3,860,486	$3,632,851	$3,403,806	$3,205,994
Cost after Depreciation	$6,042,437	$5,996,018	$5,890,138	$5,734,492	$5,537,802
Equity in Utility Systems					
Utility Systems	$10,157,843	$9,856,504	$9,522,989	$9,138,298	$8,743,796
Plus: Inventories, Materials and Supplies (1)	51,884	56,649	54,181	56,017	54,204
Net Construction Assets and Unamortized Bond Issue Cost	164,690	151,561	112,273	104,298	79,769
	$10,374,417	$10,064,714	$9,689,443	$9,298,613	$8,877,769
Less:					
Allowance for Depreciation	$4,115,406	$3,860,486	$3,632,851	$3,403,806	$3,205,994
Construction Contract Payable	0	0	0	0	0
Total	$4,115,406	$3,860,486	$3,632,851	$3,403,806	$3,205,994
Utility Systems, Net	$6,259,012	$6,204,228	$6,056,592	$5,894,807	$5,671,775
Revenue Bonds and Other Debt Outstanding (2)	4,076,665	4,062,603	3,917,857	3,808,929	3,595,807
Less: Bond Retirement and Reserve Funds	0	0	0	0	0
Net Debt	$4,076,665	$4,062,603	$3,917,857	$3,808,929	$3,595,807
Equity in Utility Systems	$2,182,346	$2,141,625	$2,138,735	$2,085,878	$2,075,968
Percentage of Equity in Utility Systems	34.87%	34.52%	35.31%	35.39%	36.60%

(1) Does not include fuel oil or coal inventories of approximately $30,910,225 million at September 30, 2015. Consists primarily of spare parts inventory at Fayette Plant and South Texas Project.

(2) Includes Revenue Bonds and Tax and Revenue Bonds of $3,864,523,024 (net of discounts, unamortized gains and losses on refundings, and inclusive of premiums); Contract Revenue Bonds of $0 (net of discounts); Capital Lease Obligations of $1,088,958; Commercial Paper of $200,581,329 (net of discounts); General Obligation Bonds of $3,385,062; and Contractual Obligations of $7,086,957.

Source: City Controller's Office.

LITIGATION

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

Electric Utility System Litigation

The City has been named in a multi-party lawsuit stemming from the September 4, 2011 wildfire that damaged a number of properties in the Steiner Ranch community. Plaintiff, Ronya Aigner, Individually and as Heir of the Estate of Kevin Lee Aigner, filed suit on November 2, 2012. Plaintiff alleges that the City caused the fire, which allegedly led to the death of Kevin Aigner, a Travis County Constable, who suffered a stroke while working in the Steiner Ranch area six days after the fire. Over 20 insurance companies representing hundreds of property owners intervened in the lawsuit and also alleged that the City caused the fire through its allegedly improper maintenance and operation of power lines. An additional personal injury claimant intervened in the lawsuit alleging that the fires aggravated an individual's pre-existing Tourette's syndrome condition. Five underinsured plaintiffs have also intervened. The City filed a motion challenging jurisdiction. The appellate court dismissed Plaintiffs' inverse condemnation claims and remanded the case back to the trial court. The carriers presented property damage claims, including the wrongful death and under-insured claims of approximately $20 million. The parties are currently in the discovery phase. If the case is not resolved, trial is anticipated in February of 2017.

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THE CITY

Administration

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

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

City Manager – Marc A. Ott

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

Chief Financial Officer – Elaine Hart, CPA

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

Services Provided by the City

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

Employees

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

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

Annexation Program

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

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

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

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

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

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

The following table sets forth (in acres) the annual results of the City's annexations since 2006.

Calendar Year	Full Purpose Acres (1)	Limited Purpose Acres
2006	351	621
2007	2,466	1,266
2008	2,262	14
2009	295	984
2010	1,129	2,495
2011	726	0
2012	3,387	3,818
2013	3,484	594
2014	897	136
2015	1,911	3

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

Recent Annexation

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

The City annexed seven areas for full purposes in 2014, including approximately 900 acres of undeveloped land. If developed as anticipated, these areas would include an estimated 1,498 dwelling units and a projected population of 3,747 persons at build-out. The taxable assessed value ("TAV") for these areas as of January 1, 2016 was approximately $12.6 million.

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

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

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

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

In accordance with the terms of a SPA between the City and the River Place MUD, all of the territory in the River Place MUD not previously annexed by the City was annexed for limited purposes of planning and zoning in 2009. In addition, the 2009 annual program included full purpose annexation of three small developed residential areas, a commercial and industrial area, and city owned property. Austin surpassed 300 square miles in incorporated area in 2010 and the City's estimated population grew to 778,560 people.

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

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

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

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

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

Future Annexation

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

Pension Plans

The City has three contributory defined benefit retirement plans for the Municipal, Fire, and Police employees. These plans are single employer funded plans each with a fiscal year end of December 31. The three retirement plans cover substantially all full-time employees. State law requires the City to make contributions to the plans in an amount at least equal to the contribution of the employee group. The contributions made by the City to the City of Austin Employees Retirement System ("COAERS") include amounts allocable to the City employees within Austin Water. The contributions allocable to such employees are paid from Gross Revenues and constitute Operating Expenses of the Water and Wastewater System. The Austin Water's contribution to the COAERS in Fiscal Year 2015 was approximately $11.1 million.

The following describes the contributions in place as of October 1, 2015. Municipal employees contribute 8.0% and the City contributes 18.0% of payroll. The Firefighters (who are not members of the Social Security System) contribute 18.2% of payroll, and the City contributes 22.05%. The Police Officers contribute 13.0% and the City contributes 21.313% of payroll.

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

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

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

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

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

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability. As of December 31, 2014, the amortization period of the unfunded actuarial accrued liability for the COAERS was 24 years, for the Police Officers' Fund was 28.6 years and the Firefighters' Fund was 10.57 years.

As of December 31, 2014, the actuarial accrued liability for the COAERS was $3,094,055,712 and the funded ratio was 70.9%.

The actuarial accrued liability for the Police Officers' Fund was $968,340,394 and the funded ratio was 67.5%. The actuarial accrued liability for the Firefighters' Fund was $868,146,375 and the funded ratio was 90.9%. Austin Water's allocable share of the unfunded actuarial liability for the COAERS has not been determined.

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

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

Other Post-Employment Benefits ("OPEB")

In addition to the contributions made to the three pension systems, the City provides certain other post-employment benefits to its retirees which include retirees of Austin Water. Other post-employment benefits include access to medical, dental, and vision insurance for the retiree and the retiree's family and $1,000 of life insurance on the retiree only. All retirees who are eligible to receive pension benefits under any of the City's three pension systems are eligible for other post-employment benefits. Retirees may also enroll eligible dependents under the medical, dental, and vision plan(s) in which they participate. The City's other post-employment benefits plan is a single employer plan.

The City is under no obligation to pay any portion of the cost of other post-employment benefits for retirees or their dependents. Allocation of City funds to pay other post-employment benefits is determined on an annual basis by the City Council as part of the budget approval process on a pay-as-you-go basis. Payments with respect to retirees of Austin Water are paid from Gross Revenues and constitute Operating Expenses of the Water and Wastewater System.

The City recognizes the cost of providing these benefits to active employees as an expense and corresponding revenue in the Employee Benefits Fund; no separate plan report is available. The City pays actual claims for medical and 100% of the retiree's life insurance premium. Group dental and vision coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental and vision premium. The estimated pay-as-you-go cost of providing medical and life benefits was $39.5 million for 4,431 retirees in 2015 and $33.3 million for 4,189 retirees in 2014. As of September 30, 2015, the net OPEB obligation is $777.7 million, of which $75 million is allocated to Austin Water.

See APPENDIX B – "AUDITED FINANCIAL STATEMENTS – Note 8" in this document for additional information on the City's OPEB.

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to third party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately $9.34 million for claims and damages at the end of fiscal year 2015. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Employee Benefits Fund.

INVESTMENTS

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

Legal Investments

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

(1) obligations of the United States or its agencies and instrumentalities, including letters of credit;
(2) direct obligations of the State of Texas or its agencies and instrumentalities;
(3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
(4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by explicit full faith and credit of the United States;
(5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent;
(6) bonds issued, assumed or guaranteed by the State of Israel;
(7) certificates of deposit meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by a combination of cash and the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are

secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits;

(8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas;

(9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency;

(10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank;

(11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of ninety (90) days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share;

(12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and,

(13) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Code) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than "AAA", "AAA-m" or at an equivalent rating by at least one nationally recognized rating service.

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

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

(i) the value of securities loaned under the program must not be collateralized at less than 100%, including accrued income, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool;

(ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City;

(iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and

(iv) the agreement to lend securities has a term of one year or less.

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

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

The City is specifically prohibited from investing in:

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

Investment Policies

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

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

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

Under State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly, the investment officers of the City shall submit an investment report detailing:

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

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

Additional Provisions

Under Texas law, the City is additionally required to:

(1) annually review its adopted policies and strategies,
(2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and

the City Council,

(3) require the registered representative of firms seeking to sell securities to the City to (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements;

(4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; and

(5) provide specific investment training for the Chief Financial Officer of the City, Treasurer and Investment Officers.

Current Investments

As of March 31, 2016, the City's investable funds were invested in the following categories.

Type of Investment	Percentage
U. S. Treasuries	12%
U. S. Agencies	39%
Money Market Funds	2%
Local Government Investment Pools	47%

The dollar weighted average maturity for the combined City investment portfolios is 265 days. The City prices the portfolios weekly utilizing a market pricing service.

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TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Bond Counsel to the City, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the City will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See APPENDIX E – "Form of Bond Counsel's Opinion" in this document.

In rendering its opinion, Bond Counsel will rely upon (a) the City's federal tax certificate and the verification report prepared by the Verification Agent and (b) covenants of the City with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure of the City to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

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

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

A ruling was not sought from the Internal Revenue Service by the City with respect to the Bonds or the Project. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the City that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds") . In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

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

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

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

Interest on the Bonds 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 Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

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

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law, and could affect the market price or marketability of the Bonds. Any of the foregoing could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

CONTINUING DISCLOSURE INFORMATION

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

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in the main text of this document within (i) the tables numbered one through thirteen, (ii) "ELECTRIC SYSTEM – Customer Base–Average Monthly Number of Customers," (iii) "ELECTRIC SYSTEM – Fuel Supply," (iv) "CUSTOMER RATES – Typical Residential Electric Bills of Large Texas Cities," (v) Austin Energy's approved rate schedules incorporated into this document by reference as described in "CUSTOMER STATISTICS – Electric Rates," (vi) "CUSTOMER STATISTICS – GreenChoice® Energy Rider," (vii) "COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM OPERATIONS," (viii) "OPERATING STATEMENT ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM," (ix) the table of annual results of the City's annexations in "THE CITY – Annexation Program," and (x) "INVESTMENTS – Current Investments," and in "APPENDIX B – AUDITED FINANCIAL STATEMENTS," and if not provided as part of such financial information and operating data, audited financial statements of the City, when and if available. The City will (1) update and provide this financial information and operating data within six months after the end of each fiscal year, beginning with the fiscal year ending in 2016 and (2) if not provided as part of the financial information and operating data, audited financial statements, when and if available. If audited financial statements are not available within 12 months after any such fiscal year end, the City will provide notice that the audited financial statements are not available and will file unaudited financial statements within such 12 month period and audited financial statements for such fiscal year when and if the audit report on such statements becomes available. The City will provide the updated information to the MSRB through its Electronic Municipal Market Access ("EMMA") information system. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

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

Disclosure Event Notices

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

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

Neither the Bonds nor the Twenty-Sixth Supplement make any provision for debt service reserves or credit or liquidity enhancement relating to the Bonds. See "SECURITY FOR THE BONDS - Reserve Fund for Parity Water/Wastewater Obligations" in this document. The City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data by the time required by the Twenty-Sixth Supplement.

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

Availability of Information

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

The City did not file its unaudited or audited financial statements for the Fiscal Year ended September 30, 2011 by the required deadline of March 31, 2012. The audited financial statements of the City for such Fiscal Year were filed on April 2, 2012. Annual financial information and operating data of the City were filed by the required time in accordance with the City's continuing disclosure agreements in the above-cited year in which the audited financial statements were filed after March 31. The City has filed an event notice in connection with the late filing. In addition, multiple rating changes occurred with respect to certain obligations of the City between 2009 and 2013, and the City did not file event notices with respect to certain of such rating changes. The City has filed event notices with respect to the current ratings of certain of its outstanding obligations. In its annual financial information and operating data filings for the City's electric system and water and wastewater system revenue bonds, for the years 2009, 2010, and 2011, the City omitted a table relating to the City's equity in its electric utility and water and wastewater systems. While the information contained in such table was generally obtainable from its audited financial statements for such years, the City has, since its Fiscal Year 2012 filing, included this table in its annual financial information and operating data filings for the City's electric system and water and wastewater system revenue bonds. Also, the City inadvertently omitted several tables from the annual financial information and operating data filing for the March 31, 2013 continuing disclosure report relating to certain obligations of the City. The City filed the omitted information on May 14, 2014. The City determined that a table in its continuing disclosure regarding its outstanding Airport System Revenue Bonds had transposed years in the presentation of data. The City filed corrected information on May 8, 2015. On April 25, 2016, the City filed updated financial information and operating data to reflect audited financial information as well as updated information in the "Comparative Analysis of Electric Utility System and Water and Wastewater System Operations," "Operating Statement Electric Utility System and Water and Wastewater System" and "The Electric Utility System and Water and Wastewater System (Plant Cost and Equity in Utility Systems)" tables previously filed. The City has implemented procedures to ensure timely filing of all future financial information and event notices.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received ratings of "Aa2" (stable outlook) by Moody's, "AA" (stable outlook) by S&P and "AA–" (stable outlook) by Fitch. An explanation of the significance of such ratings may be obtained from the organization furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating companies, if in the judgment of one or more companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

Registration and Qualification of Bonds

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

Legal Opinions

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the City in accordance with their terms payable solely from and, together with the outstanding Parity Water/Wastewater Obligations and Prior Subordinate Lien Obligations, equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Water and Wastewater System in the manner provided in the Twenty-Sixth Supplement and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes, subject to the matters described under "TAX MATTERS" in this document, including the alternative minimum tax on corporations. The form of Bond Counsel's opinion is attached to this document as APPENDIX E.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility for this Official Statement or undertaken independently to verify any of the information contained in it, except that, in their capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions "PLAN OF FINANCING", "SECURITY FOR THE BONDS," "DESCRIPTION OF THE BONDS", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the subheading "Compliance with Prior Undertakings"), "OTHER RELEVANT INFORMATION – Registration and Qualification of Bonds," "OTHER RELEVANT INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas" and "OTHER RELEVANT INFORMATION – Legal Opinions," and in "APPENDIX C" and "APPENDIX D" to verify that the information relating to the Bonds, the Master Ordinance and the Twenty-Sixth Supplement contained under such captions and in APPENDICES C and D in all respects accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is true and accurate. The opinion of Bond Counsel will accompany the global certificate deposited with DTC in connection with the use of the Book-Entry-Only System. In addition, certain legal matters will be passed upon (i) for the Underwriters by Haynes & Boone, LLP and Kassahn & Ortiz, P.C., Co-Underwriter's Counsel, and (ii) for the City by Norton Rose Fulbright US LLP, Disclosure Counsel for the City. The payment of legal fees to Bond Counsel, Co-Underwriters Counsel, and

Disclosure Counsel in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds.

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

Financial Advisor

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

Underwriting

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the City at a price equal to the initial offering prices shown on page ii of this Official Statement, less an underwriting discount of $1,115,439.43. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

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

Fidelity Capital Markets, an Underwriter of the Bonds, is a division of National Financial Services LLC.

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

Forward-Looking Statements

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

The forward-looking statements included in this document are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, and competitors, and legislative, judicial, and other governmental authorities and officials.

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

Verification of Arithmetical and Mathematical Calculations

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

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

Independent Auditors

The financial data as of and for the 12 months ended December 31, 2015 in this document has been derived from the unaudited internal records of the City. The City's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information nor the forward-looking financial information, nor have they expressed any opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited financial information. The unaudited information is preliminary and is subject to change as a result of the audit and may differ from the audited financial statements when they are released.

The financial statements of the City included in APPENDIX B to this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, to the extent and for the period indicated in their report which contains a restatement of beginning net position balances and an explanatory paragraph regarding the City's implementation of GASB Statement 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement 71, *Pensions Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB 68*.

Miscellaneous Information

The financial data and other information contained in this document have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained in this document will be realized. All of the summaries of the statutes, documents and ordinances contained in this document are made subject to all of the provisions of such statutes, documents and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Twenty-Sixth Supplement also approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the offering of the Bonds by the Underwriters.

Steve Adler
Mayor
City of Austin, Texas

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

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information is presented for informational purposes only.

General Information

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

The City, which is the capital of Texas, is the fourth largest city in the state (behind Houston, Dallas, and San Antonio) and the eleventh largest in the nation with a September 2015 population of 899,119 according to the City's estimates. Over the past ten years, Austin's population has increased by approximately 25.9%, or 184,882 residents. Geographically, the City consists of approximately 323 square miles. The current estimated median household income for residents of the City is $52,519 according to Nielsen SiteReports. The City's per capita income is estimated to be $49,680 based on analysis of the Bureau of Economic Analysis information.

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

The City offers several broad-ranged educational opportunities for those individuals with a desire to learn. Austin is a highly educated city, with 46% of adults twenty-five years or older holding a bachelor's or advanced degree, compared to 29.3% for the U.S. as a whole. Higher education is a significant aspect of life in the Austin area, which is host to six universities, a robust community college system, and numerous other institutions of higher learning. The University of Texas at Austin (UT), the sixth largest public university in the nation, is known as a world-class center of education and research and was ranked 16th among public universities in the 2016 *U.S. News and World Report* survey of undergraduate programs.

Local Economy

The Austin metropolitan area is consistently recognized among the most inventive, creative, wired, educated, fit, and loved cities in which to live and work. The Milken Institute ranked the Austin metropolitan area number 4 in its *2015 Best-Performing Cities* report, which ranks U.S. metropolitan areas by how well they are creating and sustaining jobs and economic growth. The index "was designed to measure objectively which U.S. metropolitan areas are promoting economic vitality based on job creation and retention, the quality of new jobs, and other criteria." In its report the Institute noted that, "Austin seems poised to remain among the best performers in the years ahead."

From job growth to population growth to real estate, the Austin metropolitan area continues to boom and the trends reflect it. The Brookings *Metro Monitor* ranks Austin's economic performance from 2009 to 2014 as the second best in the nation based on an analysis of jobs, gross metropolitan product, and aggregate wages. In January 2016, Newgeography.com and *Forbes* published an analysis of the largest 53 metropolitan areas looking at metrics indicative of past, present, and future vitality to determine which ones are most likely to boom over the next 10 years. Austin was at the top of this list of "America's Cities of the Future." The analysis stated that the City "has become one of the nation's superlative economy over the past decade."

While Austin has diversified over the last decade, the technology industry still plays a large role in the City's economy. Technology companies with a long history in Austin, like Dell, IBM, and Advanced Micro Devices, continue to be some of Austin's largest employers. Other large technology companies in the area are expanding. Oracle recently announced it will build a new 27-acre corporate office in Austin and expand its workforce in the area by 50%. After beginning to manufacture the Mac Pro in Austin several years ago, Apple Inc. is in the process of building a new 38-acre campus in northwest Austin and further expanding its workforce here. In addition, over the past several years Google has expanded its presence in the City with everything from Google Fiber to the testing of self-driving cars.

Expansion in other business sectors is also strengthening. Austin's vibrancy and favorable economic climate has spurred the development of a number of new hotels over the last few years. The resulting increase in employment in the leisure and hospitality industry was in excess of 30 percent since 2010. Construction of the University of Texas medical school is expected to continue to spur the life science sector. In 2014 Travis County posted growth of 5.7% in the financial services sector, second fastest in the nation. Finally, in its 2015 study of startup activity, the Kaufmann Foundation found that the Austin metro area created more startups than any other metro area, averaging 550 new entrepreneurs per month.

Texas Economy – The Texas economy has been strong for well over a decade. With a $1.65 trillion economy, Texas ranks second only to California. In October 2015, *Forbes* listed Texas as one of the top ten Best States for Job Growth and ranked the state first for current economic climate. Chief Executive Magazine in its 2015 survey found that CEOs consider Texas as the best state for business for the 11th year in a row stating "Since the recession began in December 2007, 1.2 million net jobs have been created in Texas, while 700,000 net jobs were created in the other 49 states combined."

With the current downturn in oil prices, growth in Texas has been slowing but is still positive. Virtually all Texas metro areas had more jobs in December 2015 than in December 2014; however, the 2015 annual growth rate for the state was 1.4%, below the national rate of 1.9%. In addition, all four of Texas' major cities were in the top ten of the previously mentioned *Forbes* list, "America's Cities of the Future."

Employment – Despite the state-wide slowdown, Austin area employment growth continued in 2015. The Austin metro area was the fastest growing in the state, increasing at a rate of 3.8% during 2015. Austin's unemployment rate was at 3.1% in December 2015, down from 3.4% in December 2014 and well below the December State and National unemployment rates of 4.7% and 5.0%, respectively. Over the last five years, the Austin metro area has created more than 160,000 new jobs, an increase of over 18%. According to the Milken 2015 Best-Performing Cities report "Austin had the second fastest job growth in the nation over the past five years." *Forbes* ranked Austin at the top of its 2015 list of "Cities Creating the Most Technology Jobs." The magazine cited a study by the Praxis Strategy Group that looked at employment data for the 52 largest metro areas from 2004 to 2014. During that time the Austin metro area experienced an expansion in the technology sector of 73.9%. The outlook for 2016 continues to be strong. Recently WalletHub ranked Austin as the third best metro area to find a job in 2016 based on its job market and socio-economic environment. AngelouEconomics Inc. predicts Austin will add another 130,000 residents over the next two years. They further predict the addition of over 60,000 jobs during that same time frame for a two-year job growth rate of 6.3 percent.

Sales Taxes – Since 2009, sales tax revenue has steadily increased. Fiscal year 2015 experienced a robust 7.7% increase over fiscal year 2014, which was a 7.5 % increase over 2013.

Tourism – Austin continues to be a destination for both business and recreational activities. Austin is known around the world as the "Live Music Capital of the World" with over 250 live music venues. In March 2015, South by Southwest (SXSW) hosted its 29th annual festival, conference, and trade show, providing a unique convergence of original music, independent films, and emerging technologies and more recently education and sustainability. According to an economic impact analysis prepared by Greyhill Advisors, SXSW was responsible for injecting more than $317 million into the Austin economy. Other major festivals include the Austin City Limits Music Festival, Austin Film Festival, and Fun Fun Fun Fest.

The growing local economy in Austin relies on quality air service to foster business, government, and leisure travel. During 2015 Austin's airport, Austin-Bergstrom International Airport ("ABIA"), set a new record for annual traffic for the fifth consecutive year. In 2015, over 11.9 million passengers passed through ABIA, enjoying over 1,100 live music performances, 65 tons of brisket and almost 700,000 breakfast tacos. Air carriers continue to add direct flights to Austin facilitating connections with over 70 countries throughout Europe, Africa, the Middle East, and Asia. In July 2015, *Travel*

& Leisure ranked ABIA fifth in the publication's list of best domestic airports.

To accommodate the increased flights and passengers, ABIA completed 3 major projects in 2015: an expanded taxiway, a consolidated rental car facility, and expansion of the east terminal adding over 56,000 square feet including a new Customs and Border Protection area which more than doubles the capacity to process international arrivals as well as adding a new six-lane TSA checkpoint. In 2016, construction will begin on a nine gate terminal expansion.

Hotel/motel tax revenues were 15% greater in 2015 than the previous year. High occupancy rates have spurred construction of new hotels across the Austin metro area. The greatest concentration is downtown where hoteliers such as JW Marriott, Fairmont, Westin, and Kimpton added 2,000 rooms in 2015 and are constructing over 1,000 more. Additional hotel inventory allows Austin to accommodate an increase in both number and size of events hosted and is having a positive impact on the City's convention center.

Medical School – In 2016, the Dell Medical School at the University of Texas at Austin will be operational. The University is partnering with the Seton Healthcare Family, who is building a cutting-edge teaching hospital, and Level 1 Trauma Center, and Central Health, who will purchase services from the medical school for the population it serves. In 2015, the first medical school class was selected, preliminary accreditation was received, and construction of both the medical school and the Dell Seton Medical Center at the University of Texas continued. The school is scheduled to accept its first class in June 2016 and the hospital will open in 2017. An economic analysis by TXP, Inc. estimated the economic impact of the school to be almost $1 billion in direct annual spending and 6,900 direct jobs. To leverage the economic potential created by the medical school, in December 2014 the City Council directed the City Manager to explore creation of an innovation zone in the northeast quadrant of downtown. Such zones have been successful economic engines in other major U.S. cities such as Seattle, Boston, and Raleigh-Durham. Central Health supports the zone and has begun the visioning process for redevelopment of 14 acres it owns in the heart of the zone which will become available when hospital operations transition to the teaching hospital in several years.

Real Estate – All sectors of the real estate market are performing well. Austin area home sales for 2015 were up 5% over 2014 and set a record for annual single-family home sales. As of the end of December the market featured 2.2 months of housing inventory, less than half of the level considered to represent a balanced housing market. As a result, the median price for a single family home continues to rise, up about 9% over the previous year from $242,500 to $263,900. Opinions about Austin's real estate market are mixed. Fitch believes that Austin's real estate market is overpriced by about 19% but views growth and pricing appreciation as currently supportable. However, an analysis by Trulia indicated Austin as number 3 on its list of real estate markets to watch in 2016 based on its share of millennials and job growth.

Multifamily occupancy rates are near 95%, down from the 2013 high of 97%. Total absorption in 2015 was at an all-time high of over 9,300 units. With strong occupancy and absorption, rents per square foot continue to increase but at a slower pace, 1.5% for the last six months of 2015 to a high of $1.35. The office market is also solid with an average occupancy rate of 92.5% at the end of 2015 and absorption of "direct" lease space of over 925,000 square feet during the year. The retail market remains tight with a 2015 year-end occupancy rate around 96%. According to Emerging Trends in Real Estate 2016 published by PricewaterhouseCoopers US and the Urban Land Institute, Austin will be one of the two top markets to watch in 2016 along with Dallas/Fort Worth. Among other things, the study cited diverse job creation and being attractive to all age levels.

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Recognition – In addition to the accolades mentioned above, Austin has ranked at the top of lists such as Kaufmann Foundation, WalletHub, Savills, and others in regards to growth, jobs, recreation opportunities, health, and business opportunities:

#1 Top Cities for Tech Businesses (International ranking) *Savills World Research* – February 2015	#3 Best Places to Live and Work as a Moviemaker 2016 (Big Cities) *MovieMaker* – January 2016	#1 Kaufmann Index of Startup Activitiy Kaufmann Foundation – June 2015
#4 Top Ten Cities for Creatives *SmartAsset* – July 2015	#1 Best Cities for Millenials *Money – September 2015*	# 1 Healthiest City in Texas *24/7 Wall St.* – August 2015
#1 Best Cities for Young Families in 2016 *ValuePengiuin.com* – Winter 2016	#6 2015's Best Cities for Summer Travel *WalletHub* – Spring 2015	#1 Cities with Abundant Transportation Choices *U.S. Public Interest Research Group* – February 2015
#2 Economic Growth Potential *Metro and Global Rankings* *Business Facilities – July 2015*	#1 Cities Americans Are Flocking to *Forbes* – October 2015	Tied for #1 Job Creation Index Scores *CGallup* – March 2015

Major Initiatives

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

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

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

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

Being "best managed" means everyone in the organization is providing the best service possible to the community. Reflecting the PRIDE that the City's employees take in their work, Austin ranks 28 percentage points above the national average for large cities for overall quality of customer service and is at or above the national average in 31 of 46 of the City's benchmark indicators.

Imagine Austin – Austin residents share a sense of community pride and a determination that the City's vision is not just a slogan, but a reality for everyone who lives here. In 2012, after an extensive public process, the City Council unanimously voted to adopt Imagine Austin, the City's comprehensive plan for Austin's future. The plan defines where the City is today and where we want to go, setting a context to guide decision-makers for the next 30 years. The resulting plan adheres to 6 core principles established by Austin citizens:

- Grow as a compact, connected city
- Integrate nature into the city
- Provide paths to prosperity for all

- ❖ Develop as an affordable and healthy community
- ❖ Sustainably manage water, energy, and other environmental resources
- ❖ Think creatively and work together

Implementing this vision will take many incremental steps over time. The plan's success is monitored annually with performance metrics and will be formally assessed at least every five years. Cross-departmental and cross-jurisdictional action teams have been created for these areas and the 2016 budget and capital plan include funding to support these principles. Additionally, a number of the initiatives discussed below also directly support Imagine Austin.

CodeNext – The City has embarked on a major initiative to revise the City's land development code which determines how land can be used throughout the City. This initiative is one of the priority programs of Imagine Austin and is expected to be completed in late 2016.

Development – For a number of years, the City has been committed to the redevelopment of many of its downtown properties. Beginning with the development of six blocks in the warehouse district in the early 2000's, Austin's participation in joint public/private partnerships continues to contribute to a vibrant downtown and an enhanced tax base. Current downtown redevelopment is focused in the Seaholm District, an area in the southwest portion of downtown which was previously home to a water plant, an electric generation plant, and other electric facilities. The area is in the process of being transformed into an extension of Austin's downtown waterfront. In early 2016, portions of the new street grid serving the area were opened and the grid will be fully complete and operating by the summer or early fall of 2016.

Construction in this area includes:

- ➢ The City's new central library which will open in the fall of 2016. Among other things, this "library for the future" will feature flexible and blended spaces, state-of-the-art technology, sustainable features, and community gathering places.
- ➢ Extensive improvements to Shoal Creek in the Seaholm area to facilitate bicycle and pedestrian use.
- ➢ A $130 million mixed-used development that involves renovation and reuse of the historical and architecturally-significant Seaholm power plant, as well as several new buildings on the site. As the result of one of the City's economic development agreements, the offices of athenahealth, Inc., a software company, moved into the renovated power plant in February 2015. Construction of the site is well underway and condominium tower occupancy is expected in early 2016.
- ➢ Redevelopment of the Green Water Treatment Plant site with 1.7 million square feet of mixed use development. Construction on two of the four blocks on this site is well underway and a third block is expected to break ground in 2016. The tallest predominately residential building west of the Mississippi on the previous site of Austin Energy's energy control center. Groundbreaking occurred in January 2016 and construction is expected to be complete in three years.

On the eastern edge of downtown, construction of the Waller Creek Tunnel Project continues. This mile-long stormwater bypass tunnel will address problems of flooding, erosion, and water pollution along lower Waller Creek. By taking nearly 28 acres of prime downtown land out of the 100-year floodplain, the project is expected to spur redevelopment and revitalization in the area. Several miles from downtown, the City continues its public/private partnership to redevelop the site of the previous airport, Mueller. This 700 acre, vibrant, mixed-use urban village includes residential neighborhoods, retail, and office spaces, extensive parks, and trails. The development, which is sustainable, transit-oriented, and offers affordable housing opportunities, is approximately 40 percent complete, and has a current assessed value of over $800 million. Demand for housing at Mueller has been high due to its proximity to downtown and many amenities. During 2015, the development received the American Planning Association's HUD Secretary's Opportunity and Empowerment Award recognizing the success of this project which uses creative housing, economic development and private investments to empower the community and improve the quality of life for low and moderate income community members.

Addressing the Impacts of Growth – The level of growth that Austin has sustained over the last few years does not come without a cost. Housing affordability is increasingly an issue in a region where housing costs have been rising at a brisk pace for several years. More than 40% of Austinites pay more than 35% of their income on housing. Affordability is a prime consideration as the City makes decisions that impact the citizens who live here and the businesses that operate here. Whether setting taxes or utility rates, taking actions that provide affordable housing, or providing services and programs to the underprivileged members of the community, affordability is always part of the discussion. To address this, during 2015 City Council approved the construction of more than 5,300 affordable housing units and created the first Homestead Preservation Districts in Texas.

Traffic continues to be an issue that the region as a whole must address. In 2015, the City developed a Traffic Congestion Action Plan that outlines immediate and long-term steps to help alleviate traffic issues throughout the City. As a result of construction levels at an all-time high, the City is dealing with the stresses placed on its development-related services. An external operational assessment was completed in 2015 and the City developed a multiyear action plan to address the resulting recommendations beginning with the addition of funding and staff in the 2016 fiscal year budget.

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

Innovation and Sustainability – Austin's commitment to sustainability and innovation has been recognized by a number of organizations. The City's Neighborhood Partnering Program was awarded the American Planning Association's Leadership in Sustainability award in April 2014. This program provides opportunities for community and neighborhood organization to affect public improvements by cost sharing with the City. In October 2015, the Austin Water Utility received the Sustainable Water Utility Management Award from the Association of Metropolitan Water Agencies for its conservation and drought management strategies and its partnerships with stakeholders to develop policies reflective of community values. The City of Austin was also named a Top 10 Digital City by the Center for Digital Governance in November 2015 in recognition of a variety of innovative efforts across the City.

Climate Protection - The City of Austin has long been a national leader in the climate protection arena through the efforts of City leaders, the City-owned electric utility (Austin Energy), and the participation of customers from residential to other governmental entities and private businesses. As a result of these efforts and partnerships, Austin Energy led all public power utilities in the country for sales of renewable energy again in 2014. In January 2016, the EPA's Green Power Partnership program ranked Austin fifth in the country among all local government program partners using the most renewable energy. During 2015, the City Council approved an update of the Austin Energy's Energy Resource Plan to 2025, which increased the renewable energy goal to 55 percent by 2025. Progress towards this goal was made in October when the City approved the purchase of an additional 300 MW of solar power which will position Austin Energy to be the largest user of solar power in Texas. Additionally, in June 2015 City Council adopted the Austin Community Climate Plan which includes strategies to meet the City's goal of achieving net zero greenhouse emissions by 2050.

FINANCIAL INFORMATION

Internal Controls

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

Financial Policies

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

Long-Term Financial Planning

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

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

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

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

Budgetary Control

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

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

Budgetary Information

The 2016 Budget was developed in a manner true to the City's commitment to openness, transparency, and public engagement. The City's Budget is organized around activities and services. The budget development process integrates the City's finances with business planning, performance measurement, and resident input, thereby elevating budget discussions to meaningful conversations about outcomes that impact our residents. Input was gathered and evaluated to address the many issues, concerns, and priorities identified by the City's citizens, employees, and Councilmembers. The result was a budget built around the ideals of livability, affordability and inclusivity that dictate the operations of the City government and form the basis of the budget.

The structurally balanced fiscal year 2016 Approved Budget totals $3.5 billion and includes $911 million for the General Fund, providing for the continuation of high-quality public safety, health, library, parks, water, energy, infrastructure, development, and other services to the citizens of the City. The 2016 budget was approved with a decrease to the property tax rate of more than 2 cents, from 48.09 to 45.89 cents per $100 of taxable value. The approved tax rate balances the tax impact to property owners with the need to invest in our community and continue providing the outstanding services Austinites have come to expect.

Included in the approved budget are 3.0 % pay increases for non-sworn employees. Sworn EMS employees and Austin Police Association members will receive a base wage increase of 1% as well as step and longevity pay as established in labor contracts in 2013. Under a recently approved labor contact with the Austin Firefighters' Association, firefighters received a 1% increase in June 2015 and will receive an additional 2.5% in 2016. In response to continuing growth in the City, the approved budget enhances public safety by adding approximately 100 new sworn positions. Positions were also added to the 911 call center to address increased call intake. Funding was provided to continue a multiyear strategy to better manage demands on service delivery resulting from the City's growth in recent years.

The City's largest enterprise department, Austin Energy, is the eighth largest municipal-owned electric utility in the United States in terms of customers served. Austin Energy serves more than 455,000 customers within a service territory of approximately 437 square miles in the Greater Austin area. The approved budget for fiscal year 2016 is $1.4 billion in annual revenues, including transfers. The utility has a diverse generation mix that includes nuclear, coal, natural gas, and an increasing portfolio of renewable energy sources such as solar and wind.

The City's second largest enterprise activity is Austin Water, which provides water and wastewater services to customers within Austin and surrounding areas. The fiscal year 2016 approved budget projects revenues of $548.8 million. Growth in revenue is the result of projected customer growth as well as a combined system-wide rate increase of 4.9%. In December 2014, the utility opened Water Treatment Plant 4. With a capacity of 50 million gallons per day, it provides redundancy in the water system and helps to sustain reliable water services into the future.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its 2014 CAFR. The City has received this award for 8 consecutive years. The certificate is valid for a period of one year only. City management believes that the 2015 CAFR conforms to the Certificated of Achievement Program requirements, and is submitting it to the GFOA for review.

The City also received the GFOA Distinguished Budget Presentation award for the 2015 budget as well as a 2014 Certificate of Excellence in Performance Measurement from the International City/County Management Association (ICMA).

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Employment by Industry in the Austin Metropolitan Area (1)

Employment Characteristics

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

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

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

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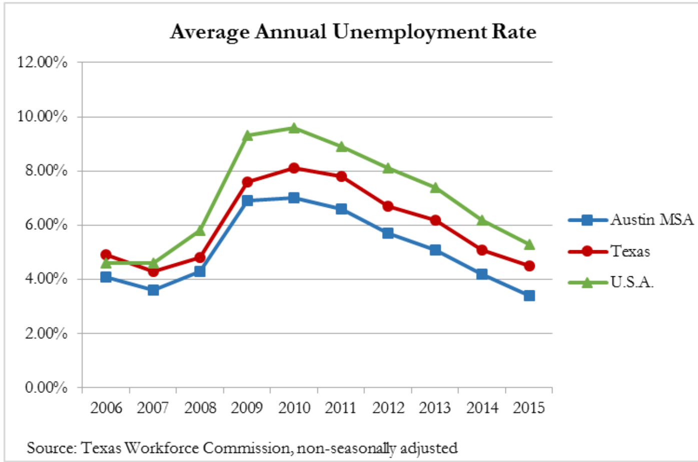
Average Annual Unemployment Rate



	Austin MSA	Texas	U.S.A.
2005	4.5%	5.4%	5.1%
2006	4.1%	4.9%	4.6%
2007	3.6%	4.3%	4.6%
2008	4.3%	4.8%	5.8%
2009	6.9%	7.6%	9.3%
2010	7.0%	8.1%	9.6%
2011	6.6%	7.8%	8.9%
2012	5.7%	6.7%	8.1%
2013	5.1%	6.2%	7.4%
2014	4.2%	5.1%	6.2%
2015	3.4%	4.5%	5.3%

Note: Information is updated periodically; data contained in this document is latest provided.
Source: Labor Market & Career Information, Texas Workforce Commission, Accessed April 13, 2016.

City Sales Tax Collections (In Millions) (1)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
1-1-11	$11.492	1-1-12	$12.189	1-1-13	$13.126	1-1-14	$15.123	1-1-15	15.260	1-1-16	16.138
2-1-11	16.149	2-1-12	16.923	2-1-13	18.079	2-1-14	19.112	2-1-15	21.092	2-1-16	21.884
3-1-11	11.117	3-1-12	11.762	3-1-13	13.324	3-1-14	13.782	3-1-15	14.677	3-1-16	15.667
4-1-11	10.312	4-1-12	11.838	4-1-13	12.727	4-1-14	13.803	4-1-15	14.345	4-1-16	15.528
5-1-11	14.022	5-1-12	15.239	5-1-13	15.962	5-1-14	17.750	5-1-15	19.404		
6-1-11	11.941	6-1-12	12.949	6-1-13	12.869	6-1-14	15.581	6-1-15	15.958		
7-1-11	11.924	7-1-12	13.168	7-1-13	14.699	7-1-14	14.723	7-1-15	16.180		
8-1-11	14.387	8-1-12	15.371	8-1-13	16.088	8-1-14	16.970	8-1-15	19.483		
9-1-11	11.307	9-1-12	14.220	9-1-13	14.119	9-1-14	15.385	9-1-15	16.429		
10-1-11	13.385	10-1-12	13.960	10-1-13	14.644	10-1-14	15.309	10-1-15	16.514		
11-1-11	13.873	11-1-12	14.570	11-1-13	16.187	11-1-14	17.734	11-1-15	18.952		
12-1-11	12.004	12-1-12	14.373	12-1-13	14.192	12-1-14	15.735	12-1-15	16.269		

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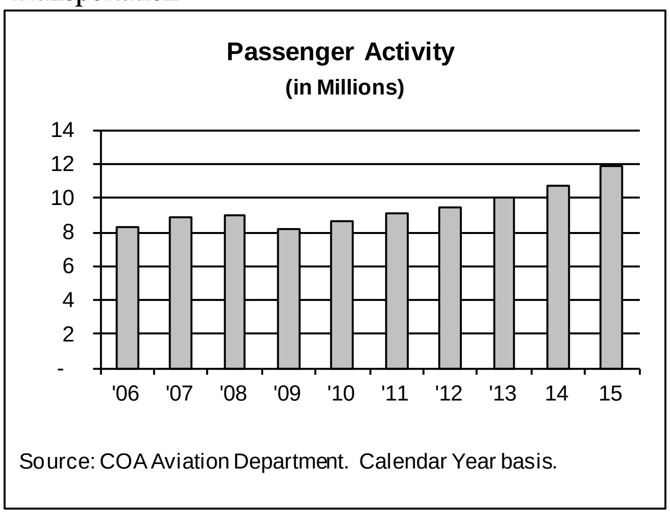
(1) Sales taxes are not pledged to the payment of the Bonds.
Source: City of Austin, Budget Office.

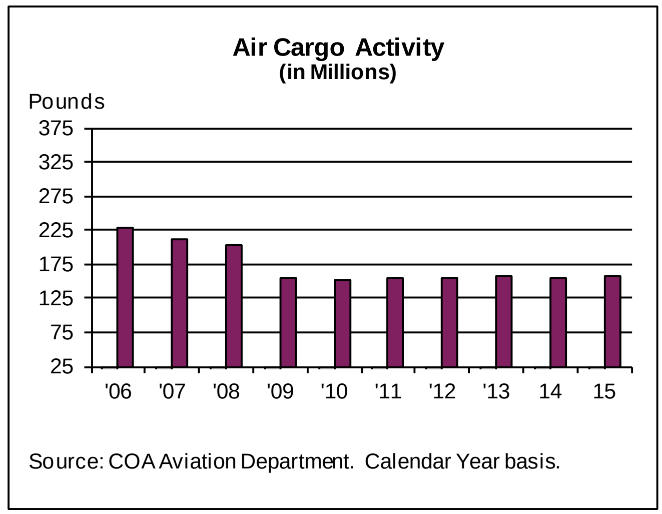
Ten Largest Employers (As of September 30, 2015)

Employer	Product or Service	Employees
State Government	Government	38,499
The University of Texas at Austin	Education	23,131
Dell Computer Corporation	Computers	13,000
City of Austin	Government	12,977
Federal Government	Government	11,800
Austin Independent School District	Education	11,478
HEB Grocery	Grocery/Retail	11,277
Seton Healthcare Network	Healthcare	10,945
St. David's Healthcare Partnership	Healthcare	8,369
IBM Corporation	Computers	6,000

Source: 2015 Comprehensive Annual Financial Report.

Transportation





Austin-Bergstrom International Airport

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

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

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

Other Forms of Transit

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

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

Demographic and Economic Statistics - Last Ten Years

Year	City of Austin Population (1)	Area of Incorporation (Square Miles) (1)	Population MSA (2)	Income (MSA) (thousands of dollars) (2)	Median Household Income MSA (3)	Per Capita Personal Income MSA (3)	Unemployment Rate (MSA) (4)
2006	714,237	296	1,528,958	56,105,872	40,888	36,695	4.1%
2007	732,381	297	1,577,856	59,924,200	42,263	37,978	3.6%
2008	746,105	298	1,633,870	65,153,669	46,340	39,877	4.3%
2009	770,296	302	1,682,338	64,290,898	47,520	38,215	6.9%
2010	778,560	306	1,727,743	69,124,528	48,460	40,009	7.0%
2011	805,662	308	1,782,089	75,581,541	46,689	42,412	6.6%
2012	821,012	319	1,836,149	83,215,532	46,818	45,321	5.7%
2013	841,649	321	1,885,803	85,628,710	46,436	45,407	5.1%
2014	878,002	321	1,912,746	91,385,667	49,227	47,026	4.2%
2015	899,919	323	1,927,989 (6)	95,782,723 (5)	52,519 (6)	49,680 (5)	3.3%
2006-2015 Change	25.89%	9.19%	26.1%	70.72%	28.45%	35.39%	

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

(1) Source: City Demographer, City of Austin, Neighborhood Planning and Zoning Department based on full purpose area as of September 30.
(2) Source: Bureau of Economic Analysis for all years except 2015 which will not be available until later in 2016.
(3) Source: Claritas, a Nielson Company.
(4) Source: Bureau of Labor Statistics; United States Department of Labor as of September 30.
(5) Data not available for 2015. Figures are estimated.
(6) Source: Nielsen SiteReports.

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Utility Connections

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

(1) Based on the City's fiscal year, which runs October 1 through September 30.
Source: Various including the City of Austin, Texas Gas Services, Atmos Energy and Centerpoint Energy.

Housing Units

Rental rates in the City averaged $1.35 per square foot, with an occupancy rate of 94.5% as of December 2015, per Capitol Market Research.

Residential Sales Data

Year	Number of Sales	Total Volume ($)	Average Price ($)
2006	29,767	6,815,921,279	229,000
2007	27,571	6,783,518,944	246,000
2008	22,068	5,369,952,456	243,300
2009	20,407	4,830,082,305	236,700
2010	19,547	4,819,525,215	246,600
2011	21,032	5,281,514,091	251,100
2012	25,196	6,705,431,385	266,100
2013	29,965	8,601,111,424	287,000
2014	30,137	9,267,487,161	307,500
2015	31,517	10,449,121,329	331,500

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

City-Wide Austin Office Occupancy Rate

Year	Occupancy Rate
2006	87.5%
2007	85.6%
2008	80.6%
2009	77.7%
2010	80.0%
2011	82.7%
2012	86.8%
2013	89.2%
2014	90.9%
2015	90.9%

Source: Oxford Commercial.

Education

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

School Year	Average Daily Attendance
2004/05	72,312
2005/06	73,498
2006/07	74,202
2007/08	74,623
2008/09	75,607
2009/10	76,727
2010/11	77,982
2011/12	78,914
2012/13	78,972
2013/14	77,974
2014/15	77,359
2015/16	76,413

Source: Austin Independent School District; Texas Education Agency.

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

The University of Texas at Austin had a total enrollment of 50,950 for the fall semester of 2015 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

Tourism

The impact of tourism on the City's economy is significant. There are approximately 32,000 hotel rooms available within the Austin Metropolitan Area and occupancy through the 4th quarter of 2015 was 74.1%.

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

APPENDIX B

AUDITED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Austin, Texas, (the "City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units which represent 99.8% of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports, one of which (Austin Bergstrom Landhost Enterprises) contains an emphasis of matter paragraph related to a going concern issue, have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Austin, Texas, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 18 to the financial statements, beginning net position was restated due to the City's implementation of Governmental Accounting Standards Board Statements No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No.27*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* during the year ended September 30, 2015. Our opinion is not modified with respect to this change.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and schedules and the introductory and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining and individual nonmajor fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Deloitte & Touche LLP

March 28, 2016

The Management's Discussion and Analysis (MD&A) section of the City of Austin's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2015.

The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 71.

FINANCIAL HIGHLIGHTS

Government-wide financial statements
The assets of the City exceeded its liabilities at the end of the fiscal year 2015, resulting in $4.1 billion of net position. Net position associated with governmental activities is approximately $0.7 billion, while the net position associated with business-type activities is approximately $3.4 billion, or 83.8% of the total net position of the City. The largest portion of net position consists of net investment in capital assets, which is $3.9 billion, or 94.6% of total net position. The City implemented GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27"* during the year, which increased the net pension liability in the financial statements by $1.2 billion over the previously reported net pension obligation.

The City's unrestricted net position is a deficit of $557 million. Unrestricted net position for governmental activities is a deficit of $1.1 billion, while unrestricted net position for business-type activities is approximately $560.3 million, or 16.4% of total business-type net position. The deficit in governmental unrestricted net position is largely due to the net pension liability of $844.1 million and other postemployment benefits payable of $484.9 million.

During fiscal year 2015, total net position for the City of Austin increased $183.9 million or 4.7%. Of this amount, governmental activities decreased $18.3 million, or 2.7% from the previous year and business-type activities increased $202.2 million, or 6.3%.

Total revenues for the City increased $190.5 million; revenues for governmental activities increased $70.9 million; revenues for business-type activities increased $119.6 million. Total expenses for the City increased $106.3 million; expenses for governmental activities increased $59.5 million; expenses for business-type activities increased $46.8 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

The government-wide financial statements also include three discretely presented component units: Austin-Bergstrom Landhost Enterprises, Inc. (ABLE), Austin Convention Enterprises, Inc. (ACE), and Waller Creek Local Government Corporation (WCLGC). These entities are legally separate entities that do not meet the GASB reporting requirements for inclusion as part of the City's operations; therefore, data from these units are shown separately from data of the City. More information on these entities can be found in the notes to the financial statements, including how to get a copy of separately audited financial statements for ACE and ABLE. WCLGC activities are recorded in the City's financial system and city staff prepares the financial reports for this entity.

b -- Fund financial statements

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

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

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

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

c -- Notes to the financial statements

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

d -- Other information

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net position

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

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

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current assets	$ 688,543	645,341	1,339,775	1,258,553	2,028,318	1,903,894
Capital assets	2,792,395	2,693,200	7,446,085	7,315,956	10,238,480	10,009,156
Other noncurrent assets	1,488	1,547	1,644,741	1,185,352	1,646,229	1,186,899
Total assets	3,482,426	3,340,088	10,430,601	9,759,861	13,913,027	13,099,949
Deferred outflows of resources	167,627	88,620	313,209	227,387	480,836	316,007
Current liabilities	324,557	321,500	489,483	481,782	814,040	803,282
Noncurrent liabilities	2,661,982	2,418,186	5,923,535	5,546,435	8,585,517	7,964,621
Total liabilities	2,986,539	2,739,686	6,413,018	6,028,217	9,399,557	8,767,903
Deferred inflows of resources	1,464	8,681	904,455	734,857	905,919	743,538
Net position:						
Net investment in capital assets	1,645,359	1,621,208	2,223,964	2,216,347	3,869,323	3,837,555
Restricted	133,984	118,335	642,052	524,653	776,036	642,988
Unrestricted (deficit)	(1,117,293)	(1,059,202)	560,321	483,174	(556,972)	(576,028)
Total net position	$ 662,050	680,341	3,426,337	3,224,174	4,088,387	3,904,515

In the current fiscal year, total assets increased $813.1 million and deferred outflows of the City increased by $164.8 million. Total liabilities increased $631.7 million and deferred inflows increased by $162.4 million. Governmental-type total assets increased by $142.3 million and business-type increased by $670.7 million, while governmental-type liabilities increased by $246.9 million and business-type increased by $384.8 million.

The most significant increase in governmental total assets resulted from an increase in capital assets of $99.2 million as the City continues to build out projects from the 2006, 2010, and 2012 bond programs. Factors in the increase of governmental-type liabilities include increases in the bonds payable of $102.7 million, related to the 2006 ($21 million), 2010 ($14.7 million), and 2012 ($69.3 million) bond programs along with increases in the net pension liability of $89.9 million and other postemployment benefits payable of $49.6.

The most significant factor in the increase of business-type total assets is a result of an increase in capital assets of $130.1 million or 19.4%. The primary factors in the increase in business-type total liabilities of $384.8 million include an increase in bonds payable of $298.9 million and an increase in the net pension liability of $53.2 million.

As noted earlier, net position may serve as a useful indicator of a government's financial position. For the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $4.1 billion at the end of the current fiscal year. However, the largest portion of the City's net position is represented in the net investment in capital assets (e.g. land, building, and equipment offset by related debt), which is $3.9 billion, or 94.6% of the total amount of the City's net position. The City uses these capital assets to provide services to citizens. Capital assets are generally not highly liquid; consequently, they are not considered future available resources. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion, $776 million of the City's net position, represents resources that are subject to external restrictions on how they may be used in the future. The remaining balance is a deficit of $557 million of unrestricted net position. Unrestricted net position improved $19.1 million in the current fiscal year.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for business-type activities. However, governmental activities as well as the government as a whole report a deficit of $1.1 billion and $557 million for unrestricted net position, respectively.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

b -- Changes in net position

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

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program revenues:						
Charges for services	$ 160,708	141,709	2,296,132	2,225,860	2,456,840	2,367,569
Operating grants and contributions	45,470	50,333	1,039	1,489	46,509	51,822
Capital grants and contributions	70,484	66,856	110,580	65,550	181,064	132,406
General revenues:						
Property tax	476,439	448,083	--	--	476,439	448,083
Sales tax	204,029	189,464	--	--	204,029	189,464
Franchise fees and gross receipts tax	141,368	128,032	--	--	141,368	128,032
Interest and other	21,951	21,275	10,498	5,717	32,449	26,992
Special item - land sale	11,983	15,830	--	--	11,983	15,830
Total revenues	1,132,432	1,061,582	2,418,249	2,298,616	3,550,681	3,360,198
Program expenses:						
General government	131,993	118,074	--	--	131,993	118,074
Public safety	601,112	576,118	--	--	601,112	576,118
Transportation, planning, and sustainability	77,349	83,971	--	--	77,349	83,971
Public health	85,326	80,796	--	--	85,326	80,796
Public recreation and culture	134,567	117,441	--	--	134,567	117,441
Urban growth management	135,386	136,110	--	--	135,386	136,110
Interest on debt	55,855	49,617	--	--	55,855	49,617
Electric	--	--	1,203,729	1,251,599	1,203,729	1,251,599
Water	--	--	294,624	240,838	294,624	240,838
Wastewater	--	--	219,320	213,156	219,320	213,156
Airport	--	--	120,015	108,291	120,015	108,291
Convention	--	--	65,657	58,763	65,657	58,763
Environmental and health services	--	--	97,690	92,997	97,690	92,997
Public recreation	--	--	8,824	6,765	8,824	6,765
Urban growth management	--	--	135,360	125,983	135,360	125,983
Total expenses	1,221,588	1,162,127	2,145,219	2,098,392	3,366,807	3,260,519
Excess (deficiency) before transfers	(89,156)	(100,545)	273,030	200,224	183,874	99,679
Transfers	70,865	62,215	(70,865)	(62,215)	--	--
Increase (decrease) in net position	(18,291)	(38,330)	202,165	138,009	183,874	99,679
Beginning net position, as previously reported	1,308,194	1,355,433	3,328,362	3,197,015	4,636,556	4,552,448
Restatement adjustment	(627,853)	(8,909)	(104,190)	(6,662)	(732,043)	(15,571)
Beginning net position, as restated	680,341	1,346,524	3,224,172	3,190,353	3,904,513	4,536,877
Ending net position	$ 662,050	1,308,194	3,426,337	3,328,362	4,088,387	4,636,556

Total net position of the City increased by $183.9 million in the current fiscal year. Governmental net position decreased by $18.3 million. The decrease is attributable to expenses exceeding revenues by $89.2 million before transfers from other funds of $70.9 million. Business-type net position increased by $202.2 million due to revenues exceeding expenses by $273 million, before transfers to other funds of $70.9 million.

In addition, the City restated beginning net position for governmental and business-type activities as a result of the implementation of GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions an amendment to GASB Statement No. 27*", and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment to GASB Statement No. 68*". For more information, see Note 18.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

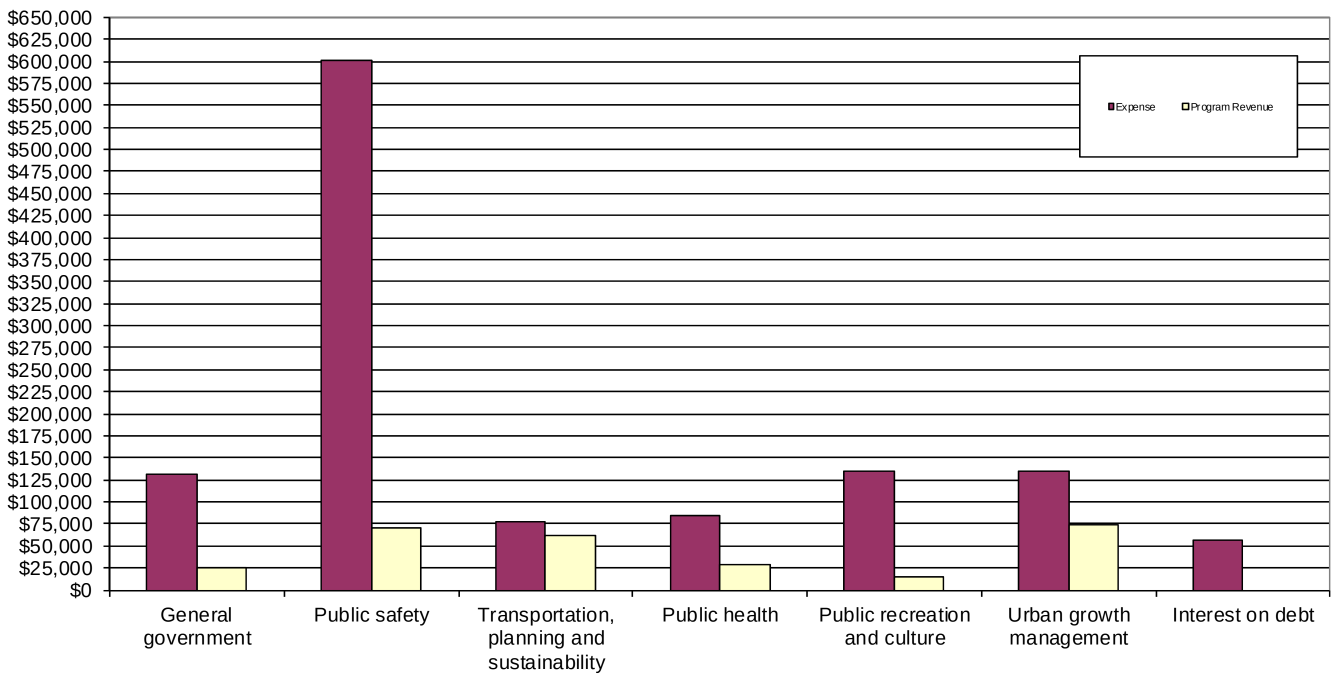
c -- Program revenues and expenses -- governmental activities

Governmental activities decreased the City's net position by $18.3 million in fiscal year 2015, a 2.7% decrease of governmental net position from the previous year. Key factors for the change from fiscal year 2014 to 2015 are as follows:

- The City's property tax revenue increased by $28.4 million from the previous year due to an increase in assessed property values of $9.9 billion, while the property tax rate per $100 of valuation decreased from 0.5027 to 0.4809.
- Sales tax collections and franchise fees for the year were $14.6 million and $13.3, respectively, more than the prior year as result of the continued improvement of the Austin economy.
- The City sold a piece of land for $12 million, which is reported as a special item. See Note 1 for more details.
- Public safety expenses, public recreation and culture expenses, and general government expenses increased $25 million, $17.1 million, and $13.9 million, respectively, primarily due to increases in salaries and contractual expenditures. This increase in salaries can be attributed to an additional 147 full time equivalents and a 3% general wage increase, whereas the increase in contractual expenditures can be attributed to rising information technology costs.

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

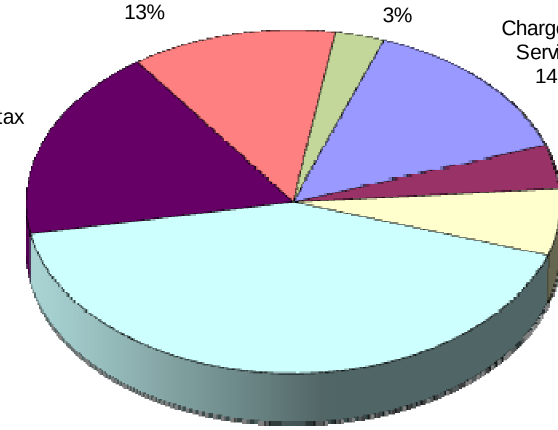
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

Government-wide Revenues by Source -- Governmental Activities



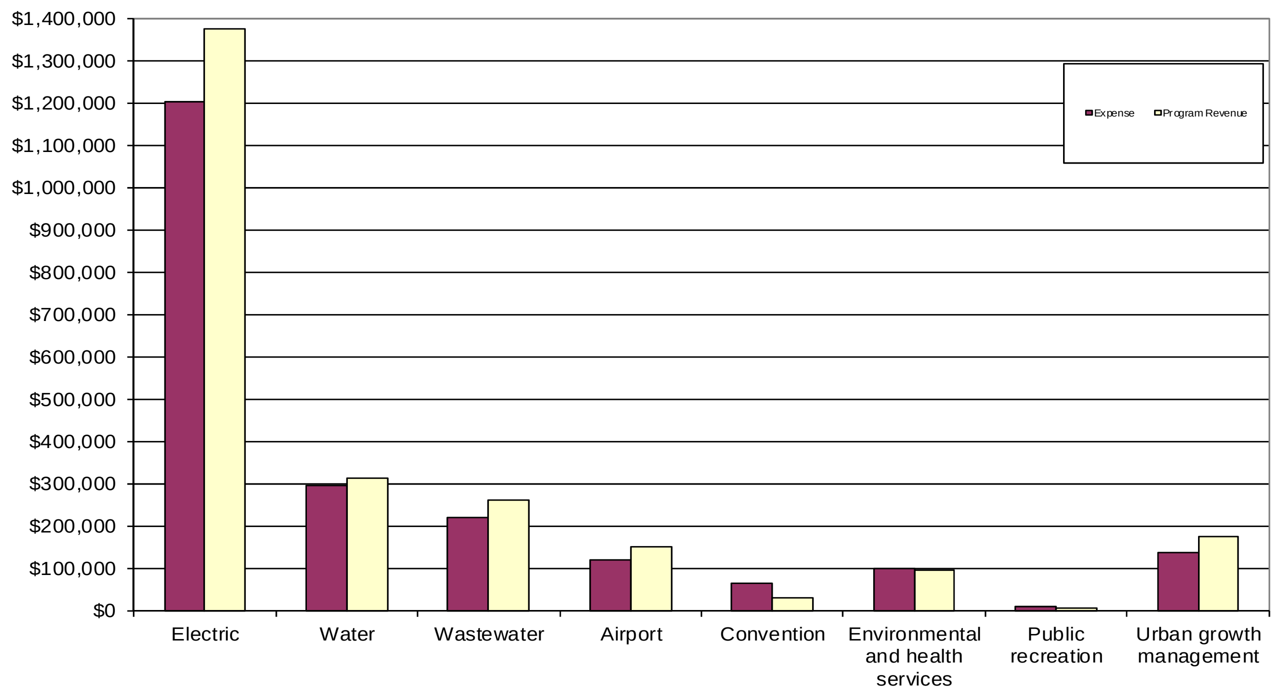
d -- Program revenues and expenses -- business-type activities
Business-type activities increased the City's net position by approximately $202.2 million, accounting for a 6.3% increase in the City's total net position. Key factors include:

- Austin Energy net position increased approximately $72.6 million. Revenues stayed flat in fiscal year 2015. Expenses decreased 3.8% largely due to a decrease in power supply costs.
- Austin Water Utility net position increased approximately $21.1 million. Revenues increase 12.3% largely due to a combined utility rate increase of 8.1% for FY15. Expenses increase by 13.2% due to an increase in expenses resulting from accounting for regulatated operations.
- Airport net position increased approximately $32.5 million. Revenues increased 12.8% due to an increase in passenger traffic and higher rental and landing fees. Passenger traffic continues to break records with a 12.4% increase over the previous year. Expenses increased 10.8% due to an increase in operating and maintenance costs.
- Convention Center net position increased approximately $29 million. Revenues and transfers from the Hotel Occupancy and Vehicle Rental Tax Funds increased 14.2% due in part to the growth of several large events, including the Formula 1 event and South by Southwest. Expenses increased 11.7% due to an increase in operations and maintenance costs.
- Environmental and health services activities are comprised of the Austin Resource Recovery nonmajor enterprise fund. Net position decreased approximately $1.6 million. Revenues increased by 14% due mainly to an increase in the Clean Community Fee of $0.75 per residential customer account and $0.65 per commercial customer account. There was also an increase in the base fee of $1.85 for both residential and commercial accounts. Expenses increased by 5% due mainly to an increase in operations and support services costs.
- Urban growth management activities are comprised of nonmajor enterprise funds that include the Drainage Fund and Transportation Fund. Net position increased by approximately $41.6 million. Drainage revenues increased by 10.3% primarily due to a 6.5% increase in the monthly Drainage Utility Fee and residential growth. Drainage expenses increased 10.5% due to an increase in operations and support services costs. Transportation revenues increased approximately 7.4% primarily due to an increase in the Transportation User Fee of 5.75%. Transportation expenses increased 6.0% due to an increase in operations and support services costs.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

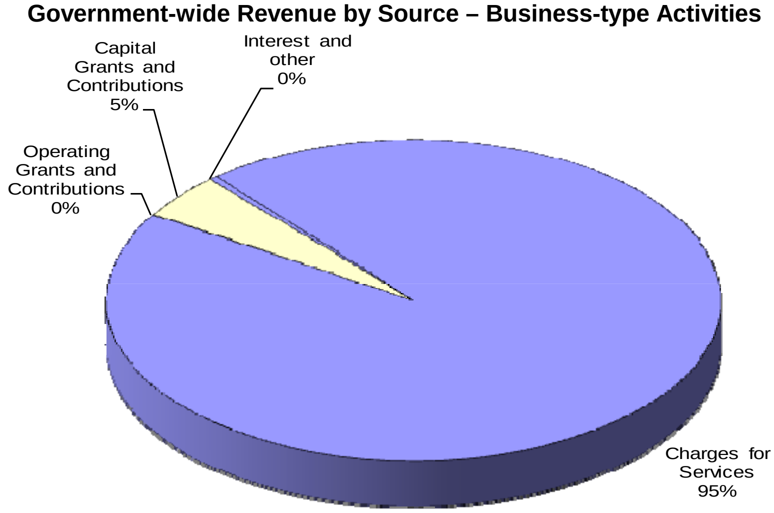
As shown in the following chart, Austin Energy (electric), with expenses of $1.2 billion is the City's largest business-type activity, followed by water with $294.6 million, wastewater with $219.3 million, urban growth management with $135.4 million, airport with $120 million, environmental and health services with $97.7 million, convention with $65.7 million, and public recreation with $8.8 million. For the fiscal year, operating revenues exceeded operating expenses for all business-type activities except convention, environmental and health services and public recreation.

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



For all business-type activities, charges for services provide the largest percentage of revenues (94.96%), followed by capital grants and contributions (4.57%), operating grants and contributions (0.04%), and interest and other revenues (0.43%).

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

a -- Governmental funds

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

At the end of the fiscal year, the City of Austin's governmental funds reported combined ending fund balances of $418.6 million, an increase of $51 million from the previous year. Approximately $2 million is nonspendable, $176 million is restricted, $40.2 million is committed, $101.9 million is assigned, and $98.5 million is unassigned.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the General Fund reported nonspendable fund balance of $0.9 million, assigned fund balance of $26.1 million, and unassigned fund balance of $150.1 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 17.1% of total General Fund expenditures of $878.9 million, and total fund balance represents 20.2% of expenditures. The City's financial policies provide that surplus fund balance be indentified for budget stabilization. This amount is a component of unassigned fund balance. The fund balance identified for budget stabilization was $100.2 million. The balance identified for budget stabilization may be appropriated to fund capital or other one-time expenditures in the subsequent fiscal year, but such appropriation will not normally exceed one-third of the total identified amount, with the other two-thirds identified for budget stabilization in future years.

The fund balance of the General Fund decreased $6.3 million during the fiscal year. Significant differences from the previous year include:

- Property tax revenues increased $19.9 million due to an increase in assessed property values.
- Sales tax revenues increased $14.6 million, and licenses, permits, and inspections increased $5.3 million.
- Increase in public safety expenditures of $41 million.
- Additionally, the City sold a piece of land for $12 million, which is reported as a special item. See Note 1 for more details.

General Fund expenditures increased $71.6 million, due primarily to an increase in public safety expenditures of $41 million, an increase in general government of $11.7 million, an increase in public recreation and culture of $9.5 million, and an increase in public health of $6.9 million. These increases are primarily due to the addition of 177 FTEs, a 3% general wage increase, and contractual expenses.

b -- Proprietary funds

The City's proprietary funds provide the same type of information found in the business-type activities of the government-wide financial statements, but in more detail. Overall, net position of the City's enterprise funds increased by $198.8 million before consolidation of the internal service funds activities.

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

OTHER INFORMATION

a -- General Fund budgetary highlights

The original revenue and expenditure budgets of the General Fund were not amended during the fiscal year 2015.

During the year, revenues were $20 million more than budgeted. Tax collections were $7.3 million more than budgeted; licenses, permits and inspections were $9.4 million more than budgeted; and franchise fees were $1.2 million more than budgeted.

Actual budget-basis expenditures were $4.6 million less than budgeted. Fire exceeded budget by $2.4 million and the Austin Public Library exceeded budget by $24 thousand, while all other departments were under budget. The total budget-basis fund balance at year-end was $180.1 million.

OTHER INFORMATION, continued

b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2015, total $10.2 billion (net of accumulated depreciation and amortization). Capital assets include buildings and improvements, equipment, vehicles, electric plant, non-electric plant, nuclear fuel, water rights, infrastructure, land, construction in progress, and plant held for future use. The total increase in the City's capital assets for the current fiscal year was $229.3 million, with an increase of 3.7% for governmental activities and an increase of 1.8% for business-type activities. Additional information on capital assets can be found in Note 5. Capital asset balances are as follows:

Capital Assets, Net of Accumulated Depreciation and Amortization (in millions)

	Governmental Activities		Business-Type Activities		Total	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Building and improvements	$ 550	570	1,649	1,121	2,199	1,691
Plant and equipment	77	81	2,306	2,287	2,383	2,368
Vehicles	47	46	82	73	129	119
Electric plant	--	--	2,219	2,201	2,219	2,201
Non-electric plant	--	--	138	135	138	135
Nuclear fuel	--	--	47	40	47	40
Water rights	--	--	84	85	84	85
Infrastructure	1,451	1,384	--	--	1,451	1,384
Land and improvements	368	363	594	555	962	918
Construction in progress	272	226	300	794	572	1,020
Plant held for future use	--	--	23	23	23	23
Other assets not depreciated	27	23	4	2	31	25
Total net capital assets	$ 2,792	2,693	7,446	7,316	10,238	10,009

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

- Governmental capital assets increased $99.2 million primarily due to additions of new facilities and improvements to existing facilities. Improvements to Auditorium Shores and renovations of City Hall were completed. Significant additions and improvements were also made including acquisitions of parkland, upgrades to information technology equipment, pedestrian facility improvements, and street reconstructions across the City. Construction on the new Central Library and Waller Creek Tunnel has been progressing.

- Business-type activities purchased or completed construction on capital assets of $130.1 million. The increase was largely due to plant additions, plant improvements, and land acquisition for Austin Energy, Austin Water, the Airport Fund, and the Drainage Fund. Austin Energy increased the chilled water capacity of the Seaholm Development and Domain cooling system and provided service to new customers due to the City growth. Austin Water completed construction on Water Treatment Plant 4, worked on transmission mains in Martin Hill and Jollyville as well as along MoPac, made water and wastewater line improvements to North Acres, and relocated lines along SH 71. The Airport Fund expanded the east terminal and completed construction of a new taxiway. The Drainage Fund acquired properties at risk of flooding in Onion Creek and made improvements along Shoal Creek.

OTHER INFORMATION, continued

c -- Debt administration

At the end of the current fiscal year, the City reported $6.2 billion in outstanding debt. The table below reflects the outstanding debt at September 30. Additional information can be found in Note 6.

Outstanding Debt
General Obligation and Revenue Debt
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
General obligation bonds and other tax supported debt, net	$ 1,298	1,196	133	136	1,431	1,332
Commercial paper notes, net	--	--	200	241	200	241
Revenue bonds, net	--	--	4,601	4,299	4,601	4,299
Capital lease obligations	--	--	1	1	1	1
Total	$ 1,298	1,196	4,935	4,677	6,233	5,873

During fiscal year 2015, the City's total outstanding debt increased by $360.7 million. The City issued new debt and refinanced portions of existing debt to achieve lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities increased by $102.7 million. The resulting net increase is a combination of the issuance of $180 million in new debt to be used primarily for facility improvements, streets and signals, drainage improvements, watershed home buyouts, central library, Mueller public infrastructure improvements, capital equipment, transportation projects, and the Waller Creek Tunnel project offset by debt payments during the year.

- Outstanding debt for business-type functions increased by $258 million. The City issued $408.9 million of Electric Utility System separate lien revenue refunding bonds to refund separate lien debt and taxable commercial paper, $289.1 million in Water and Wastewater System separate lien revenue refunding bonds to refund separate lien debt, and $244.5 million in Airport prior lien revenue bonds.

During the year, Airport revenue bonds received a new bond rating from Moody's Investors Service of A1. The City's commercial paper ratings are related to the ratings of the liquidity providers associated with those obligations; commercial paper ratings were unchanged in the current fiscal year. All other bond ratings were unchanged. Ratings of the City's obligations for various debt instruments at September 30, 2015 and 2014 were as follows:

Debt	Moody's Investors Service, Inc.		Standard & Poor's		Fitch, Inc.	
	2015	2014	2015	2014	2015	2014
General obligation bonds and other tax supported debt	Aaa	Aaa	AAA	AAA	AAA	AAA
Commercial paper notes - tax exempt	P-1	P-1	A-1	A-1	F1	F1
Commercial paper notes - taxable	P-1	P-1	A-1	A-1	F1	F1
Utility revenue bonds - prior lien	Aa1	Aa1	AA	AA	AA	AA
Utility revenue bonds - subordinate lien	Aa2	Aa2	AA	AA	AA-	AA-
Utility revenue bonds - separate lien:						
Austin Energy	A1	A1	AA-	AA-	AA-	AA-
Austin Water Utility	Aa2	Aa2	AA	AA	AA-	AA-
Airport system revenue bonds	A1	NUR (1)	A	A	NUR (1)	NUR(1)
Convention Center revenue bonds	Aa3	Aa3	AA-	AA-	NUR (1)	NUR(1)
Convention Center revenue bonds - subordinate	A1	A1	A	A	NUR (1)	NUR(1)

(1) No underlying rating

OTHER INFORMATION, continued

d -- Economic factors and next year's budget and rates

Austin's diverse economic base and national reputation as a great place to work and live continues to attract new employers and talented individuals. Both the Austin and the Texas economies continue to outpace the national economy. Partnerships between the City and the business community have been the key to Austin's economic success. The City's economic development efforts have been successful in attracting new firms and new jobs to Austin. As a result, employment growth is steady and expected to continue well ahead of national levels through at least 2017. All sectors of the real estate market are performing well including the hotel market with a number of new rooms either recently opened or under construction to meet increased demand resulting from both business travel and tourism. In 2015 sales taxes increased 7.7% following a 7.5% increase in 2014. While the rate of sales tax collections may slow over the next few years, it is expected to remain positive barring any events at the national or international level that would have an adverse impact.

The City's 2016 budget was developed in a manner true to the City Manager's unwavering commitment to openness, transparency, and public engagement. Input from City Council, City employees, and citizens played a major role in the development of a variety of structural applications designed to positively affect our City's fiscal sustainability over the long term and present a balanced budget for City Council's review. The Austin City Council has adopted a comprehensive set of financial policies to provide the foundation for long-range financial sustainability. These financial policies are directly aligned with the Council's priority of budget stability while at the same time maintaining affordability and investing in future economic development, infrastructure needs, and quality of life. These policies are also crucial in maintaining the City's favorable bond ratings. City management continues to monitor the economy and take corrective actions to help mitigate any unfavorable economic events.

The assessed taxable property values within the City increased by 12.5% in 2015 for fiscal year 2016. The property tax rate for fiscal year 2016 is 45.89 cents per $100 valuation, down from 48.09 cents per $100 valuation in 2015. The tax rate consists of 35.27 cents for the General Fund and 10.62 cents for debt service. Each 1 cent of the 2015 (Fiscal Year 2016) property tax rate is equivalent to $11,100,886 of tax levy, as compared to $9,865,218 in the previous year. In Fiscal Year 2016, Austin Water Utility will implement a 4.9% combined system-wide rate increase.

e -- Requests for Information

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

CITY OF AUSTIN
FOUNDED 1839

BASIC FINANCIAL STATEMENTS

(In thousands)

		Governmental Activities	Business-type Activities	Total (†)	Component Units
ASSETS					
Current assets:					
Cash	$	64	61	125	4,869
Pooled investments and cash		395,444	511,576	907,020	--
Pooled investments and cash - restricted		135,130	178,686	313,816	--
Total pooled investments and cash		530,574	690,262	1,220,836	--
Investments, at fair value - restricted		20,550	177,379	197,929	--
Cash held by trustee - restricted		4,323	--	4,323	--
Investments held by trustee - restricted		1,590	--	1,590	
Working capital advances		--	4,943	4,943	--
Property taxes receivable, net of allowance of $5,166		13,233	--	13,233	--
Accounts receivable, net		103,733	255,702	359,435	4,154
Receivables from other governments		12,639	--	12,639	--
Receivables from other governments - restricted		--	4,124	4,124	--
Notes receivable, net of allowance of $13,884		20,579	--	20,579	--
Internal balances		(30,753)	30,753	--	--
Inventories, at cost		2,235	87,169	89,404	952
Real property held for resale		5,940	--	5,940	--
Regulatory assets, net of accumulated amortization		--	46,682	46,682	--
Prepaid expenses		344	11,786	12,130	601
Other receivables - restricted		--	11,708	11,708	--
Other assets		3,492	19,206	22,698	--
Total current assets		688,543	1,339,775	2,028,318	10,576
Noncurrent assets:					
Cash - restricted		--	5,011	5,011	353
Pooled investments and cash - restricted		--	500,535	500,535	--
Investments, at fair value - restricted		--	248,479	248,479	55,042
Investments held by trustee - restricted		--	215,893	215,893	1,383
Interest receivable - restricted		--	657	657	--
Depreciable capital assets, net		2,125,720	6,525,511	8,651,231	190,244
Nondepreciable capital assets, net		666,675	920,574	1,587,249	7,555
Derivative instruments - energy risk management		--	5,605	5,605	--
Regulatory assets, net of accumulated amortization		--	661,540	661,540	--
Other long-term assets		1,488	7,021	8,509	5,762
Total noncurrent assets		2,793,883	9,090,826	11,884,709	260,339
Total assets		3,482,426	10,430,601	13,913,027	270,915
Deferred outflows of resources	$	167,627	313,209	480,836	19,050

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

(Continued)

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

(In thousands)

	Governmental Activities	Business-type Activities	Total (†)	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	$ 52,334	79,106	131,440	10,332
Accounts and retainage payable from restricted assets	5,403	30,503	35,906	--
Accrued payroll	21,994	12,387	34,381	220
Accrued compensated absences	60,644	24,565	85,209	--
Claims payable	22,611	--	22,611	--
Accrued interest payable from restricted assets	--	73,808	73,808	11,779
Interest payable on other debt	7,283	840	8,123	--
Bonds payable	52,956	16,979	69,935	42,967
Bonds payable from restricted assets	20,761	184,905	205,666	--
Capital lease obligations payable	--	49	49	23
Customer and escrow deposits payable from restricted assets	63,987	47,095	111,082	--
Accrued landfill closure and postclosure costs	--	1,549	1,549	--
Decommissioning liability payable from restricted assets	--	7,792	7,792	--
Other liabilities	16,584	9,590	26,174	--
Other liabilities payable from restricted assets	--	315	315	--
Total current liabilities	324,557	489,483	814,040	65,321
Noncurrent liabilities, net of current portion:				
Accrued compensated absences	71,745	143	71,888	--
Claims payable	24,853	--	24,853	--
Capital appreciation bond interest payable	--	100,528	100,528	--
Commercial paper notes payable, net of discount	--	200,581	200,581	--
Bonds payable, net of discount and inclusive of premium	1,224,709	4,531,616	5,756,325	268,194
Net pension liability	844,086	445,809	1,289,895	--
Other postemployment benefits payable	484,854	292,845	777,699	--
Capital lease obligations payable	--	1,040	1,040	32
Accrued landfill closure and postclosure costs	--	9,899	9,899	--
Decommissioning liability payable from restricted assets	--	175,216	175,216	--
Derivative instruments - energy risk management	--	51,751	51,751	--
Derivative instruments - interest rate swaps	--	70,334	70,334	--
Other liabilities	11,735	43,288	55,023	--
Other liabilities payable from restricted assets	--	485	485	--
Total noncurrent liabilities	2,661,982	5,923,535	8,585,517	268,226
Total liabilities	2,986,539	6,413,018	9,399,557	333,547
Deferred inflows of resources	1,464	904,455	905,919	--
NET POSITION				
Net investment in capital assets	1,645,359	2,223,964	3,869,323	(97,894)
Restricted for:				
Debt service	13,478	138,961	152,439	21,087
Strategic reserve	--	152,086	152,086	--
Capital projects	50,948	218,875	269,823	--
Renewal and replacement	--	10,857	10,857	--
Bond reserve	--	43,338	43,338	--
Passenger facility charges	--	61,085	61,085	--
Operating reserve	--	16,850	16,850	--
Perpetual care:				
Expendable	1	--	1	--
Nonexpendable	1,070	--	1,070	--
Housing activities	24,280	--	24,280	--
Tourism	19,193	--	19,193	--
Other purposes	25,014	--	25,014	--
Unrestricted (deficit)	(1,117,293)	560,321	(556,972)	33,225
Total net position	$ 662,050	3,426,337	4,088,387	(43,582)

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

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

Statement of Activities
For the year ended September 30, 2015
(In thousands)

City of Austin, Texas
Exhibit A-2

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					Primary Government			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Governmental activities								
General government	$ 131,993	15,434	118	9,163	(107,278)	--	(107,278)	--
Public safety	601,112	65,221	5,814	--	(530,077)	--	(530,077)	--
Transportation, planning, and sustainability	77,349	5,006	657	55,742	(15,944)	--	(15,944)	--
Public health	85,326	10,351	19,173	--	(55,802)	--	(55,802)	--
Public recreation and culture	134,567	8,330	1,604	5,456	(119,177)	--	(119,177)	--
Urban growth management	135,386	56,366	18,104	123	(60,793)	--	(60,793)	--
Interest on debt	55,855	--	--	--	(55,855)	--	(55,855)	--
Total governmental activities	1,221,588	160,708	45,470	70,484	(944,926)	--	(944,926)	--
Business-type activities								
Electric	1,203,729	1,351,436	308	23,151	--	171,166	171,166	--
Water	294,624	277,180	--	34,922	--	17,478	17,478	--
Wastewater	219,320	239,811	--	21,869	--	42,360	42,360	--
Airport	120,015	142,353	610	8,405	--	31,353	31,353	--
Convention	65,657	28,657	--	--	--	(37,000)	(37,000)	--
Environmental and health services	97,690	96,622	41	11	--	(1,016)	(1,016)	--
Public recreation	8,824	5,736	--	470	--	(2,618)	(2,618)	--
Urban growth management	135,360	154,337	80	21,752	--	40,809	40,809	--
Total business-type activities	2,145,219	2,296,132	1,039	110,580	--	262,532	262,532	--
Total primary government	$ 3,366,807	2,456,840	46,509	181,064	(944,926)	262,532	(682,394)	--
Component Units	84,820	91,466	150	--	--	--	--	6,796
General revenues:								
Property tax					476,439	--	476,439	--
Sales tax					204,029	--	204,029	--
Franchise fees and gross receipts tax					141,368	--	141,368	--
Interest and other					21,951	10,498	32,449	68
Special item - land sale					11,983	--	11,983	--
Transfers-internal activities					70,865	(70,865)	--	--
Total general revenues and transfers					926,635	(60,367)	866,268	68
Change in net position					(18,291)	202,165	183,874	6,864
Beginning net position, as restated (Note 18)					680,341	3,224,172	3,904,513	(50,446)
Ending net position					$ 662,050	3,426,337	4,088,387	(43,582)

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

Governmental Funds **City of Austin, Texas**
Balance Sheet **Exhibit B-1**
September 30, 2015
(In thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash	$ 53	--	53
Pooled investments and cash	168,905	226,535	395,440
Investments, at fair value	--	20,550	20,550
Cash held by trustee - restricted	--	2,778	2,778
Investments held by trustee - restricted	--	1,590	1,590
Property taxes receivable, net of allowance	9,080	4,153	13,233
Accounts receivable, net of allowance	61,489	36,680	98,169
Receivables from other governments	--	12,639	12,639
Notes receivable, net of allowance	--	20,579	20,579
Due from other funds	227	57,533	57,760
Advances to other funds	--	1,911	1,911
Inventories, at cost	766	--	766
Real property held for resale	--	5,940	5,940
Prepaid items	183	--	183
Other assets	176	3,316	3,492
Total assets	240,879	394,204	635,083
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Accounts payable	20,123	20,200	40,323
Accrued payroll	17,661	78	17,739
Accrued compensated absences	487	--	487
Due to other funds	210	57,759	57,969
Unearned revenue	--	5,052	5,052
Advances from other funds	1,062	779	1,841
Deposits and other liabilities	5,617	62,091	67,708
Total liabilities	45,160	145,959	191,119
Deferred inflows of resources	18,556	6,803	25,359
Fund balances			
Nonspendable:			
Inventories and prepaid items	949	--	949
Permanent funds	--	1,070	1,070
Restricted	--	175,977	175,977
Committed	--	40,196	40,196
Assigned	26,123	75,821	101,944
Unassigned	150,091	(51,622)	98,469
Total fund balances	177,163	241,442	418,605
Total liabilities, deferred inflows of resources, and fund balances	$ 240,879	394,204	635,083

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

Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2015
(In thousands)

City of Austin, Texas
Exhibit B-1.1

Total fund balances - Governmental funds		$ 418,605
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.		
Governmental capital assets	4,255,443	
Less: accumulated depreciation	(1,525,261)	
		2,730,182
Other long-term assets and certain revenues are not available as current-period resources and are not reported in the funds.		
Other assets	1,488	
		1,488
Deferred outflows represent the consumption of net assets that are applicable to a future reporting period.		
Deferred outflow of resources	167,529	
		167,529
Long-term liabilities are not payable in the current period and are not reported in the funds.		
Compensated absences	(122,728)	
Interest payable	(7,271)	
Bonds and other tax supported debt payable, net	(1,295,360)	
Net pension liability	(844,086)	
Other postemployment benefits payable	(484,854)	
Other liabilities	(16,420)	
		(2,770,719)
Deferred inflows is an acquisition of net assets that is applicable to a future reporting period.		
Unavailable revenue		
Property taxes and interest	13,265	
Accounts and other taxes receivable	12,094	
Service concession arrangements	(1,463)	
		23,896
Internal service funds are used by management to charge the costs of capital project management, combined emergency communication center, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds.		
Certain assets, deferred outflows of resources, liabilities and deferred inflows of resources of the internal service funds are included in governmental activities in the statement of net position.		91,069
Total net position - Governmental activities		$ 662,050

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

For the year ended September 30, 2015
(In thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	$ 358,259	116,445	474,704
Sales taxes	204,029	--	204,029
Franchise fees and other taxes	48,194	93,174	141,368
Fines, forfeitures and penalties	17,305	5,579	22,884
Licenses, permits and inspections	39,006	799	39,805
Charges for services/goods	58,297	28,279	86,576
Intergovernmental	--	62,622	62,622
Property owners' participation and contributions	--	12,763	12,763
Interest and other	11,831	9,686	21,517
Total revenues	736,921	329,347	1,066,268
EXPENDITURES			
Current:			
General government	100,561	1,661	102,222
Public safety	556,417	8,653	565,070
Transportation, planning and sustainability	4	7,028	7,032
Public health	61,504	19,126	80,630
Public recreation and culture	99,955	10,790	110,745
Urban growth management	60,428	56,484	116,912
Debt service:			
Principal	--	71,532	71,532
Interest	--	55,794	55,794
Fees and commissions	--	9	9
Capital outlay-capital project funds	--	186,870	186,870
Total expenditures	878,869	417,947	1,296,816
Deficiency of revenues over expenditures	(141,948)	(88,600)	(230,548)
OTHER FINANCING SOURCES (USES)			
Issuance of tax supported debt	--	159,939	159,939
Bond premiums	--	20,093	20,093
Transfers in	153,936	85,730	239,666
Transfers out	(30,304)	(119,819)	(150,123)
Total other financing sources (uses)	123,632	145,943	269,575
Net change in fund balances, before special items	(18,316)	57,343	39,027
Special item - land sale (See Note 1)	11,983	--	11,983
Net change in fund balances	(6,333)	57,343	51,010
Fund balances at beginning of year	183,496	184,099	367,595
Fund balances at end of year	$ 177,163	241,442	418,605

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

Governmental Funds | **City of Austin, Texas**
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities | **Exhibit B-2.1**
For the year ended September 30, 2015
(In thousands)

Net change in fund balances - Governmental funds		$ 51,010
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlay	166,601	
Depreciation expense	(109,566)	
Loss on disposal of capital assets	(1,692)	
		55,343
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	1,735	
Charges for services	(562)	
Interest and other	(1,280)	
Capital assets contribution	43,474	
		43,367
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Issuance of long-term debt	(180,032)	
Principal repayment on long-term debt	71,532	
		(108,500)
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		
Compensated absences	61	
Pension expense	(8,752)	
Other postemployment benefits	(49,591)	
Interest and other	612	
		(57,670)
A portion of the net revenue (expense) of the internal service funds is reported with the governmental activities.		(1,841)
Change in net position - Governmental activities		$ (18,291)

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

Proprietary Funds
Statement of Net Position
September 30, 2015
(In thousands)

	Business-Type Activities		
	Austin Energy	**Austin Water Utility**	**Airport**
ASSETS			
Current assets:			
Cash	$ 21	5	3
Pooled investments and cash	249,666	51,829	8,351
Pooled investments and cash - restricted	57,335	74,892	8,929
Total pooled investments and cash	307,001	126,721	17,280
Investments, at fair value - restricted	64,666	80,134	22,147
Cash held by trustee - restricted	--	--	--
Working capital advances	4,943	--	--
Accounts receivable, net of allowance	156,934	73,722	4,421
Receivables from other governments-restricted	4,124	--	--
Due from other funds	1,130	301	--
Inventories, at cost	80,649	2,154	1,832
Regulatory assets, net of accumulated amortization	40,674	6,008	--
Prepaid expenses	11,669	19	23
Other receivables - restricted	8,520	123	1,324
Other assets	19,206	--	--
Total current assets	699,537	289,187	47,030
Noncurrent assets:			
Cash - restricted	5,011	--	--
Pooled investments and cash - restricted	25,349	50,074	425,112
Advances to other funds	18,690	2,705	--
Advances to other funds - restricted	--	--	51
Investments, at fair value - restricted	162,088	58,421	14,665
Investments held by trustee - restricted	205,108	10,785	--
Interest receivable - restricted	657	--	--
Depreciable capital assets, net	2,410,738	3,165,603	575,345
Nondepreciable capital assets	193,030	351,566	113,626
Derivative instruments - energy risk management	5,605	--	--
Regulatory assets, net of accumulated amortization	392,177	269,363	--
Other long-term assets	7,021	--	--
Total noncurrent assets	3,425,474	3,908,517	1,128,799
Total assets	4,125,011	4,197,704	1,175,829
Deferred outflows of resources	$ 117,484	99,214	47,973

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

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	Total	Activities-Internal Service Funds
ASSETS			
Current assets:			
Cash	32	61	11
Pooled investments and cash	201,730	511,576	132,628
Pooled investments and cash - restricted	37,530	178,686	2,506
Total pooled investments and cash	239,260	690,262	135,134
Investments, at fair value - restricted	10,432	177,379	--
Cash held by trustee - restricted	--	--	1,545
Working capital advances	--	4,943	--
Accounts receivable, net of allowance	20,625	255,702	5,564
Receivables from other governments-restricted	--	4,124	--
Due from other funds	1,231	2,662	681
Inventories, at cost	2,534	87,169	1,469
Regulatory assets, net of accumulated amortization	--	46,682	--
Prepaid expenses	75	11,786	161
Other receivables - restricted	1,741	11,708	--
Other assets	--	19,206	--
Total current assets	275,930	1,311,684	144,565
Noncurrent assets:			
Cash - restricted	--	5,011	--
Pooled investments and cash - restricted	--	500,535	--
Advances to other funds	--	21,395	71
Advances to other funds - restricted	437	488	--
Investments, at fair value - restricted	13,305	248,479	--
Investments held by trustee - restricted	--	215,893	--
Interest receivable - restricted	--	657	--
Depreciable capital assets, net	373,825	6,525,511	61,707
Nondepreciable capital assets	262,352	920,574	506
Derivative instruments - energy risk management	--	5,605	--
Regulatory assets, net of accumulated amortization	--	661,540	--
Other long-term assets	--	7,021	--
Total noncurrent assets	649,919	9,112,709	62,284
Total assets	925,849	10,424,393	206,849
Deferred outflows of resources	48,538	313,209	98

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

(Continued)

Proprietary Funds
Statement of Net Position
September 30, 2015
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water Utility	Airport
LIABILITIES			
Current liabilities:			
Accounts payable	$ 68,026	4,685	2,446
Accounts and retainage payable from restricted assets	7,725	12,329	7,186
Accrued payroll	5,122	2,686	873
Accrued compensated absences	10,257	5,472	1,949
Claims payable	--	--	--
Due to other funds	--	--	153
Due to other funds payable from restricted assets	--	441	--
Accrued interest payable from restricted assets	24,558	41,814	5,997
Interest payable on other debt	93	41	--
Bonds payable	--	--	24
Bonds payable from restricted assets	65,254	89,560	18,351
Capital lease obligations payable	49	--	--
Customer and escrow deposits payable from restricted assets	29,316	11,005	866
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning liability payable from restricted assets	7,792	--	--
Other liabilities	4,847	2,068	2,675
Other liabilities payable from restricted assets	--	--	--
Total current liabilities	223,039	170,101	40,520
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	--	--	--
Claims payable	--	--	--
Advances from other funds	--	1,373	821
Advances from other funds payable from restricted assets	--	16,587	--
Capital appreciation bond interest payable	5,681	94,847	--
Commercial paper notes payable, net of discount	32,046	168,535	--
Bonds payable, net of discount and inclusive of premium	1,345,918	2,374,264	547,828
Net pension liability	190,289	100,759	30,903
Other postemployment benefits payable	115,660	75,008	19,737
Capital lease obligations payable	1,040	--	--
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning liability payable from restricted assets	175,216	--	--
Derivative instruments - energy risk management	51,751	--	--
Derivative instruments - interest rate swaps	--	21,597	34,229
Other liabilities	40,379	--	--
Other liabilities payable from restricted assets	--	--	11
Total noncurrent liabilities	1,957,980	2,852,970	633,529
Total liabilities	2,181,019	3,023,071	674,049
Deferred inflows of resources	$ 306,478	597,647	--

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

	Business-Type Activities Nonmajor Enterprise Funds	Business-Type Activities Total	Governmental Activities- Internal Service Funds
LIABILITIES			
Current liabilities:			
Accounts payable	3,949	79,106	17,414
Accounts and retainage payable from restricted assets	3,263	30,503	--
Accrued payroll	3,706	12,387	4,255
Accrued compensated absences	6,887	24,565	8,957
Claims payable	--	--	22,611
Due to other funds	1,870	2,023	670
Due to other funds payable from restricted assets	--	441	--
Accrued interest payable from restricted assets	1,439	73,808	--
Interest payable on other debt	706	840	12
Bonds payable	16,955	16,979	369
Bonds payable from restricted assets	11,740	184,905	--
Capital lease obligations payable	--	49	--
Customer and escrow deposits payable from restricted assets	5,908	47,095	--
Accrued landfill closure and postclosure costs	1,549	1,549	--
Decommissioning liability payable from restricted assets	--	7,792	--
Other liabilities	--	9,590	3,126
Other liabilities payable from restricted assets	315	315	--
Total current liabilities	58,287	491,947	57,414
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	143	143	217
Claims payable	--	--	24,853
Advances from other funds	3,243	5,437	--
Advances from other funds payable from restricted assets	--	16,587	--
Capital appreciation bond interest payable	--	100,528	--
Commercial paper notes payable, net of discount	--	200,581	--
Bonds payable, net of discount and inclusive of premium	263,606	4,531,616	2,697
Net pension liability	123,858	445,809	--
Other postemployment benefits payable	82,440	292,845	--
Capital lease obligations payable	--	1,040	--
Accrued landfill closure and postclosure costs	9,899	9,899	--
Decommissioning liability payable from restricted assets	--	175,216	--
Derivative instruments - energy risk management	--	51,751	--
Derivative instruments - interest rate swaps	14,508	70,334	--
Other liabilities	2,909	43,288	--
Other liabilities payable from restricted assets	474	485	--
Total noncurrent liabilities	501,080	5,945,559	27,767
Total liabilities	559,367	6,437,506	85,181
Deferred inflows of resources	330	904,455	1

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

(Continued)

Proprietary Funds
Statement of Net Position
September 30, 2015
(In thousands)

	Business-Type Activities		
	Austin Energy	**Austin Water Utility**	**Airport**
NET POSITION			
Net investment in capital assets	$ 1,035,734	492,169	328,440
Restricted for:			
Debt service	40,108	38,320	50,346
Strategic reserve	152,086	--	--
Capital projects	61,824	26,435	115,148
Renewal and replacement	64	--	10,000
Bond reserve	10,002	20,584	2,441
Passenger facility charges	--	--	61,085
Operating reserve	--	--	12,212
Unrestricted	455,180	98,692	(29,919)
Total net position	$ 1,754,998	676,200	549,753
Reconciliation to government-wide Statement of Net Position			
Adjustment to consolidate internal service activities	13,188	7,781	2,376
Total net position - Business-type activities	$ 1,768,186	683,981	552,129

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

	Business-Type Activities Nonmajor Enterprise Funds	Total	Governmental Activities-Internal Service Funds
NET POSITION			
Net investment in capital assets	367,621	2,223,964	59,147
Restricted for:			
Debt service	10,187	138,961	--
Strategic reserve	--	152,086	--
Capital projects	15,468	218,875	2,506
Renewal and replacement	793	10,857	--
Bond reserve	10,311	43,338	--
Passenger facility charges	--	61,085	--
Operating reserve	4,638	16,850	--
Unrestricted	5,672	529,625	60,112
Total net position	414,690	3,395,641	121,765
Reconciliation to government-wide Statement of Net Position			
Adjustment to consolidate internal service activities	7,351	30,696	
Total net position - Business-type activities	422,041	3,426,337	

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

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the year ended September 30, 2015
(In thousands)

	Business-Type Activities		
	Austin Energy	**Austin Water Utility**	**Airport**
OPERATING REVENUES			
Utility services	$ 1,351,436	516,991	--
User fees and rentals	--	--	119,969
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	1,351,436	516,991	119,969
OPERATING EXPENSES			
Operating expenses before depreciation	993,793	221,724	80,182
Depreciation and amortization	152,544	115,271	20,690
Total operating expenses	1,146,337	336,995	100,872
Operating income (loss)	205,099	179,996	19,097
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	8,127	434	1,225
Interest on revenue bonds and other debt	(55,680)	(111,030)	(18,924)
Interest capitalized during construction	--	--	1,284
Passenger facility charges	--	--	22,384
Cost (recovered) to be recovered in future years	12,276	(71,466)	--
Other nonoperating revenue (expense)	(13,696)	4,608	(686)
Total nonoperating revenues (expenses)	(48,973)	(177,454)	5,283
Income (loss) before contributions and transfers	156,126	2,542	24,380
Capital contributions	23,151	57,530	8,405
Transfers in	7,133	31	--
Transfers out	(113,770)	(39,979)	(52)
Change in net position	72,640	20,124	32,733
Total net position - beginning, as restated (See Note 18)	1,682,358	656,076	517,020
Total net position - ending	$ 1,754,998	676,200	549,753
Reconciliation to government-wide Statement of Activities			
Change in net position	72,640	20,124	32,733
Adjustment to consolidate internal service activities	16	939	(207)
Change in net position - Business-type activities	$ 72,656	21,063	32,526

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

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
OPERATING REVENUES			
Utility services	--	1,868,427	--
User fees and rentals	285,352	405,321	--
Billings to departments	--	--	391,531
Employee contributions	--	--	36,602
Operating revenues from other governments	--	--	4,746
Other operating revenues	--	--	7,259
Total operating revenues	285,352	2,273,748	440,138
OPERATING EXPENSES			
Operating expenses before depreciation	271,270	1,566,969	411,932
Depreciation and amortization	29,572	318,077	11,214
Total operating expenses	300,842	1,885,046	423,146
Operating income (loss)	(15,490)	388,702	16,992
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	712	10,498	224
Interest on revenue bonds and other debt	(9,775)	(195,409)	(61)
Interest capitalized during construction	1,717	3,001	--
Passenger facility charges	--	22,384	--
Cost (recovered) to be recovered in future years	--	(59,190)	--
Other nonoperating revenue (expense)	(1,245)	(11,019)	(7,962)
Total nonoperating revenues (expenses)	(8,591)	(229,735)	(7,799)
Income (loss) before contributions and transfers	(24,081)	158,967	9,193
Capital contributions	23,616	112,702	9,005
Transfers in	78,182	85,346	8,213
Transfers out	(4,450)	(158,251)	(24,851)
Change in net position	73,267	198,764	1,560
Total net position - beginning, as restated (See Note 18)	341,423	3,196,877	120,205
Total net position - ending	414,690	3,395,641	121,765
Reconciliation to government-wide Statement of Activities			
Change in net position	73,267	198,764	
Adjustment to consolidate internal service activities	2,653	3,401	
Change in net position - Business-type activities	75,920	202,165	

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2015
(In thousands)

	Business-Type Activities		
	Austin Energy	**Austin Water Utility**	**Airport**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 1,384,809	503,457	119,427
Cash received from other funds	33,256	8,173	--
Cash payments to suppliers for goods and services	(680,671)	(43,315)	(19,586)
Cash payments to other funds	(43,821)	(67,936)	(23,772)
Cash payments to employees for services	(183,923)	(98,217)	(31,420)
Cash payments to claimants/beneficiaries	--	--	--
Taxes collected and remitted to other governments	(43,655)	--	--
Net cash provided by operating activities	465,995	302,162	44,649
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	7,127	--	--
Transfers out	(113,770)	(39,979)	--
Contributions (to) from other funds	--	(83)	--
Loans from other funds	--	--	--
Loan repayments to other funds	--	(506)	(178)
Loan repayments from other funds	753	301	7
Collections from other governments	2,165	1,771	(414)
Net cash provided (used) by noncapital financing activities	(103,725)	(38,496)	(585)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	58,290	93,535	--
Proceeds from the sale of general obligation bonds and other tax supported debt	--	908	--
Proceeds from the sale of revenue bonds	--	--	244,495
Principal paid on long-term debt	(48,915)	(100,750)	(16,710)
Proceeds from the sale of capital assets	1,158	4,100	606
Interest paid on revenue bonds and other debt	(59,264)	(120,323)	(14,374)
Passenger facility charges	--	--	22,384
Acquisition and construction of capital assets	(171,061)	(112,660)	(57,402)
Contributions from state and federal governments	--	--	7,810
Contributions in aid of construction	16,586	24,188	595
Bond issuance costs	(2,736)	(2,291)	(1,903)
Bond premiums	45,023	35,224	29,172
Bonds issued for advanced refundings of debt	408,890	289,145	--
Cash paid for bond refunding escrow	(258,434)	(326,497)	--
Cash paid to payoff commercial paper	(192,700)	--	--
Cash paid for nuclear fuel inventory	(25,140)	--	--
Net cash provided (used) by capital and related financing activities	$ (228,303)	(215,421)	214,673

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

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	Total	Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	283,720	2,291,413	47,057
Cash received from other funds	3,859	45,288	391,530
Cash payments to suppliers for goods and services	(64,601)	(808,173)	(84,711)
Cash payments to other funds	(58,076)	(193,605)	(14,850)
Cash payments to employees for services	(133,428)	(446,988)	(153,878)
Cash payments to claimants/beneficiaries	--	--	(151,002)
Taxes collected and remitted to other governments	--	(43,655)	--
Net cash provided by operating activities	31,474	844,280	34,146
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	78,182	85,309	7,884
Transfers out	(4,353)	(158,102)	(24,634)
Contributions (to) from other funds	89	6	--
Loans from other funds	175	175	--
Loan repayments to other funds	(639)	(1,323)	(15)
Loan repayments from other funds	151	1,212	--
Collections from other governments	(1,317)	2,205	--
Net cash provided (used) by noncapital financing activities	72,288	(70,518)	(16,765)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	151,825	--
Proceeds from the sale of general obligation bonds and other tax supported debt	16,860	17,768	--
Proceeds from the sale of revenue bonds	--	244,495	--
Principal paid on long-term debt	(29,317)	(195,692)	(352)
Proceeds from the sale of capital assets	--	5,864	--
Interest paid on revenue bonds and other debt	(10,925)	(204,886)	(154)
Passenger facility charges	--	22,384	--
Acquisition and construction of capital assets	(78,441)	(419,564)	(15,031)
Contributions from state and federal governments	--	7,810	--
Contributions in aid of construction	21,173	62,542	--
Bond issuance costs	(156)	(7,086)	--
Bond premiums	2,441	111,860	--
Bonds issued for advanced refundings of debt	--	698,035	--
Cash paid for bond refunding escrow	--	(584,931)	--
Cash paid to payoff commercial paper	--	(192,700)	--
Cash paid for nuclear fuel inventory	--	(25,140)	--
Net cash provided (used) by capital and related financing activities	(78,365)	(307,416)	(15,537)

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2015
(In thousands)

	Business-Type Activities		
	Austin Energy	**Austin Water Utility**	**Airport**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	$ (217,091)	(212,895)	(51,184)
Proceeds from sale and maturities of investment securities	158,057	222,978	32,961
Interest on investments	3,031	434	1,218
Net cash provided (used) by investing activities	(56,003)	10,517	(17,005)
Net increase (decrease) in cash and cash equivalents	77,964	58,762	241,732
Cash and cash equivalents, October 1	259,418	118,038	200,663
Cash and cash equivalents, September 30	337,382	176,800	442,395
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	205,099	179,996	19,097
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	152,544	114,283	20,690
Amortization	--	988	--
Change in assets and liabilities:			
Decrease in working capital advances	(341)	--	--
(Increase) decrease in accounts receivable	21,661	(7,200)	(809)
Increase in allowance for doubtful accounts	(1,168)	(90)	180
Decrease in due from other funds	--	--	--
(Increase) decrease in inventory	(5,920)	(229)	(99)
(Increase) decrease in prepaid expenses and other assets	(8,594)	(2)	(23)
Increase in deferred outflows related to operations	(18,330)	(9,733)	(3,013)
Decrease in advances to other funds	--	--	--
Decrease in other long-term assets	15,536	--	--
Increase (decrease) in accounts payable	1,034	187	658
Increase in accrued payroll and compensated absences	945	533	335
Increase in claims payable	--	932	--
Increase in advances from other funds	--	--	--
Increase in net pension liability	22,528	12,088	3,673
Increase in other postemployment benefits payable	11,313	11,062	2,528
Increase (decrease) in other liabilities	4,129	(1,650)	1,345
Increase in customer deposits	2,021	997	87
Decrease in deferred inflows related to operations	63,538	--	--
Total adjustments	260,896	122,166	25,552
Net cash provided by operating activities	$ 465,995	302,162	44,649

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

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(17,989)	(499,159)	--
Proceeds from sale and maturities of investment securities	18,130	432,126	--
Interest on investments	712	5,395	224
Net cash provided (used) by investing activities	853	(61,638)	224
Net increase (decrease) in cash and cash equivalents	26,250	404,708	2,068
Cash and cash equivalents, October 1	213,042	791,161	134,622
Cash and cash equivalents, September 30	239,292	1,195,869	136,690
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	(15,490)	388,702	16,992
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	29,572	317,089	11,214
Amortization	--	988	--
Change in assets and liabilities:			
Decrease in working capital advances	--	(341)	--
(Increase) decrease in accounts receivable	1,374	15,026	(2,099)
Increase in allowance for doubtful accounts	(211)	(1,289)	--
Decrease in due from other funds	--	--	(670)
(Increase) decrease in inventory	398	(5,850)	24
(Increase) decrease in prepaid expenses and other assets	(29)	(8,648)	17
Increase in deferred outflows related to operations	(9,476)	(40,552)	32
Decrease in advances to other funds	--	--	44
Decrease in other long-term assets	--	15,536	--
Increase (decrease) in accounts payable	(1,845)	34	2,257
Increase in accrued payroll and compensated absences	1,288	3,101	1,054
Increase in claims payable	--	932	3,658
Increase in advances from other funds	--	--	670
Increase in net pension liability	11,965	50,254	--
Increase in other postemployment benefits payable	12,940	37,843	--
Increase (decrease) in other liabilities	(76)	3,748	953
Increase in customer deposits	1,064	4,169	--
Decrease in deferred inflows related to operations	--	63,538	--
Total adjustments	46,964	455,578	17,154
Net cash provided by operating activities	31,474	844,280	34,146

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2015
(In thousands)

	Business-Type Activities		
	Austin Energy	**Austin Water Utility**	**Airport**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Capital appreciation bonds interest accreted	$ (675)	(9,462)	--
Capital assets contributed from other funds	--	834	--
Capital assets contributed to other funds	--	(95)	--
Contributed facilities	--	32,508	--
(Increase) decrease in the fair value of investments	109	--	--
Amortization of bond (discounts) premiums	5,269	10,598	902
Amortization of gain/loss on refundings	(6,771)	(5,829)	(890)
Loss on disposal of assets	(7,397)	(861)	--
Costs (recovered) to be recovered	12,276	(71,466)	--
Transfers (to) from other funds	6	31	(52)
Capitalized interest	--	--	1,284

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

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	Total	Activities- Internal Service Funds
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Capital appreciation bonds interest accreted	--	(10,137)	--
Capital assets contributed from other funds	2,443	3,277	9,005
Capital assets contributed to other funds	(102)	(197)	--
Contributed facilities	--	32,508	--
(Increase) decrease in the fair value of investments	--	109	--
Amortization of bond (discounts) premiums	2,147	18,916	106
Amortization of gain/loss on refundings	(1,136)	(14,626)	(32)
Loss on disposal of assets	(1,459)	(9,717)	(7,962)
Costs (recovered) to be recovered	--	(59,190)	--
Transfers (to) from other funds	(97)	(112)	112
Capitalized interest	1,717	3,001	--

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

Fiduciary Funds
Statement of Fiduciary Net Position
September 30, 2015
(In thousands)

	Private-purpose Trust	Agency
ASSETS		
Pooled investments and cash	$ 2,179	2,503
Other assets	121	--
Total assets	2,300	2,503
LIABILITIES		
Accounts payable	9	--
Due to other governments	--	1,885
Deposits and other liabilities	1,260	618
Total liabilities	1,269	2,503
NET POSITION		
Held in trust	1,031	
Total net position	$ 1,031	

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

Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the year ended September 30, 2015
(In thousands)

City of Austin, Texas
Exhibit D-2

		Private-Purpose Trust
ADDITIONS		
Contributions	$	1,569
Interest and other		4
Total additions		1,573
DEDUCTIONS		
Benefit payments		1,276
Total deductions		1,276
Net additions (deductions)		297
Total net position - beginning		734
Total net position - ending	$	1,031

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Austin, Texas (the City) is a municipal corporation incorporated under Article XI, Section 5 of the Constitution of the State of Texas (Home Rule Amendment). The City operates under a Council-Manager form of government. The City Council is composed of a Mayor who is elected at large and ten Councilmembers who are elected by geographic district.

A change in governance affecting Council size, composition, and term duration was approved by the voters with the passage of a charter amendment in November 2012. The first election for this new governance structure was held in November 2014 and the new Council took office on January 6, 2015. Under the new structure, these elected officials serve four-year staggered terms subject to a maximum of two consecutive terms. Currently half of the Councilmembers are serving a two-year term as a part of the transition to the new governance structure. Prior to January 2015 City Council consisted of a Mayor and six members all of whom were elected at large and served staggered three-year terms. A petition signed by 5% of the registered voters waives the term limit for a Councilmember.

The City's major activities or programs include general government; public safety; transportation, planning, and sustainability; public health; public recreation and culture; and urban growth management. In addition, the City owns and operates certain major enterprise activities including an electric utility, water and wastewater utility, airport, and non-major enterprise activities including convention, environmental and health services, public recreation, and urban growth management activities. These activities are included in the accompanying financial statements.

The City of Austin's charter requires an annual audit by an independent certified public accountant. These financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 71. In fiscal year 2015, the City implemented the following GASB Statements:

GASB Statement	Impact
68 – *"Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27"*	This is a companion statement to GASB 67 *"Financial Reporting for Pension Plans an amendment to GASB Statement No. 25"* which was directed to and implemented by the City's pension plans. GASB Statement No. 68 requires governments offering defined benefit pension plans to recognize as an expense and a liability today, future pension obligations for existing employees and retirees which are in excess of pension plan assets. In addition it allows deferral of certain pension expense items, expands financial statement note disclosures, and changes disclosure of required supplementary information.
69 – *"Government Combinations and Disposal of Government Operations"*	The implementation of this standard had little impact on the amounts reported in the financial statements.
71 – *"Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68"*	This statement, which clarifies rules related to the accrual of deferred inflows and outflows of resources at the beginning of the period in which GASB 68 is effective, was implemented in conjunction with GASB 68.

The more significant accounting and reporting policies and practices used by the City are described below.

As a local government, the City is not subject to federal income taxes, under the Internal Revenue Code Section 115. Furthermore, it is not subject to state sales tax.

a -- Reporting Entity

These financial statements present the City's primary government, its component units, and other entities for which the City is considered financially accountable. Blended component units, although legally separate entities, are in substance, part of the City's operations; therefore, data from these units are combined with data of the City. Discrete component units are legally separate entities that are not considered part of the City's operations; therefore, data from these units are shown separately from data of the City.

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

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

Blended Component Units	*Brief Description of Activities, Relationship to City, and Key Inclusion Criteria*
The Austin Housing Finance Corporation (AHFC)	AHFC was created in 1979 as a public, nonprofit corporation and instrumentality of the City under the provisions of the Texas Housing Finance Corporation Act, Chapter 394, and Local Government Code. The mission of the AHFC is to generate and implement strategic housing solutions for the benefit of low- and moderate- income residents of the City. AHFC is governed by a board composed of the City Council. In addition, City management has operational responsibilities for this component unit. Reporting Fund: Housing Assistance Fund, a nonmajor special revenue fund
Austin Industrial Development Corporation (AIDC)	AIDC was created under the Texas Development Corporation Act of 1979 to provide a means of extending tax-exempt financing to projects that are deemed to have substantial social benefit through the creation of commercial, industrial, and manufacturing enterprises, in order to promote and encourage employment in the City. The Austin City Council acts as the board of directors of the corporation. In addition, City management has operational responsibilities for this component unit. Reporting Fund: Austin Industrial Development Corporation Fund, a nonmajor special revenue fund
Mueller Local Government Corporation (MLGC)	MLGC is a non-profit local government corporation created by the City under Subchapter D of Chapter 431 of the Texas Transportation Code. MLGC was created for the purpose of financing infrastructure projects required for the development of the former site of Mueller Airport. The Austin City Council acts as the board of directors of the corporation. Members of the City staff serve as officers of the corporation and have operational responsibilities for this component unit. Reporting Fund: Mueller Local Government Corporation, a nonmajor special revenue fund
Urban Renewal Agency (URA)	URA was created by the City under Chapter 374 of the Texas Local Government Code. The Mayor, with consent of the City Council, appoints the board of commissioners for this agency, whose primary responsibility is to oversee the implementation and compliance of urban renewal plans adopted by the City Council. An Urban Renewal Plan's primary purpose is to eliminate slum and blighting influence within a designated area of the city. Council maintains the ability to impose its will on the organization. URA exclusively receives financial support/benefits from its relationship with the City. Reporting Fund: Urban Renewal Agency fund, a nonmajor special revenue fund
Austin-Bergstrom International Airport (ABIA) Development Corporation	ABIA Development Corporation is governed by a board composed of the City Council. The entity has no day-to-day operations. Its existence relates only to the authorization for issuance of industrial revenue bonds or to other similar financing arrangements in accordance with the Texas Development Corporation Act of 1979. To date, none of the bonds issued constitute a liability of ABIA Development Corporation or the City of Austin. In addition, City management has operational responsibilities for this component unit. There is no financial activity to report related to this component unit.

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

Discretely Presented Component Units – Following are the City's discretely presented component units. See Note 17 for additional information. Financial statements for these entities can be requested from the addresses located below.

Discretely Presented Component Units	*Brief Description of Activities, Relationship to City, and Key Inclusion Criteria*
Austin-Bergstrom Landhost Enterprises, Inc. (ABLE) 2716 Spirit of Texas Drive Austin, TX 78719	ABLE is a legally separate entity that issues revenue bonds for the purpose of financing the cost of acquiring, improving, and equipping a full-service hotel on airport property. City Council appoints this entity's Board and maintains a contractual ability to remove board members at will. Debt issued by ABLE does not constitute a debt or pledge of the faith and credit of the City.
Austin Convention Enterprises, Inc. (ACE) 500 East 4th Street Austin, TX 78701	ACE is a legally separate entity that owns, operates, and finances the Austin Convention Center Hotel. City Council appoints this entity's Board and maintains a contractual ability to remove board members at will. Debt issued by ACE does not constitute a debt or pledge of the faith and credit of the City.
Waller Creek Local Government Corporation (WCLGC) 124 W. 8th Street Austin, TX 78701	WCLGC is a non-profit local government corporation created by the City under Subchapter D of Chapter 431 of the Texas Transportation Code. The purpose of WCLGC is implementing the financing, design, construction, maintenance and operation of certain public improvements located within or around the Waller Creek Redevelopment Project district. The Austin City Council appoints a voting majority of the board of directors of the WCLGC and maintains a contractual ability to remove board members at will.

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

The City of Austin retirement plans (described in Note 7) and the City of Austin Deferred Compensation Plan are not included in the City's reporting entity since the City does not exercise substantial control over these plans.

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

b -- Government-wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all governmental and business-type activities of the primary government and its component units. Fiduciary activities are not included in the government-wide statements. Internal service fund asset, deferred outflow of resources, liability, and deferred inflow of resources balances that are not eliminated in the statement of net position are primarily reported in the governmental activities column on the government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

The accounts of the City are organized on the basis of funds. The fund level statements focus on the governmental, proprietary, and fiduciary funds. Each fund was established to account for specific activities in accordance with applicable regulations, restrictions, or limitations. Major funds are determined by criteria specified by GAAP. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other funds are aggregated into nonmajor governmental, nonmajor enterprise, or internal service fund groupings. A reconciliation of the fund financial statements to the government-wide statements is provided in the financial statements to explain the differences between the two different reporting approaches.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
b -- Government-wide and Fund Financial Statements, continued

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

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

c -- Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual (i.e. both measurable and available). Revenues, other than grants, are considered available when they are collectible within the current period or soon enough thereafter to liquidate liabilities of the current period (defined by the City as collected within 60 days of the end of the fiscal year). Revenues billed under a contractual agreement with another governmental entity, including federal and state grants, are recognized when billed or when all eligibility requirements of the provider have been met, and they are considered to be available if expected to be collected within one year. Expenditures generally are recorded when a liability is due. However, expenditures related to compensated absences and arbitrage are recorded when payment is due. Debt service expenditures are recognized when payment is due. The reported fund balance of governmental funds is considered a measure of available spendable resources.

Property taxes, sales taxes, franchise taxes, hotel occupancy taxes, vehicle rental taxes, municipal court fines, development permits and inspections, building safety permits and inspections, public health charges, emergency medical service charges, and interest associated with the current fiscal period are all considered to be susceptible to accrual and, to the extent they are considered available, have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available in the fiscal period the City receives cash.

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

The City reports the following major governmental fund:

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

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

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

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

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

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

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

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

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

The City reports the following major enterprise funds:

Austin Energy™: Accounts for the activities of the City-owned electric utility.
Austin Water Utility: Accounts for the activities of the City-owned water and wastewater utility.
Airport Fund: Accounts for the operations of the Austin-Bergstrom International Airport (ABIA).

The City reports the following nonmajor business-type activities in Exhibit A-2:

Convention: Accounts for convention center and public events activities.
Environmental and health services: Accounts for solid waste services activities.
Public recreation: Accounts for golf activities.
Urban growth management: Accounts for drainage and transportation activities.

Internal Service Funds: Account for the financing of goods or services provided by one city department or agency to other city departments or to other governmental units on a cost-reimbursement basis. These activities include, but are not limited to, capital projects management, combined emergency center operations, employee health benefits, fleet services, information services, liability reserve (city-wide self-insurance) services, support services, wireless communication services, and workers' compensation coverage.

Fiduciary Funds: Account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, or other governments:

Private-purpose Trust Funds: Account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments. Private-purpose trust funds account for various purposes: general government, transportation, public recreation and culture, and urban growth management.

Agency Funds: Account for resources held by the City in a custodial capacity for permit fees; campaign financing donations and fees; Municipal Court service fees; and escrow deposits and payments to loan recipients.

d -- Budget

The City Manager is required by the City Charter to present a proposed operating and capital budget to the City Council no later than thirty days before the beginning of the new fiscal year. The final budget shall be adopted no later than the twenty-seventh day of the last month of the preceding fiscal year. During the final adoption process, the City Council passes an appropriation ordinance and a tax-levying ordinance.

Annual budgets are legally adopted for the General Fund, certain special revenue funds, and debt service funds. Additional information related to special revenue funds with legally adopted budgets can be found in Exhibit E-13. Annual budgets are also adopted for enterprise and internal service funds, although they are not legally required. Multi-year budgets are adopted for capital projects and grant funds, where appropriations remain authorized for the life of the projects, irrespective of fiscal year. Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders are treated as expenditures in the year of commitment. Certain payroll accruals, employee training, and other fund-level expenditures are budgeted as general city responsibilities.

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

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

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

Pooled Investments and Cash -- Cash balances of all city funds (except for certain funds shown in Note 3 as having non-pooled investments) are pooled and invested. Investments purchased with pooled cash, consisting primarily of U.S. government obligations and U.S. agency obligations, are stated at fair value. Interest earned on investments purchased with pooled cash is allocated monthly to each participating fund based upon the fund's average daily balance. Funds that carry a negative balance in pooled cash and investments are not allocated interest earnings nor charged interest expense.

Investments -- Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2015. Investments in local government investment pools are carried at net asset value per share calculated using the amortized cost method which approximates fair value.

Accounts Receivable -- Balances of accounts receivable, reported on the government-wide statement of net position, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2015 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern-ments	Other	Total
Governmental activities						
General Fund	$ 231,187	18,753	44,933	--	--	294,873
Nonmajor governmental funds	2,061	--	27,705	4,218	2,708	36,692
Internal service funds	5,564	--	--	--	--	5,564
Allowance for doubtful accounts	(225,449)	(7,935)	--	(12)	--	(233,396)
Total	$ 13,363	10,818	72,638	4,206	2,708	103,733

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

	Austin Energy	Austin Water	Airport	Nonmajor Enterprise	Total
Accounts Receivable	$ 167,493	77,184	5,841	23,145	273,663
Allowance for doubtful accounts	(10,559)	(3,462)	(1,420)	(2,520)	(17,961)
Total	$ 156,934	73,722	4,421	20,625	255,702

Elimination of Internal Activities -- The elimination of internal service fund activity is needed in order to eliminate duplicate activity in making the transition from the fund level financial statements to the government-wide financial statements. In addition, the elimination of internal service fund activity requires the City to "look back" and adjust the internal service funds' internal charges. A positive change in net position derived from internal service fund activity results in a pro-rata reduction in the charges made to the participatory funds. A deficit change in net position of internal service funds requires a pro-rata increase in the amounts charged to the participatory funds.

Internal Balances -- In the government-wide statement of net position, internal balances are the receivables and payables between the governmental and business-type activities.

Interfund Receivables and Payables -- During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund-level statements when they are expected to be liquidated within one year. If receivables or payables are not expected to be liquidated within one year, they are classified as "advances to other funds" or "advances from other funds."

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

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

Fund	Inventory Valuation Method
General Fund	Average cost; postage first-in, first out
Austin Energy	
Fuel oil	Last-in, first-out
Other inventories	Average cost
All others	Average cost

Inventories for all funds are accounted for using the consumption method and expenditures are recorded when issued. Inventories reported in the General Fund are offset by an equal amount in nonspendable fund balance, which indicates that they do not represent "available spendable resources."

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

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

	Austin Energy	Austin Water Utility	Airport	Nonmajor Enterprise	Total Restricted Assets
Capital projects	$ 61,824	124,924	315,731	19,586	522,065
Customer and escrow deposits	29,316	10,950	866	5,606	46,738
Debt service	64,666	80,134	56,345	11,740	212,885
Environmental and landfill	--	--	--	282	282
Federal grants	9,135	--	1,324	1,670	12,129
Operating reserve account	--	--	12,212	10,132	22,344
Passenger facility charge account	--	--	61,085	--	61,085
Plant decommissioning	205,765	--	--	--	205,765
Renewal and replacement account	64	--	10,000	1,124	11,188
Revenue bond reserve	10,002	58,421	14,665	13,305	96,393
Strategic reserve	152,086	--	--	--	152,086
	$ 532,858	274,429	472,228	63,445	1,342,960

Capital Assets -- Capital assets, which primarily include land and improvements, buildings and improvements, plant and equipment, vehicles, water rights, and infrastructure assets, are reported in the proprietary funds and the applicable governmental or business-type activity columns of the government-wide statement of net position; related depreciation or amortization is allocated to programs in the statement of activities. Capital assets are defined as assets with an initial individual cost of $5,000 or more and an estimated useful life of greater than one year. Assets purchased, internally generated, or constructed are capitalized at historical cost. Contributed or annexed capital assets are recorded at estimated fair value at the time received. Capital outlay is recorded as an expenditure in the General Fund and other governmental funds and as an asset in the government-wide financial statements and proprietary funds. Maintenance and repairs are charged to operations as incurred. Improvements and betterments that extend the useful lives of capital assets or increase their value are capitalized in the government-wide and proprietary statement of net position and expended in governmental funds.

The City obtains public domain capital assets (infrastructure) through capital improvement projects (CIP) construction or through annexation or developer contribution. Infrastructure assets include streets and roads, bridges, pedestrian facilities, drainage systems, and traffic signal systems acquired after September 30, 1980.

Interest is not capitalized on governmental capital assets. Enterprise funds, with the exception of the Austin Energy and Austin Water Utility, capitalize interest paid on long-term debt when it can be attributed to a specific project and when it materially exceeds the interest revenue generated by the bond proceeds issued to fund the project. Interest is not capitalized on Austin Energy and Austin Water Utility assets in accordance with accounting for regulated operations.

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

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

Assets	Governmental Activites (1)	Business-type Activites Austin Energy	Austin Water Utility	Airport	Nonmajor Enterprise
Buildings and improvements	5-40	--	15-50	15-40	12-40
Plant and equipment	5-50	--	5-60	4-50	5-40
Vehicles	3-20	3-15	3-20	3-20	3-30
Electric plant	--	3-50	--	--	--
Non-electric plant	--	3-30	--	--	--
Communication equipment	7-15	--	7	7	7
Furniture and fixtures	12	--	12	12	12
Computers and EDP equipment	3-7	--	3-7	3-7	3-7
Nuclear fuel	--	(2)	--	--	--
Water rights	--	--	101	--	--
Infrastructure					
Streets and roads	30	--	--	--	--
Bridges	50	--	--	--	--
Drainage systems	50	--	--	--	--
Pedestrian facilities	20	--	--	--	--
Traffic signals	25	--	--	--	--

(1) Includes internal service funds
(2) Nuclear fuel is amortized over units of production

Depreciation of assets is classified by functional component. The City considers land, arts and treasures, and library collections to be inexhaustible; therefore, these assets are reported as nondepreciable. The true value of arts and treasures is expected to be maintained over time and, thus, is not depreciated. The initial investment of library collections for each library is capitalized. All subsequent expenditures related to the maintenance of the collection (replacement of individual items) are expensed, with the overall value of the collection being maintained, and therefore, not depreciated.

In the government-wide and proprietary fund statements, the City recognizes a gain or loss on the disposal of assets when it retires or otherwise disposes of capital assets.

Water rights represent the amortized cost of a $100 million contract, net of accumulated amortization, of $15.8 million, between the City and the Lower Colorado River Authority (LCRA) for a fifty-one year assured water supply agreement, with an option to extend another fifty years. The City and the LCRA entered into the contract in 1999. The asset amortization period is 101.25 years.

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

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

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

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

Activities	Category and explanation	Deferred Outflows	Deferred Inflows
Derivative instruments	**Deferred outflows or inflows.** Derivative instruments are reported in the statement of net position at fair value. Changes in fair value of hedging derivative instruments are recognized through the application of hedge accounting as either deferred outflows or inflows in the statement of net position, as an offset to the related hedging derivative instrument.	$122,085	5,596
Gain/loss on debt refundings	**Deferred outflows or inflows.** When debt is refunded, the associated gains (deferred inflows) or losses (deferred outflows) are recognized as deferred outflows or inflows of resources and amortized over future periods.	129,269	331
Regulated operations	**Deferred inflows.** In accordance with accounting for regulated operations, certain credits to income are held as deferred inflows of resources until the anticipated matched charge is incurred. These credits include unrealized gain/loss on investments, contributions, interest, decommissioning, and pass-through rates.		898,529
Service concession arrangements	**Deferred inflows**. The resources related to the service concession arrangements that will be recognized as revenue in future years over the terms of arrangements between the City and the operators are reported as deferred inflows of resources.		1,463
Pensions	**Deferred outflows or inflows.** Differences between estimated and actual investment earnings, changes in actuarial assumptions, and differences between projected and actual actuarial experience may be treated as either deferred outflows or inflows. Contributions made to the pension systems between the Plans' measurement date (December 31) and the City's fiscal year end (September 30) are recognized as deferred outflows.	229,482	

Compensated Absences -- The amounts owed to employees for unpaid vacation, exception vacation, and sick leave liabilities, including the City's share of employment-related taxes, are reported on the accrual basis of accounting in the applicable governmental or business-type activity columns of the government-wide statements and in the proprietary activities of the fund financial statements. The liabilities and expenditures are reported on the modified accrual basis in the governmental fund financial statements; the estimated liability for governmental funds is the amount of vacation, exception vacation, and sick leave at termination payable within 60 days of fiscal year-end.

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

Accumulated leave payouts are limited to the lower of actual accumulated hours or the hours listed below:

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

(1) Non-sworn employees are eligible for accumulated sick leave payout if hired before October 1, 1986.
(2) Sworn police employees with 12 years of actual service are eligible for accumulated sick leave payout. As of January 1, 2011, officers may be eligible to receive up to 1,700 hours of sick leave if certain criteria are met.
(3) Sworn fire employees are eligible for accumulated sick leave payout regardless of hire date.
(4) Sworn EMS employees with 12 years of actual service are eligible for accumulated sick leave payout if certain criteria are met.
(5) Exception vacation hours are hours accumulated by an employee when the employee works on a City holiday.
(6) Employees may earn compensatory time in lieu of paid overtime; maximum payout is 120 hours for all employees.

Other Postemployment Benefits (OPEB) -- The City provides certain health care benefits for its retired employees and their families as more fully described in Note 8. At September 30, 2015, the City's total actuarial accrued liability for these retiree benefits was approximately $1.4 billion. The City funds the costs of these benefits on a pay-as-you-go basis.

Long-Term Debt -- The debt service for general obligation bonds and other general obligation debt (including loans), issued to fund general government capital projects, is paid from tax revenues, interfund transfers, and intergovernmental revenues. Such general obligation debt is reported in the government-wide statements under governmental activities.

The debt service for general obligation bonds and other general obligation debt issued to finance proprietary fund capital projects is normally paid from net revenues of the applicable proprietary fund, although such debt will be repaid from tax revenues if necessary. Such general obligation debt is shown as a specific liability of the applicable proprietary fund, which is appropriate under generally accepted accounting principles and in view of the expectation that the proprietary fund will provide resources to service the debt.

Revenue bonds issued to finance capital projects of certain enterprise funds are to be repaid from select revenues of these funds. Note 6 contains more information about pledged revenues by fund. The corresponding debt is recorded in the applicable fund.

The City has certain contractual commitments with several municipal utility districts (MUDs) for the construction of additions and improvements to the City's water and wastewater system that serve the MUDs and surrounding areas. These additions and improvements are funded by other tax supported debt, whose principal and interest are payable primarily from the net revenues of Austin Water Utility.

For proprietary funds and for governmental activities in the government-wide financial statements, the City defers and amortizes gains and losses realized on refundings of debt and reports both the new debt as a liability and the related deferred loss (gain) amount as deferred outflows (or deferred inflows) of resources on the statement of net position. Austin Energy and Austin Water Utility recognize gains and losses on debt defeasance in accordance with accounting for regulated operations.

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

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

Landfill Closure and Postclosure Care Costs -- Municipal solid waste landfill costs and the liability for landfill closure and postclosure costs are reported in Austin Resource Recovery, a nonmajor enterprise fund.

Operating Revenues -- Revenues are recorded net of allowances, including bad debt, in the government-wide and proprietary fund-level statements. The funds listed below report revenues net of bad debt expense, as follows (in thousands):

	Bad Debt Expense
Austin Energy	$ 8,463
Austin Water Utility	2,676
Airport	199
Nonmajor Enterprise	2,191

Electric, water, and wastewater revenue is recorded when earned. Customers' electric and water meters are read and bills rendered on a cycle basis by billing district. Electric rate schedules include a fuel cost adjustment clause that permits recovery of fuel costs in the month incurred or in future months. The City reports fuel costs on the same basis as it recognizes revenue. Unbilled revenue is recorded in Austin Energy by estimating the daily power generation and allocating by each billing district meter read dates as of September 30, 2015. The amount of unbilled revenue recorded, as of September 30, 2015, was $37.0 million. Austin Water Utility records unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2015. The amount of unbilled revenue reported in accounts receivable as of September 30, 2015 was $19.5 million for water and $13.4 million for wastewater.

Revenues are also recorded net of discounts in the government-wide and proprietary fund-level statements. Discounts are offered as incentives geared towards generating additional revenue in the form of new or expanded business, or to encourage events with a significant economic impact, as well as expedient event planning. The funds listed below report revenues net of discounts, as follows (in thousands):

	Discounts
Airport	$ 748
Nonmajor Enterprise	1,290

Interfund Revenues, Expenses, and Transfers -- Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved, such as billing for utility services. Transactions between funds that constitute reimbursements for expenditures or expenses are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. Transfers between funds are reported in the operations of governmental and proprietary funds. In the government-wide statement of activities, the effect of interfund activity has generally been removed from the statements. Exceptions include the chargeback of services, such as utilities or vehicle maintenance, and charges for central administrative costs. Elimination of these charges would distort the direct costs and program revenues of the various functions reported. The City recovers indirect costs that are incurred in the Support Services Fund, which is reported as an internal service fund. Indirect costs are calculated in a citywide cost allocation plan or through indirect cost rates, which are based on the cost allocation plan.

Intergovernmental Revenues, Receivables, and Liabilities -- Intergovernmental revenues and related receivables arise primarily through funding received from Federal and State grants. Revenues are earned through expenditure of money for grant purposes. Intergovernmental liabilities arise primarily from funds held in an agency capacity for other local governmental units.

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

Federal and State Grants, Entitlements, and Shared Revenues -- Grants, entitlements, and shared revenues may be accounted for within any City fund. The purpose and requirements of each grant, entitlement, or shared revenue are analyzed to determine the appropriate fund statement and revenue category in which to report the related transactions. Grants, entitlements, and shared revenues received for activities normally recorded in a particular fund may be accounted for in that fund, provided that applicable legal restrictions can be satisfied.

Revenues received for activities normally accounted for within the nonmajor governmental fund groupings include: Federal grant funds, State grant funds, and other special revenue grant funds. Capital grants restricted for capital acquisitions or construction, other than those associated with proprietary type funds, are accounted for in the applicable capital projects funds. Revenues received for operating activities of proprietary funds or revenues that may be used for either operations or capital expenses are recognized in the applicable proprietary fund.

Special item – land sale -- In April 2012, the City Council approved an ordinance authorizing the execution of a master development agreement for the sale and redevelopment of the Green Water Treatment plant land. Under this agreement, the City will sell the land to the developer in four phases. The City received a payment of $11.98 million in fiscal year 2015; sales to date total $27.81 million. The balance of the sale should occur in two pieces with completion of the sale anticipated in fiscal year 2019, according to the current schedule. The unusual and infrequent occurrence of a sale of City property of this significance and the fact that the transaction is under the control of City management, it is being reported as a special item in the financial statements.

Fund Equity -- Fund balances for governmental funds are reported in classifications that demonstrate the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The governmental fund type classifications are as follows:

> Nonspendable: The portion of fund balance that cannot be spent because it is either (a) not in spendable form, such as inventories and prepaid items, or (b) legally or contractually required to be maintained intact.
>
> Restricted: The portion of fund balance that is restricted to specific purposes due to constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitution provisions or enabling legislation.
>
> Committed: The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by an ordinance, the highest level action taken, adopted by the City Council. An equal action (ordinance) must be enacted to rescind the commitment. The City Council is the highest level of decision making authority.
>
> Assigned: The portion of fund balance that is constrained by the City's intent to use for specific purposes, but are neither restricted nor committed. Under the city charter, the City Manager is authorized to assign individual amounts up to $58,000 in fiscal year 2015 to a specific purpose. This amount is updated annually based on the most recently published federal government, Bureau of Labor Statistics Indicator, Consumer Price Index (CPI-W U.S. City Average) U.S. City Average.
>
> Unassigned: The portion of fund balance that is not restricted, committed, or assigned to specific purposes; only the general fund reports a positive unassigned fund balance.

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

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

		Nonmajor Governmental				
	General Fund	Special Revenue	Debt Service	Capital Projects	Permanent	Total
Nonspendable						
Inventory	$ 766	--	--	--	--	766
Prepaid items	183	--	--	--	--	183
Permanent funds	--	--	--	--	1,070	1,070
Total Nonspendable	949	--	--	--	1,070	2,019
Restricted						
Municipal court services	--	2,933	--	--	--	2,933
Police special purpose	--	5,710	--	--	--	5,710
Fire special purpose	--	46	--	--	--	46
Transportation, planning, and sustainability	--	440	--	--	--	440
Public health services	--	311	--	--	--	311
Parks services	--	1,662	--	--	--	1,662
Library services	--	1,333	--	--	1	1,334
Tourism programs	--	22,890	--	--	--	22,890
Affordable housing programs	--	29,002	--	--	--	29,002
Urban growth programs	--	4,160	--	--	--	4,160
Capital construction	--	--	--	85,764	--	85,764
Debt service	--	--	21,725	--	--	21,725
Total Restricted	--	68,487	21,725	85,764	1	175,977
Committed						
Transportation, planning, and sustainability	--	134	--	--	--	134
Parks services	--	4,179	--	--	--	4,179
Affordable housing programs	--	5,558	--	--	--	5,558
Urban growth programs	--	30,325	--	--	--	30,325
Total Committed	--	40,196	--	--	--	40,196
Assigned						
Municipal court services	145	--	--	--	--	145
Police special purpose	2,627	39	--	--	--	2,666
Fire special purpose	590	--	--	--	--	590
EMS special purpose	1,252	--	--	--	--	1,252
Transportation, planning, and sustainability	--	8	--	--	--	8
Public health services	4,784	28	--	--	--	4,812
Parks services	1,590	101	--	--	--	1,691
Library services	140	6	--	--	--	146
Tourism programs	--	44	--	--	--	44
Affordable housing programs	--	989	--	--	--	989
Urban growth programs	14,995	2,769	--	--	--	17,764
Capital construction	--	--	--	71,837	--	71,837
Total Assigned	26,123	3,984	--	71,837	--	101,944
Unassigned	150,091	(2,637)	--	(48,985)	--	98,469
Total Fund Balance	$ 177,163	110,030	21,725	108,616	1,071	418,605

Restricted resources -- If both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and unrestricted resources as needed. In governmental funds, unrestricted resources would be utilized in order from committed to assigned and finally unassigned.

Budget stabilization -- By formal action of City Council, the General Fund maintains 3 reserve funds: a contingency reserve, an emergency reserve, and a budget stabilization reserve. These reserves are part of unassigned fund balance for the General Fund. As of September 30, 2015, the contingency reserve maintains a balance of 1 percent of departmental expenditures, or $7.2 million, the emergency reserve remains fixed with a balance of $40 million, and the budget stabilization reserve reports a balance of $76.7 million. The funds in the budget stabilization reserve may be appropriated to fund capital or other onetime costs, but such appropriation should not exceed one-third of the total amount in the reserve.

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

Cash and Cash Equivalents -- For purposes of the statement of cash flows, the City considers cash and cash equivalents to be currency on hand, cash held by trustee, demand deposits with banks, and all amounts included in pooled investments and cash accounts. The City considers the investment pool to be highly liquid, similar to a mutual fund.

Pensions -- For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's three pension plans and additions to/deductions from each plan's fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability, pension expenses, and long-term deferrals are allocated to funds based on actual contributions by fund during the corresponding measurement period with the exception of the internal service funds, which are presented in governmental activities in the government-wide statements (see Note 7).

Risk Management -- The City is exposed to employee-related risks for health benefits and workers' compensation, as well as to various risks of loss related to torts; theft of, damage to, or destruction of assets; fraud; and natural disasters. The City is self-insured for legal liabilities, workers' compensation claims, and employee health benefits.

The City does not participate in a risk pool but purchases commercial insurance coverage for property loss or damage, commercial crime, fidelity bonds, airport operations, and contractors working at selected capital improvement project sites (see Note 13).

Austin Energy has established an energy risk management program. This program was authorized by City Council and led by the risk oversight committee. Under this program, Austin Energy enters into futures contracts, options, and swaps to reduce exposure to natural gas and energy price fluctuations. For additional details see Note 9.

f -- Comparative Data

Governments are required to present comparative data only in connection with Management's Discussion and Analysis (MD&A). Comparative data has been utilized within the MD&A to help readers more fully understand the City's financial statements for the current period.

g -- Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

2 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2015 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	**Restricted**
General Fund	$ 168,905	--
Nonmajor governmental funds	226,535	--
Austin Energy	249,666	82,684
Austin Water Utility	51,829	124,966
Airport	8,351	434,041
Nonmajor enterprise funds	201,730	37,530
Internal service funds	132,628	2,506
Fiduciary funds	4,682	--
Subtotal pooled investments and cash	1,044,326	681,727
Total pooled investments and cash	$ 1,726,053	

3 – INVESTMENTS AND DEPOSITS
a -- Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under a written investment policy (the "Investment Policy") that primarily emphasizes safety of principal and liquidity; addresses investment diversification, yield, and maturity; and addresses the quality and capability of investment personnel. The Investment Policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under Chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the Investment Policy, which is approved annually by the City Council. The Investment Policy includes a list of authorized investment instruments, a maximum allowable stated maturity of any individual investment, and the maximum average dollar weighted maturity allowed for pooled fund groups. In addition, it includes an "Investment Strategy Statement" that specifically addresses each fund's investment options and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification, and yield. Additionally, the soundness of financial institutions in which the City will deposit funds is addressed.

The City Treasurer submits an investment report each quarter to the investment committee. The report details the investment position of the City and the compliance of the investment portfolio as it relates to both the adopted investment strategy statements and Texas state law.

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

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

The City participates in four LGIPs: TexPool, TexasDAILY, TexStar, and Lone Star. The State Comptroller oversees TexPool, with Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Although there is no regulatory oversight over TexasDAILY, an advisory board consisting of participants or their designees maintains oversight responsibility for TexasDAILY. PFM Asset Management LLC manages the daily operations of TexasDAILY under a contract with the advisory board. JPMorgan Investment Management, Inc. and First Southwest Asset Management, Inc. serve as co-administrators for TexStar under an agreement with the TexStar board of directors. First Public, LLC serves as the administrator of Lone Star under an agreement with Lone Star's board of directors. The City's position in the pool is the same as the value of the pool shares.

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

The City invests in TexPool, TexasDAILY, TexStar, and Lone Star to provide its liquidity needs. TexPool, TexasDAILY, TexStar, and Lone Star are LGIPs that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool, TexasDAILY, TexStar, and Lone Star are structured somewhat like money market mutual funds and allow shareholders the ability to deposit or withdraw funds on a daily basis. In addition, interest rates are also adjusted on a daily basis and the funds seek to maintain a constant net asset value of $1.00, although this cannot be fully guaranteed. TexPool, TexasDAILY, TexStar, and Lone Star are rated AAAm and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2015, TexPool, TexasDAILY, TexStar, and Lone Star had a weighted average maturity of 40 days, 37 days, 46 days, and 33 days, respectively. The City considers the holdings in these funds to have a weighted average maturity of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City did not participate in any reverse repurchase agreements or security lending arrangements during fiscal year 2015.

All City investments are insured, registered, or held by an agent in the City's name; therefore, the City is not exposed to custodial credit risk.

The following table includes the portfolio balances of all non-pooled and pooled investments of the City at September 30, 2015 (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments:				
Local Government Investment Pools	$ 20,550	341,904	--	362,454
Money Market Funds	1,590	62,869	--	64,459
US Treasury Notes	--	34,704	--	34,704
US Agency Bonds	--	202,274	--	202,274
Total non-pooled investments	22,140	641,751	--	663,891
Pooled investments:				
Local Government Investment Pools	231,839	520,330	2,046	754,215
US Treasury Notes	70,951	159,239	626	230,816
US Agency Bonds	230,933	518,325	2,010	751,268
Total pooled investments	533,723	1,197,894	4,682	1,736,299
Total investments	$ 555,863	1,839,645	4,682	2,400,190

Concentration of Credit Risk
At September 30, 2015, the City of Austin was exposed to concentration of credit risk since it held investments with more than five percent of the total investment portfolio balances of the City in securities of the following issuers (in millions): Federal Farm Credit Bank ($163.3 or 7%), Federal Home Loan Bank ($368.4 or 15%), Federal Home Loan Mortgage Corporation ($210.6 or 9%), and Federal National Mortgage Association ($211.3 or 9%).

The risk exposures for governmental and business-type activities, individual major funds, nonmajor funds in the aggregate, and fiduciary fund types of the City are not significantly greater than the deposit and investment risk of the primary government. The Investment Policy segregates the portfolios into strategic categories including:

1. Operating funds excluding special project funds,
2. Debt service funds,
3. Debt service reserve funds, and
4. Special project funds or special purpose funds.

The City's credit risk is controlled by complying with the Investment Policy, which includes qualification of the brokers and financial institutions with whom the City will transact, sufficient collateralization, portfolio diversification, and maturity limitations.

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

Operating Funds
As of September 30, 2015, the City operating funds had the following investments (in thousands):

	Fair Value				Weighted
Investment Type	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	Average Maturity (days)
Local Government Investment Pools	$ 231,839	520,330	2,046	754,215	1
US Treasury Notes	70,951	159,239	626	230,816	283
US Agency Bonds	230,933	518,325	2,010	751,268	497
Total	$ 533,723	1,197,894	4,682	1,736,299	

Credit Risk
At September 30, 2015, the Operating funds held investments in LGIPs rated AAAm by Standard & Poor's, with the remainder invested in short-to-medium term US Agency and Treasury obligations. Standard & Poor's rated the US Agency Bonds AA+. The remaining securities are direct obligations of the US government.

Concentration of Credit Risk
At September 30, 2015, the operating funds held investments with more than five percent of the total portfolio in securities of the following issuers (in millions): Federal Farm Credit Bank ($163.3 or 9%), Federal Home Loan Bank ($317.4 or 18%), Federal Home Loan Mortgage Corporation ($160.2 or 9%), and Federal National Mortgage Association ($110.3 or 6%).

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the City's cash flow requirements. Three years is the maximum period before maturity.

At September 30, 2015, less than half of the Investment Pool was invested in AAAm rated LGIPs, with the remainder invested in short-to-medium term US Agency and Treasury obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity of all securities was 253 days, which was less than the threshold of 365 days.

Debt Service Funds
As of September 30, 2015, the City's debt service funds had the following investments (in thousands):

	Fair Value		Weighted
Investment Type	Governmental Activities	Business-type Activities	Average Maturity (days)
General Obligation Debt Service			
Local Government Investment Pools	$ 20,550	--	1
Enterprise-Utility (1)			
Local Government Investment Pools	--	144,800	1
Enterprise-Airport			
Local Government Investment Pools	--	22,070	1
Nonmajor Enterprise-Convention Center			
Local Government Investment Pools	--	10,432	1
Total	$ 20,550	177,302	

(1) Includes combined pledge debt service

Credit Risk
At September 30, 2015, the debt service funds held an investment in TexPool, an LGIP rated AAAm by Standard and Poor's.

Interest Rate Risk
Investment strategies for debt service funds have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. As a means of minimizing risk of loss due to interest rate fluctuations, securities purchased cannot have a stated final maturity date which exceeds the debt service payment date.

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

Debt Service Reserve Funds
As of September 30, 2015, the City's debt service reserve funds had the following investments (in thousands):

Investment Type	Fair Value Business-type Activities	Weighted Average Maturity (days)
Enterprise-Utility (1)		
Local Government Investment Pools	$ 41,393	1
Enterprise-Airport		
Local Government Investment Pools	14,665	1
Nonmajor Enterprise-Convention Center		
Local Government Investment Pools	13,305	1
Total	$ 69,363	

(1) Includes combined pledge debt service

Credit Risk
At September 30, 2015, the debt service reserve funds held an investment in TexPool, an LGIP rated AAAm by Standard and Poor's.

Interest Rate Risk
Investment strategies for debt service reserve funds shall have as the primary object the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. Except as may be required by bond ordinance specific to an individual issue, securities should be of high quality, with short-term to intermediate-term securities.

Special Projects or Special Purpose Funds
Special Project Funds
At September 30, 2015, the City's special project funds had the following investments (in thousands):

	Fair Value			
	Business-type Activities			Weighted
Investment Type	Utility Reserve	Airport Construction	Total	Average Maturity (days)
Local Government Investment Pools	$ 27,030	77	27,107	1

Credit Risk
At September 30, 2015, the special project funds held an investment in TexPool, an LGIP rated AAAm by Standard and Poor's.

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities in this category not exceed the anticipated cash flow requirements of the funds.

Special Purpose Funds - Austin Energy Strategic Reserve Fund
As of September 30, 2015, the City's Austin Energy Strategic Reserve Fund, a special purpose fund, had the following investments (in thousands):

Investment Type	Fair Value Business-type Activities	Weighted Average Maturity (days)
Local Government Investment Pools	$ 68,134	1
US Treasury Notes	15,470	507
US Agency Bonds	68,482	878
Total	$ 152,086	

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

Credit risk
At September 30, 2015, the Austin Energy Strategic Reserve Fund held an investment in TexPool, an LGIP rated AAAm by Standard & Poor's, with the remainder invested in short-to-medium term US Agency and Treasury obligations. Standard & Poor's rated the US Agency Bonds AA+. The remaining securities are direct obligations of the US government.

Concentration of Credit Risk
At September 30, 2015, the Austin Energy Strategic Reserve Fund held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Home Loan Bank ($23.3 or 15%), Federal Home Loan Mortgage Corporation ($15.1 or 10%), and Federal National Mortgage Association ($30.2 or 20%).

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities in this category not exceed the anticipated cash flow requirements of the funds.

At September 30, 2015, the portfolios held investments in TexPool, US Treasuries, and US Agencies with maturities that will meet anticipated cash flow requirements and an overall dollar weighted average maturity of 446 days (1.22 years).

Special Purpose Funds - Austin Energy Nuclear Decommissioning Trust Funds (NDTF)
At September 30, 2015, the City's Austin Energy NDTF had the following investments (in thousands):

	Fair Value	
Investment Type	**Business-type Activities**	**Weighted Average Maturity (years)**
Money Market Funds	$ 52,083	1 day
US Treasury Notes	19,234	1.85
US Agency Bonds	133,791	2.13
Total	$ 205,108	

Credit Risk
At September 30, 2015, Standard & Poor's rated the US Agency Bonds AA+ and the Money Market Fund AAAm. The remaining securities are direct obligations of the US government.

Concentration of Credit Risk
At September 30, 2015, the NDTF held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Home Loan Bank ($27.7 or 14%), Federal Home Loan Mortgage Corporation ($35.3 or 17%), Federal National Mortgage Association ($70.8 or 35%).

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy for the NDTF portfolios requires that the dollar weighted average maturity, using final state maturity dates, shall not exceed seven years, although the portfolio's weighted average maturity may be substantially shorter if market conditions so dictate. At September 30, 2015, the dollar weighted average maturity was 1.56 years.

Special Purpose Funds - Investments Held by Trustee
At September 30, 2015, the City's special purpose funds had the following investments (in thousands):

	Fair Value		
Investment Type	**Governmental Activities**	**Business-type Activities**	**Weighted Average Maturity (days)**
Money Market Funds	$ 1,590	10,786	1

Credit Risk
At September 30, 2015, Standard & Poor's rated the Money Market Fund AAAm.

Interest Rate Risk
Investment objectives for these special purpose funds have as the primary objective the safety of principal and assurance of liquidity adequate to cover construction expense draws. As a means of minimizing risk of loss due to interest rate fluctuations, funds are being held in overnight money market funds until definitive construction cash flows are established.

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

Investments and deposits portfolio balances at September 30, 2015, are as follows (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments and cash	$ 26,527	646,823	--	673,350
Pooled investments and cash	535,338	1,201,518	4,682	1,741,538
Total investments and cash	561,865	1,848,341	4,682	2,414,888
Unrestricted cash	64	61	--	125
Restricted cash	4,323	5,011	--	9,334
Pooled investments and cash	535,338	1,201,518	4,682	1,741,538
Investments	22,140	641,751	--	663,891
Total	$ 561,865	1,848,341	4,682	2,414,888

A difference of $15.5 million exists between portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

Deposits
The September 30, 2015 carrying amount of deposits at the bank and cash on hand are as follows (in thousands):

	Governmental Activities	Business-type Activities	Total
Cash			
Unrestricted	$ 64	61	125
Restricted	--	5,011	5,011
Cash held by trustee			
Restricted	4,323	--	4,323
Pooled cash	1,615	3,624	5,239
Total deposits	$ 6,002	8,696	14,698

All bank accounts were either insured or collateralized with securities held by the City or its agents in the City's name at September 30, 2015.

4 – PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The adjusted assessed value for the roll as of January 1, 2014, upon which the 2015 levy was based, was $98,652,179,430.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2015, 99.27% of the current tax levy (October 1, 2014) was collected. The statutory lien date is January 1.

The methods of property assessment and tax collection are determined by Texas statutes. The statutes provide for a property tax code, countywide appraisal districts, a State property tax board, and certain exemptions from taxation, such as intangible personal property, household goods, and family-owned automobiles.

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District, the Williamson Central Appraisal District, and the Hays Central Appraisal District. The appraisal districts are required under the Property Tax Code to assess all real and personal property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every two years; however, the City may require more frequent reviews of appraised values at its own expense. The Travis Central Appraisal District and the Hays Central Appraisal District have chosen to review the value of property in their respective districts every two years, while the Williamson Central Appraisal District has chosen to review the value of property on an annual basis. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action.

4 – PROPERTY TAXES, continued

The City is authorized to set tax rates on property within the city limits. However, if the effective tax rate, excluding tax rates for bonds, certificates of obligation, and other contractual obligations, as adjusted for new improvements and revaluation, exceeds the rate for the previous year by more than 8%, State statute allows qualified voters of the City to petition for an election to determine whether to limit the tax rate increase to no more than 8%.

The City is permitted by Article XI, Section 5 of the State of Texas Constitution to levy taxes up to $2.50 per $100 of assessed valuation for general governmental services, including the payment of principal and interest on general obligation long-term debt. Under the city charter, a limit on taxes levied for general governmental services, exclusive of payments of principal and interest on general obligation long-term debt, has been established at $1.00 per $100 assessed valuation. A practical limitation on taxes levied for debt service of $1.50 per $100 of assessed valuation is established by state statute and city charter limitations. Through contractual arrangements, Travis, Williamson, and Hays Counties bill and collect property taxes for the City.

The tax rate to finance general governmental functions, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2015, was $0.3691 per $100 assessed valuation. The tax rate for servicing the payment of principal and interest on general obligation long-term debt for the fiscal year ended September 30, 2015 was $0.1118 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $0.6309 per $100 assessed valuation, and could levy approximately $622,396,600 in additional taxes from the assessed valuation of $98,652,179,430 before the legislative limit is reached.

The City has reserved a portion of the taxes collected for lawsuits filed by certain taxpayers against the appraisal districts challenging assessed values in the government-wide financial statements.

5 – CAPITAL ASSETS AND INFRASTRUCTURE

Governmental Activities

Capital asset activity for the year ended September 30, 2015, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Depreciable capital assets				
Building and improvements	$ 857,912	4,896	(933)	861,875
Plant and equipment	232,018	24,882	(11,502)	245,398
Vehicles	125,018	20,132	(17,906)	127,244
Infrastructure	2,360,304	135,107	(752)	2,494,659
Total depreciable capital assets	3,575,252	185,017	(31,093)	3,729,176
Less accumulated depreciation for				
Building and improvements	(287,417)	(24,056)	95	(311,378)
Plant and equipment	(150,972)	(19,641)	2,207	(168,406)
Vehicles	(79,054)	(11,327)	9,697	(80,684)
Infrastructure	(977,232)	(65,756)	--	(1,042,988)
Total accumulated depreciation	(1,494,675)	(120,780) (2)	11,999	(1,603,456)
Depreciable capital assets, net	2,080,577	64,237	(19,094)	2,125,720
Nondepreciable capital assets				
Land and improvements	363,091	7,020	(2,074)	368,037
Arts and treasures	8,643	590	--	9,233
Library collections	14,390	3,220	--	17,610
Construction in progress	226,499	197,049	(151,753)	271,795
Total nondepreciable assets	612,623	207,879	(153,827)	666,675
Total capital assets	$ 2,693,200	272,116	(172,921)	2,792,395

(1) Increases and decreases do not include transfers (at net book value) between Governmental Activities.

(2) Components of accumulated depreciation/amortization increases:

Governmental activities:	
General government	$ 4,860
Public safety	15,443
Transportation, planning and sustainability	54,677
Public health	1,535
Public recreation and culture	15,026
Urban growth management	18,025
Internal service funds	11,214
Total increases in accumulated depreciation/amortization	$ 120,780

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Total

Capital asset activity for the year ended September 30, 2015, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Depreciable capital assets				
Building and improvements	$ 1,738,555	579,568	(755)	2,317,368
Plant and equipment	3,569,179	141,266	(28,689)	3,681,756
Vehicles	188,327	27,116	(10,451)	204,992
Electric plant	4,517,202	164,448	(11,371)	4,670,279
Non-electric plant	189,830	10,963	(253)	200,540
Nuclear fuel	320,764	25,077	--	345,841
Water rights	100,000	--	--	100,000
Total depreciable capital assets	10,623,857	948,438	(51,519)	11,520,776
Less accumulated depreciation/amortization for				
Building and improvements	(617,075)	(51,459)	2	(668,532)
Plant and equipment	(1,283,433)	(97,500)	6,103	(1,374,830)
Vehicles	(115,015)	(17,865)	9,648	(123,232)
Electric plant	(2,315,949)	(142,147)	6,724	(2,451,372)
Non-electric plant	(54,476)	(8,118)	115	(62,479)
Nuclear fuel	(281,148)	(17,869)	--	(299,017)
Water rights	(14,815)	(988)	--	(15,803)
Total accumulated depreciation/amortization	(4,681,911)	(335,946) (2)	22,592	(4,995,265)
Depreciable capital assets, net	5,941,946	612,492	(28,927)	6,525,511
Nondepreciable capital assets				
Land and improvements	554,774	41,282	(2,249)	593,807
Arts and treasures	1,657	2,207	--	3,864
Construction in progress	794,464	431,128	(925,804)	299,788
Plant held for future use	23,115	--	--	23,115
Total nondepreciable assets	1,374,010	474,617	(928,053)	920,574
Total capital assets	$ 7,315,956	1,087,109	(956,980)	7,446,085

(1) Increases and decreases do not include transfers (at net book value) between Business-type Activities.

(2) Components of accumulated depreciation/amortization increases:

Business-type Activities:	
Electric	$ 170,413
Water	55,612
Wastewater	59,659
Airport	20,690
Convention Center	8,948
Environmental and health services	9,075
Public recreation	866
Urban growth management	10,683
Total increases in accumulated depreciation/amortization	$ 335,946

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Austin Energy

Capital asset activity for the year ended September 30, 2015, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets				
Vehicles	$ 30,468	1,231	(1,113)	30,586
Electric plant	4,517,202	164,448	(11,371)	4,670,279
Non-electric plant	189,830	10,963	(253)	200,540
Nuclear fuel	320,764	25,077	--	345,841
Total depreciable capital assets	5,058,264	201,719	(12,737)	5,247,246
Less accumulated depreciation/amortization for				
Vehicles	(22,474)	(2,279)	1,113	(23,640)
Electric plant	(2,315,949)	(142,147)	6,724	(2,451,372)
Non-electric plant	(54,476)	(8,118)	115	(62,479)
Nuclear fuel	(281,148)	(17,869)	--	(299,017)
Total accumulated depreciation/amortization	(2,674,047)	(170,413) (1)	7,952	(2,836,508)
Depreciable capital assets, net	2,384,217	31,306	(4,785)	2,410,738
Nondepreciable capital assets				
Land and improvements	62,765	1,148	--	63,913
Plant held for future use	23,115	--	--	23,115
Construction in progress	117,360	171,273	(182,631)	106,002
Total nondepreciable assets	203,240	172,421	(182,631)	193,030
Total capital assets	$ 2,587,457	203,727	(187,416)	2,603,768

(1) Components of accumulated depreciation/amortization increases:	
Current year depreciation	$ 152,544
Current year amortization included in operating expense	17,869
Total increases in accumulated depreciation/amortization	$ 170,413

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Austin Water Utility

Capital asset activity for the year ended September 30, 2015, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets				
Building and improvements	$ 674,016	486,174	--	1,160,190
Plant and equipment	3,355,030	129,848	(28,447)	3,456,431
Vehicles	39,142	1,475	(954)	39,663
Water rights	100,000	--	--	100,000
Total depreciable capital assets	4,168,188	617,497	(29,401)	4,756,284
Less accumulated depreciation/amortization for				
Building and improvements	(231,907)	(23,611)	2	(255,516)
Plant and equipment	(1,207,975)	(87,618)	6,075	(1,289,518)
Vehicles	(27,706)	(3,054)	916	(29,844)
Water rights	(14,815)	(988)	--	(15,803)
Total accumulated depreciation/amortization	(1,482,403)	(115,271) (1)	6,993	(1,590,681)
Depreciable capital assets, net	2,685,785	502,226	(22,408)	3,165,603
Nondepreciable capital assets				
Land and improvements	230,815	2,354	(2,249)	230,920
Arts and treasures	62	22	--	84
Construction in progress	577,082	114,837	(571,357)	120,562
Total nondepreciable assets	807,959	117,213	(573,606)	351,566
Total capital assets	$ 3,493,744	619,439	(596,014)	3,517,169

(1) Components of accumulated depreciation/amortization increases:

Current year depreciation	
Water	$ 54,624
Wastewater	59,659
Current year amortization	
Water	988
Total increases in accumulated depreciation/amortization	$ 115,271

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2015, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets				
Building and improvements	$ 735,106	90,011	--	825,117
Plant and equipment	25,926	2,338	(52)	28,212
Vehicles	9,926	2,436	(148)	12,214
Total depreciable capital assets	770,958	94,785	(200)	865,543
Less accumulated depreciation for				
Building and improvements	(249,863)	(18,107)	--	(267,970)
Plant and equipment	(14,238)	(1,420)	--	(15,658)
Vehicles	(5,554)	(1,163)	147	(6,570)
Total accumulated depreciation	(269,655)	(20,690) (1)	147	(290,198)
Depreciable capital assets, net	501,303	74,095	(53)	575,345
Nondepreciable capital assets				
Land and improvements	95,738	643	--	96,381
Arts and treasures	983	2,185	--	3,168
Construction in progress	51,151	62,287	(99,361)	14,077
Total nondepreciable assets	147,872	65,115	(99,361)	113,626
Total capital assets	$ 649,175	139,210	(99,414)	688,971

(1) Components of accumulated depreciation/amortization increases:

Current year depreciation	$ 20,690

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2015, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Depreciable capital assets				
Building and improvements	$ 329,433	3,383	(755)	332,061
Plant and equipment	188,223	9,080	(190)	197,113
Vehicles	108,791	21,974	(8,236)	122,529
Total depreciable capital assets	626,447	34,437	(9,181)	651,703
Less accumulated depreciation for				
Building and improvements	(135,305)	(9,741)	--	(145,046)
Plant and equipment	(61,220)	(8,462)	28	(69,654)
Vehicles	(59,281)	(11,369)	7,472	(63,178)
Total accumulated depreciation	(255,806)	(29,572) (2)	7,500	(277,878)
Depreciable capital assets, net	370,641	4,865	(1,681)	373,825
Nondepreciable capital assets				
Land and improvements	165,456	37,137	--	202,593
Arts and treasures	612	--	--	612
Construction in progress	48,871	82,731	(72,455)	59,147
Total nondepreciable assets	214,939	119,868	(72,455)	262,352
Total capital assets	$ 585,580	124,733	(74,136)	636,177

(1) Increases and decreases do not include transfers (at net book value) between nonmajor enterprise funds.

(2) Components of accumulated depreciation/amortization increases:

Current year depreciation	
Convention Center	$ 8,948
Environmental and health services	9,075
Public recreation	866
Urban growth management	10,683
Total increases in accumulated depreciation/amortization	$ 29,572

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Capitalized Interest

The City has recorded capitalized interest for fiscal year 2015 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Enterprise Funds		
Major fund:		
Airport	$	1,284
Nonmajor enterprise funds:		
Convention Center		992
Drainage		725

Interest is not capitalized on governmental capital assets. In accordance with accounting for regulated operations, interest is also not capitalized for Austin Energy or Austin Water Utility capital assets.

Service Concession Arrangements

The City has recorded capital assets and deferred inflows of $3.67 million derived from two service concession arrangements (SCA) described below. An SCA is an arrangement in which the City conveys use of a capital asset to an operator in exchange for significant consideration; where the operator is compensated from third parties; where the City may determine what services are provided, to whom and for what price; where the City retains a significant residual interest in the asset after the SCA terminates.

The City has had an agreement with the Friends of Umlauf Garden, Inc. since 1991 to manage and operate the Umlauf Sculpture Garden and Museum. The agreement extends through 2021 and is for the purpose of displaying the artistic works of Charles Umlauf for the public enjoyment and education. Structures, which are dedicated to the City, have been built on City-owned land and display City-owned artwork.

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

As of September 30, 2015, the City reported the following SCA activity in the governmental activities (in thousands):

Service Concession Arrangement	Asset Construction Cost	Beginning Accumulated Depreciation	Current Year Depreciation	Ending Accumulated Depreciation	Net Book Value
Umlauf Sculpture Garden	$ 2,337	1,339	59	1,398	939
YMCA Northeast Recreation Center	1,333	61	33	94	1,239
	3,670	1,400	92	1,492	2,178

	Beginning Deferred Inflows	Beginning Accumulated Amortization	Current Year Amortization	Ending Accumulated Amortization	Ending Deferred Inflows
Umlauf Sculpture Garden	2,337	1,785	77	1,862	475
YMCA Northeast Recreation Center	1,333	278	67	345	988
	$ 3,670	2,063	144	2,207	1,463

6 – DEBT AND NON-DEBT LIABILITIES

a -- Long-Term Liabilities

Payments on bonds for governmental activities will be made from the general obligation debt service funds. Accrued compensated absences that pertain to governmental activities will be liquidated by the General Fund, special revenue funds, and internal service funds. Claims payable will be liquidated by internal service funds. Other liabilities that pertain to governmental activities will be liquidated by the General Fund, special revenue funds, general governmental capital improvement projects funds, and internal service funds.

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all limitations and restrictions.

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for these funds are included in governmental activities.

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2015, were as follows (in thousands):

Description	October 1, 2014	Increases	Decreases	September 30, 2015	Amounts Due Within One Year
Governmental activities					
General obligation bonds, net	$ 974,855	115,432	(59,607)	1,030,680	56,673
Certificates of obligation, net	135,829	35,250	(5,729)	165,350	6,317
Contractual obligations, net	85,036	29,350	(11,990)	102,396	10,727
Debt service requirements total	1,195,720	180,032	(77,326)	1,298,426	73,717
Other long-term obligations					
Accrued compensated absences	132,136	4,013	(3,760)	132,389	60,644
Claims payable	43,806	26,900	(23,242)	47,464	22,611
Net pension liability (1)	754,223	186,945	(97,082)	844,086	--
Other postemployment benefits	435,263	49,591	--	484,854	--
Other liabilities	87,230	8,474	(3,398)	92,306	80,571
Governmental activities total	2,648,378	455,955	(204,808)	2,899,525	237,543
Total business-type activities					
General obligation bonds, net	33,701	--	(4,849)	28,852	4,354
Certificates of obligation, net	27,232	15,118	(1,655)	40,695	1,503
Contractual obligations, net	65,854	5,091	(16,259)	54,686	13,748
Other tax supported debt, net	9,195	--	(745)	8,450	795
General obligation bonds and other tax supported debt total	135,982	20,209	(23,508)	132,683	20,400
Commercial paper notes, net	241,456	151,825	(192,700)	200,581	--
Revenue bonds, net	4,298,643	1,051,949	(749,775)	4,600,817	181,484
Capital lease obligations	1,135	--	(46)	1,089	49
Debt service requirements total	4,677,216	1,223,983	(966,029)	4,935,170	201,933
Other long-term obligations					
Accrued compensated absences	23,824	1,910	(1,026)	24,708	24,565
Net pension liability (1)	392,620	100,449	(47,260)	445,809	--
Other postemployment benefits	255,002	41,911	(4,068)	292,845	--
Accrued landfill closure and postclosure costs	9,935	1,519	(6)	11,448	1,549
Decommissioning expense payable	182,536	2,418	(1,946)	183,008	7,792
Other liabilities	95,177	8,244	(2,648)	100,773	57,000
Business-type activities total	5,636,310	1,380,434	(1,022,983)	5,993,761	292,839
Total liabilities (2)	$ 8,284,688	1,836,389	(1,227,791)	8,893,286	530,382

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

(2) This schedule excludes select short-term liabilities of $87,014 for governmental activities. For business-type activities, it excludes select short-term liablities of $196,644, capital appreciation bond interest payable of $100,528 and derivative instruments of $122,085.

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

Description	October 1, 2014	Increases	Decreases	September 30, 2015	Amounts Due Within One Year
Business-type activities:					
Electric activities					
General obligation bonds, net	$ 686	--	(157)	529	122
General obligation bonds and other tax supported debt total	686	--	(157)	529	122
Commercial paper notes, net	166,456	58,290	(192,700)	32,046	--
Revenue bonds, net	1,252,386	453,913	(295,656)	1,410,643	65,132
Capital lease obligations	1,135	--	(46)	1,089	49
Debt service requirements total	1,420,663	512,203	(488,559)	1,444,307	65,303
Other long-term obligations					
Accrued compensated absences	10,081	214	(38)	10,257	10,257
Net pension liability (1)	167,761	42,550	(20,022)	190,289	--
Other postemployment benefits	104,347	11,313	--	115,660	--
Decommissioning expense payable	182,536	2,418	(1,946)	183,008	7,792
Other liabilities	69,792	4,750	--	74,542	34,163
Electric activities total	1,955,180	573,448	(510,565)	2,018,063	117,515
Water and Wastewater activities					
General obligation bonds, net	3,975	--	(1,119)	2,856	1,029
Contractual obligations, net	8,342	908	(2,163)	7,087	1,761
Other tax supported debt, net	5,887	--	(477)	5,410	509
General obligation bonds and other tax supported debt total	18,204	908	(3,759)	15,353	3,299
Commercial paper notes, net	75,000	93,535	--	168,535	--
Revenue bonds, net	2,548,736	324,369	(424,634)	2,448,471	86,261
Debt service requirements total	2,641,940	418,812	(428,393)	2,632,359	89,560
Other long-term obligations					
Accrued compensated absences	5,415	181	(124)	5,472	5,472
Net pension liability (1)	88,670	22,828	(10,739)	100,759	--
Other postemployment benefits	63,946	11,062	--	75,008	--
Other liabilities	13,134	997	(1,058)	13,073	13,073
Water and Wastewater activities total	2,813,105	453,880	(440,314)	2,826,671	108,105
Airport activities					
General obligation bonds, net	134	--	(29)	105	24
General obligation bonds and other tax supported debt total	134	--	(29)	105	24
Revenue bonds, net	310,013	273,667	(17,582)	566,098	18,351
Debt service requirements total	310,147	273,667	(17,611)	566,203	18,375
Other long-term obligations					
Accrued compensated absences	1,816	193	(60)	1,949	1,949
Net pension liability (1)	27,231	6,934	(3,262)	30,903	--
Other postemployment benefits	17,209	2,528	--	19,737	--
Other liabilities	2,120	1,433	(1)	3,552	3,541
Airport activities total	358,523	284,755	(20,934)	622,344	23,865
Nonmajor activities					
General obligation bonds, net	28,906	--	(3,544)	25,362	3,179
Certificates of obligation, net	27,232	15,118	(1,655)	40,695	1,503
Contractual obligations	57,512	4,183	(14,096)	47,599	11,987
Other tax supported debt, net	3,308	--	(268)	3,040	286
General obligation bonds and other tax supported debt total	116,958	19,301	(19,563)	116,696	16,955
Revenue bonds, net	187,508	--	(11,903)	175,605	11,740
Debt service requirements total	304,466	19,301	(31,466)	292,301	28,695
Other long-term obligations					
Accrued compensated absences	6,512	1,322	(804)	7,030	6,887
Net pension liability (1)	108,958	28,137	(13,237)	123,858	--
Other postemployment benefits	69,500	17,008	(4,068)	82,440	--
Accrued landfill closure and postclosure costs	9,935	1,519	(6)	11,448	1,549
Other liabilities	10,131	1,064	(1,589)	9,606	6,223
Nonmajor activities total	$ 509,502	68,351	(51,170)	526,683	43,354

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

6 – DEBT AND NON-DEBT LIABILITIES, continued
b -- Governmental Activities Long-Term Liabilities

General Obligation Bonds -- General obligation debt is collateralized by the full faith and credit of the City. The City intends to retire its general obligation debt, plus interest, from future ad valorem tax levies and is required by ordinance to create from such tax revenues a sinking fund sufficient to pay the current interest due thereon and each installment of principal as it becomes due. General obligation debt issued to finance capital assets of enterprise funds is reported as an obligation of these enterprise funds, although the funds are not obligated by the applicable bond indentures to repay any portion of principal and interest on outstanding general obligation debt. However, the City intends for the enterprise funds to meet the debt service requirements from program revenues.

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and assumed municipal utility district (MUD) bonds outstanding at September 30, 2015, including those reported in certain proprietary funds (in thousands):

Series	Fiscal Year	Original Amount Issue	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
NW Austin MUD	2005	$ 2,630	1,075	130 (1)(3)	3.95 - 4.30%	9/1/2016-2020
NW Austin MUD	2006	7,995	6,680	2,757 (1)(3)	4.00 - 4.25%	9/1/2016-2026
NW Austin MUD	2010	2,760	695	34 (1)(3)	4.25%	3/1/2016-2018
2005 Refunding	2005	19,535	12,140	4,011 (1)	4.00 - 4.25%	9/1/2016-2025
2005	2005	7,185	4,490	1,111 (1)	3.85 - 4.30%	9/1/2016-2025
2006	2006	31,585	29,480	9,798 (1)	4.00 - 5.38%	9/1/2016-2026
2006	2006	24,150	16,100	4,500 (1)	4.00 - 5.00%	9/1/2016-2026
2006	2006	12,000	8,415	2,431 (1)(4)	4.00 - 5.00%	9/1/2016-2026
2007	2008	97,525	92,925	37,173 (1)	4.64%	9/1/2016-2027
2007	2008	3,820	2,725	941 (1)	4.88%	9/1/2016-2027
2007	2008	9,755	1,175	65 (2)	3.66%	11/1/2015-2017
2008 Refunding	2008	172,505	68,540	10,074 (1)	5.00%	9/1/2016-2021
2008	2009	76,045	60,855	25,975 (1)	3.75 - 5.00%	9/1/2016-2028
2008	2009	10,700	8,165	2,852 (1)	4.00 - 5.00%	9/1/2016-2028
2008	2009	26,715	2,195	38 (2)	3.50%	11/1/2015
2009A	2009	20,905	1,295	65 (1)	5.00%	9/1/2016
2009B	2009	78,460	78,460	33,305 (1)	4.15 - 5.31%	9/1/2017-2029
2009	2009	12,500	8,975	4,730 (1)	3.00 - 4.75%	9/1/2016-2039
2009	2009	13,800	4,650	264 (2)	3.00 - 3.25%	11/1/2015-2019
2009	2010	15,000	11,890	3,986 (1)(4)	3.50 - 4.25%	9/1/2016-2029
2010A	2011	79,528	66,230	25,494 (1)	2.00 - 4.00%	9/1/2016-2030
2010B	2011	26,400	24,770	10,913 (1)	3.50 - 4.65%	9/1/2016-2030
2010	2011	22,300	18,570	5,255 (1)	2.00 - 3.50%	9/1/2016-2030
2010	2011	16,450	6,215	151 (2)	1.25 - 1.75%	11/1/2015-2017
2010 Refunding	2011	91,560	79,600	19,326 (1)	4.34 - 5.00%	9/1/2016-2023
2011A	2012	78,090	69,490	31,245 (1)	2.00 - 4.00%	9/1/2016-2031
2011B	2012	8,450	8,250	3,434 (1)	2.50 - 4.50%	9/1/2016-2031
2011	2012	51,150	47,835	27,886 (1)	3.00 - 5.00%	9/1/2016-2041
2011	2012	26,725	14,315	573 (2)	1.00 - 2.00%	11/1/2015-2018
2011A Refunding	2012	68,285	31,730	5,906 (1)	4.00 - 5.00%	9/1/2016-2023
2011B Refunding	2012	3,000	290	5 (1)	1.86%	9/1/2016
2012A	2013	74,280	70,945	30,179 (1)	3.00 - 5.00%	9/1/2023-2032
2012B	2013	6,640	5,510	1,698 (1)	2.00 - 3.50%	9/1/2016-2032
2012	2013	24,645	22,375	7,722 (1)	3.00 - 4.00%	9/1/2016-2037
2012	2013	27,135	18,150	1,646 (2)	3.00 - 4.00%	11/1/2015-2019
2012	2013	16,735	15,325	5,390 (1)(4)	2.00 - 3.38%	9/1/2016-2032
2013	2014	104,665	101,370	53,874 (1)	4.00 - 5.00%	9/1/2016-2033
2013	2014	25,355	25,355	14,399 (1)	3.25 - 5.00%	9/1/2016-2038
2013	2014	50,150	39,505	2,824 (2)	1.50 - 3.00%	11/1/2015-2020
2013A Refunding	2014	43,250	35,305	9,189 (1)	5.00%	9/1/2016-2024
2013B Refunding	2014	71,455	68,475	3,826 (1)	0.93 - 2.72%	9/1/2016-2020
2014	2015	89,915	89,655	65,418 (1)	3.00 - 5.00%	9/1/2017-2034
2014	2015	10,000	9,915	5,444 (1)	0.86 - 4.10%	9/1/2016-2034
2014	2015	35,490	34,225	18,441 (1)	2.00 - 5.00%	9/1/2016-2034
2014	2015	9,600	9,225	3,707 (1)	0.76 - 3.92%	9/1/2016-2034
2014	2015	14,100	13,255	2,452 (2)	3.00 - 5.00%	11/1/2015-2021
2014	2015	15,845	15,725	7,614 (1)(4)	3.00 - 5.00%	9/1/2016-2029
			$ 1,362,535			

(1) Interest is paid semiannually on March 1 and September 1.
(2) Interest is paid semiannually on May 1 and November 1.
(3) Includes Austin Water Utility principal of $5,410 and interest of $1,870 and Drainage Fund principal of $3,040 and interest of $1,051.
(4) Included with contractual obligations are Mueller Local Government Corporation contract revenue bonds.

6 – DEBT AND NON-DEBT LIABILITIES, continued
b -- Governmental Activities Long-Term Liabilities, continued

In October 2014, the City issued $89,915,000 of Public Improvement Bonds, Series 2014. The net proceeds of $104,620,000 (after issue costs, discounts, and premiums) from the issue will be used as follows: streets and signals ($54,685,000), watershed protection improvements ($10,000,000), parks and recreation ($8,310,000), central library ($20,000,000), and facility improvements ($11,625,000). These bonds will be amortized serially on September 1 of 2015 and 2017, then each year on September 1 from 2020 to 2034. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2015. Total interest requirements for these bonds, at rates ranging from 3.0% to 5.0%, are $69,693,650.

In October 2014, the City issued $10,000,000 of Public Improvement Taxable Bonds, Series 2014. The net proceeds of $9,844,936 (after issue costs, discounts, and premiums) from the issuance were used for affordable housing. Interest is payable March 1 and September 1 of each year from 2015 to 2034, commencing on March 1, 2015. Principal payments are due September 1 of each year from 2015 to 2034. Total interest requirements for this obligation, at rates ranging from 0.4% to 4.0% are $5,806,156.

In October 2014, the City issued $35,490,000 of Certificates of Obligation, Series 2014. The net proceeds of $40,450,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: watershed home buyouts ($15,000,000), Waller Creek Tunnel ($25,000,000) and street improvements ($450,000). These certificates of obligation will be amortized serially on September 1 of each year from 2015 to 2034. Interest is payable on March 1 and September 1 of each year, commencing on March 1, 2015. Total interest requirements for these obligations, at rates ranging from 2.0% to 5.0%, are $19,927,600.

In October 2014, the City issued $9,600,000 of Certificates of Obligation Bonds, Taxable Series 2014. The net proceeds of $9,449,004 (after issue costs, discounts, and premiums) from the issuance were used for Grey Rock Golf Course & Improvements. Interest is payable March 1 and September 1 of each year from 2015 to 2034, commencing on March 1, 2015. Principal payments are due September 1 of each year from 2015 to 2034. Total interest requirements for this obligation, at rates ranging from 0.4% to 3.9%, are $4,002,858.

In October 2014, the City issued $14,100,000 of Public Property Finance Contractual Obligations, Series 2014. The net proceeds of $15,800,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: water and wastewater utility capital equipment ($900,000), public works capital equipment ($2,300,000), transportation capital equipment ($1,845,000) and network equipment ($10,755,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2015 to 2021. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2015. Total interest requirements for these obligations, at rates ranging from 3.0% to 5.0%, are $2,836,458.

In October 2014, the City issued $15,845,000 of Tax Increment Contract Revenue Bonds, Series 2014. The net proceeds of $18,492,042 (after issue costs, discounts, and premiums) were used to reimburse the developer of Mueller for additional eligible infrastructure costs such as streets, drainage, and parks. The debt service requirements on the bonds are $24,217,550 with interest rates ranging from 2.0% to 5.0%. Interest payments are due March 1 and September 1 of each year from 2015 to 2029. Principal payments are due September 1 of each year from 2015 to 2029.

General obligation bonds authorized and unissued amounted to $324,860,000 at September 30, 2015. Bond ratings at September 30, 2015 were Aaa (Moody's Investors Service, Inc.), AAA (Standard & Poor's), and AAA (Fitch).

c -- Business-Type Activities Long-Term Liabilities

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

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

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

The total combined utility systems revenue bond obligations at September 30, 2015, exclusive of discounts, premiums, and loss on refundings consists of $29,542,584 prior lien bonds and $137,008,874 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $170,744,105 at September 30, 2015. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2015, for the prior lien and subordinate lien bonds were, respectively, Aa1 and Aa2 (Moody's Investors Service, Inc.), AA and AA (Standard & Poor's), and AA and AA- (Fitch).

Combined Utility Systems Debt -- Revenue Bond Refunding Issues - The combined utility systems have refunded various issues of revenue bonds, notes, and certificates of obligation through refunding revenue bonds. Principal and interest on these refunding bonds are payable solely from the combined net revenues of Austin Energy and Austin Water Utility. The prior lien bonds are subordinate only to the prior lien revenue bonds outstanding at the time of issuance, while the subordinate lien bonds are subordinate to prior lien revenue bonds and to subordinate lien revenue bonds outstanding at the time of issuance.

Some of these bonds are callable prior to maturity at the option of the City. The term bonds are subject to a mandatory redemption prior to the maturity dates as defined in the respective official statements.

The net proceeds of each of the refunding bond issuances were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service. As a result, the refunded bonds are considered to be legally defeased and the liability for the refunded bonds has been removed from the financial statements. The accounting gains and losses due to the advance refunding of debt have been deferred and are being amortized over the life of the refunding bonds by the straight-line method. However, a gain or loss on refunded bonds is recognized when funds from current operations are used.

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the refunding revenue bonds outstanding at September 30, 2015 (in thousands):

Series	Fiscal Year	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1990B Refunding	1990	$ 236,009	2,649	15,476 (2)	7.35%	11/15/2015-2017
1994 Refunding	1995	142,559	26,894	96,961 (2)	6.60%	5/15/2017-2019
1998 Refunding	1999	139,965	125,385	40,306 (1)	5.25%	5/15/2016-2025
1998A Refunding	1999	105,350	11,623	18,001 (2)	4.25%	5/15/2016-2020
			$ 166,551			

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest requirements include accreted interest

Combined Utility Systems Debt -- Tax Exempt Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed $400,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2015, were P-1 (Moody's Investors Service, Inc.), A-1 (Standard & Poor's), and F1 (Fitch). The notes are in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of Austin Energy and Austin Water Utility.

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

At September 30, 2015, Austin Energy had outstanding tax exempt commercial paper notes of $26,905,000 and Austin Water Utility had $168,535,000 of commercial paper notes outstanding with interest ranging from 0.01% to 0.11%, which are adjusted daily. Subsequent issues cannot exceed the maximum rate of 12%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt. The associated letter of credit agreements have the following terms (in thousands):

Note Series	Liquidity Provider	Commitment Fee Rate	Remarketing	Remarketing Fee Rate	Outstanding	Expiration
Various	Bank of Tokyo Mitsubishi	0.41%	Goldman Sachs	0.05%	$ 195,440	10/15/2017

These notes are payable at maturity to the holder at a price equal to principal plus accrued interest. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by the respective liquidity providers and become bank notes with principal to be paid in 12 equal, quarterly installments. Bank notes bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes (the “taxable notes”) in an aggregate principal amount not to exceed $50,000,000 outstanding at any time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City’s electric system and the City’s water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2015, were P-1 (Moody’s Investors Service, Inc.), A-1 (Standard & Poor’s), and F1 (Fitch).

The taxable notes are issued in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the taxable notes are payable from the combined net revenues of Austin Energy and Austin Water Utility.

At September 30, 2015, Austin Energy had outstanding taxable commercial paper notes of $5,142,000 (net of discount of $671) with interest rates ranging from 0.16% to 0.17%. The City intends to refinance maturing commercial paper notes by issuing long-term debt. The associated letter of credit agreement has the following terms (in thousands):

Note Series	Liquidity Provider	Commitment Fee Rate	Remarketing	Remarketing Fee Rate	Outstanding	Expiration
Various	Citibank	0.28%	Goldman Sachs	0.05%	$ 5,142	10/15/2017

These taxable notes are payable at maturity to the holder at a price equal to the par value of the note. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by Citibank, NA and become bank notes with principal due immediately. Bank notes bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess note interest or the maximum rate.

The taxable notes are secured by a direct-pay Letter of Credit issued by Citibank, NA which permits draws for the payment of the Notes. Draws made under the Letter of Credit are immediately due and payable by the City from the resources more fully described in the Ordinance. A 36-month term loan feature is provided by this agreement.

Electric Utility System Revenue Debt -- General - The City is authorized by ordinance to issue electric utility system revenue obligations. Proceeds from these obligations are used only to fund electric capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of Austin Energy. Bond ratings at September 30, 2015, were A1 (Moody’s Investors Service, Inc.), AA- (Standard & Poor’s), and AA- (Fitch).

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

Electric Utility System Revenue Debt -- Revenue Bond Refunding Issues – In May 2015, the City issued $327,845,000 of Electric Utility System Revenue Refunding Bonds, Series 2015A. The net proceeds of $371,431,085 (after issue costs, discounts, and premiums) from the bond refunding were used to refund $160,000,000 of the City's outstanding tax-exempt commercial paper issued for the electric utility system; $123,200,000 of separate lien refunding bonds, series 2006, $68,340,000 of separate lien refunding bonds, series 2008A and $1,320,000 of separate lien refunding bonds, series 2010A. The debt service requirements on the refunding bonds are $643,402,297, with interest rates at 5.0%. Interest payments are due May 15 and November 15 of each year from 2015 to 2045. Principal payments are due November 15 of each year from 2021 to 2038 and November 15 of each year from 2041 to 2045. An economic gain of $12,414,968 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $12,917,111. An accounting loss of $14,286,042, which will be deferred and amortized, was recorded on this refunding.

In May 2015, the City issued $81,045,000 of Electric Utility System Revenue Refunding Bonds, Taxable Series 2015B. The net proceeds of $80,731,432 (after issue costs, discounts, and premiums) from the bond refunding were used to refund $32,700,000 of the City's outstanding taxable commercial paper notes issued for the electric utility system and $44,700,000 of separate lien revenue refunding bonds, series 2006A. The debt service requirements on the refunding bonds are $111,560,328, with interest rates ranging from 1.1% to 4.7%. Interest payments are due May 15 and November 15 of each year from 2015 to 2037. Principal payments are due November 15 of each year from 2017 to 2037. An economic gain of $2,912,672 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $3,029,940. An accounting loss of $2,666,670, which will be deferred and amortized, was recorded on this refunding.

Electric Utility System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all electric system refunding revenue bonds outstanding at September 30, 2015 (in thousands):

Series	Fiscal Year	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2002A Refunding	2002	$ 172,880	25,775	1,436 (1)	5.50%	11/15/2015-2016
2006 Refunding	2006	150,000	3,800	95 (1)	5.00%	11/15/2015
2006A Refunding	2007	137,800	15,110	596 (1)	5.00%	11/15/2015-2016
2007 Refunding	2007	146,635	39,840	6,449 (1)	5.00%	11/15/2015-2020
2008 Refunding	2008	50,000	42,860	28,267 (1)	5.20 - 6.26%	11/15/2015-2032
2008A Refunding	2008	175,000	105,660	96,170 (1)	4.00 - 6.00%	11/15/2015-2038
2010A Refunding	2010	119,255	103,735	61,326 (1)	4.00 - 5.00%	11/15/2015-2040
2010B Refunding	2010	100,990	100,990	92,973 (1)	4.54 - 5.72%	11/15/2019-2040
2012A Refunding	2013	267,770	267,770	190,936 (1)	2.50 - 5.00%	11/15/2016-2040
2012B Refunding	2013	107,715	107,715	24,471 (1)	0.67 - 3.16%	11/15/2015-2027
2015A Refunding	2015	327,845	327,845	315,557 (1)	5.00%	11/15/2021-2045
2015B Refunding	2015	81,045	81,045	30,515 (1)	1.11 - 4.66%	11/15/2017-2037
			$ 1,222,145			

(1) Interest is paid semiannually on May 15 and November 15.

Electric Utility System Revenue Debt -- Pledged Revenues - The net revenue of Austin Energy was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2015 (in thousands):

Gross Revenue (1)	Operating Expense (2)(3)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
$ 1,359,097	978,283	380,814	106,921	3.56

(1) Gross revenue includes revenues from operations and interest income.
(2) Excludes depreciation.
(3) Excludes other postemployment benefits and net pension liability accruals.

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

Water and Wastewater System Revenue Debt -- General - The City is authorized by ordinance to issue Austin Water Utility revenue obligations. Proceeds from these obligations are used only to fund water and wastewater capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of the Austin Water Utility. Bond ratings at September 30, 2015, were Aa2 (Moody's Investors Service, Inc.), AA (Standard & Poor's), and AA- (Fitch).

Water and Wastewater System Revenue Debt -- Revenue Bond Refunding Issues - In July 2015, the City issued $249,145,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2015A. The net proceeds of $283,277,706 (after issue costs, discounts, and premiums) from the bond refunding were used to refund $154,875,000 of the City's separate lien revenue refunding bonds, series 2005; $5,205,000 of the City's separate lien revenue refunding bonds, series 2005A; $63,880,000 of the City's separate lien revenue refunding bonds, series 2006A and $47,585,000 of the City's separate lien revenue refunding bonds, series 2007. The debt service requirements on the refunding bonds are $128,135,691 with interest rates ranging from 2.0% to 5.0%. Interest payments are due May 15 and November 15 of each year from 2015 to 2036. Principal payments are due November 15 of each year from 2016 to 2036, and May 15 of each year from 2020 to 2036. An economic gain of $22,755,334 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $10,740,173. An accounting loss of $16,993,675, which will be deferred and amortized, was recorded on this refunding.

In July 2015, the City issued $40,000,000 of Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2015B. The net proceeds of $39,841,396 (after issue costs, discounts, and premiums) from the bond refunding were used to refund $34,160,000 of the City's separate lien revenue refunding bonds, series 2006 and $4,565,000 of the City's separate lien revenue refunding bonds, series 2009A. The debt service requirements on the refunding bonds are $3,401,691 with interest rates ranging from 0.4% to 2.5%. Interest payments are due May 15 and November 15 of each year from 2015 to 2021. Principal payments are due November 15 of each year from 2017 to 2019, and May 15 of each year from 2016 to 2017 and 2019 to 2021. An economic gain of $2,700,593 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $1,273,443. An accounting loss of $2,559,019, which will be deferred and amortized, was recorded on this refunding.

6 – DEBT AND NON-DEBT LIABILITIES, continued

c -- Business-Type Activities Long-Term Liabilities, continued

Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2015 (in thousands):

Series	Fiscal Year	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt	
2002A Refunding	2002	$ 139,695	29,120	1,623	(1)	5.50%	11/15/2015-2016	
2004A Refunding	2005	165,145	14,010	2,811	(1)	5.00%	11/15/2015-2019	
2005 Refunding	2005	198,485	320	6	(1)	4.00%	11/15/2015	
2006 Refunding	2006	63,100	5,510	285	(1)	5.00%	11/15/2015-2016	
2006A Refunding	2007	135,000	53,780	25,000	(1)	3.50 - 5.00%	11/15/2015-2032	
2007 Refunding	2008	135,000	72,530	60,396	(1)	4.40 - 5.25%	11/15/2015-2037	
2008 Refunding	2008	170,605	115,695	42,650	(2)	0.01 - 0.13%	11/15/2015-2031	(3)
2009 Refunding	2009	175,000	149,825	62,527	(1)	4.00 - 5.13%	11/15/2015-2029	
2009A Refunding	2010	166,575	147,650	107,586	(1)	4.00 - 5.00%	11/15/2015-2039	
2010	2010	31,815	28,625	--	(4)	0.00%	11/15/2015-2041	
2010A Refunding	2011	76,855	74,160	59,041	(1)	4.00 - 5.13%	11/15/2015-2040	
2010B Refunding	2011	100,970	100,970	87,749	(1)	2.49 - 6.02%	11/15/2015-2040	
2011 Refunding	2012	237,530	237,030	172,658	(1)	2.00 - 5.00%	11/15/2015-2041	
2011 Revenue	2012	18,485	18,485	2,535	(5)	2.50 - 2.80%	12/01/2015-2016	
2011 Revenue	2012	2,332	2,333	298	(5)	2.50 - 2.80%	12/01/2015-2016	
2012 Refunding	2012	336,820	311,415	196,276	(1)	2.50 - 5.00%	11/15/2015-2042	
2013A Refunding	2013	282,460	282,460	205,187	(1)	3.00 - 5.00%	11/15/2015-2043	
2014 Refunding	2014	282,205	282,205	236,723	(1)	4.00 - 5.00%	5/15/2018-2043	
2015A Refunding	2015	249,145	249,145	128,136	(1)	2.00 - 5.00%	11/15/2016-2036	
2015B Refunding	2015	40,000	40,000	3,402	(1)	0.40 - 2.54%	5/15/2016-2021	
			$ 2,215,268					

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate of 3.60% in effect at the end of the fiscal year.
(3) Series matures on May 15 of the final year.
(4) Zero interest bond placed with Texas Water Development Board.
(5) Special Assessment Revenue Bonds.

Series 2008 refunding bonds are variable rate demand bonds. The associated letter of credit agreement has the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
2008	Citibank	0.28%	Goldman Sachs	0.05%	$ 115,695	10/15/2018

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by the respective liquidity providers and become bank bonds with principal to be paid in equal semi-annual installments over a 5-year amortization period. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

Water and Wastewater System Revenue Debt -- Pledged Revenues - The net revenue of Austin Water Utility was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2015 (in thousands):

Gross Revenue (1)	Operating Expense (2)(3)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage (4)
$ 517,253	208,307	308,946	221,310	1.40

(1) Gross revenue includes revenues from operations and interest income.
(2) Excludes depreciation.
(3) Excludes other postemployment benefits and net pension liability accruals.
(4) The coverage calculation presented considers all Water and Wastewater debt service obligations, regardless of type or designation. This methodology closely approximates but does not follow exactly the coverage calculation required by the master ordinance.

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

Airport -- Revenue Bonds - The City's Airport Fund issues airport system revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. At September 30, 2015, the total airport system obligation for prior lien bonds is $538,259,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are $329,418,034 at September 30, 2015. Revenue bonds authorized and unissued amount to $735,795,000.

Airport System Revenue Debt -- Revenue Bond Issue - In January 2015, the City issued $244,495,000 of Airport System Revenue Bonds, Series 2014. The net proceeds of $216,378,075 (after issue costs, discounts, and premiums) from the issuance are being used for designing and constructing improvements to Austin-Bergstrom International Airport. Interest is payable May 15 and November 15 of each year from 2015 to 2044, commencing on May 15, 2015. Principal payments are due November 15 of each year from 2026 to 2044. Total interest requirements for this obligation, at a rate of 5%, are $272,662,118.

The bond rating at September 30, 2015, for the revenue bonds is A (Standard & Poor's) and A1 (Moody's Investors Service, Inc.).

The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2015 (in thousands):

Series	Fiscal Year	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2005 Refunding	2008 (1)	$ 281,300	198,750	49,521 (2)	0.03 - 0.14%	11/15/2015-2025
2013 Revenue	2013	60,000	60,000	10,538 (3)	2.25%	11/15/2015-2028 (4)
2013A Refunding	2014	35,620	35,014	1,111 (3)	1.56%	11/15/2015-2018
2014 Revenue	2015	244,495	244,495	268,248 (3)	5.00%	11/15/2026-2044
			$ 538,259			

(1) Series was remarketed in 2008.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate of 4.05% in effect at the end of the fiscal year.
(3) Interest is paid semiannually on May 15 and November 15.
(4) Series matures on May 15 of the final year.

The Series 2005 refunding bonds that were remarketed in 2008 are variable rate demand bonds. These bonds are separated into 4 subseries with a total principal amount of $198,750,000. The associated letter of credit agreement has the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
2005-1	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	$ 49,700	10/15/2018
2005-2	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	49,650	10/15/2018
2005-3	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	49,700	10/15/2018
2005-4	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	49,700	10/15/2018
					$ 198,750	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds or if the agreement expires with no new agreement in place, the bonds will be purchased by the respective liquidity provider and become bank bonds with principal to be paid in annual installments over the remaining life of the bond series beginning on the first business day of the month six months following the triggering repayment event. Thus, under any circumstance, no principal payments will be due within a year of September 30, 2015. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

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

Airport Revenue Debt -- Pledged Revenues - The net revenue of the Airport Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding (including revenue bonds and revenue notes). The table below represents the pledged amounts at September 30, 2015 (in thousands):

Gross Revenue (1)	Other Available Funds (2)	Operating Expense (3)(4)	Net Revenue and Other Available Funds	Debt Service Requirement (5)	Revenue Bond Coverage
$ 120,780	3,551	76,995	47,336	14,205	3.33

(1) Gross revenue includes revenues from operations and interest income.
(2) Pursuant to the bond ordinance, in addition to gross revenue, the Airport is authorized to use "other available funds" in the calculation of revenue bond coverage not to exceed 25% of the debt service requirements.
(3) Excludes depreciation.
(4) Excludes other postemployment benefits and net pension liability accruals.
(5) Excludes debt service amounts paid with passenger facility charge revenues and restricted bond proceeds applied to current interest payments.

Nonmajor Fund Debt:

Convention Center -- Prior and Subordinate Lien Revenue Refunding Bonds - The City's Convention Center Fund issues convention center revenue bonds and hotel occupancy tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues and the special motor vehicle rental tax revenues. At September 30, 2015, the total convention center obligation for prior and subordinate lien bonds is $171,740,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $48,434,503 at September 30, 2015. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2015.

Bond ratings at September 30, 2015, for the revenue bonds and subordinate lien bonds were, respectively, AA3 and A1 (Moody's Investors Service, Inc.), and AA- and A (Standard & Poor's).

The following table summarizes Convention Center refunding revenue bonds outstanding at September 30, 2015 (in thousands):

Series	Fiscal Year	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2005 Refunding	2005	$ 36,720	32,020	13,301 (1)	4.00 - 5.00%	11/15/2015-2029
2008AB Refunding	2008	125,280	98,345	24,875 (2)	0.02 - 0.13%	11/15/2015-2029
2012 Refunding	2012	20,185	18,875	7,426 (1)	2.00 - 5.00%	11/15/2015-2029
2013 Refunding	2014	26,485	22,500	2,832 (1)	4.00 - 5.00%	11/15/2015-2019
			$ 171,740			

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate of 3.25% in effect at the end of the fiscal year.

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

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

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
2008-A	JPMorgan Chase Bank, NA	0.42%	Raymond James	0.06%	$ 49,170	10/1/2017
2008-B	JPMorgan Chase Bank, NA	0.42%	Merrill Lynch, Pierce, Fenner& Smith Inc.	0.05%	49,175	10/1/2017
					$ 98,345	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds or if the agreement expires with no new agreement in place, the bonds will be purchased by the respective liquidity provider and become bank bonds with principal to be paid in equal semi-annual installments over a 5-year amortization period beginning six months from the triggering repayment event. Thus, under any circumstance, no principal payments will be due within a year of September 30, 2015. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

6 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements

Governmental Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Contractual Obligations Principal	Contractual Obligations Interest
2016	$ 56,673	41,894	6,317	6,273	10,727	3,332
2017	57,769	39,806	6,599	6,051	10,539	3,071
2018	55,551	37,572	6,887	5,820	12,064	2,744
2019	57,003	35,360	7,174	5,579	10,942	2,367
2020	58,911	33,084	7,396	5,334	9,055	2,044
2021-2025	313,483	123,825	42,194	22,333	21,882	6,984
2026-2030	270,290	57,589	38,524	13,833	18,310	2,825
2031-2035	108,585	11,832	27,437	6,803	4,100	207
2036-2040	--	--	14,700	2,179	--	--
2041-2045	--	--	2,235	95	--	--
	978,265	380,962	159,463	74,300	97,619	23,574
Less: Unamortized bond discounts	(197)	--	--	--	(7)	--
Add: Unamortized bond premiums	52,612	--	5,887	--	4,784	--
Net debt service requirements	1,030,680	380,962	165,350	74,300	102,396	23,574

Fiscal Year Ended September 30	Total Governmental Debt Service Requirements Principal	Interest	Total
2016	73,717	51,499	125,216
2017	74,907	48,928	123,835
2018	74,502	46,136	120,638
2019	75,119	43,306	118,425
2020	75,362	40,462	115,824
2021-2025	377,559	153,142	530,701
2026-2030	327,124	74,247	401,371
2031-2035	140,122	18,842	158,964
2036-2040	14,700	2,179	16,879
2041-2045	2,235	95	2,330
	1,235,347	478,836	1,714,183
Less: Unamortized bond discounts	(204)	--	(204)
Add: Unamortized bond premiums	63,283	--	63,283
Net debt service requirements	$ 1,298,426	478,836	1,777,262

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

Business-type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Contractual Obligations Principal	Contractual Obligations Interest
2016	$ 4,354	1,209	1,503	1,475	13,748	1,339
2017	3,406	1,017	1,556	1,434	11,437	1,039
2018	3,725	869	1,623	1,386	10,385	738
2019	3,171	715	1,696	1,343	8,510	448
2020	3,118	587	1,763	1,299	6,129	214
2021-2025	9,193	994	10,176	5,627	2,988	84
2026-2030	--	--	12,664	3,427	--	--
2031-2035	--	--	6,173	1,078	--	--
2036-2040	--	--	1,420	172	--	--
2041-2045	--	--	--	--	--	--
2046-2050	--	--	--	--	--	--
	26,967	5,391	38,574	17,241	53,197	3,862
Less: Unamortized bond discounts	(9)	--	--	--	--	--
Add: Unamortized bond premiums	1,894	--	2,121	--	1,489	--
Net debt service requirements	28,852	5,391	40,695	17,241	54,686	3,862

Fiscal Year Ended September 30	Other Tax Supported Debt Principal	Other Tax Supported Debt Interest	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Bonds (2)(3) Principal	Revenue Bonds (2)(3) Interest
2016	795	342	200,582	22	181,484	196,280
2017	539	469	--	--	178,414	222,556
2018	545	467	--	--	133,517	231,627
2019	456	575	--	--	133,485	203,412
2020	775	258	--	--	167,348	172,721
2021-2025	4,435	771	--	--	978,507	722,216
2026-2030	905	39	--	--	960,035	499,561
2031-2035	--	--	--	--	578,145	323,268
2036-2040	--	--	--	--	604,604	172,360
2041-2045	--	--	--	--	370,025	47,563
2046-2050	--	--	--	--	28,400	710
	8,450	2,921	200,582	22	4,313,964	2,792,274
Less: Unamortized bond discounts	--	--	(1)	--	(2,515)	--
Add: Unamortized bond premiums	--	--	--	--	289,368	--
Net debt service requirements	$ 8,450	2,921	200,581	22	4,600,817	2,792,274

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.
(2) A portion of these bonds are variable rate bonds with rates ranging from 0.01% to 0.14%.
(3) Portions of these bonds are Special Assessment Revenue Bonds.

(Continued)

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

Business-type Activities, continued
(in thousands)

Fiscal Year Ended September 30	Capital Lease Obligations		Total Business-Type Activities Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
2016	$ 49	76	402,515	200,743	603,258
2017	52	74	195,404	226,589	421,993
2018	54	71	149,849	235,158	385,007
2019	57	68	147,375	206,561	353,936
2020	60	65	179,193	175,144	354,337
2021-2025	351	277	1,005,650	729,969	1,735,619
2026-2030	449	179	974,053	503,206	1,477,259
2031-2035	17	4	584,335	324,350	908,685
2036-2040	--	--	606,024	172,532	778,556
2041-2045	--	--	370,025	47,563	417,588
2046-2050	--	--	28,400	710	29,110
	1,089	814	4,642,823	2,822,525	7,465,348
Less: Unamortized bond discounts	--	--	(2,525)	--	(2,525)
Add: Unamortized bond premiums	--	--	294,872	--	294,872
Net debt service requirements	$ 1,089	814	4,935,170	2,822,525	7,757,695

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

Business-type Activities: Austin Energy
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Commercial Paper Notes (1)		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 122	11	32,047	--	65,132	62,600
2017	127	9	--	--	44,278	61,128
2018	115	7	--	--	39,376	59,398
2019	109	4	--	--	41,632	54,834
2020	50	3	--	--	47,368	53,011
2021-2025	4	--	--	--	262,241	232,110
2026-2030	--	--	--	--	270,520	167,358
2031-2035	--	--	--	--	196,510	111,435
2036-2040	--	--	--	--	195,310	61,520
2041-2045	--	--	--	--	125,910	23,165
2046-2050	--	--	--	--	28,400	710
	527	34	32,047	--	1,316,677	887,269
Less: Unamortized bond discounts	--	--	(1)	--	(390)	--
Add: Unamortized bond premiums	2	--	--	--	94,356	--
Net debt service requirements	529	34	32,046	--	1,410,643	887,269

Fiscal Year Ended September 30	Capital Lease Obligations		Total Austin Energy Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
2016	49	76	97,350	62,687	160,037
2017	52	74	44,457	61,211	105,668
2018	54	71	39,545	59,476	99,021
2019	57	68	41,798	54,906	96,704
2020	60	65	47,478	53,079	100,557
2021-2025	351	277	262,596	232,387	494,983
2026-2030	449	179	270,969	167,537	438,506
2031-2035	17	4	196,527	111,439	307,966
2036-2040	--	--	195,310	61,520	256,830
2041-2045	--	--	125,910	23,165	149,075
2046-2050	--	--	28,400	710	29,110
	1,089	814	1,350,340	888,117	2,238,457
Less: Unamortized bond discounts	--	--	(391)	--	(391)
Add: Unamortized bond premiums	--	--	94,358	--	94,358
Net debt service requirements	$ 1,089	814	1,444,307	888,117	2,332,424

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

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

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

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Other Tax Supported Debt Principal	Other Tax Supported Debt Interest
2016	$ 1,029	123	1,761	177	509	219
2017	856	75	1,556	135	345	300
2018	599	35	1,326	96	349	299
2019	101	7	1,062	59	292	368
2020	64	5	746	30	496	165
2021-2025	49	3	432	14	2,840	494
2026-2030	--	--	--	--	579	25
2031-2035	--	--	--	--	--	--
2036-2040	--	--	--	--	--	--
2041-2045	--	--	--	--	--	--
	2,698	248	6,883	511	5,410	1,870
Less: Unamortized bond discounts	--	--	--	--	--	--
Add: Unamortized bond premiums	158	--	204	--	--	--
Net debt service requirements	2,856	248	7,087	511	5,410	1,870

Fiscal Year Ended September 30	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Bonds (2) (3) Principal	Revenue Bonds (2) (3) Interest	Total Austin Water Utility Debt Service Requirements Principal	Total Austin Water Utility Debt Service Requirements Interest	Total Austin Water Utility Debt Service Requirements Total
2016	168,535	22	86,261	105,685	258,095	106,226	364,321
2017	--	--	100,046	134,277	102,803	134,787	237,590
2018	--	--	57,792	146,003	60,066	146,433	206,499
2019	--	--	54,484	123,732	55,939	124,166	180,105
2020	--	--	80,160	96,389	81,466	96,589	178,055
2021-2025	--	--	533,216	394,294	536,537	394,805	931,342
2026-2030	--	--	550,270	267,924	550,849	267,949	818,798
2031-2035	--	--	327,860	165,796	327,860	165,796	493,656
2036-2040	--	--	340,674	80,031	340,674	80,031	420,705
2041-2045	--	--	156,525	13,022	156,525	13,022	169,547
	168,535	22	2,287,288	1,527,153	2,470,814	1,529,804	4,000,618
Less: Unamortized bond discounts	--	--	(1,586)	--	(1,586)	--	(1,586)
Add: Unamortized bond premiums	--	--	162,769	--	163,131	--	163,131
Net debt service requirements	$ 168,535	22	2,448,471	1,527,153	2,632,359	1,529,804	4,162,163

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.
(2) Portions of these bonds are variable rate bonds with rates of 0.01% to 0.13%.
(3) Portions of these bonds are Special Assessment Revenue Bonds.

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

Business-type Activities: Airport
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Revenue Bonds (1) Principal	Revenue Bonds (1) Interest
2016	$ 24	3	18,351	21,616
2017	24	2	21,940	21,211
2018	21	1	23,744	20,757
2019	20	1	24,249	19,897
2020	10	--	26,135	18,933
2021-2025	3	--	134,060	79,919
2026-2030	--	--	79,795	58,863
2031-2035	--	--	53,775	46,037
2036-2040	--	--	68,620	30,809
2041-2045	--	--	87,590	11,376
	102	7	538,259	329,418
Less: Unamortized bond discounts	--	--	(370)	--
Add: Unamortized bond premiums	3	--	28,209	--
Net debt service requirements	105	7	566,098	329,418

Fiscal Year Ended September 30	Total Airport Debt Service Requirements Principal	Interest	Total
2016	18,375	21,619	39,994
2017	21,964	21,213	43,177
2018	23,765	20,758	44,523
2019	24,269	19,898	44,167
2020	26,145	18,933	45,078
2021-2025	134,063	79,919	213,982
2026-2030	79,795	58,863	138,658
2031-2035	53,775	46,037	99,812
2036-2040	68,620	30,809	99,429
2041-2045	87,590	11,376	98,966
	538,361	329,425	867,786
Less: Unamortized bond discounts	(370)	--	(370)
Add: Unamortized bond premiums	28,212	--	28,212
Net debt service requirements	$ 566,203	329,425	895,628

(1) Portions of these bonds are variable rate bonds with rates ranging from 0.03% to 0.14%.

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

Business-type Activities: Nonmajor Enterprise
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 3,179	1,072	1,503	1,475	11,987	1,162
2017	2,399	931	1,556	1,434	9,881	904
2018	2,990	826	1,623	1,386	9,059	642
2019	2,941	703	1,696	1,343	7,448	389
2020	2,994	579	1,763	1,299	5,383	184
2021-2025	9,137	991	10,176	5,627	2,556	70
2026-2030	--	--	12,664	3,427	--	--
2031-2035	--	--	6,173	1,078	--	--
2036-2040	--	--	1,420	172	--	--
	23,640	5,102	38,574	17,241	46,314	3,351
Less: Unamortized bond discounts	(9)	--	--	--	--	--
Add: Unamortized bond premiums	1,731	--	2,121	--	1,285	--
Net debt service requirements	25,362	5,102	40,695	17,241	47,599	3,351

Fiscal Year Ended September 30	Other Tax Supported Debt		Revenue Bonds (1)		Total Nonmajor Enterprise Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2016	286	123	11,740	6,379	28,695	10,211	38,906
2017	194	169	12,150	5,940	26,180	9,378	35,558
2018	196	168	12,605	5,469	26,473	8,491	34,964
2019	164	207	13,120	4,949	25,369	7,591	32,960
2020	279	93	13,685	4,388	24,104	6,543	30,647
2021-2025	1,595	277	48,990	15,893	72,454	22,858	95,312
2026-2030	326	14	59,450	5,416	72,440	8,857	81,297
2031-2035	--	--	--	--	6,173	1,078	7,251
2036-2040	--	--	--	--	1,420	172	1,592
	3,040	1,051	171,740	48,434	283,308	75,179	358,487
Less: Unamortized bond discounts	--	--	(169)	--	(178)	--	(178)
Add: Unamortized bond premiums	--	--	4,034	--	9,171	--	9,171
Net debt service requirements	$ 3,040	1,051	175,605	48,434	292,301	75,179	367,480

(1) A portion of these bonds are variable rate bonds with rates ranging from 0.02% to 0.13%.

6 – DEBT AND NON-DEBT LIABILITIES, continued
e -- Defeased Bonds

Over time, the City has issued refunding bonds to advance refund certain public improvement bonds, certificates of obligation, and enterprise revenue bonds. The proceeds of the sale of the refunding bonds were deposited with an escrow agent in an amount necessary to accomplish the discharge and final payment of the refunded obligations. These funds are held by the escrow agent in an escrow fund and used to purchase direct obligations of the United States of America to be held in the escrow fund. The escrow fund is irrevocably pledged to the payment of the principal and interest on the refunded obligations.

On September 30, 2015, defeased bonds remaining unredeemed or unmatured are provided below (in thousands):

Refunded Bonds	Escrow Maturity	Balance (1)
General Obligation		
HUD 108 Loan, Series 2006A	8/1/2016	$ 525
HUD 108 Loan, Series 2010A	8/1/2016	270
Austin Water Utility		
Series 2005	11/15/2015	154,875
Series 2006	11/15/2016	34,160
Series 2006A	11/15/2016	63,880
Series 2007	11/15/2017	47,585
Series 2009A	11/15/2018	4,565
Austin Energy		
Series 2006	11/15/2016	123,200
Series 2006A	11/15/2015	44,700
Series 2008A	11/15/2018	68,340
Series 20010A	11/15/2016	1,320
		$ 543,420

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

7 – RETIREMENT PLANS
a -- General Information

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

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

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

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

Plan Financial Statements. The most recently available financial statements of the pension funds are for the year ended December 31, 2014. Stand-alone financial reports that include financial statements and supplementary information for each plan are publicly available at the locations and internet addresses shown below.

Plan	Address	Telephone
City of Austin Employees' Retirement and Pension Fund	418 E. Highland Mall Blvd. Austin, Texas 78752-3720 **www.coaers.org**	(512)458-2551
City of Austin Police Officers' Retirement and Pension Fund	2520 S. IH 35, Ste. 100 Austin, Texas 78704 **www.ausprs.org**	(512)416-7672
Fire Fighters' Relief and Retirement Fund of Austin, Texas	4101 Parkstone Heights Dr., Ste. 270 Austin, Texas 78746 **www.afrs.org**	(512)454-9567

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

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

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

	City Employees	Police Officers	Fire Fighters
Eligibility	Group A members qualify for retirement benefits at age 62; age 55 with 20 years creditable service; or any age with 23 years creditable service. No reduced benefits are available. Group B members qualify for normal retirement benefits at age 65 with 5 years creditable service or at age 62 with 30 years creditable service. Reduced benefits are available at age 55 with 10 years of creditable service.	Members are eligible for retirement benefits at any age with 23 years creditable service (excluding pre-membership military service), age 55 and 20 years creditable service (excluding pre-membership military service), or age 62 and any number of creditable service years.	Members are eligible for normal retirement benefits upon the earlier of age 50 with 10 years of service or 25 years of service regardless of age. Members are eligible for early retirement at 45 with 10 years of service or with 20 years of service regardless of age.
Calculation	Average of 36 highest months of base pay multiplied by years and months of creditable service multiplied by 3.0% for Group A and 2.5% for Group B.	Average of 36 highest months of base salary plus longevity pay multiplied by years and months of service multiplied by 3.2%.	Average of 36 highest months of base salary plus longevity pay multiplied by years of service multiplied by 3.3% with a $2,000 monthly minimum.
Death Benefits	Retiree or active member eligible for retirement, $10,000 lump sum and continuation of benefits to beneficiary if this option was selected. If not eligible for retirement, refund of accumulated deposits plus death benefit from COAERS equal to those deposits excluding purchases of time.	For retirees and members eligible for retirement, $10,000 lump sum and the member's accrued benefit as of the date of death based on annuity selected. Non-vested members receive the greater of $10,000 or twice the amount of the member's accumulated contributions.	Surviving spouse receives 75% of retiree benefits based the greater of 20 years or years of service at time of death. If surviving spouse exists, each dependent receives 15% of the payment paid to the surviving spouse. If no surviving spouse exists, dependents split equally the amount that would have been paid to surviving spouse.
Disability Benefits	After approved for disability benefits, active members may choose from several different disability retirement options. Must have 5 years of service if disability is not job related.	After approved for disability benefits, if disability is the result of employment duties, benefit is based on the greater of 20 years or normal retirement calculation. Must have 10 years of service if disability is not job related.	For the first 30 months, eligible for retiree benefits based on the greater of service at time of disability or 20 years. After 30 months, continuance of annuity may be reevaluated.
Cost of Living Adjustments (COLA)	The plan does not require COLAs. Such increases must be deemed sustainable by the actuary and approved by the City Council and Board of Trustees of the fund. The most recent COLA was put into effect in 2002.	The plan does not require COLAs. Such increases must be approved by the Board of Trustees and the actuary of the fund. The most recent COLA was put into effect in 2007.	The plan does not require COLAs. Such increases must be approved by the Board of Trustees and the actuary of the fund. The most recent COLA was put into effect for 2015.

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

Employees Covered by Benefit Terms: Membership in the plans, is as follows:

	City Employees	Police Officers	Fire Fighters
As of December 31:	**2014**	**2013**	**2013**
Inactive employees or beneficiaries currently receiving benefits	5,396	683	640
Inactive employees entitled to but not yet receiving benefits	2,303	26	5
Active employees	9,028	1,732	1,074
Total	16,727	2,441	1,719

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

	City Employees	Police Officers	Fire Fighters
Employee contribution (percent of earnings)	8.00%	13.00%	17.70% (1)
City contribution (percent of earnings)	18.00% (2)	21.63% (3)	22.05%
City contributions year ended September 30, 2015 (in thousands)	$97,655	32,942	18,327

(1) A rate of 18.20% was effective October 1, 2015.
(2) The City contributes two-thirds of the cost of prior service benefit payments. A rate of 18% was effective October 1, 2012.
(3) A rate of 21.313% was effective October 1, 2015.

7 – RETIREMENT PLANS, continued

b -- Net Pension Liability

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

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

	City Employees	Police Officers	Fire Fighters
Inflation Rate	3.25%	3.25%	3.50%
Projected Annual Salary Increases	4.5% to 6.0%	Services based	Services based
Investment Rate of Return	7.75%	7.90%	7.70%
Ad Hoc Postemployment Benefit Changes including COLAs	None	None	None
Dates of Experience Studies	2007 - 2011	2012 - 2013	2004 - 2014
Source for Mortality Assumptions	RP-2000 Mortality Table with White Collar adjustment and multipliers of 110% for males and 120% for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.	RP-2000 Combined Healthy without projection - Sex Distinct.	RP2000 (Fully Generational using Scale AA) set back two years for males and females - Sex Distinct.

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

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
City Employees:		
International Equity	31.55%	8.03%
US Equity	31.01%	5.05%
Fixed Income	24.50%	0.80%
Alternative Investments	7.50%	5.18% to 8.65%
Real Estate	5.44%	5.61%
Total	100.00%	
Police Officers:		
Domestic Equity	43.50%	7.50%
International Equity	21.00%	8.50%
Real Estate	20.00%	4.50%
Domestic Bonds	9.00%	2.50%
International Bonds	6.50%	3.50%
Total	100.00%	
Fire Fighters:		
Public Domestic Equity	22.50%	5.00%
Public Foreign Equity	22.50%	5.90%
Private Equity Fund of Funds	15.00%	7.00%
Investment Grade Bonds	16.00%	0.70%
Hedge Funds	10.00%	2.90%
Core Real Estate	5.00%	3.70%
Value Real Estate	5.00%	5.20%
Treasury Inflation Protected Securities	4.00%	1.20%
Total	100.00%	

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

	City Employees	Police Officers	Fire Fighters
Single Discount Rate	7.75%	7.90%	7.70%
Change Since Last Measurement Date	None	None	None
Long-term Expected Rate of Return on Pension Plan Investments	7.75%	7.90% (1)	7.70% (2)
Cash Flow Assumptions	Plan member contributions will be made at the current rate. City contributions will be made at the the current rate for 24 years and then will decrease to 8%.	Both plan member contributions and City contributions will be made at current contribution rates.	Both plan member contributions and City contributions will be made at current contribution rates.

(1) – The investment return assumption used for the prior year's actuarial valuation was 8.00% for Police Officers.
(2) – The investment return assumption used for the prior year's actuarial valuation was 7.75% for Fire Fighters.

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

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

	1% Decrease		Current Discount		1% Increase	
	Rate	**Net Pension Liability**	**Rate**	**Net Pension Liability**	**Rate**	**Net Pension Liability (Asset)**
City Employees	6.75%	$ 1,250,122	**7.75%**	**$ 884,256**	8.75%	$ 576,554
Police Officers	6.90%	446,103	**7.90%**	**333,604**	8.90%	238,082
Fire Fighters	6.70%	179,082	**7.70%**	**72,035**	8.70%	(17,038)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of each of the pension systems. These reports are available as explained in General Information (part a) of this footnote.

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

Schedule of Changes in Net Pension Liability. Changes in net pension liability for all three funds and the City for the measurement period ended December 31, 2014 are as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
Total Pension Liability at December 31, 2013 (a)	$ 2,909,918	909,000	806,282	4,625,200
Changes for the year:				
Service Cost	89,235	30,254	25,319	144,808
Interest	222,710	72,443	62,977	358,130
Benefit Changes	--	(11,015)	--	(11,015)
Differences between Expected and Actual Experience	33,911	--	--	33,911
Assumption Changes	--	14,137	4,883	19,020
Contribution Buy Back	--	2,207	--	2,207
Benefit Payments including refunds	(161,718)	(45,403)	(37,993)	(245,114)
Net Change in Total Total Pension Liability	184,138	62,623	55,186	301,947
Total Pension Liability at December 31, 2014 (b)	$ 3,094,056	971,623	861,468	4,927,147
Total Plan Fiduciary Net Position at December 31, 2013 (c)	$ 2,130,624	595,110	752,622	3,478,356
Changes for the year:				
Employer Contributions	93,331	32,400	18,670	144,401
Employee Contributions	50,490	19,458	14,660	84,608
Contributions Buy Back	--	2,207	--	2,207
Pension Plan Net Investment Income	99,704	35,574	42,005	177,283
Benefits Payments and Refunds	(161,718)	(45,403)	(37,993)	(245,114)
Pension Plan Administrative Expense	(2,631)	(1,327)	(531)	(4,489)
Net Change in Total Plan Fiduciary Net Position	79,176	42,909	36,811	158,896
Total Plan Fiduciary Net Position at December 31, 2014 (d)	$ 2,209,800	638,019	789,433	3,637,252
Net Pension Liability at December 31, 2013 (a-c)	$ 779,294	313,890	53,660	1,146,844
Net Pension Liability at December 31, 2014 (b-d)	$ 884,256	333,604	72,035	1,289,895

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

The City Employees' fund had no significant changes of assumptions or other inputs, no changes of benefit terms, and no significant factors that affected measurement of the total pension liability during the measurement period.

The Police Officers' fund had numerous changes in benefits and assumptions that affected the measurement of the total pension liability for the measurement period. In February 2015, the pension board approved the following benefit changes:

- Effective February 18, 2015, eliminate the opportunity to purchase permissive service in conjunction with utilizing the Forward or Retro-DROP,
- Effective April 1, 2015, permissive service credit factors shall be determined based on an interest rate that is 50 basis points lower than the valuation assumption and generational mortality,
- Effective April 1, 2015, eliminate Retro-DROP for members with less than 23 years Police Officers' fund service,
- Effective August 1, 2015, the Forward DROP interest rate will be set annually in the same manner as the PROP interest rate, except for those with 23 years of Police Officers' fund service as of July 31, 2015 who will not be affected, and
- Requiring that new hires beginning February 1, 2016 pay the full actuarial costs for purchase of military service.

Changes to assumptions included:

- Decreasing the investment return assumption from 8.00% to 7.90% per year compounded annually, net of expenses,
- Lowering the expected increase in salary due to general wage increased from 3.75% to 3.5%,
- Decreasing the annual assumed interest rate credited to Post Retirement Option Plan (PROP), accounts from 4.00% to 2.25%,
- Reducing the disability rates by one-half,
- Increasing by 25% the retirement rates for members entering the system prior to age 33, and
- Slight modifications to retirement rates due to anticipated future PROP usage.

The Fire Fighters' fund changed a number of assumptions that affected the measurement of the total pension liability for the measurement period.

- The investment return was decreased from 7.75% to 7.70% per year compounded annually, net of expenses.
- The general wage inflation rate was decreased from 3.5% to 3.0%.
- Amendments were made to the service-based table attributable to merit and longevity salary increases, the retirement rates, the Retro-DROP election assumptions, the withdrawal rates, and the assumed spousal age difference assumptions.

This fund had no benefit changes or other significant factors that affected measurement of the total pension liability during the measurement period.

c -- Pension Expense

Total pension expense recognized by the City for the fiscal year ended September 30, 2015, was comprised of the following (in thousands):

	Pension Expense
City Employees	$ 117,263
Police Officers	30,009
Fire Fighters	20,105
Total	$ 167,377

7 – RETIREMENT PLANS, continued
d -- Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015 the City reported deferred outflows of resources related to pensions from the following sources (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
Deferred Outflows of Resources				
Contributions to the plans subsequent to the measurement date	$ 71,342	24,055	14,069	109,466
Differences between expected and actual experience	27,085	--	--	27,085
Changes in assumptions	--	12,724	4,341	17,065
Net difference between projected and actual earnings on pension plan investments	53,886	9,383	12,597	75,866
Total Deferred Outflows of Resources	$ 152,313	46,162	31,007	229,482

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

Fiscal Year Ended September 30	City Employees	Police Officers	Fire Fighters	Total
2016	$ 20,298	3,759	3,692	27,749
2017	20,297	3,760	3,692	27,749
2018	20,298	3,759	3,692	27,749
2019	20,078	3,760	3,692	27,530
2020	--	1,414	543	1,957
Thereafter	--	5,655	1,627	7,282
Total	$ 80,971	22,107	16,938	120,016

In addition, in fiscal year 2016 the following amounts of deferred outflows representing deferred contributions will be recognized as a reduction to the net pension liability (in thousands):

City Employees	$ 71,342
Police Officers	24,055
Fire Fighters	14,069
Total	$ 109,466

8 – OTHER POSTEMPLOYMENT BENEFITS
a -- Description

In addition to the contributions made to the three pension systems, the City provides certain other postemployment benefits to its retirees. Other postemployment benefits include access to medical, dental, and vision insurance for the retiree and the retiree's family and $1,000 of life insurance on the retiree only. All retirees who are eligible to receive pension benefits under any of the City's three pension systems are eligible for other postemployment benefits. Retirees may also enroll eligible dependents under the medical, dental, and vision plan(s) in which they participate. The City's other postemployment benefits plan is a single employer plan.

8 – OTHER POSTEMPLOYMENT BENEFITS, continued
a – Description, continued

The City is under no obligation to pay any portion of the cost of other postemployment benefits for retirees or their dependents. Allocation of City funds to pay other postemployment benefits is determined on an annual basis by the City Council as part of the budget approval process on a pay-as-you-go basis.

The City recognizes the cost of providing these benefits to active employees as an expense and corresponding revenue in the Employee Benefits Fund; no separate plan report is available. The City pays actual claims for medical and 100% of the retiree's life insurance premium. Group dental and vision coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental and vision premium.

The estimated pay-as-you-go cost of providing medical and life benefits was $39.5 million for 4,431 retirees in 2015 and $33.3 million for 4,189 retirees in 2014.

b -- Annual Other Postemployment Benefits (OPEB) Cost and Net OPEB Obligation

The annual OPEB cost associated with the City's retiree benefits for the fiscal year ended September 30, 2015 is as follows (in thousands):

	OPEB
Annual required contribution	$ 136,706
Interest on net OPEB obligation	29,077
Adjustment to annual required contribution	(38,867)
Annual OPEB cost	126,916
Contributions made	(39,482)
Change in net OPEB obligation	87,434
Beginning net OPEB obligation	690,265
Net OPEB obligation	$ 777,699

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year and the two preceding years are as follows (in thousands):

Year Ended September 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	$ 132,595	20%	598,687
2014	124,861	27%	690,265
2015	126,916	31%	777,699

c -- Schedule of Funding Progress at September 30, 2015 (in thousands):

Actuarial Value of Assets	Actuarial Accrued Liability	UAAL (1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
$ --	1,449,238	1,449,238	0%	775,527	186.9%

(1) UAAL - Unfunded Actuarial Accrued Liability

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information, presents multiyear information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

8 – OTHER POSTEMPLOYMENT BENEFITS, continued
d -- Actuarial Methods and Assumptions

Projections of benefits are based on the plan in place at the time of the valuation and include the type of benefits provided at the valuation date and the cost sharing pattern between the employer and plan members at that time. The actuarial calculations of the OPEB plan reflect a long-term perspective and utilize actuarial methods and assumptions that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

e -- Funding Policy

The actuarial cost method and significant assumptions underlying the actuarial calculation are as follows:

	OPEB
Actuarial Valuation Date	October 1, 2014
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage Open
Remaining Amortization Period	30 years
Asset Valuation Method	N/A
Investment Rate of Return	4.21%
Inflation Rate	N/A
Salary Increase	None
Payroll Increase	None
Health Care Cost Trend Rate	7.0% in 2015, decreasing 0.5% per year for four years to an ultimate trend of 5.0% in 2019

9 – DERIVATIVE INSTRUMENTS

The City has derivatives in two hedging programs: Energy Risk Management Program and Variable Rate Debt Management Program.

In accordance with GAAP, the City is required to report the fair value of all derivative instruments on the statement of net position. All derivatives must be categorized into two basis types – (1) hedging derivative instruments and (2) investment derivative instruments. Hedging derivative instruments significantly reduce an identified financial risk by substantially offsetting changes in cash flows or fair values of an associated hedgeable item. Investment derivative instruments are entered into primarily for income or profit purposes or they are derivative instruments that do not meet the criteria of an effective hedging derivative instrument. Changes in fair value of hedging derivative instruments are deferred on the statement of net position, and changes in fair value of investment derivative instruments are recognized as gains or losses on the statement of activities.

a -- Energy Risk Management Program

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

Hedging Derivative Instruments

Natural Gas Derivatives
Austin Energy purchases financial contracts on the New York Mercantile Exchange (NYMEX) to provide a hedge against the physical delivery price of natural gas from its various hubs. Austin Energy enters into basis swaps to protect delivery price differences between Henry Hub and its natural gas delivery points, Western Area Hub Association (WAHA), Katy, and the Houston Ship Channel (HSC).

9 – DERIVATIVE INSTRUMENTS, continued
a -- Energy Risk Management Program, continued

The fair value of futures, swaps, and basis swap contracts is determined using the NYMEX closing settlement prices as of the last day of the reporting period. The fair value is calculated by deriving the difference between the closing futures price on the last day of the reporting period and purchase price at the time the positions were established. The fair value of the options are calculated using the Black/Scholes valuation method utilizing implied volatility based on the NYMEX closing settlement prices of the options as of the last day of the reporting period, risk free interest rate, time to maturity, and the NYMEX forward price of the underlier as of the last day of the reporting period.

Premiums paid for options are deferred until the contract is settled. As of September 30, 2015, $202 thousand in premiums was deferred. As of September 30, 2015, the fair value of Austin Energy's futures, options, swaps and congestion rights, was an unrealized loss of $46.2 million, of which $51.8 million is reported as derivative instruments in liabilities and $5.6 million is reported as derivative instruments in assets. The fair values of these derivative instruments are deferred until future periods on the statement of net position using deferred outflows and deferred inflows.

Congestion Revenue Rights Derivatives
Preassigned Congestion Revenue Rights (PCRRs) and Congestion Revenue Rights (CRRs) function as financial hedges against the cost of resolving congestion in the Electric Reliability Council of Texas (ERCOT) market. These instruments allow Austin Energy to hedge expected future congestion that may arise during a certain period. CRRs are purchased at auction, annually and monthly at market value. Municipally owned utilities are granted the right to purchase PCRRs annually at 10-20% of the cost of CRRs. The instruments exhibit all three characteristics - settlement, leverage, and net settlement - to classify them as derivative instruments.

As of September 30, 2015, PCRRs had a fair value of $283 thousand and CRRs had a fair value of $440 thousand, and both are reported as derivative instruments. The market value for CRRs and PCRRs is calculated using the implied market value (the difference between future proxy sink price and source price) multiplied by the number of open positions. The difference in the prices represents what the expected cost of congestion will be for that given point in time.

On September 30, 2015, Austin Energy had the following outstanding hedging derivative instruments (in thousands):

			Fair Value at September 30, 2015				
Type of Transaction		Reference Index	Maturity Dates	Notional Volumes	Fair Value	Change in Fair Value	Premiums Deferred
Long	OTC Call Options	Henry Hub	Oct 2015 - Dec 2019	16,765,092 (1)	$ 4,873	1,563	4,799
n/a	Congestion Rights	ICE (2)	Oct 2015 - Jun 2017	21,887,691 (3)	723	(4,310)	-
			Derivative instruments (assets)		5,596	(2,747)	4,799
Short	OTC Call Options	Henry Hub	Apr 2016 - Oct 2016	(1,660,000) (1)	(236)	491	(122)
Short	OTC Put Options	Henry Hub	Apr 2016 - Dec 2019	(16,765,000) (1)	(15,122)	(12,259)	(4,475)
Long	OTC Swaps	Henry Hub	Oct 2015 - Dec 2019	27,056,631 (1)	(36,393)	(25,573)	-
			Derivative instruments (liabilities)		(51,751)	(37,341)	(4,597)
			Total		$ (46,155)	(40,088)	202

(1) Volume in MMBTUs
(2) IntercontinentalExchange
(3) Volume in MWHs

Austin Energy routinely purchases derivative instruments. The outstanding hedging derivative instruments were purchased at various dates.

The realized gains and losses related to the hedging activity derivative instruments are netted to fuel expense in the period realized.

9 – DERIVATIVE INSTRUMENTS, continued
a -- Energy Risk Management Program, continued

Risks

Credit Risk. Credit risk is the risk of loss due to a counterparty defaulting on its obligations. Austin Energy's fuel derivative contracts expose Austin Energy to custodial credit risk on Exchange Traded derivative positions. In the event of default or nonperformance by brokers or the exchange, Austin Energy's operations will not be materially affected. However, Austin Energy does not expect the brokerages to fail to meet their obligations given their high credit ratings and the strict and deep credit requirements upheld by NYMEX, of which these brokerage houses are members. At September 30, 2015, the brokerages had credit ratings of A.

The over-the-counter agreements expose Austin Energy to credit risk; however, at September 30, 2015, none of the counterparties had outstanding obligations with Austin Energy. The contractual provisions applied to these contracts under the International Swaps and Derivatives Association (ISDA) agreement include collateral provisions. At September 30, 2015, no collateral was required under these provisions.

The congestion rights expose Austin Energy to custodial credit risk in the event of default or nonperformance by ERCOT. In the event of default of nonperformance, Austin Energy's operations will not be materially affected. However, Austin Energy does not expect ERCOT to fail in meeting their obligations as they are a regulatory entity of the State of Texas.

Termination Risk. Termination risk is the risk that a derivative will terminate prior to its scheduled maturity due to a contractual event. Contractual events include illegality, tax and credit events upon merger and other events. Termination risk for exchange-traded instruments is greatly reduced by the strict rules and guidelines set up by the exchange, which is governed by the Commodity Futures Trade Commission. Austin Energy's exposure to termination risk for over-the counter agreements is minimal due to the high credit rating of the counterparties and the contractual provisions under the ISDA agreement applied to these contracts. Termination risk is associated with all of Austin Energy's derivatives up to the fair value of the instrument.

Netting Arrangements. Austin Energy enters into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by or owed to the non-defaulting party.

Basis Risk. Austin Energy is exposed to basis risk on its fuel hedges because the expected commodity purchases being hedged will price based on a delivery point (WAHA/Katy/HSC) different than that at which the financial hedging contracts are expected to settle NYMEX (Henry Hub). As of September 30, 2015, the NYMEX price was $2.56 per MMBTU, the WAHA Hub price was $2.40 per MMBTU, Katy was $2.52 per MMBTU, and the HSC Hub price was $2.50 per MMBTU.

Investment Derivative Instruments

On September 30, 2015, Austin Energy had the following closed out investment derivative instruments (in thousands):

Type of Transaction		Reference Index	Fair Value at September 30, 2015 — Maturity Dates	Volumes in MMBTU	Fair Value	Change in Fair Value
Long	OTC Swaps	Henry Hub	Dec-15	155,000	$ (224)	(226)
Short	OTC Swaps	Henry Hub	Dec-15	(155,000)	233	226
					$ 9	--

At September 30, 2015, Austin Energy recorded an unrealized loss of $39 thousand on outstanding emission investment instruments.

In fiscal year 2015 Austin Energy sold PCRRs and recorded a gain of $279 thousand. However, this gain was deferred under the accounting requirements for regulated operations. At September 30, 2015, $515 thousand remained deferred.

Risks

As of September 30, 2015, Austin Energy was not exposed to credit, interest, or foreign currency risk on its investment derivative instruments.

9 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program

Hedging Derivative Instruments

The intention of each of the City's swaps is to provide a cash flow hedge for its variable interest rate bonds by providing synthetic fixed rate bonds. As a means to lower its borrowing costs when compared against fixed rate bonds at the time of issuance, the City executed pay-fixed, receive-variable swaps in connection with its issuance of variable rate bonds.

As of September 30, 2015, the City has three outstanding swap transactions with initial and outstanding notional amounts totaling $602.1 million and $412.8 million, respectively. The mark-to-market or fair value for each swap is estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the London Interbank Offered Rate (LIBOR) swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

On September 30, 2015, the City had the following outstanding interest rate swap hedging derivative instruments (in thousands):

Item	Related Variable Rate Bonds	Terms	Effective Date	Maturity Date	Notional Amount	Fair Value
Business-Type Activities - Hedging derivatives:						
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	Pay 3.600%, receive SIFMA swap index	5/15/2008	5/15/2031	$ 115,695	(21,597)
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Pay 4.051%, receive 71% of LIBOR	8/17/2005	11/15/2025	198,750	(34,229)
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Pay 3.251%, receive 67% of LIBOR	8/14/2008	11/15/2029	98,345	(14,508)
					$ 412,790	(70,334)

All swaps are pay-fixed interest rate swaps. All were entered into with the objective of hedging changes in the cash flows on the related variable rate debt.

The fair value of the City's interest rate swap hedging derivative instruments is reported as derivative instruments in liabilities with an offsetting adjustment to deferred outflow of resources. The table below provides for the fair value and changes in fair value of the City's interest rate swap agreements as of September 30, 2015 (in thousands):

	Outstanding	Fair Value and Classification		Change in fair value	
	Notional			Deferred	Deferred
Item	Amount	Amount	Classification	Outflows	Inflows
Business-Type Activities:					
Hedging derivative instruments (cash flow hedges):					
WW2	$ 115,695	(21,597)	Non-current liability	(6,571)	--
AIR1	198,750	(34,229)	Non-current liability	(1,715)	--
HOT1	98,345	(14,508)	Non-current liability	(2,114)	--
	$ 412,790	(70,334)		(3,829)	--

Due to the continued low interest rate levels during fiscal year 2015, the City's interest rate swap hedging derivative instruments had negative fair values as of September 30, 2015. The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received.

9 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

Risks

Credit risk. As of September 30, 2015, the City was not exposed to credit risk on any of its outstanding swap agreements because each swap had a negative fair value. However, should interest rates change and the fair value of a swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The counterparty credit ratings for the City's interest rate swap hedging derivative instruments at September 30, 2015, are included in the table below:

			Counterparty Ratings		
Item	**Related Variable Rate Bonds**	**Counterparty**	**Moody's Investors Service, Inc**	**Standard & Poor's**	**Fitch, Inc**
Business-Type Activities:					
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	Goldman Sachs Bank USA	A1	A-	A
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Morgan Stanley Capital Services, Inc.	A3	A-	A
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Morgan Keegan Financial Products	A3	BBB+	A

Swap agreements for all three swaps contain collateral agreements with the counterparties. These swap agreements require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreements. For Swap AIR1, the City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/S&P. For Swap HOT1, the credit support provider of MKFP is Deutsche Bank AG, New York Branch (DBAG). This swap requires collateralization of the fair value of the swap should DBAG's credit rating fall below the applicable thresholds in the agreement.

Swap payments and associated debt. The net cash flows for the City's interest rate swap hedging derivative instruments for the year ended September 30, 2015, are included in the table below (in thousands):

		Counterparty Swap Interest				
Item	**Related Variable Rate Bonds**	**Pay**	**Receive**	**Net**	**Interest to Bondholders**	**Net Interest Payments**
Business-Type Activities:						
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	$ (4,222)	49	(4,173)	(44)	(4,217)
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	(8,161)	247	(7,914)	(142)	(8,056)
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	(3,224)	116	(3,108)	(49)	(3,157)
		$ (15,607)	412	(15,195)	(235)	(15,430)

9 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

Basis and interest rate risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City does not bear basis risk on Swap WW2. At September 30, 2015, the City bears basis risk on the two remaining swaps. These swaps have basis risk since the City receives a percentage of LIBOR to offset the actual variable rate the City pays on the related bonds. The City is exposed to basis risk should the floating rate that it receives on a swap drop below the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is the risk of a permanent mismatch occurring between the interest rate paid on the City's underlying variable rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds. For example, a grandfathering of the elimination of federal tax-exemption on existing tax-exempt bonds, or a tax cut, would result in the yields required by investors on the City's bonds coming close to or being equal to taxable yields. This would result in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 71% of LIBOR on AIR1, and 67% of LIBOR on Swap HOT1 and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk. The City or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased swap insurance on the Swap AIR1 to further reduce the possibility of termination risk.

Rollover risk. The City is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the City will be re-exposed to the risks being hedged by the hedging derivative instrument. The City is currently not exposed to rollover risk on its hedging derivative instruments.

Investment Derivative Instruments

At September 30, 2015, the City did not have any investment derivative instruments related to interest rate swaps.

As of September 30, 2015, debt service requirement of the City's variable rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows (as rates vary, variable rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Total Interest
2016	$ 23,820	(117)	14,794	14,677
2017	12,255	(116)	14,255	14,139
2018	12,600	(118)	13,813	13,695
2019	28,525	(106)	12,841	12,735
2020	31,935	(89)	11,624	11,535
2021-2025	179,675	(178)	39,220	39,042
2026-2030	110,000	62	10,827	10,889
2031-2032	13,980	(1)	336	335
Total	$ 412,790	(663)	117,710	117,047

10 – DEFICITS IN FUND BALANCES AND NET POSITION

At September 30, 2015, the following funds reported deficits in fund balances/net position (in thousands). Management intends to recover these deficits through future operating revenues, transfers, or debt issues.

Nonmajor Governmental	Deficit
Special Revenue Funds:	
Auto Theft Interdiction	$ 17
Neighborhood Housing & Conservation	2,612
Mueller Development	6
Music Loan Program	2
Capital Projects Funds:	
Funds authorized in 1992	
Street & traffic signals	8
Libraries	17
Funds authorized in 1997	
Radio Trunking	47
Funds authorized in 2006	
Central Library	18,635
Funds authorized in 2012	
Parks	6,051
Other funds	
Planning & development improvements	1
General government projects	13,510
Park improvements	875
Parks and Recreation	524
Capital Reserve	1,239
Public Works	346
Watershed Protection	700
City Hall, plaza, parking garage	7,032
Internal Service Funds	
Capital Projects Management	1,363
Nonmajor Enterprise	
Austin Resource Recovery	50,738
Transportation	17,032

11 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables, payables, and advances at September 30, 2015, are as follows (in thousands):

Receivable Fund	Payable Fund	Amount Current	Amount Advances
Governmental funds:			
General Fund	Nonmajor governmental funds	$ 227	--
Nonmajor governmental funds	General Fund	12	--
	Nonmajor governmental funds	57,521	--
	Austin Water Utility	--	1,373
	Nonmajor enterprise funds	--	538
Internal Service funds	Nonmajor governmental funds	11	71
	Internal Service funds	670	--
Enterprise funds:			
Austin Energy	General Fund	198	1,062
	Nonmajor governmental funds	--	220
	Austin Water Utility (restricted)	441	16,587
	Airport	153	821
	Nonmajor enterprise funds	338	--
Austin Water Utility	Nonmajor enterprise funds	301	2,705
Airport (restricted)	Nonmajor governmental funds	--	51
Nonmajor enterprise funds (restricted)	Nonmajor governmental funds	--	437
Nonmajor enterprise funds	Nonmajor enterprise funds	1,231	--
		$ 61,103	23,865

Interfund receivables, payables, and advances reflect loans between funds. Of the above current amount, $10.8 million and $2.3 million are interfund loans from the Fiscal Surety Fund and Urban Forest Replenishment Fund, special revenue funds, to other special revenue funds (primarily grant funds) to cover deficit pooled investments and cash. The above current amount also includes $44.4 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

Interfund transfers during fiscal year 2015 were as follows (in thousands):

	Transfers In						
Transfers Out	General Fund	Nonmajor Governmental	Austin Energy	Austin Water Utility	Nonmajor Enterprise	Internal Service	Total
General Fund	$ --	22,378	6,970	--	956	--	30,304
Nonmajor governmental funds	--	34,552	157	--	77,226	7,884	119,819
Austin Energy	113,770	--	--	--	--	--	113,770
Austin Water Utility	39,904	75	--	--	--	--	39,979
Airport	--	--	--	--	--	52	52
Nonmajor enterprise funds	262	4,091	--	--	--	97	4,450
Internal service funds	--	24,634	6	31	--	180	24,851
Total transfers out	$ 153,936	85,730	7,133	31	78,182	8,213	333,225

Interfund transfers are authorized through City Council approval. Significant transfers include Austin Energy and Austin Water Utility transfers to the General Fund, which are comparable to a return on investment to owners, and the transfer of hotel occupancy and vehicle rental tax collections from the Hotel-Motel Occupancy Tax and the Vehicle Rental Tax Funds to the Convention Center Fund.

12 – SELECTED REVENUES
a -- Major Enterprise Funds

Austin Energy and Austin Water Utility

The Texas Public Utility Commission (PUC) has jurisdiction over electric utility wholesale transmission rates. On June 3, 2014, the PUC approved the City's most recent wholesale transmission rate of $1.160111/KW. Transmission revenues totaled approximately $72 million in 2015. The City Council has jurisdiction over all other electric utility rates and over all water and wastewater utility rates and other services. The Council determines electric utility and water and wastewater utility rates based on the cost of operations.

Under a bill passed by the Texas Legislature in 1999, municipally-owned electric utilities such as the City's utility system have the option of offering retail competition after January 1, 2002. As of September 30, 2015, the City has elected not to enter the retail market, as allowed by state law.

Electric rates include a fixed-rate component and cost-adjustment factors that allow for recovery of power supply, regulatory, and community benefit costs. If actual power supply costs differ from amounts billed to customers, then regulatory assets or deferred inflows are recorded by Austin Energy. The power supply factor is reviewed annually or when over- or under-recovery is more than 10% of expected power supply costs. Any over- or under-collections of the power supply, regulatory, or community benefit costs are applied to the respective cost-adjustment factor.

Airport

The City has entered into certain lease agreements as the lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In the fiscal year 2015, the Airport fund revenues included minimum concession guarantees of $19,348,657.

The following is a schedule by year of minimum future rentals on noncancelable operating leases with remaining terms of up to ten years for the Airport Fund as of September 30, 2015 (in thousands):

Fiscal Year Ended September 30	Airport Lease Receipts
2016	$ 5,110
2017	2,709
2018	115
2019	5
2020	5
2021	1
Totals	$ 7,945

Projection of minimum future rentals for the Austin-Bergstrom Landhost Enterprises, Inc. is based on the current adjusted minimum rent for the period January 1, 2010 through December 31, 2015. The minimum rent is adjusted every five years commensurate with the percentage increase in the Consumer Price Index (CPI) – Urban Wage Earners and Clerical workers, U.S. Owner Average, published by the U.S. Department of Labor Bureau of Labor Statistics over the five-year period.

b -- Operating Lease Revenue

The City has entered into various lease agreements as the lessor of office space, antenna space and ground leases. Minimum guaranteed income on these non-cancelable operating leases is as follows (in thousands):

Fiscal Year Ended September 30	Future Lease Receivables
2016	$ 1,763
2017	1,042
2018	1,038
2019	1,019
2020	1,326
2021-2025	4,377
Totals	$ 10,565

13 – COMMITMENTS AND CONTINGENCIES

a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with LCRA. Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. A management committee of four members governs FPP; each participant administratively appoints two members. As managing partner, LCRA is responsible for the operation of the project and appoints project management.

Austin Energy's investment is financed through operations, revenue bonds, or commercial paper, which are repaid by Austin Energy (see Note 6), and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's pro-rata interest in FPP was $42.6 million as of September 30, 2015. The increase in the pro-rata interest from 2014 is primarily due to an increase in coal inventory. The pro-rata interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements. The original cost of Austin Energy's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of the City in accordance with its accounting policies.

b -- South Texas Project

Austin Energy is one of three participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are NRG South Texas LP and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2015, Austin Energy's investment in the STP was approximately $391 million, net of accumulated depreciation.

Effective November 17, 1997, the participation agreement among the owners of STP was amended and restated, and the STP Nuclear Operating Company (STPNOC), a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. Each participant is responsible for its STP funding. The City's portion is financed through operations, revenue bonds, or commercial paper, which are repaid by Austin Energy (see Note 6). In addition, each participant has the obligation to finance any deficits that may occur.

Each participant appoints one member to the board of directors of STPNOC, as well as one other member to the management committee. A member of the management committee may serve on the board of directors in the absence of a board member. The City's portion of STP is classified as plant in service, construction in progress, and nuclear fuel inventory. Nuclear fuel includes fuel in the reactor as well as nuclear fuel in process.

STP requested a 20-year license extension for units 1 & 2 with the Nuclear Regulatory Commission (NRC). The current licenses expire in 2027 and 2028, respectively. Final license issuances are dependent upon the Waste Confidence Decision; however, licensing reviews and proceedings continue to move forward.

c -- South Texas Project Decommissioning

Austin Energy began collecting in rates and accumulating funds for decommissioning STP in 1989 in an external trust. The Decommissioning Trust assets are reported as restricted investments held by trustee. The related liability is reported as a decommissioning liability payable. Excess or unfunded liabilities related to decommissioning STP will be adjusted in future rates so that there are sufficient funds in place to pay for decommissioning. At September 30, 2015, the trust's assets were in excess of the estimated liability by $27.8 million which is reported as part of deferred inflows of resources (in thousands):

Decommissioning trust assets	$ 203,005
Pro rata decommissioning liability	(175,216)
	$ 27,789

STP is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit a certificate of financial assurance to the NRC for plant decommissioning every two years or upon transfer of ownership. The certificate provides reasonable assurance that sufficient funds are being accumulated to provide the minimum requirement for decommissioning mandated by the NRC. The most recent annual calculation of financial assurance filed on December 31, 2014, showed that the trust assets exceeded the minimum required assurance by $24.7 million.

13 – COMMITMENTS AND CONTINGENCIES, continued
d -- Purchased Power

Austin Energy has commitments totaling $6.8 billion to purchase energy and capacity through purchase power agreements. This amount includes provisions for wind power through 2041, landfill power through 2020, biomass through 2032, and solar through 2042.

e -- Decommissioning and Environmental/Pollution Remediation Contingencies

Austin Energy may incur costs for environmental/pollution remediation of certain sites including the Holly, Fayette, and Decker Power Plants. The financial statements include a liability of approximately $8.3 million at September 30, 2015. Austin Energy anticipates payment of these costs in 2016 and future years. The amount is based on 2015 cost estimates to perform remediation and decommissioning. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Austin Water Utility closed the Green Water Treatment Plant (GWTP) on September 23, 2008. The total decommissioning cost to close the GWTP was $10.6 million. Plant decommissioning reached final completion in fiscal year 2012. During fiscal year 2013, redevelopment activities of the former GWTP site triggered the recognition of an additional $3.1 million in environmental liabilities related to additional remediation of the site. The financial statements include a liability of approximately $1.1 million at September 30, 2015. Austin Water Utility anticipates payment of these costs in 2016. The amount is based on 2015 cost estimates to perform remediation and decommissioning. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Austin Resource Recovery may incur costs for environmental remediation of certain sites outside of the City's landfill site. The financial statements include a liability of approximately $315,000 at September 30, 2015 for the Harold Court site. Austin Resource Recovery anticipates payment of these costs in 2016. The amount is based on 2015 cost estimates to perform remediation. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

f -- Arbitrage Rebate Payable

The City's arbitrage consultant has determined that the City has not earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. Therefore, the City will not be required to rebate any amounts to the federal government. There are no estimated payables at September 30, 2015.

g -- Federal and State Financial Assistance Programs

The City participates in a number of federally assisted and state grant programs, financed primarily by the U.S. Housing and Urban Development Department, U.S. Health and Human Services Department, and U.S. Department of Transportation. The City's programs are subject to program compliance audits by the grantor agencies. Management believes that no material liability will arise from any such audits.

h -- Capital Improvement Plan

As required by charter, the City has a *Capital Improvements Program* plan (capital budget) covering a five-year period which details anticipated spending for projects in the upcoming and future years. The City's 2015 Capital Budget has substantial contractual commitments relating to its capital improvement plan.

The key projects in progress include improvements to and development of the electric system, water and wastewater systems, airport, transportation infrastructure, public recreation and culture activities, and urban growth management activities. Remaining commitments represent current unspent budget and future costs required to complete projects.

13 – COMMITMENTS AND CONTINGENCIES, continued
h -- Capital Improvement Plan, continued

Project (in thousands)		Remaining Commitment
Governmental activities:		
General government	$	74,158
Public safety		20,748
Transportation		71,229
Public health		6,332
Public recreation and culture		67,228
Urban growth management		43,016
Business-type activities:		
Electric		145,029
Water		84,461
Wastewater		60,564
Airport		283,608
Convention		28,460
Environmental and health services		3,396
Urban growth management		172,872
Total	$	1,061,101

i -- Encumbrances

The City utilizes encumbrances to track commitments against budget in governmental funds. The amount of outstanding encumbrances at September 30, 2015, is as follows (in thousands):

		Encumbrances
General Fund	$	13,080
Nonmajor governmental		
Special Revenue		17,977
Capital Projects		140,957
	$	172,014

Significant encumbrances include reservations for the 2006 bond program ($32,987), the 2012 bond program ($26,499), the Library Automation System ($17,247), and the Waller Creek Tunnel project ($17,183).

j -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, a portion of these future closure and postclosure care costs are reported as an operating expense in each period as incurred in the Austin Resource Recovery Fund, a nonmajor enterprise fund. Substantial closure occurred in fiscal year 2011. Flooding in fiscal year 2015 has delayed final closure, which is expected in fiscal year 2017. While the landfill only reached 99.04% capacity, the City is no longer accepting waste. The amount of costs reported, based on landfill capacity of 100% as of September 30, 2015, is as follows (in thousands):

	Closure	Postclosure	Total
Total estimated costs	$ 18,426	9,899	28,325
% capacity used	100%	100%	100%
Cumulative liability accrued	18,426	9,899	28,325
Costs incurred	(16,877)	--	(16,877)
Closure and postclosure liability	$ 1,549	9,899	11,448

13 – COMMITMENTS AND CONTINGENCIES, continued
j -- Landfill Closure and Postclosure Liability, continued

These amounts are based on the 2015 cost estimates to perform closure and postclosure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

k -- Risk-Related Contingencies

The City uses internal service funds to account for risks related to health benefits, third-party liability, and workers' compensation. The funds are as follows:

Fund Name	Description
Employee Benefits	City employees and retirees may choose a self-insured PPO, HMO, or CDHP with HSA for health coverage. Approximately 26% of city employees and 32% of retirees use the HMO option; approximately 72% of city employees and 68% of retirees use the PPO option; and approximately 2% of city employees and 0.25% of retirees use the CDHP with HSA option. Costs are charged to city funds through a charge per employee per pay period.
Liability Reserve	This self-insured program includes losses and claims related to liability for bodily injury, property damage, professional liability, and certain employment liability. Premiums are charged to other city funds each year based on historical costs.
Workers' Compensation	Premium charges for this self-insured program are assessed to other funds each year based on the number of full-time equivalent (FTE) employees per fund.

The City purchases stop-loss insurance for the City's PPO and HMO. This stop-loss insurance covers individual claims that exceed $500,000 per calendar year, up to a maximum of $5 million. In fiscal year 2015, fourteen claims exceeded the stop-loss limit of $500,000; during fiscal year 2014, sixteen claims exceeded the stop-loss limit of $500,000, and during fiscal year 2013, nine claims exceeded the stop-loss limit of $500,000. City coverage is unlimited for lifetime benefits. The City does not purchase stop-loss insurance for workers' compensation claims.

The City is self-insured for much of its risk exposure; however, the City purchases commercial insurance coverage for loss or damage to real property, theft and other criminal acts committed by employees, and third party liability associated with the airport, owned aircraft, and electric utility operations. There have been no claims settlements in excess of the purchased insurance coverage for the last three years. The City also purchases insurance coverage through a program that provides workers' compensation, employer's liability, and third party liability coverage to contractors working on designated capital improvement project sites.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund. Claims liabilities for the Liability Reserve Fund are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. Possible losses are estimated to range from $47.5 to $51.1 million. In accordance with GAAP, $47.5 million is recognized as claims payable in the financial statements with $22.6 million recognized as a current liability and $24.9 million recognized as long term. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

13 – COMMITMENTS AND CONTINGENCIES, continued
k -- Risk Related Contingencies, continued

Changes in the balances of claims liability are as follows (in thousands):

	Employee Benefits		Liability Reserve		Workers' Compensation	
	2015	2014	2015	2014	2015	2014
Liability balances, beginning of year	$ 11,699	10,920	10,581	10,123	21,526	18,839
Claims and changes in estimates	15,136	10,832	4,640	5,195	7,124	5,950
Claim payments	(13,549)	(10,053)	(5,884)	(4,737)	(3,809)	(3,263)
Liability balances, end of year	$ 13,286	11,699	9,337	10,581	24,841	21,526

The Liability Reserve Fund claims liability balance at fiscal year-end includes liabilities of $3.2 million discounted at 3.91% in 2015 and $3.6 million discounted at 4.45% in 2014.

l -- Redevelopment of Robert Mueller Municipal Airport

In December 2004, City Council approved a master development agreement with Catellus Development Group (Catellus) to develop approximately 700 acres at the former site of the City's municipal airport into a mixed-use urban village near downtown Austin. Catellus is currently developing and marketing the property. The Mueller Local Government Corporation (MLGC), created by the City for this development, issues debt to fund infrastructure such as streets, drainage facilities, public parks, and greenways, which are supported by taxes generated from this development.

In September 2006, the MLGC issued debt in the amount of $12 million. Proceeds of the debt have been used to reimburse the developer for eligible infrastructure such as streets, drainage, and parks. Debt service payments are funded through an economic development grant from the City of Austin, and supported by sales tax proceeds from the development.

In October 2009, the MLGC issued debt in the amount of $15 million. Proceeds of the debt have been used to reimburse the developer for additional eligible infrastructure. Debt service payments are funded by property tax proceeds from the Mueller Tax Increment Reinvestment Zone.

In October 2012, the MLGC issued debt in the amount of $16,735,000. Proceeds from the debt have been used to reimburse the developer for additional eligible infrastructure. Debt service payments are funded by property tax proceeds from the Mueller Tax Increment Reinvestment Zone.

In October 2014, the MLGC issued debt in the amount of $15,845,000. Proceeds from the debt have been used to reimburse the developer for additional eligible infrastructure. Debt service payments are funded by property tax proceeds from the Mueller Tax Increment Reinvestment Zone.

The development contains over 1.36 million square feet of civic, institutional, hotel and Class A office space and approximately 602,000 square feet of retail space that is either complete or under construction. Over 80 employers provide approximately 5,000 jobs at Mueller. From the start of home sales in 2007, the community has been well received. As of September 30, 2015, approximately 1,357 single-family homes and 1,222 multi-family units were either complete or under construction. Catellus has also started the infrastructure for an additional 375 single-family and 759 multi-family homes.

m -- No-Commitment Special Assessment Debt

In November 2011, the City issued $15,500,000 of Special Assessment Revenue Bonds, Senior Series 2011 related to the Whisper Valley Public Improvement District. The bonds are special obligations of the City payable solely from the assessments levied against parcels within the Public Improvement District and other pledged funds held under the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. The City is acting as an agent for the property owners within the district in collecting the future assessments, forwarding collections to trustees, approving bond proceed disbursements, and initiating any future foreclosures. $7,949,960 in total assessments were levied in the year ended September 30, 2015. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2015 are $15,245,000 and $8,431,986 respectively.

13 – COMMITMENTS AND CONTINGENCIES, continued
m -- No-Commitment Special Assessment Debt, continued

In November 2011, the City issued $2,860,000 of Special Assessment Revenue Bonds, Senior Series 2011 related to the Indian Hills Public Improvement District. The bonds are special obligations of the City payable solely from the assessments levied against parcels within the Public Improvement District and other pledged funds held under the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. The City is acting as an agent for the property owners within the district in collecting the future assessments, forwarding collections to trustees, approving bond proceed disbursements, and initiating any future foreclosures. $1,681,699 in total assessments were levied in the year ended September 30, 2015. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2015 are $2,815,000 and $435,696, respectively.

In July 2013, the City issued $12,590,000 of Special Assessment Revenue Bonds, Series 2013 related to the Estancia Hill Country Public Improvement District. The bonds are special obligations of the City payable solely from the assessments levied against parcels within the Public Improvement District and other pledged funds held under the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. The City is acting as an agent for the property owners within the district in collecting the future assessments, forwarding collections to trustees, approving bond proceed disbursements, and initiating any future foreclosures. $1,772,155 in total assessments were levied in the year ended September 30, 2015. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2015 are $12,590,000 and $472,073, respectively.

n -- Capital Leases

The City has entered into a lease agreement to finance equipment for business-type activities. This lease agreement qualifies as a capital lease for accounting purposes and has been recorded at the present value of the future minimum lease payments at their inception date. The lease agreement ends in 2031. See Note 6 for the debt service requirements on this lease.

The following summarizes capital assets recorded at September 30, 2015, under capital lease obligations (in thousands):

Capital Assets	Austin Energy
Building and improvements	$ 1,405
Accumulated depreciation	(457)
Net capital assets	$ 948

o -- Operating Leases

The City is committed under various leases for building and office space, tracts of land and rights-of-way, and certain equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2015, was $18.2 million.

Fiscal Year Ended September 30	Future Lease Payments
2016	$ 12,191
2017	10,381
2018	7,452
2019	5,396
2020	3,097
2021-2025	9,011
Totals	$ 47,528

14 – LITIGATION

A number of claims and lawsuits against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and city management are of the opinion that settlement of these claims and lawsuits will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2015. These liabilities, reported in the government-wide statement of net position, include amounts for claims and lawsuits settled subsequent to year-end.

15 – CONDUIT DEBT

The City has issued several series of housing revenue bonds to provide for low cost housing. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. As of September 30, 2015, $72.6 million in housing revenue bonds were outstanding with an original issue value of $80.5 million.

Revenue bonds have been issued by various related entities to provide for facilities located at the international airport and convention center. These bonds are special limited obligations payable solely from and secured by a pledge of revenue to be received from agreements between the entities and various third parties. As of September 30, 2015, $147.5 million in revenue and revenue refunding bonds were outstanding with an original issue value of $148.6 million.

The above bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements.

16 – SEGMENT INFORMATION – CONVENTION CENTER

The Convention Center provides event facilities and services to its customers. Below are the condensed financial statements for this segment (in thousands):

Condensed Statement of Net Position	
ASSETS	
Current assets	$ 102,966
Capital assets	249,083
Other noncurrent assets	13,341
Total assets	365,390
Deferred outflows of resources	29,614
LIABILITIES	
Due to other funds	338
Other current liabilities	21,969
Other noncurrent liabilities	228,956
Total liabilities	251,263
Deferred inflows of resources	309
NET POSITION	
Net investment in capital assets	58,117
Restricted	25,528
Unrestricted	59,787
Total net position	$ 143,432

16 – SEGMENT INFORMATION – CONVENTION CENTER, continued

Condensed Statement of Revenues, Expenses, and Changes in Net Position	
OPERATING REVENUES	
User fees and rentals	$ 28,657
Total operating revenues	28,657
OPERATING EXPENSES	
Operating expenses before depreciation	50,009
Depreciation and amortization	8,948
Total operating expenses	58,957
Operating income (loss)	(30,300)
Nonoperating revenues (expenses)	(6,082)
Transfers	65,728
Change in net position	29,346
Total net position - beginning, as restated	114,086
Total net position - ending	$ 143,432

Condensed Statement of Cash Flows	
Net cash provided (used) by:	
Operating activities	$ (18,181)
Noncapital financing activities	65,495
Capital and related financing activities	(27,622)
Investing activities	396
Net increase (decrease) in cash and cash equivalents	20,088
Cash and cash equivalents, October 1	70,975
Cash and cash equivalents, September 30	$ 91,063

17 – DISCRETELY PRESENTED COMPONENT UNITS

Condensed financial information is included below for the discretely presented component units of the City. See Note 1 for the additional information about how to obtain the complete financial statements of these organizations. The most recently available financial statements for Austin Bergstrom Landhost Enterprises, Inc. and Austin Convention Enterprises, Inc. are for the year ended December 31, 2014. The condensed financial statements of Waller Creek Local Government Corp. are presented for the year ended September 30, 2015 (in thousands):

Condensed Combining Statement of Net Position

	Austin Bergstrom Landhost Enterprises, Inc.	Austin Convention Enterprises, Inc.	Waller Creek Local Government Corp.	Total
ASSETS				
Current assets	$ 1,052	9,524	--	10,576
Capital assets	24,601	173,198	--	197,799
Noncurrent assets	1,736	60,804	--	62,540
Total assets	27,389	243,526	--	270,915
Deferred outflows of resources	--	19,050	--	19,050
LIABILITIES				
Current Liabilities	7,679	14,675	--	22,354
Bonds payable, net of discount and inclusive of premium	56,632	254,529	--	311,161
Noncurrent liabilities	32	--	--	32
Total liabilities	64,343	269,204	--	333,547
NET POSITION				
Net investment in capital assets	(32,031)	(65,863)	--	(97,894)
Restricted	--	21,087	--	21,087
Unrestricted (deficit)	(4,923)	38,148	--	33,225
Total net position	$ (36,954)	(6,628)	--	(43,582)

17 – DISCRETELY PRESENTED COMPONENT UNITS, continued

Condensed Combining Statement of Revenues, Expenses, and Changes in Net Position

	Austin Bergstrom Landhost Enterprises, Inc.	Austin Convention Enterprises, Inc.	Waller Creek Local Government Corp.	Total
OPERATING REVENUES				
User fees and rentals	$ 16,416	75,050	--	91,466
Contributions	--	--	150	150
Total operating revenues	16,416	75,050	150	91,616
OPERATING EXPENSES				
Operating expenses before depreciation	12,667	41,439	150	54,256
Depreciation and amortization	1,293	8,634	--	9,927
Total operating expenses	13,960	50,073	150	64,183
Operating income (loss)	2,456	24,977	--	27,433
NONOPERATING REVENUES (EXPENSES)				
Nonoperating revenues (expenses)	(4,346)	(16,223)	--	(20,569)
Change in net position	(1,890)	8,754	--	6,864
Total net position - beginning	(35,064)	(15,382)	--	(50,446)
Total net position - ending	$ (36,954)	(6,628)	--	(43,582)

18 – RESTATEMENT AS A RESULT OF THE IMPLEMENTATION OF A NEW ACCOUNTING STANDARD

During fiscal year 2015, the City implemented two new accounting standards. GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27",* revised standards of accounting and reporting for pension expenses and liabilities as well as allowing for the deferral of certain pension expense elements. The City also implemented the related GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68"* which clarifies rules related to the accrual of deferred inflows and outflows of resources at the beginning of the period in which GASB Statement No. 68 is effective. As a result of implementing these two statements, net position was restated at October 1, 2014. The City's net pension obligation and net pension assets were eliminated and replaced by a larger net pension liability. Contributions made by the City to the pension systems from January 1 to September 30, 2015 are reported as deferred outflows of resources. The impact of these changes on the beginning balances reported in the financial statements is shown below (in thousands):

	Exhibit A-2		Exhibit C-2		
September 30, 2014	**Governmental Activities**	**Business-Type Activities**	**Airport**	**Nonmajor Enterprise Funds**	**Business-Type Activities**
Net position, as previously reported	$ 1,308,194	3,328,362	537,650	424,983	3,301,067
Adjustments to properly record implementation of GASB Statements No. 68 and 71	(627,853)	(104,190)	(20,630)	(83,560)	(104,190)
Net position, as restated	$ 680,341	3,224,172	517,020	341,423	3,196,877

The adjustments associated with the implementation of this standard were deferred in accordance with accounting for regulated operations for Austin Energy and Austin Water Utility. The amount deferred is $125.8 million and $66.9 million, respectively; therefore, there was no restatement to net position in these funds.

19 – SUBSEQUENT EVENTS
a -- General Obligation Bond Issue

In October 2015, the City issued $236,905,000 of Public Improvement and Refunding Bonds, Series 2015. The net proceeds of $104,630,000 (after issue costs, discounts, and premiums) from the non-refunding portion of the issue will be used as follows: streets and signals ($32,235,000), parks and recreation ($17,275,000), central library ($43,200,000), and facility improvements ($11,920,000). The net proceeds of the refunding portion of $158,626,892 were used to refund $4,490,000 Certificates of Obligation, Series 2005, $12,140,000 Public Improvement and Refunding Bonds, Series 2005, $14,965,000 Certificates of Obligation Series 2006, $27,900,000 Public Improvement Bonds, Series 2006, $2,375,000 Certificates of Obligation, Series 2007, and $87,945,000 Public Improvement Bonds, Series 2007. These bonds will be amortized serially on September 1 of each year from 2016 to 2035. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2016. Total interest requirements for these bonds, at rates ranging from 2.0% to 5.0%, are $98,473,671.

In October 2015, the City issued $43,710,000 of Certificates of Obligation, Series 2015. The net proceeds of $50,351,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: watershed home buyouts ($20,500,000), Waller Creek Tunnel ($11,051,000), central library ($12,500,000), and building and golf course improvements ($6,300,000). These certificates of obligation will be amortized serially on September 1 of each year from 2016 to 2035. Interest is payable on March 1 and September 1 of each year, commencing on March 1, 2016. Total interest requirements for these obligations, at rates ranging from 2.0% to 5.0%, are $25,524,363.

In October 2015, the City issued $14,450,000 of Public Property Finance Contractual Obligations, Series 2015. The net proceeds of $16,065,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: water and wastewater utility capital equipment ($2,350,000), public works capital equipment ($2,500,000), golf capital equipment ($1,365,000) transportation capital equipment ($695,000) and network equipment ($9,155,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2016 to 2022. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2016. Total interest requirements for these obligations, at rates ranging from 2.0% to 5.0%, are $2,728,846.

In October 2015, the City issued $10,000,000 of Public Improvement Taxable Bonds, Series 2015. The net proceeds of $10,000,000 (after issue costs, discounts, and premiums) from the issuance were used for affordable housing. Interest is payable March 1 and September 1 of each year from 2016 to 2035, commencing on March 1, 2016. Principal payments are due September 1 of 2016, then each year on September 1 from 2018 to 2035. Total interest requirements for this obligation, at rates ranging from 2.9% to 4.3% are $4,632,484.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AUSTIN
FOUNDED 1839

General Fund **City of Austin, Texas**
Schedule of Revenues, Expenditures, and Changes in **RSI**
Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2015
(In thousands)

General Fund	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance (3) Positive (Negative)
REVENUES						
Taxes	$ 572,640	100	572,740	565,469	565,469	7,271
Franchise fees	37,842	--	37,842	36,634	36,634	1,208
Fines, forfeitures and penalties	17,305	(1)	17,304	16,572	16,572	732
Licenses, permits and inspections	39,006	(9)	38,997	29,610	29,610	9,387
Charges for services/goods	58,297	(5)	58,292	57,693	57,693	599
Interest and other	11,831	(7,735)	4,096	3,281	3,281	815
Total revenues	736,921	(7,650)	729,271	709,259	709,259	20,012
EXPENDITURES						
General government						
Municipal Court	19,246	(56)	19,190	19,677	19,677	487
Public safety						
Police	320,759	32,809	353,568	355,412	355,412	1,844
Fire	156,426	12,559	168,985	166,619	166,619	(2,366)
Emergency Medical Services	66,524	6,600	73,124	74,698	74,698	1,574
Transportation, planning, and sustainability						
Transportation, planning, and sustainability	4	(4)	--	--	--	--
Public health						
Health	61,247	5,059	66,306	66,917	66,917	611
Public recreation and culture						
Parks and Recreation	64,104	6,893	70,997	71,567	71,567	570
Austin Public Library	34,138	3,074	37,212	37,188	37,188	(24)
Urban growth management						
Neighborhood Planning and Zoning	30,617	5,781	36,398	36,923	36,923	525
Other Urban Growth Management	32,455	(3,134)	29,321	30,610	30,610	1,289
General city responsibilities (4)(5)	93,349	(90,139)	3,210	2,196	3,296	86
Total expenditures	878,869	(20,558)	858,311	861,807	862,907	4,596
Excess (deficiency) of revenues over expenditures	(141,948)	12,908	(129,040)	(152,548)	(153,648)	24,608
OTHER FINANCING SOURCES (USES)						
Transfers in	153,936	54,153	208,089	209,889	209,889	(1,800)
Transfers out (5)	(30,304)	(71,459)	(101,763)	(91,525)	(90,425)	(11,338)
Total other financing sources (uses)	123,632	(17,306)	106,326	118,364	119,464	(13,138)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(18,316)	(4,398)	(22,714)	(34,184)	(34,184)	11,470
Special item - land sale	11,983	--	11,983	--	--	11,983
Fund balance at beginning of year	183,496	7,347	190,843	52,702	72,993	117,850
Fund balance at end of year	$ 177,163	2,949	180,112	18,518	38,809	141,303

(1) Includes adjustments to expenditures for current year encumbrances, payments against prior year encumbrances, compensated absences, and amounts budgeted as operating transfers.
(2) Includes adjustments to revenues/transfers required for adjusted budget basis presentation.
(3) Variance is actual-budget basis to final budget.
(4) Actual expenditures include employee training costs and amounts budgeted as fund-level expenditures or operating transfers. Actual-budget basis expenditures include employee training costs and amounts budgeted as fund-level expenditures.
(5) Includes variance in original and final budget due to movement of a transfer out to general city responsibilites.

BUDGET BASIS REPORTING

a -- General

The City of Austin prepares its annual operating budget based on the modified accrual basis. Encumbrances constitute the equivalent of expenditures for budgetary purposes. In order to provide a meaningful comparison of actual results to the budget, the Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual-Budget Basis for the General Fund presents the actual and actual-budget basis amounts in comparison with original and final budgets.

The General Fund, as reported in the financial statements is comprised of six separately budgeted funds: the General Fund, as budgeted by the City, plus the Economic Development, Economic Incentives Reserve, Long Center Capital Improvements, Music Venue Assistance Program, and Neighborhood Housing and Community Development activities.

The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The expenditure budget for these general city requirements includes the following: tuition reimbursement ($465,000), customer service call center ($1,731,141), and Balcones Wildland Conservation ($1,100,000).

b -- Budget Amendments

There were no budget amendments to the General Fund in fiscal year 2015.

c -- Reconciliation of GAAP Basis and Budget Basis Amounts

The primary differences between GAAP-basis and budget-basis reporting for the General Fund are the reporting of encumbrances and the reporting of certain transfers. General Fund accrued payroll is recorded at the department level on a GAAP basis and as an expenditure in the general city responsibilities activity on the budget basis. Adjustments necessary to convert the excess revenues and other sources over expenditures and other uses on a GAAP basis to a budget basis for the activities comprising the General Fund are provided, as follows (in thousands):

	General Fund
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	$ (18,316)
Adjustments - increases (decreases) due to:	
Unbudgeted revenues	(2,323)
Net compensated absences accrual	(62)
Outstanding encumbrances established in current year	(12,172)
Payments against prior year encumbrances	9,442
Other	717
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	$ (22,714)

RETIREMENT PLANS-TREND INFORMATION

Changes in net pension liability for all three funds and the City for the measurement period ended December 31, 2014 are as follows (in thousands):

Schedule of Changes in the City's Net Pension Liability and Related Ratios

	City Employees	Police Officers	Fire Fighters
Total Pension Liability at December 31, 2013 (a)	$ 2,909,918	909,000	806,282
Changes for the year:			
Service Cost	89,235	30,254	25,319
Interest	222,710	72,443	62,977
Benefit Changes	--	(11,015)	--
Differences between Expected and Actual Experience	33,911	--	--
Assumption Changes	--	14,137	4,883
Contribution Buy Back	--	2,207	--
Benefit Payments including refunds	(161,718)	(45,403)	(37,993)
Net Change in Total Pension Liability	184,138	62,623	55,186
Total Pension Liability at December 31, 2014 (b)	$ 3,094,056	971,623	861,468
Total Plan Fiduciary Net Position at December 31, 2013 (c)	$ 2,130,624	595,110	752,622
Changes for the year:			
Employer Contributions	93,331	32,400	18,670
Employee Contributions	50,490	19,458	14,660
Contribution Buy Back	--	2,207	--
Pension Plan Net Investment Income	99,704	35,574	42,005
Benefits Payments and Refunds	(161,718)	(45,403)	(37,993)
Pension Plan Administrative Expense	(2,631)	(1,327)	(531)
Net Change in Plan Fiduciary Net Position	79,176	42,909	36,811
Total Plan Fiduciary Net Position at December 31, 2014 (d)	$ 2,209,800	638,019	789,433
Net Pension Liability at December 31, 2013 (a-c)	$ 779,294	313,890	53,660
Net Pension Liability at December 31, 2014 (b-d)	$ 884,256	333,604	72,035
Plan fiduciary net position as a percentage of the total pension liability (d/b)	71.42%	65.67%	91.64%
Covered-employee payroll	$ 560,362	175,217	100,876
City's net pension liability as a percentage of covered-employee payroll	157.80%	190.39%	71.41%

RETIREMENT PLANS-TREND INFORMATION, continued

Notes to Schedule of Changes in the City's Net Pension Liability and Related Ratios:

The City Employees' fund had no significant changes of assumptions or other inputs, no changes of benefit terms, and no significant factors that affected measurement of the total pension liability during the measurement period.

The Police Officers' fund had numerous changes in benefits and assumptions that affected the measurement of the total pension liability for the measurement period. In February 2015, the pension board approved the following benefit changes:

- Effective February 18, 2015, eliminate the opportunity to purchase permissive service in conjunction with utilizing the Forward or Retro-DROP,
- Effective April 1, 2015, permissive service credit factors shall be determined based on an interest rate that is 50 basis points lower than the valuation assumption and generational mortality,
- Effective April 1, 2015, eliminate Retro-DROP for members with less than 23 years of Police Officers' fund service,
- Effective August 1, 2015, the Forward DROP interest rate will be set annually in the same manner as the PROP interest rate, except for those with 23 years of Police Officers' fund service as of July 31, 2015 who will not be affected, and
- Requiring that new hires beginning February 1, 2016 pay the full actuarial costs for purchase of military service.

Changes to assumptions included:

- Decreasing the investment return assumption from 8.00% to 7.90% per year compounded annually, net of expenses,
- Lowering the expected increase in salary due to general wage increased from 3.75% to 3.5%,
- Decreasing the annual assumed interest rate credited to Post Retirement Option Plan (PROP), accounts from 4.00% to 2.25%,
- Reducing the disability rates by one-half,
- Increasing by 25% the retirement rates for members entering the system prior to age 33, and
- Slight modifications to retirement rates due to anticipated future PROP usage.

The Fire Fighters' fund changed a number of assumptions that affected the measurement of the total pension liability for the measurement period.

- The investment return was decreased from 7.75% to 7.70% per year compounded annually, net of expenses.
- The general wage inflation rate was decreased from 3.5% to 3.0%.
- Amendments were made to the service-based table attributable to merit and longevity salary increases, the retirement rates, the Retro-DROP election assumptions, the withdrawal rates, and the assumed spousal age difference assumptions.

This fund had no benefit changes or other significant factors that affected measurement of the total pension liability during the measurement period.

Information pertaining to City contributions to the retirement systems for the fiscal year ending September 30, 2015, is shown below (in thousands). An actuarially determined contribution was calculated for the City Employees' fund but was not calculated for the other two funds.

Schedule of Actuarially Determined City Contributions to the City Employees' Fund
(in thousands)

Fiscal Year Ended September 30	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2015	$ 96,554	97,655	(1,101)	587,937	16.61%

RETIREMENT PLANS-TREND INFORMATION, continued

Notes to Schedule of Actuarially Determined City Contributions to the City Employees' Fund

Valuation Date:	December 31, 2014
Notes	Members and employers contribute based on statutorily fixed or negotiated rates. A funding period is solved for through open group projections.
Methods and Assumptions Used to Determine Contribution Rates:	
Actuarial Cost Method	Entry Age Normal
Amortization Method	N/A
Remaining Amortization Period	N/A
Asset Valuation Method	20% of market plus 80% of expected actuarial value
Inflation	3.25%
Salary Increases	4.5% to 6.00%
Investment Rate of Return	7.75%
Retirement Age	Experience-based table of rates that are gender specific. Last updated for December 31, 2012 valuation pursuant to an experience study of the 5-year period ending December 31, 2011
Mortality	RP-2000 Mortality Table with White Collar adjustment and multipliers of 110% for males and 120% for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000
Other Information:	There were no benefit changes during the year

Schedule of Statutorily Required City Contributions to the Police Officers' Fund and the Fire Fighters' Fund
(in thousands)

Fiscal Year Ended September 30	Statutorily Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
Police Officers					
2015	$ 32,942	32,942	--	180,152	18.29%
Fire Fighters					
2015	18,327	18,327	--	105,801	17.32%

Supplementary information for each plan as well as information on where to obtain plan financial statements can be found in Footnote 7.

OTHER POSTEMPLOYMENT BENEFITS-TREND INFORMATION

Under GAAP, the City is required to have an actuarial valuation of its other postemployment benefits program every other year. The Schedule of Funding Progress for other postemployment benefits is as follows (in thousands):

Fiscal Year Ended September 30	Valuation Date, October 1	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
2011	2010	$ --	1,404,692	1,404,692	0.0%	668,679	210.1%
2013	2012	--	1,384,490	1,384,490	0.0%	696,559	198.8%
2015	2014	--	1,449,238	1,449,238	0.0%	775,527	186.9%

(1) UAAL – Unfunded Actuarial Accrued Liability (Excess)

Supplementary information for the OPEB plan can be found in Footnote 8.

APPENDIX C

COPY OF MASTER ORDINANCE

ORDINANCE NO. 0006008-56A

AN ORDINANCE providing for the issuance WATER AND WASTEWATER SYSTEM revenue obligations; making provision for the payment of such obligations from the revenues of the City's Water and Wastewater System; enacting provisions incident and related to the issuance, payment and security of such Obligations, including covenants and agreements relating to the operation and management of the Water and Wastewater System, the revenues derived from its operation and ownership, the establishment and maintenance of funds and accounts for the payment of such obligations, specifying the terms and conditions for the issuance of parity revenue obligations and other matters incident and related to their issuance and security; suspending the rule requiring ordinances be read on three separate days; and declaring an emergency.

WHEREAS, the City of Austin, Texas (the "City" or the "Issuer"), a "home-rule" city operating under a home-rule charter adopted pursuant to Section 5 of Article XI of the Texas Constitution has heretofore financed improvements and extensions to the City's Water and Wastewater System (the "System") by the issuance and sale of revenue obligations payable from and secured by a joint and several lien on and pledge of the Net Revenues of the City's Water and Wastewater System and the City's Electric Light and Power System; and

WHEREAS, the revenue obligations currently outstanding payable from and secured by a joint and several lien on and pledge of the Net Revenues of the City's Water and Wastewater System and the City's Electric Light and Power System include:

(a) "Prior First Lien Obligations" more particularly identified as follows : (i) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1986", dated March 1, 1986, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1986A", dated April 15, 1986, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1986C", dated November 15, 1986, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1987", dated May 15, 1987, (v) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1989", dated July 15, 1989, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990A", dated February 1, 1990, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B", dated February 1, 1990, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1991-A", dated June 1, 1991, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992", dated March 1, 1992, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A", dated May 15, 1992, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993", dated January 15, 1993,(xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A", dated June 1, 1993, (xiii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994", dated September 1, 1994, (xiv) "City of Austin, Texas, Combined Utility

Systems Revenue Refunding Bonds, Series 1995", dated June 1, 1995, (xv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A", dated August 1, 1996, (xvi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B", dated August 1, 1996, (xvii)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997", dated August 1, 1997, (xviii)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998", dated July 1, 1996, (xix)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A", dated August 1, 1997,

(b) "Prior Subordinate Lien Obligations" more particularly described as follows: (i) "City of Austin, Texas, Water, Sewer and Electric Refunding Revenue Bonds, Series1982", dated March 15, 1982, (ii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1990", dated June 1, 1990, (iii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994", dated March 1, 1994, (iv) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998", dated August 1, 1998, (v)"City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998", dated October 1, 1998 and (vi) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A", dated October 1, 1998, and

(c) "Commercial Paper Obligations" more particularly described as follows: (i) City of Austin, Texas Combined Utility Systems Commercial Paper Notes, Series A", authorized for issuance pursuant to Ordinance No. 930318-A, as amended by Ordinance No. 961121-A and Ordinance No. 980513-A currently authorized up to an aggregate principal amount of $350,000,000 and (ii) "City of Austin, Texas Combined Utility Systems Taxable Commercial Paper Notes", authorized for issuance pursuant to Ordinance No. 980513-B currently authorized up to an aggregate principal amount of $60,000,000, and in such aggregate principal amounts as hereinafter provided by amendments to either Ordinance No. 930318-A, as amended, or Ordinance No. 980513-B; and

AND WHEREAS, in the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations, the City retained the authority to issue "Separate Lien Obligations" payable solely from either the Net Revenues of the Water and Wastewater System or the Net Revenues of the Electric Light and Power System , but not both, without specifying any terms or limitations on the issuance of such "Separate Lien Obligations"; and

WHEREAS, the City has determined future financing of capital improvements for the City's Water and Wastewater System and the City's Electric Light and Power System should be undertaken and accomplished through the issuance of "Separate Lien Obligations" which will enable the City to restructure provisions governing the issuance of such obligations and relating to the operations of such systems and provide financing flexibility to both systems, particularly the Electric Light and Power System in a more competitive market resulting from a change in laws affecting the regulation, generation, distribution and sale of electric energy, and

WHEREAS, in furtherance of its determination that future financing of capital improvements to the City's Water and Wastewater System shall be undertaken through the issuance of revenue obligations payable solely from and secured by a lien on and pledge of the Net Revenues of the City's Water and Wastewater System, the Council hereby finds a master ordinance governing and pertaining to their issuance should be adopted and enacted; and

WHEREAS, the terms used in this Ordinance and not otherwise defined shall have the meaning given Exhibit A to this Ordinance attached hereto and made a part hereof;

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF AUSTIN, TEXAS:

Section 1. REVENUE OBLIGATION FINANCING FOR THE CITY'S WATER AND WASTEWATER SYSTEM. From and after the date hereof, all revenue obligations, other than Commercial Paper Obligations, to finance capital improvements for the Water/Wastewater System shall be payable from and secured only by a lien on and pledge of the Net Revenues of the Water/Wastewater System and from the funds and accounts hereinafter provided in this Ordinance and in any Supplement. This Ordinance is intended to provide for and govern the issuance of such Parity Water/Wastewater Obligations and establish the security for their payment, the agreements and covenants with the holders or owners of such obligations in regard to the management and operation of the Water/Wastewater System, the application and disbursement of revenues derived from its operation and ownership and other matters incident and related to the issuance of such revenue obligations. Each issue or series of Parity Water/Wastewater Obligations shall be issued, incurred or assumed pursuant to the terms of a Supplement, and each such Supplement shall provide for the authorization, issuance, sale, delivery, form, characteristics, terms of payment and redemption, and any other related matters not inconsistent with the Constitution and laws of the State of Texas or the provisions of this Ordinance.

Section 2. PLEDGE OF REVENUES/SECURITY FOR PAYMENT. Subject to the prior claim on and lien on the Net Revenues of the Water/Wastewater System to the payment and security of the Prior First Lien Obligations currently Outstanding, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations, the Net Revenues of the Water/Wastewater System are hereby pledged to the payment of the Parity Water/Wastewater Obligations and such Parity Water/Wastewater Obligations, together with the Prior Subordinate Lien Obligations and Previously Issued Separate Lien Obligations currently Outstanding, shall be equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Water/Wastewater System in accordance with the terms of this Ordinance and any Supplement. Additionally, Parity Water/Wastewater Obligations shall be secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund, Reserve Fund and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Water/Wastewater Obligations pending expenditure in accordance with the terms of this Ordinance and any Supplement. Parity Water/Wastewater Obligations are and will be secured by and payable only from the Net Revenues of the Water/Wastewater System, and are not secured by or payable from a mortgage or deed of trust on any properties, whether real, personal, or mixed, of the Water/Wastewater System. The owners of the Parity Water/Wastewater Obligations shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in this Ordinance or any Supplement.

Section 3. NO ADDITIONAL PRIOR FIRST LIEN /PRIOR SUBORDINATE LIEN COMBINED UTILITY SYSTEMS REVENUE OBLIGATIONS. From and after the date of the adoption of this Ordinance, the City hereby provides that no additional revenue obligations shall be issued on a parity with the Prior First Lien Obligations or the Prior Subordinate Lien Obligations and at such time as the Prior First Lien Obligations, Prior Subordinate Lien Obligations currently Outstanding and the Commercial Paper Obligations have been fully paid and discharged in a manner such obligations are no longer deemed to be Outstanding under the terms of their respective ordinances and by law, all revenue obligations of the Water/Wastewater System then Outstanding shall be Parity Water/Wastewater Obligations, Previously Issued Separate Lien Obligations, or obligations subordinate to the Parity Water/Wastewater Obligations then Outstanding, and payable only from and secured only by a lien on and pledge of the Net Revenues of the Water/Wastewater System and the revenues deposited to the credit of the accounts and funds established and maintained in the ordinances providing for their issuance, including this Ordinance with respect to Parity Water/Wastewater Obligations and any Supplement.

Section 4. RATE COVENANT. The City will fix, establish, maintain and collect such rates, charges and fees for water and wastewater services furnished by the Water/Wastewater System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues each Fiscal Year sufficient:

(i) to pay all current Operating Expenses,

(ii) to produce Net Revenues, after deducting amounts expended during the Fiscal Year from the Water/Wastewater System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, equal to the greater of either (x) an amount to pay the actual annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations and Previously Issued Separate Lien Obligations or (y) an amount, when added to Other Available Water/Wastewater System Revenues, that would pay 125% of Annual Debt Service Requirements due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations and Previously Issued Separate Lien Obligations, and

(iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Water/Wastewater System reasonably anticipated to be paid from Gross Revenues.

If the Net Revenues in any Fiscal Year are less than the aggregate amount specified above the City shall promptly upon receipt of the annual audit for such Fiscal Year cause such rates and charges to be revised and adjusted to comply with this Section or obtain a written report from an Utility System Consultant after a review and study of the operations of the Water/Wastewater System has been made concluding that, in their opinion, the rates and charges then in effect for the current Fiscal Year are sufficient or adjustments and revisions need to be made to such rates and charges to comply with this Section and such adjustments and revisions to water and wastewater rates and charges are promptly implemented and enacted in accordance with such Utility System Consultant's report. Notwithstanding anything herein to the contrary, the City shall be deemed to be in compliance herewith if either of the actions mentioned in the preceding sentence are undertaken and completed prior to the end of the Fiscal Year next following the Fiscal Year the deficiency in Net Revenues occurred.

Section 5. GENERAL COVENANTS. Subject to the provisions contained in the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations which may be in conflict herewith and control to the extent of any conflict, the City hereby covenants and agrees with the Holders of the Parity Water/Wastewater Obligations to the extent permitted by law as follows:

(a) **PERFORMANCE.** All covenants, undertakings, stipulations, and provisions contained in this Ordinance and any Supplement shall be duly performed and honored at all times; the principal amount of and interest on Parity Water/Wastewater Obligations shall be timely paid as the same shall become due and payable on the dates, at the places and in the manner prescribed in each Supplement and such Parity Water/Wastewater Obligations; and all deposits to the credit of the Funds and Accounts shall be made at the times, in the amounts and in the manner specified by this Ordinance and in any Supplement; and any Holder may require the City, its officials and employees to perform, honor or enforce the covenants and obligations of this Ordinance, or any Supplement, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the City, its officials and employees.

(b) **CITY'S LEGAL AUTHORITY.** The City is a duly created and existing home rule municipality of the State of Texas, and is duly authorized under the laws of the State of Texas to issue the Parity Water/Wastewater Obligations; with the adoption of each Supplement, all action on the City's part for the issuance of the Parity Water/Wastewater Obligations shall have been duly and effectively taken; and the Parity Water/Wastewater Obligations upon issuance and delivery to the Holders shall and will be valid and enforceable special obligations of the City in accordance with their terms.

(c) **OPERATION AND MAINTENANCE.** The Water/Wastewater System shall be operated in an efficient manner consistent with Prudent Utility Practice, and the plants, facilities and properties of the Water/Wastewater System shall be maintained, preserved and kept in good repair, working order and condition, and proper maintenance, repairs and replacements of such property, facilities and plants shall occur to preserve and keep the Water/Wastewater System operating in a business like manner.

(d) **TITLE.** The City has or will have lawful title, whether such title is in fee or lesser interest, to the lands, buildings, structures and facilities constituting the Water/Wastewater System; the City warrants it will defend the title to all the aforesaid lands, buildings, structures and facilities, and every part thereof against the claims and demands of all persons whomsoever; and the City is lawfully qualified to pledge the Net Revenues to the payment of the Parity Water/Wastewater Obligations in the manner prescribed herein, and has lawfully exercised such rights.

(e) **LIENS.** All taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon the Water/Wastewater System, its properties or revenues, shall be paid before the same become delinquent; all lawful claims for rents, royalties, labor, materials and supplies shall be paid in a timely manner, which if unpaid might by law become a lien or charge on the revenues of the Water/Wastewater System or the Water/Wastewater System's properties prior to or interfere with the liens hereof, and it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the lien on and pledge of the Net Revenues of the Water/Wastewater System for the Parity Water/Wastewater Obligations granted by this Ordinance or any Supplement might or could be impaired; provided however, that no such tax, assessment or charge, and no such claims that might result in a mechanic's, laborer's, materialman's or other lien or charge, shall be required to be paid while the validity of the same shall be contested in good faith by the City.

(f) **NO FREE SERVICE**. Save and except as provided by V.T.C.A., Government Code, Section 1502.057, as amended, no free service of the Water/Wastewater System shall be allowed.

(g) **FURTHER ENCUMBRANCE**. Save and except for the issuance of Parity Water/Wastewater Obligations, the Net Revenues of the Water/Wastewater System shall not hereafter be encumbered in any manner unless such encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants and agreements of this Ordinance and any Supplement; but the right to issue Subordinated Debt payable in whole or in part from a subordinate lien on the Net Revenues is specifically recognized and retained.

(h) **SALE, LEASE OR DISPOSAL OF SYSTEM PROPERTY**. To the extent and in the manner provided by law, the City can sell, exchange or otherwise dispose of property and facilities constituting part of the Water/Wastewater System at any time and from time to time, provided such sale or exchange of property or facilities does not impede the operations of the Water/Wastewater System. Furthermore, the City to the extent and in the manner provided by law may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the Water/Wastewater System, provided such lease, contract, license, arrangement, easement or right does not impede or disrupt the operations of the Water/Wastewater System. The proceeds of any such sale, exchange or disposal of property or facilities shall be deposited to the credit of a special Fund or Account, and funds deposited to the credit of such Fund or Account shall be used to acquire other property necessary or desirable for the safe or efficient operation of the Water/Wastewater System, to redeem or purchase Prior First Lien Obligations, Prior Subordinate Lien Obligations, Parity Water/Wastewater Obligations, Previously Issued Separate Lien Obligations or for any other Water/Wastewater System purpose..

(i) **BOOKS, RECORDS AND ACCOUNTS**. Proper books, records and accounts pertaining to the operation and ownership of the Water/Wastewater System shall be established and maintained in accordance with generally accepted accounting principles, and such books, records and accounts shall be kept and maintained separate and apart from all other records and accounts of the City. Accurate and complete entries of all transactions relating to the Water/Wastewater System shall be recorded in such books, records and accounts, and such books and records relating to the financial operations of the Water/Wastewater System shall be kept current on a month to month basis.

(j) **INSURANCE**. Except as otherwise permitted below, insurance shall be obtained and maintained on the properties of the Water/Wastewater System in a manner and to the extent municipal corporations operating like properties carry and maintain such insurance, and such insurance shall be maintained with one or more responsible insurance companies and cover such risks, accidents or casualties customarily carried by municipal corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance, insurance against damage caused by floods, and use and occupancy insurance. Public liability and property damage insurance shall also be carried unless the City Attorney gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. At any time while any contractor engaged in construction work shall be fully responsible therefor, the City shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the Holders and their representatives at all reasonable times during regular business hours. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property, together with any other funds available for such purpose as the City in its sole desecration shall determine, shall be used to repair the property damaged or replace the property destroyed; provided, however, if the insurance proceeds and other funds that might be lawfully appropriated therefore are insufficient to repair or replace the damaged property, then such insurance proceeds received for the damaged or destroyed property shall be deposited to the credit of a special insurance Account or Fund until other funds become available which, together with funds on deposit to the credit of such special insurance account, will be sufficient to make the repairs or replacements to the property damaged or destroyed that resulted in such insurance proceeds or make other improvements to the Water/Wastewater System.

In lieu of obtaining policies for insurance as provided above, the City may self-insure against risks, accidents, claims or casualties described above, or such risks, accidents, claims or casualties may be covered under one or more blanket insurance policies maintained by the City. The annual audit hereinafter required shall contain a section commenting on whether the City has complied with the requirements of this Section with respect to the maintenance of insurance, and listing the areas of insurance for which the City is self-insuring, all policies carried, and whether all insurance premiums upon the insurance policies to which reference is hereinbefore made have been paid.

(k) **AUDITS**. After the close of each Fiscal Year while any of the Parity Water/Wastewater Obligations are Outstanding, an annual audit of the books, records and accounts relating to the operations of the Water/Wastewater System shall be made by an Accountant as part of the City's overall annual comprehensive audit. After such annual audit has been completed and approved by the City, a copy thereof shall be sent to the Municipal Advisory Council of Texas and to any owner of $100,000 or more in Outstanding Principal Amount of Parity Water/Wastewater Obligations who shall request a copy of such annual audit in writing. A copy of such annual audit shall be available for the inspection at the administrative offices of the Water/Wastewater System by the owners of the Parity Water/Wastewater Obligations and their agents and representatives at all reasonable times during regular business hours.

(l) **GOVERNMENTAL AGENCIES**. Any and all franchises, licences, permits and authorizations received or obtained from any governmental agency or department and applicable to or necessary with respect to the operations of the Water/Wastewater System shall be kept current and in effect, and no franchise, permit, license or authorization required or necessary for the acquisition, construction, equipment, operation and maintenance of the Water/Wastewater System shall be allowed to expire or terminate by a failure of the City to act or shall the City fail to comply with any terms or conditions that results in a forfeiture or early termination of any such franchise, permit, license, or authorization.

(m) **NO COMPETITION**. To the extent it legally possible, the City will not grant any franchise or permit for the acquisition, construction or operation of any competing facilities which might be used as a material substitute for the Water/Wastewater System's facilities, and, to the extent that it legally may, the City will prohibit any such competing facilities.

(n) **RIGHTS OF INSPECTION**. Subject to public safety and other restrictions as may be reasonably imposed, the owner of Parity Water/Wastewater Obligations shall have the right at all reasonable times during regular business hours to inspect properties of the Water/Wastewater System and all records, accounts and data relating thereto, and copies of such records, accounts and data will be furnished to such owner from time to time, upon the written request and at the payment of the cost of making such copies by the owner making such request.

Section 6. SYSTEM FUND. In accordance with the provisions of the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations, the City has created and there shall be maintained on the books of the City while the Parity Water/Wastewater Obligations are Outstanding a separate fund or account known and designated as the "Water and Sewer System Fund" (herein called the "Water and Wastewater System Fund" or "System Fund"). All funds deposited to the credit of the System Fund and disbursements from such Fund shall be recorded in the books and records of the City and moneys deposited to the credit of such Fund shall be in an account or fund maintained at an official depository of the City. The Gross Revenues of Water/Wastewater System shall be deposited, as collected, to the credit of the System Fund and such Gross Revenues deposited to the credit of the System Fund shall be allocated, budgeted and appropriated to the extent required for the following uses and in the order of priority shown:

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

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

THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable (ii) the funds maintained for the payment of Previously Issued Separate Lien Obligations currently Outstanding and (iii) the special Funds and Accounts for the payment of the Parity Water/Wastewater Obligations.

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

FIFTH: To the payment of the amount, if any, approved and authorized by action of the governing body of the City, to be deposited to the credit of the Water/Wastewater System's Surplus Revenue Account

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

Section 7. DEBT SERVICE FUND. For the sole purpose of paying the principal amount of, premium, if any, and interest on, and other payments (other than Operating Expenses) incurred in connection with Parity Water/Wastewater Obligations, there is hereby created and there shall be established and maintained on the books of the City a separate fund designated as the "Water/Wastewater Revenue Obligation Debt Service Fund" (the "Debt Service Fund") and moneys to the credit of such Debt Service Fund shall be placed in a special fund or account maintained at an official depository of funds of the City.

The amount of the deposits to be made to the credit of the Debt Service Fund to pay the principal of and interest on the Parity Water/Wastewater Obligations as the same shall become due and payable and the manner for making such deposits shall be addressed and contained in each Supplement. In addition, the City reserves the right in any Supplement to establish within the Debt Service Fund various Accounts to facilitate the timely payment of Parity Water/Wastewater Obligations as the same become due and owing.

Section 8. RESERVE FUND. (a) Establishment. There is hereby created and there shall be established and maintained on the books of the City a separate fund or account designated as the "Water/Wastewater System Revenue Obligation Reserve Fund" (the "Reserve Fund"). Except as provided in subsection (f) below, the Reserve Fund shall be maintained for the benefit of the owners of the Parity Water/Wastewater Obligations. There shall be deposited into the Reserve Fund any Reserve Fund Obligations so designated by the City. The amounts deposited to the credit of the Reserve Fund shall be deposited in a special fund maintained at an official depository of City. Reserve Fund Obligations in the Reserve Fund shall be used for the purpose of retiring the last of the Parity Water/Wastewater Obligations as they become due or paying principal of and interest on the Parity Water/Wastewater Obligations when and to the extent the amounts in the Debt Service Fund are insufficient for such purpose. The amount to be accumulated and maintained in the Reserve Fund shall be an amount equal to the Required Reserve Amount. The City may, at its option, withdraw and transfer to the Debt Service Fund all surplus in the Reserve Fund over the Required Reserve Amount.

(b) Credit Facility. The City may replace or substitute a Credit Facility for cash or Eligible Investments on deposit in the Reserve Fund or in substitution for or replacement of any existing Credit Facility. Upon such replacement or substitution, the cash or Eligible Investments on deposit in the Reserve Fund, taken together with the face amount of any existing Credit Facilities, in excess of the Required Reserve Amount may be withdrawn by the City, at its option, and transferred to the System Fund unless such excess was funded with the proceeds of sale of Parity Water/Wastewater Obligations in which case such excess shall be deposited to the credit of the Debt Service Fund; provided that the face amount of any Credit Facility may be reduced at the option of the City in lieu of such transfer.

(c) Priority of Draws. If the City is required to make a withdrawal from the Reserve Fund for any of the purposes described in this Section, the City shall promptly notify the issuer of such Credit Facility of the necessity for a withdrawal from the Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys and cash resulting from the sale or liquidation of Eligible Investments then on deposit in the Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency.

In the event of a draw on a Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Net Revenues, however, such reimbursement from Net Revenues shall be subject to the provisions of Section 8(d) below and shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Parity Water/Wastewater Obligations.

(d) Reserve Amount Deficiency. In the event of a deficiency in the Reserve Fund, or in the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund sufficient Reserve Fund Obligations, all in an aggregate amount at least equal to the Required Reserve Amount, then the City shall, subject to satisfying or making provision for the uses having a priority on the Gross Revenues before any deposits for the payment and security of the Parity Water/Wastewater Obligations and after making required deposits to the Debt Service Fund in accordance with the terms of this Ordinance and any Supplement, cause the aggregate Required Reserve Amount then required to be on deposit in the Reserve Fund to be fully restored within 12 months from the date such deficiency, termination or expiration occurred by (i) making substantially equal cash deposits to the Reserve Fund on or before the last day of each month from the available Net Revenues, (ii) depositing Eligible Investments or Credit Facility to the credit of the Reserve Fund or (iii) a combination of (i) and (ii).

(e) Excess Required Reserve. As Parity Water/Wastewater Obligation secured by the Reserve Fund are paid, redeemed or defeased and cease to be Outstanding under the terms of the Ordinance or a Supplement, the Required Reserve Amount may be recalculated and redetermined, and any Reserve Fund Obligations on deposit in the Reserve Fund in excess of the Required Reserve Amount may be withdrawn and transferred, at the option of the City, to (i) the System Fund, if an amount equal to such excess was funded with Net Revenues, or (ii) the Debt Service Fund.

(f) Application to Commercial Paper/Credit Agreements For the purpose of this Section, the Reserve Fund shall not secure Parity Water/Wastewater Obligations issued in the form of commercial paper, or any Credit Agreement issued in support of such Parity Water/Wastewater Obligations issued in the form of commercial paper, except as otherwise may be provided in any Supplement.

Section 9. SYSTEM SURPLUS REVENUE ACCOUNT. At the end of each Fiscal Year and after satisfying all payments and transfers having a priority on the revenues deposited to the credit of the System Fund, an amount approved and authorized by action of the governing body of the City may be transferred from the System Fund and deposited to the credit of a "Water/Wastewater System Surplus Revenue Account" to be established and maintained on the books and records of the City. The amounts deposited to the credit of the Water/Wastewater System Surplus Revenue Account may be used to make capital improvements to the Water/Wastewater System, to pay Operating Expenses or for any other lawful purpose. Prior to the beginning of each Fiscal Year, an amount deposited to the credit of the Water/Wastewater System Surplus Revenue Account may by action of the governing body of the City in the approval of the annual budget, or by a separate action, be designated as "Other Available Water/Wastewater Funds". The amount so designated as "Other Available Water/Wastewater Fund" shall be transferred on the books of the City to the credit of the System Fund as of the beginning of such Fiscal Year.

Section 10. ISSUANCE OF ADDITIONAL OBLIGATIONS. (a)Parity Water/Wastewater Obligations. The City reserves and shall have the right and power to issue or incur Parity Water/Wastewater Obligations for any purpose authorized by law pursuant to the provisions of this Ordinance and a Supplement hereafter adopted. The City may issue, incur, or otherwise become liable in respect of any Parity Water/Wastewater Obligations if:

(i) a Designated Financial Officer shall execute a certificate stating that, to his or her knowledge, the City is in compliance with all covenants contained in this Ordinance and any Supplement, is not in default in the performance and observance of any of the terms, provisions and conditions hereof and thereof, and the Funds and Accounts securing the Parity Water/Wastewater Obligations then Outstanding as established in accordance with the terms of this Ordinance and any Supplement contain the amounts then required to be therein or the proceeds of sale of the Parity Water/Wastewater Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts, if any; and

(ii) an Accountant shall certify or render an opinion to the effect that, for the last completed Fiscal Year preceding the date of the then proposed Parity Water/Wastewater Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Water/Wastewater Obligations, the Net Revenues of the Water/Wastewater System, after deducting amounts expended from the Water/Wastewater System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, together with Other Available Water/Wastewater Revenues, are equal to 1.25 times the average Annual Debt Service Requirements of the Parity

Water/Wastewater Obligations to be Outstanding after giving effect to the issuance of the then proposed Parity Water/Wastewater Obligations.

For purposes of paragraph (a) (ii), if Parity Water/Wastewater Obligations are issued to refund less than all of the Parity Water/Wastewater Obligations then Outstanding, the certificate, report or opinion of the Accountant required above shall give effect to the issuance of the proposed refunding Parity Water/Wastewater Obligations (and shall not give effect to the Parity Water/Wastewater Obligations being refunded following their cancellation or provision being made for their payment).

(b) Short-Term Parity Water/Wastewater Obligations. The City may issue or incur Parity Water/Wastewater Obligations issued in the form of commercial paper and for purposes of this subsection, the term "Outstanding Funded Debt" shall include Subordinated Debt that matures by its terms, or that is renewable at the option of the City to a date, more than one year after the date of its issuance by the City. The terms and conditions pertaining to the issuance of Parity Water/Wastewater Obligations in the form of commercial paper, including, without limitation, the security, liquidity and reserves necessary to support such commercial paper obligations, shall be contained in a Supplement relating to their issuance.

(c) Special Facilities Debt and Subordinated Debt. Special Facilities Debt and Subordinated Debt may be incurred by the City without limitation.

(d) Credit Agreements. Payments to be made under a Credit Agreement may be treated as Parity Water/Wastewater Obligations if the governing body of the City makes a finding in the Supplement authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Water/Wastewater System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Water/Wastewater Obligations then Outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

(e) Determination of Net Revenues. In making a determination of Net Revenues for any of the purposes described in this Section, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the Water/Wastewater System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Water/Wastewater System for the period of time covered by the Accountant's certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion.

Section 11. FINAL DEPOSITS; GOVERNMENT OBLIGATIONS. (a) Any Parity Water/Wastewater Obligation shall be deemed to be paid, retired and cease to be Outstanding within the meaning of this Ordinance, and the Supplement pursuant to which it was issued, when payment of the principal amount of, redemption premium, if any, on such Parity Water/Wastewater Obligation, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either shall have been (i) made in accordance with the terms thereof or (ii) provided by irrevocably depositing with, or making available to, a Paying Agent (or escrow agent) therefor, in trust and set aside exclusively for such payment, in accordance with the terms and conditions of an agreement between the City and said Paying Agent (or escrow agent), (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of such Paying Agent pertaining to the Parity Water/Wastewater Obligation with respect to which such deposit is made shall have been paid or the payment thereof duly provided (and irrevocable instructions shall have been given by the City to such Paying Agent to give notice of such redemption in the manner required by the Supplement authorizing the issuance of such Parity Water/Wastewater Obligation) to the satisfaction of such Paying Agent. Such Paying Agent shall give notice to each owner of any Parity Water/Wastewater Obligation that such deposit as described above has been made, in the same manner as required with respect to the redemption of such Parity Water/Wastewater Obligation, all in accordance with the terms of the Supplement pursuant to which such Parity Water/Wastewater Obligation was issued. In addition, in connection with a defeasance, such Paying Agent shall give notice of redemption, if necessary, to the owners of any Parity Water/Wastewater Obligation in the manner provided in the Supplement for such Parity Water/Wastewater Obligation and as directed in the redemption instructions delivered by the City to such Paying Agent. At such time as a Parity Water/Wastewater Obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or the Supplement pursuant to which it was issued or a lien on and pledge of the Net Revenues, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys deposited with a Paying Agent (or escrow agent) may, at the direction of the City, also be invested in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from all Government Obligations in the hands of the Paying Agent pursuant to this Section which is not required for the payment of the principal of the Parity Water/Wastewater Obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be remitted to the City for deposit to the credit of the Debt Service Fund.

(c) Except as provided in clause (b) of this Section, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of Parity Water/Wastewater Obligations, the redemption premium, if any, and interest thereon, shall be applied solely to and used solely for the payment of such Parity Water/Wastewater Obligations, the redemption premium, if any, and interest thereon.

Section 12. AMENDMENT OF ORDINANCE. (a) Required Owner Consent for Amendments. The owners of a majority in Outstanding Principal Amount of the Parity Water/Wastewater Obligations shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City, provided, however, that nothing contained herein shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Parity Water/Wastewater Obligations so as to:

(1) Make any change in the maturity of any of the Outstanding Parity Water/Wastewater Obligations;

(2) Reduce the rate of interest borne by any of the Outstanding Parity Water/Wastewater Obligations;

(3) Reduce the amount of the principal payable on the Outstanding Parity Water/Wastewater Obligations;

(4) Modify the terms of payment of principal of, premium, if any, or interest on the Outstanding Parity Water/Wastewater Obligations or impose any conditions with respect to such payment;

(5) Affect the rights of the owners of less than all of the Parity Water/Wastewater Obligations then Outstanding;

(6) Amend this subsection (a) of this Section; or

(7) Change the minimum percentage of the principal amount of Parity Water/Wastewater Obligations necessary for consent to any amendment;

unless such amendment or amendments be approved by the owners of all of the Parity Water/Wastewater Obligations affected by the change or amendment then Outstanding.

(b) Notice of Amendment Requiring Consent. If at any time the City shall desire to amend the Ordinance under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, and a newspaper of general circulation in the City, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file with each Paying Agent or Registrar, as the case may be, for the Parity Water/Wastewater Obligations for inspection by all Holders of Parity Water/Wastewater Obligations. Such publication is not required, however, if notice in writing is given by mail, first class postage prepaid, to each Holder of Parity Water/Wastewater Obligations.

(c) Time Period for Obtaining Consent If within one year from (i) the date of the first publication of said notice or (ii) the date of the mailing by the Paying Agent of written notice to the owners of the Parity Water/Wastewater Obligations, whichever date first occurs if both methods of giving notice are used, the City shall receive an instrument or instruments executed by the owners of at least a majority in Outstanding Principal Amount of the Parity Water/Wastewater Obligations consenting to and approving such amendment in substantially the form of the copy thereof on file with each Paying Agent or Registrar, as the case may be, for the Parity Water/Wastewater Obligations, the governing body of the City may pass the amendatory ordinance in substantially the same form.

(d) Revocation of Consent. Any consent given by the owner of a Parity Water/Wastewater Obligation pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date for measuring the one year period to obtain consents noted in paragraph (c) above, and shall be conclusive and binding upon all future owners of the same Parity Water/Wastewater Obligation during such period. At any time after six months from the date for measuring the one year period to obtain consents noted in paragraph (c) above, such consent may be revoked by the owner who gave such consent, or by a successor in title, by filing written notice thereof with the Paying Agent or Registrar, as the case may be, for such Parity Water/Wastewater Obligation and the City, but such revocation shall not be effective if the owners of at least a majority in Outstanding Principal Amount of the then Outstanding Parity Water/Wastewater Obligations as determined in accordance with this Section have, prior to the attempted revocation, consented to and approved the amendment.

(e) Implementation of Amendment. Upon the passage of any amendatory ordinance pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendatory ordinance, and the respective rights, duties and obligations of the City under this Ordinance and all the owners of then Outstanding Parity Water/Wastewater Obligations and all future Parity Water/Wastewater Obligations shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendments.

(f) Amendment without Consent. The foregoing provisions of this Section notwithstanding, the City by action of its governing body may amend this Ordinance for any one or more of the following purposes:

(1) To add to the covenants and agreements of the City in this Ordinance contained, other covenants and agreements thereafter to be observed, grant additional rights or remedies to the owners of the Parity Water/Wastewater Obligations or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City;

(2) To make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Ordinance, or in regard to clarifying matters or questions arising under this Ordinance, as are necessary or desirable and not contrary to or inconsistent with this Ordinance and which shall not adversely affect the interests of the owners of the Parity Water/Wastewater Obligations then outstanding;

(3) To modify any of the provisions of this Ordinance in any other respect whatever, provided that such modification shall be, and be expressed to be, effective only after all Parity Water/Wastewater Obligations outstanding at the date of the adoption of such modification shall cease to be outstanding;

(4) To make such amendments to this Ordinance as may be required, in the opinion of Bond Counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto;

(5) To make such changes, modifications or amendments as may be necessary or desirable in order to allow the owners of the Parity Water/Wastewater Obligations to thereafter avail themselves of a book-entry system for payments, transfers and other matters relating to the Parity Water/Wastewater Obligations, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of this Ordinance and which shall not adversely affect the interests of the owners of the Parity Water/Wastewater Obligations;

(6) To make such changes, modifications or amendments as may be necessary or desirable in order to obtain or maintain the granting of a rating on the Parity Water/Wastewater Obligations by a Rating Agency or to obtain or maintain a Credit Agreement or a Credit Facility; and

(7) To make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Parity Water/Wastewater Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar types of agreements with respect to the Parity Water/Wastewater Obligations. Notice of any such amendment may be published by the City in the manner described in clause (b) of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(g) Ownership. For the purpose of this Section, the ownership and other matters relating to all Parity Water/Wastewater Obligations may be determined as provided in each Supplement and unless otherwise provided in a Supplement, the owners of the Parity Water/Wastewater Obligations insured as to the payment of principal of and interest thereon shall be deemed to be the insurance company providing the insurance coverage on such Parity Water/Wastewater Obligations; provided such amendment to this Ordinance is an amendment that can be made with the consent of a majority in Outstanding Principal Amount of the Parity Water/Wastewater Obligations and such insurance company is not in default with respect to its obligations under its insurance policy.

(h) Amendments of Supplements. Each Supplement shall contain provisions governing the ability of the City to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of Parity Water/Wastewater Obligations then Outstanding under such Supplement a priority over the owners of any other Parity Water/Wastewater Obligations then Outstanding.

Section 13. DEFICIENCIES; EXCESS NET REVENUES. (a) Revenue Deficiency. If on any occasion there shall not be sufficient Net Revenues to make the required deposits into the Funds and Accounts established in accordance with this Ordinance and any Supplement, then such deficiency shall be made up as soon as possible from the next available Net Revenues, or from any other source available for such purpose.

(b) Excess Revenue. Subject to making the required deposits to the credit of the Funds and Accounts established in accordance with this Ordinance and any Supplement, when and as required by this Ordinance and any Supplement, the excess Net Revenues may be used by the City for any lawful purpose.

Section 14. FUNDS SECURED. Moneys in all Funds and Accounts created in accordance with this Ordinance and any Supplement shall be secured in the manner prescribed by law for securing funds of the City.

Section 15. INVESTMENTS. Moneys in any Fund or Account established pursuant to this Ordinance and any Supplement may, at the option of the City, be placed or invested in Eligible Investments. The value of any such Fund or Account shall be established by adding any money therein to the Value of Investment Securities. The value of each such Fund or Account shall be established no less frequently than annually during the last month of each Fiscal Year. Earnings derived from the investment of moneys on deposit in the various Funds and Accounts shall be credited to the Fund or Account from which moneys used to acquire such investment shall have come.

Section 16. BENEFITS OF ORDINANCE. Nothing in this Ordinance, expressed or implied, is intended or shall be construed to confer upon any person other than the City, the Paying Agent/Registrar and the Holders, any right, remedy, or claim, legal or equitable, under or by reason of this Ordinance or any provision hereof, this Ordinance and all its provisions being intended to be and being for the sole and exclusive benefit of the City, the Paying Agent/Registrar and the Holders.

Section 17. GOVERNING LAW. This Ordinance shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

Section 18. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

Section 19. CONSTRUCTION OF TERMS. If appropriate in the context of this Ordinance, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine or neuter gender shall be considered to include the other genders.

Section 20. SEVERABILITY. If any provision of this Ordinance or the application thereof to any circumstance shall be held to be invalid, the remainder of this Ordinance and the application thereof to other circumstances shall nevertheless be valid, and the City Council hereby declares that this Ordinance would have been enacted without such invalid provision.

Section 21. PUBLIC MEETING. It is officially found, determined, and declared that the meeting at which this Ordinance is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Ordinance, was given; all as required by V.T.C.A., Government Code, Chapter 551, as amended.

Section 22. EMERGENCY. The public importance of this measure and the fact that there is an urgent public need for the City to obtain the funds from the sale of the Bonds as soon as possible and without delay for the immediate preservation of the public peace, health and safety of the citizens of the City constitute and create an emergency requiring the suspension of the rule providing for ordinances to be read on three separate days; and such rule relating to the passage of ordinances and the Charter provision relating to the effective date of ordinances are hereby suspended and this ordinance is hereby passed as an emergency measure and shall be effective immediately upon its passage and adoption as provided by the Charter of the City.

PASSED AND ADOPTED, this June 8, 2000.

CITY OF AUSTIN, TEXAS

KIRK WATSON
Mayor

ATTEST:

SHIRLEY A. BROWN
City Clerk

(City Seal)

APPROVED:

ANDREW MARTIN
City Attorney

EXHIBIT "A"

DEFINITIONS

As used in the Ordinance, the following terms and expressions shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

"Account" means any account created, established and maintained on the books and records of the City under the terms of any Supplement.

"Accountant" means a nationally recognized independent certified public accountant, or an independent firm of certified public accountants.

"Annual Debt Service Requirements" means, for any Fiscal Year, the principal of and interest on all Parity Water/Wastewater Obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Debt, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year, and, for such purposes, any one or more of the following rules shall apply at the election of the City:

(i) Committed Take Out. If the City has entered into a Credit Agreement with a Credit Provider to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the City's obligation to repay the amounts advanced under the Credit Agreement for the discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased by the Credit Provider shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;

(ii) Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable by reason of any required purchase of such Funded Debt by the City) in any Fiscal Year is either (a) equal to 25%, or more, of the total principal (including the accretion of interest resulting from original issue discount or compounding of interest) of such Funded Debt or (b) exceeds by more than 50% the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein and throughout this Exhibit A as "Balloon Debt"), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

(iii) Consent Sinking Fund. In the case of Balloon Debt, if a Designated Financial Officer executes a certificate to the effect that such Balloon Debt (a) may be treated as being retired in installments (and the instrument creating such Balloon Debt expressly permits such Debt to be treated as being retired in installments), or (b) paid from the funding and accumulation of a sinking fund (and the instrument creating such Balloon Debt expressly permits the funding and accumulation of a sinking fund) according to a fixed schedule stated in such certificate, then the principal of (and, in the case of retirement, or to the extent provided for the funding and accumulation of a sinking fund, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such fixed schedule, provided this clause (iii) shall apply only to Balloon Debt when installments due and payable prior to such certificate have been duly paid or all deposits to the sinking fund established for such Debt have been duly credited to the sinking fund on or before the times required by such schedule; and provided further this clause (iii) shall not apply when the City has elected to apply the rule set forth in clause (ii) above;

(iv) Prepaid Debt. Principal of and interest on Parity Water/Wastewater Obligations, or portions thereof, payable from capitalized interest, accrued interest and amounts deposited or set aside in trust for the payment thereof with a financial institution shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year;

(v) Variable Rate. As to any Parity Water/Wastewater Obligation that bears interest at a variable interest rate which cannot be ascertained at the time of calculation of the Annual Debt Service Requirement then, at the option of the City, either (a) an interest rate equal to the average rate borne by such Parity Water/Wastewater Obligations (or by comparable debt in the event that such Parity Water/Wastewater Obligations has not been outstanding during the preceding 24 months) for any 24 month period ending within 30 days prior to the date of calculation, or (b) an interest rate equal to the 30-year Tax-Exempt Revenue Bond Index (as most recently published in The Bond Buyer), shall be presumed to apply for all future dates, unless such index is no longer published in The Bond Buyer, in which case an index of tax-exempt revenue bonds with maturities of 20 years, or more, published in a financial newspaper or journal with national circulation may be used for this purpose;

(vi) Commercial Paper. Any Parity Water/Wastewater Obligations issued in the form of commercial paper shall use an interest rate for such Parity Water/Wastewater Obligations calculated in the manner provided in clause (v) of this definition and the maturity schedule shall be calculated in the manner provided in clause (ii) of this definition; and

(vii) Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Debt, payments due under the Credit Agreement, from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (i) through (vi) above and any payments otherwise included above under (i) through (vi) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation. For any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation and, for prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

"Bond Counsel" means Messrs. Fulbright & Jaworski L.L.P. or other firm engaged by the City with legal experience and expertise in the issuance and sale of obligations by municipalities in the State of Texas and with respect to the exclusion of interest on obligations from federal income taxation under Section 103(a) of the Code.

"City" and **"Issuer"** mean the City of Austin, Texas.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor thereto.

"Commercial Paper Obligations" means those obligations identified and described in the preamble of the Ordinance.

"Credit Agreement" means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity Water/Wastewater Obligations, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the City in connection with the authorization, issuance, security, or payment of Parity Water/Wastewater Obligations and on a parity therewith.

"Credit Facility" means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a Rating Agency having an outstanding rating on Parity Water/Wastewater Obligations would rate the Parity Water/Wastewater Obligations fully insured by a standard policy issued by the issuer in its highest generic rating category for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a Rating Agency having an outstanding rating on the Parity Water/Wastewater Obligations would assign a rating to the Parity Water/Wastewater Obligations of one of its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Parity Water/Wastewater Obligations and the interest thereon.

"Credit Provider" means any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement.

"Debt" of the City payable from Net Revenues means all:

(i) indebtedness incurred or assumed by the City for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the Water/Wastewater System that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(ii) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining the "Debt" payable from the Net Revenues of the Water/Wastewater System, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (A) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (B) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the City in prior Fiscal Years.

"Debt Service Fund" means the "Water/Wastewater System Revenue Obligation Debt Service Payment Fund" established pursuant to Section 7 of the Ordinance.

"Designated Financial Officer" shall mean the Director of Finance, Treasurer or such other financial or accounting official of the City so designated by the governing body of the City.

"Eligible Investments" means those investments in which the City is now or hereafter authorized by law, including, but not limited to, the Public Funds Investment Act (V.T.C.A., Government Code, Chapter 2256), as amended, to purchase, sell and invest its funds and funds under its control.

"Fiscal Year" means the twelve month financial accounting period for the Water/Wastewater System which currently ends on September 30 of each calendar year.

"Fund" means any fund created, established and maintained under the terms of the Ordinance and any Supplement.

"**Funded Debt**" of the Water/Wastewater System means all Parity Water/Wastewater Obligations (and, for purposes of Section 10(b) of the Ordinance, all Subordinated Debt) created or assumed by the City and payable from Net Revenues maturing by their terms (in the absence of the exercise of any earlier right of demand), or renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

"**Government Obligations**" means (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

"**Gross Revenues**" means all revenues, income, and receipts derived or received by the City from the operation and ownership of the Water/Wastewater System, including interest income and earnings from the investment or deposit of money in any Fund created by the Ordinance or a Supplement or maintained by the City in connection with the Water/Wastewater System, other than those amounts subject to payment to the United States of America as rebate pursuant to section 148 of the Code, and Other Available Water/Wastewater System Revenues . The term "Gross Revenues", however, does not include refundable meter deposits, restricted gifts and grants in aid of construction or impact fees charged under authority of Chapter 395, Texas Local Government Code, which by law are restricted as to use.

"**Holder**" or "**Bondholder**" or "**owner**" means the registered owner appearing on the books and records of the Registrar of any Parity Water/Wastewater Obligation registered as to ownership and the holder of any Parity Water/Wastewater Obligation payable to bearer.

"**Maturity**" when used with respect to any Debt means the date the principal of such Debt or any installment thereof becomes due and payable, whether at its Stated Maturity or by declaration of acceleration, call for redemption, or otherwise.

"**Net Revenues**" and "**Net Revenues of the Water/Wastewater System**" with respect to any period of time means the Gross Revenues for such period less Operating Expenses incurred during such period.

"**Operating Expenses**" means the expenses of operation and maintenance of the Water/Wastewater System, including all salaries, labor, materials repairs, and extensions necessary to render efficient service, provided, however, that only such repairs and extensions, as in the judgment of the City, reasonably and fairly exercised by the passage of appropriate ordinances, are necessary to render adequate service, or such as might be necessary to meet some physical accident or condition which would otherwise impair any Parity Water/Wastewater Obligations. Operating Expenses shall include the purchase of water, the treatment and disposal of wastewater, and, to the extent permitted by law Operating Expenses may include payments made on or in respect of obtaining and maintaining any Credit Agreement or Credit Facility. Depreciation shall not be considered as expenses of operation and maintenance.

"Opinion of Counsel" means a written opinion of counsel acceptable to the City.

"Ordinance" means this Ordinance No. 000608-56A pertaining to the issuance Parity Water/Wastewater Obligations, and any amendments thereto.

"Other Available Water/Wastewater System Revenues" means an amount of unencumbered funds accumulated in the Water/Wastewater System Surplus Revenue Account designated as Other Available Water/Wastewater Funds and deposited to the credit of the System Fund as provided in Section 9 hereof; provided, the maximum amount which may be so designated in any Fiscal Year for purposes of complying with the provisions of Sections 4 and 10 of this Ordinance cannot exceed twenty-five per cent (25%) of the Debt Service Requirements for the Parity Water/Wastewater Obligations for such Fiscal Year.

"Outstanding" when used with respect to Parity Water/Wastewater Obligations means, as of the date of determination, all Parity Water/Wastewater Obligations theretofore delivered under this Ordinance and any Supplement, except:

(i) Parity Water/Wastewater Obligations theretofore canceled and delivered to the City or delivered to the Paying Agent or the Registrar for cancellation;

(ii) Parity Water/Wastewater Obligations deemed paid pursuant to the provisions of Section 11 of the Ordinance or any comparable section of any Supplement;

(iii) Parity Water/Wastewater Obligations upon transfer of or in exchange for and in lieu of which other Parity Water/Wastewater Obligations have been authenticated and delivered pursuant to the Ordinance and any Supplement; and

(iv) Parity Water/Wastewater Obligations under which the obligations of the City have been released, discharged, or extinguished in accordance with the terms thereof;

provided, that, unless acquired for purposes of cancellation, Parity Water/Wastewater Obligations owned by the City shall be deemed to be Outstanding as though owned by any other owner.

"Outstanding Principal Amount" means, with respect to all Parity Water/Wastewater Obligations or to a series of Parity Water/Wastewater Obligations, the outstanding and unpaid principal amount of such Parity Water/Wastewater Obligations paying interest on a current basis and the accreted value as of each compounding date for Parity Water/Wastewater Obligations paying accrued, accreted, or compounded interest only at maturity and as determined and established in the Supplement authorizing the issuance of such Parity Water/Wastewater Obligations

"Prior First Lien Obligations" means those obligations identified and described in the preamble of the Ordinance.

"Prior Subordinate Lien Obligations" means to obligations identified and described in the preamble of the Ordinance.

"Parity Water/Wastewater Obligations" means all Debt of the City, except Previously Issued Separate Lien Obligations, issued or incurred in accordance with the terms of the Ordinance and a Supplement, and secured by a lien on and pledge of the Net Revenues.

"Paying Agent" means bank, trust company or other entity selected by the City in a Supplement undertaking the duties and responsibilities for the payment to the Holders of the principal of and interest on the series or issue of Parity Water/Wastewater Obligations.

"Previously Issued Separate Lien Obligations" means those obligations payable, in whole or in part under a contract with the City, from and secured only by a lien on and pledge of the Net Revenues of the Water/Wastewater System and more particularly described as follows: (i) Circle C MUD#4 City of Austin, Texas Contract Revenue Bonds, Series 1990,dated date February 1, 1990 and currently outstanding in the principal amount of $2,745,000, (ii) Circle C MUD #3 City of Austin, Texas Contract Revenue Bonds, Series 1991,dated date June 15, 1991, and currently outstanding in the principal amount of $26,835,000, (iii) Village at Western Oaks MUD City of Austin, Texas Contract Revenue Bonds, Series 1991, dated August 15, 1991, and currently outstanding in the principal amount of $17,570,000, (iv) Southland Oaks MUD City of Austin, Texas Contract Revenue Bonds, Series 1991, dated August 15, 1991, and currently outstanding in the principal amount of $20,525,000, (v) Maple Run at Austin MUD City of Austin, Texas Contract Revenue Bonds, Series 1992, dated February 1, 1992, and currently outstanding in the principal amount of $13,255,000, and (vi) North Austin MUD#1 City of Austin, Texas Refunding Contract Revenue Bonds, Series 1994, dated February 1, 1994, and currently outstanding in the principal amount of $13,035,000.

"Prudent Utility Practice" means any of the practices, methods and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the public utility industry prior thereto, known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method or act at the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. In the case of any facility included in the Water/Wastewater System which is owned in common with one or more other entities, the term "Prudent Utility Practice", as applied to such facility, shall have the meaning set forth in the agreement governing the operation of such facility.

"Rating Agency" means a nationally recognized securities rating agency which has assigned a rating to the Parity Water/Wastewater Obligations.

"Required Reserve Amount" means an amount equal to 50% of the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations then Outstanding, to the extent such Parity Water/Wastewater Obligations are to be secured by the Reserve Fund in accordance with the terms and provisions of Section 8 of the Ordinance and the provisions of any Supplement.

"Reserve Fund" means the "Water/Wastewater System Revenue Obligation Reserve Fund" established pursuant to Section 8 of the Ordinance.

"Reserve Fund Obligations" means cash, Eligible Investments, any Credit Facility, or any combination of the foregoing.

"Registrar" means bank, trust company or other entity selected by the City in a Supplement to serve as the registrar for the registration and transfer of a series or issue of Parity Water/Wastewater Obligations issued in fully registered form as to the payment of principal of and interest thereon.

"Stated Maturity" when used with respect to Debt or any installment of interest thereon means any date specified in the instrument evidencing or authorizing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

"Subordinated Debt" means any Debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Water/Wastewater Obligations then Outstanding or subsequently issued.

"Supplement" or **"Supplemental Ordinance"** means an ordinance supplemental to, and authorized and adopted by the governing body of the City pursuant to the terms of, the Ordinance.

"System Fund" means the **"Water and Sewer System Fund"** affirmed in Section 6 of the Ordinance.

"Term of Issue" means with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or the "maximum maturity date" in the case of commercial paper ("maximum maturity date" having the meaning given to said term in any Supplement authorizing the issuance of commercial paper) or (ii) twenty-five years.

"Utility System Consultant" means an independent firm, person or corporation recognized as having expertise and with a favorable reputation for special skill and knowledge in the operations and financing of municipal water and wastewater facilities and systems similar in size to the Water/Wastewater System.

"Value of Investment Securities" and words of like import shall mean the amortized value thereof, provided, however, that all United States of America, United States Treasury Obligations--State and Local Government Series shall be valued at par and those obligations which are redeemable at the option of the holder shall be valued at the price at which such obligations are then redeemable. The computations made under this paragraph shall include accrued interest on the investment securities paid as a part of the purchase price thereof and not collected. For the purposes of this definition "amortized value", when used with respect to a security purchased at par means the purchase price of such security.

"Water/Wastewater System"means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of water and the collection, treatment and disposal or reuse/reclaim of wastewater, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term Water/Wastewater System shall not include facilities of any kind which are declared not to be a part of the Water/Wastewater System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Debt", which term is defined as being special revenue obligations of the City not secured by or payable from the Net Revenues but which are secured by and payable solely from special contract revenues, or payments received from the City or any other legal entity, or any combination thereof, in connection with such facilities.

APPENDIX D

SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS

Definitions. The following definitions are provided:

City-shall mean the City of Austin, Texas, located in the Counties of Travis and Williamson.

Electric Light and Power System-shall mean all facilities and plants currently owned, operated and maintained by the City, wholly or partially in participation with others, for the generation, transmission, supply and distribution of electrical energy and power, together with all future extensions, improvements, replacements and additions thereto, and all replacements thereof; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Electric Light and Power System" shall not include facilities of any kind (including any electric power generating and transmission facilities) which are declared not to be a part of the Electric Light and Power System and which are acquired or constructed by the City, or in participation with others, with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments not pledged to the payment of the Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

Fiscal Year-shall mean the twelve month period used by the City in connection with the operation of the Systems which may be any twelve consecutive month period established by the City.

Government Obligations-shall mean direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book-entry form.

Gross Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants and proceeds derived from the sale or other disposition of all or part of the City's participating interest in the South Texas Project and revenues, sources or payment from facilities acquired or constructed with "Special Facilities Bonds") of the respective system, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established by the City for the payment and security of the Prior Lien Bonds or the Subordinate Lien Bonds or Separate Lien Obligations.

Maintenance and Operating Expenses-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all current expenses of operating and maintaining the respective system, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Prior Lien Bonds or the Subordinate Lien Bonds shall be deducted in determining "Net Revenues." Depreciation shall never be considered as an expense of Maintenance and Operation. Maintenance and Operating Expenses shall include payments under contracts for the purchase of power and energy, water supply or other materials, goods or services for the Systems to the extent authorized by law and the provisions of such contract.

Net Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, Gross Revenues of the respective system after deducting the system's Maintenance and Operating Expenses.

Outstanding-shall mean with respect to Bonds, as of the date of determination, all Bonds theretofore issued and delivered under this Ordinance, except:(i) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation; (ii) those Bonds for which payment has been duly provided by the City in accordance with the provisions of Section 27 hereof; and(iii) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 30 hereof.

Prior Lien Bonds-shall mean the outstanding revenue bonds of those issues or series identified as follows: (i) City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B," dated February 1, 1990, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992," dated March 1, 1992, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A," dated May 15, 1992, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993," dated January 15, 1993, (v) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A," dated June 1, 1993, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994," dated September 1, 1994, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1995," dated June 1, 1995, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A," dated August 1, 1996, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B," dated August 1, 1996, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997," dated August 1, 1997, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998," dated July 1, 1996, and (xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A," dated August 1, 1997.

Subordinate Lien Bonds-shall mean the outstanding revenue bonds of those series designated (i) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994," dated March 1, 1994, (ii) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998," dated August 1, 1998, (iii) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998," dated October 1, 1998 and (iv) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A," dated October 1, 1998.

Required Reserve-shall mean the amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 15 hereof.

Separate Lien Obligations-shall mean (a) those obligations hereafter (i) issued or incurred by the City payable solely from the Net Revenues of either the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, (ii) incurred pursuant to express charter or statutory authority heretofore or hereafter adopted or enacted and (iii) which by the terms of the ordinance authorizing their issuance or the incurring of the obligation provide for payments to be made by the City for the retirement or payment thereof to be secured solely by a lien on and pledge of the Net Revenues of the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, of equal dignity with the lien on and pledge of said Net Revenues securing the payment of the Subordinate Lien Bonds and (b) those contractual obligations of the City heretofore incurred payable solely from and secured by a lien on and pledge of the Net Revenues of the Water and Sewer System and securing the payment of certain outstanding contract revenue bonds more specifically identified in Exhibit B.

South Texas Project-shall mean the City's ownership interest in two nuclear steam electric generating units and related land and facilities, as more particularly defined in the South Texas Project Participation Agreement effective as of December 1, 1973, as amended.

Systems-shall mean collectively the Electric Light and Power System and the Waterworks and Sewer System.

Waterworks and Sewer System-shall mean all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of treated potable water and the collection, treatment and disposal of water-carried wastes, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Waterworks and Sewer System" shall not include facilities of any kind which are declared not to be a part of the Waterworks and Sewer System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

<u>Pledge</u>. (a) <u>Electric Light and Power System</u>. Subject only to the prior lien on and pledge of the Net Revenues of the

Electric Light and Power System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Electric Light and Power System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations, if issued or incurred, and the pledge of the Net Revenues of the Electric Light and Power System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations, if issued, shall constitute a lien on the Net Revenues of the Electric Light and Power System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

(b) Waterworks and Sewer System. Subject only to the prior lien on and pledge of the Net Revenues of the Waterworks and Sewer System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Waterworks and Sewer System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations now outstanding and hereafter issued or incurred, and the pledge of the Net Revenues of the Waterworks and Sewer System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations now outstanding and hereafter issued, shall constitute a lien on the Net Revenues of the Waterworks and Sewer System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

Rates and Charges. For the benefit of the Holders and in addition to all provisions and covenants in the laws of the State of Texas and in this Ordinance, the City hereby expressly stipulates and agrees, while any of the Subordinate Lien Bonds are outstanding, to establish and maintain rates and charges for facilities and services afforded by the Electric Light and Power System and the Waterworks and Sewer System to provide Gross Revenues in each Fiscal Year from each System sufficient:

(1) To pay the respective Maintenance and Operating Expenses thereof,

(2) To provide amounts required to establish, maintain or restore, as the case may be, a required balance in any reserve or contingency fund created for the payment and security of Separate Lien Obligations,

(3) To produce combined Net Revenues of the Systems sufficient to pay the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Prior Lien Bonds, the Subordinate Lien Bonds, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems, and

(4) To produce combined Net Revenues of the Systems (after satisfaction of the amounts required to be paid in 2 and 3 above) equal to at least the sum of (i) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior Lien Bonds and Separate Lien Obligations and (ii) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Subordinate Lien Bonds and all other indebtedness (except Prior Lien Bonds and Separate Lien Obligations) payable only from and secured solely by lien on and pledge of the Net Revenues of the Systems, either or both.

Electric Light and Power System Fund. The City hereby covenants and agrees that the Gross Revenues of the Electric Light and Power System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Electric Light and Power System Fund" (herein called the "Electric Fund") and such revenues of the Electric Light and Power System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Electric Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Electric Light and Power System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in the special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Electric Light and Power System.

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

Water and Sewer System Fund. The City hereby covenants and agrees that Gross Revenues of the Waterworks and Sewer System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Water and Sewer System Fund" (herein called the "Water and Sewer Fund") and such revenues of the Waterworks and Sewer System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Water and Sewer Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Waterworks and Sewer System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Waterworks and Sewer System.

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

Reserve Fund. (a) In connection with the issuance of the Prior Lien Bonds and Subordinate Lien Bonds, the City agrees and covenants to keep and maintain with its depository bank a separate and special fund known as the "Combined Pledge Revenue Bond Common Reserve Fund" (the "Reserve Fund") for the purpose of accumulating and maintaining funds as a reserve for the payment of the Prior Lien Bonds and Subordinate Lien Bonds in an amount (the "Required Reserve") equal to the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds, as determined on (i) the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing the Financial Commitment for the Reserve Fund falls below the minimum requirement noted below, whichever date is the last to occur. All funds deposited in the Reserve Fund (excluding earnings and income derived or received from deposits or investments which, subject to the limitations hereinafter specified, may be withdrawn and transferred from the Reserve Fund) shall be used solely for the payment of the principal of and interest on the Prior Lien Bonds and the Subordinate Lien Bonds on a pro rata basis, when (whether at maturity, upon mandatory redemption prior to maturity or any interest payment date) and to the extent other funds available for such purpose are insufficient, and, in addition, may be used to retire the last of the Prior Lien Bonds or Subordinate Lien Bonds outstanding.

The total amount required to be accumulated and maintained in the Reserve Fund is $106,790,235.15 (the Required Reserve), which amount is equal to or greater than the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds as determined on the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund.

Currently, the Required Reserve is fully funded with Financial Commitments of Financial Security Assurance Inc. in the amounts of $30,000,000 (the Initial Financial Commitment acquired) and $76,790,325.15 (an additional Financial Commitment acquired on or about August 31, 2004).

When and so long as the money and investments, or Financial Commitments, are on deposit to the credit of the Reserve Fund in an amount equal to or exceeding the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Reserve, the City covenants and agrees to cure the deficiency in the Required Reserve within twelve (12) months from the date the Required Reserve deficiency occurred with available Net Revenues in the Electric Fund and the Water and Sewer Fund, and the City hereby covenants and agrees that, subject only to payments required for the payment of principal of and interest on the Prior Lien Bonds and the establishment and maintenance of the special funds (other than the Reserve Fund) created for the payment and security thereof, all Net Revenues remaining in the Electric Fund and the Water and Sewer Fund shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amount as required by the terms of this Ordinance and any other ordinance pertaining to obligations the payment of which are secured by the Required Reserve. During such time as the Reserve Fund contains the total Required Reserve, the City may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the "Interest and Redemption Fund" created and established for the payment and redemption of the Subordinate Lien Bonds while the same remain outstanding and, at such time as the Subordinate Lien Bonds are no longer outstanding, such surplus may be deposited in the Bond Fund.

Notwithstanding any provision contained herein to the contrary, the Required Reserve may be funded, in whole or in part, by depositing to the credit of the Reserve Fund (i) cash, (ii) investments, and (iii) one or more Financial Commitments. The term Financial Commitments means an irrevocable and unconditional policy of bond insurance or surety bond in full force and effect issued by an insurance company or association duly authorized to do business in the State of New York and the State of Texas and with financial strength meeting the requirements below. Such insurance policy or surety bond shall provide for payment thereunder of moneys when other funds available to the payment of the Prior Lien Bonds or Subordinate Lien Bonds, or both, in the interest and sinking fund maintained for the payment of the Prior Lien Bonds or Subordinate Lien Bonds, or both, is insufficient on a payment date when interest or principal, or both, is due and payable for such obligations.

The financial strength of the insurance company or association providing the Financial Commitment must be rated on the date of the deposit of the Financial Commitment to be credit of the Reserve Fund in the highest rating category by Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings and, if rated, by A.M. Best . In the event the rating of the financial strength of a provider of a Financial Commitment falls below (i) "Aa2" by Moody's Investors Service, Inc., (ii) "AA" by Standard & Poor's Ratings Services, (iii) "AA" by Fitch Ratings or (iv) if applicable, "A+" by A.M. Best, the City will be required to replace the Financial Commitment with (a) cash and Authorized Securities or (b) a substitute Financial Commitment issued by an insurance company or association that satisfies the ratings requirements summarized above in this paragraph (but in no event less than the ratings described in clauses (i), (ii), (iii) and (iv) of this sentence.).

Notwithstanding any provision herein to the contrary, the City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following the substitution of one or more Financial Commitments for cash and securities held in the Reserve Fund, the cash and securities released from the Reserve Fund**,** net of costs incurred with respect to the initial substitution of the Financial Commitment, shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior Lien Bonds and Subordinate Lien Bonds in a manner that reduces the principal amount and Maturity Amount of outstanding Prior Lien Bonds and Subordinate Lien Bonds.

(b) Initial Financial Commitment. As permitted in paragraph (a) above, the City has determined to acquire initially a Financial Commitment for the Reserve Fund with coverage in the maximum amount of $30,000,000 to fund in part the Required Reserve from Financial Security Assurance Inc., a New York domiciled insurance company (hereinafter referred to as "FSA"). In accordance with FSA's terms for the issuance of a "Municipal Bond Debt Service Reserve Insurance Policy" (the "Reserve Policy"), an Insurance Agreement by and between the City and FSA has been submitted to the City for approval and execution, and such Insurance Agreement, substantially in the form and content of Exhibit A attached hereto, is hereby approved and authorized to be executed by the City Manager and such Insurance Agreement, as executed and delivered by the City Manager, shall be deemed the Insurance Agreement herein approved by the City Council and authorized for execution.

To the extent the City should make a draw under the Reserve Policy, the City acknowledges and agrees the repayment of "Policy Costs," as defined in the Insurance Agreement, shall constitute a payment of an amount required to be deposited in the Reserve Fund to establish and maintained the Required Reserve, and insofar as the priority of uses of the revenues of (i) Electric Light and Power System and (ii) the Waterworks and Sewer System, such Policy Costs shall be entitled to the same priority of payment identified in the Prior Lien Bond Ordinances for payments required to be deposited in the Reserve Fund to establish and maintain the Required Reserve.

Interest and Redemption Funds. For purposes of providing funds to pay the principal of and interest on the Prior Lien Bond or the Subordinate Lien Bonds, as the case may be, as the same becomes due and payable (whether at maturity or upon redemption), the City agrees to maintain at a depository bank of the City a separate and special account or fund known as the "City of Austin Interest and Redemption Fund" (the "Interest and Redemption Fund").

The City covenants that there shall be deposited into said Fund prior to each interest and principal payment date for the Prior Lien Bonds and for the Subordinate Lien Bonds from the Net Revenues in the Electric Fund and the Water and Sewer Fund amounts equal to one hundred per centum (100%) of the amount required to fully pay the interest on and principal then due and payable on the Prior Lien Bonds and the Subordinate Lien Bonds, as the case may be, such deposits to pay principal at maturity or redemption, as the case may be, and accrued interest to be made in substantially equal monthly installments on or before the 14th day of each month, beginning on or before the 14th day of the month. If the Net Revenues in the Electric Fund and the Water and Sewer Fund in any month are then insufficient to make the required payments into the Interest and Redemption Fund, then the amount of any deficiency in the payment shall be added to the amount otherwise required to be paid into the Interest and Redemption Fund in the next month.

The monthly deposits to the Interest and Redemption Fund for the payment of principal and interest on the Prior Lien Bonds and the Subordinate Lien Bonds shall continue to be made as hereinabove provided until such time as (i) the total amounts on deposit in the respective Interest and Redemption Fund and Reserve Funds is equal to the amount required to pay all outstanding indebtedness (principal and interest) for which said Funds were created and established or (ii) the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, are no longer Outstanding.

Accrued interest and premium, if any, received from the purchaser of the Bonds shall be deposited to the credit of the Interest and Redemption Fund and taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited in the Interest and Redemption Fund from the Net Revenues of the Systems.

Investment of Certain Funds. (a) Money in any Fund required to be maintained pursuant to this Ordinance may, at the option of the City, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested, including investments held in book-entry form, in direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year. All interest and income derived from deposits and investments in the Interest and Redemption Fund immediately shall be credited to, and any losses debited to, the Interest and Redemption Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 14 hereof, be credited to and deposited in the Interest and Redemption Fund.

All such investments with respect to the Interest and Redemption Fund and Reserve Fund shall be sold promptly when necessary to prevent any default in connection with the Subordinate Lien Bonds and, with respect to the Reserve Fund, to prevent any default in connection with the Prior Lien Bonds.

(b) Money in all Funds required to be maintained by this Ordinance, to the extent not invested, shall be secured in the manner prescribed by law for securing funds of the City.

Obligations of Inferior Lien and Pledge. The City hereby reserves the right to issue obligations payable from and secured by a lien on and pledge of the Net Revenues of the Systems, either or both, junior and subordinate to the lien and pledge securing the payment of the Subordinate Lien Bonds, as may be authorized by the laws of the State of Texas.

Maintenance and Operation-Insurance. The City shall maintain the Systems in good condition and operate each in an efficient manner and at reasonable cost. So long as any Bonds are Outstanding, the City agrees to maintain insurance, for the benefit of the Holders of the Bonds, on the Systems of a kind and in an amount which usually would be carried by municipal corporations engaged in a similar type of business. Nothing in this Ordinance shall be construed as requiring the City to expend any funds derived from sources other than the operation of the Systems, but nothing herein shall be construed as preventing the City from doing so.

Sale, Lease or Disposal of System Property. To the extent and in the manner provided by law, the City can sell, exchange or otherwise dispose of property and facilities constituting part of the System at any time and from time to time, provided such sale or exchange of property or facilities does not impede the operations of the System. In the event the property, facilities or assets of the System sold or exchanged represents more than 5% of the total assets of the System, the City agrees to notify the rating agencies then rating the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations and bond insurance companies insuring the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations of such sale, exchange or disposal of property and facilities. Prior to the sale or exchange of any assets or properties representing more than 5% of the total assets of the System being completed, a written response shall be obtained from the rating agencies then rating the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations to the effect that such sale or exchange of such assets or properties in and of itself will not result in a rating category change of the ratings then assigned on such obligations. Furthermore, the City to the extent and in the manner provided by law may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the System, provided such lease, contract, license, arrangement, easement or right does not impede or disrupt the operations of the System. The proceeds of any such sale, exchange or disposal of property or facilities shall be deposited to the credit of a special Fund or Account, and funds deposited to the credit of such Fund or Account shall be used either (i) to acquire other property necessary or desirable for the safe or efficient operation of the System, or (ii) to redeem, defease or retire Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations.

Records and Accounts. The City hereby covenants and agrees that so long as any of the Bonds or any interest thereon remains Outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the Waterworks and Sewer System and the Electric Light and Power System in which complete and correct entries shall be made of all transactions relating thereto, as provided by Article 1113, V.A.T.C.S. The Holders of any Bonds or any duly authorized agent or agents of such Holders shall have the right at all reasonable times to inspect such records, accounts and data relating thereto, and to inspect the respective Systems and all properties comprising same. The City further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

(a) A detailed statement of the income and expenditures of the Electric Light and Power System and of the Waterworks and Sewer System for such Fiscal Year.

(b) A balance sheet for the Electric Light and Power System and the Waterworks and Sewer System as of the end of such Fiscal Year.

(c) The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Prior Lien Bonds or Subordinate Lien Bonds and his recommendations for any changes or improvements in the operations, records and accounts of the respective Systems.

(d) A list of insurance policies in force at the end of the Fiscal Year covering the properties of the respective Systems, setting out as to each policy the amount thereof, the risk covered, the name of the insurer and the policy's expiration date.

Expenses incurred in making an annual audit of the operations of the Systems are to be regarded as Maintenance and Operating Expenses of the respective Systems and paid on a pro rata basis or as otherwise determined by the City from available revenues in the Electric Fund and Water and Sewer Fund, either or both. Copies of each annual audit shall be furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, the Texas Water Development Board, Attention: Executive Administrator, State Water Pollution Control Revolving Fund and, upon request, to the original purchaser of any series of Subordinate Lien Bonds. The audits herein required shall be made within 120 days following the close of each Fiscal Year insofar as is possible.

Deficiencies; Excess Net Revenues. (a) If on any occasion there shall not be sufficient Net Revenues of the Systems to make the required deposits into the Interest and Redemption Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available Net Revenues of the Systems, or from any other sources available for such purpose.

(b) Subject to making the required deposits to (i) all special funds created for the payment and security of the Prior Lien Bonds (including the Reserve Fund) (ii) all special funds created for the payment and security of the Subordinate Lien Bonds (including the Interest and Redemption Fund) and (iii) all funds or accounts created for the benefit of Separate Lien Obligations, the excess Net Revenues of the Systems, either or both, may be used by the City for any lawful purpose.

Final Deposits; Governmental Obligations. (a) All or any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be deemed to be paid, retired and no longer outstanding within the meaning of their respective ordinances when payment of the principal of, and redemption premium, if any, on such obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption), or (ii) shall have been provided by irrevocably depositing with, or making available to, the Paying Agent/Registrar, in trust and irrevocably set aside exclusively for such payment, (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the Paying Agent/Registrar with respect to which such deposit is made shall have been paid or the payment thereof provided for the satisfaction of the Paying Agent/Registrar. At such time as an obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or a lien on and pledge of the Net Revenues of the Systems, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys so deposited with the Paying Agent/Registrar, or an authorized escrow agent, may at the direction of the City also be invested in Government Obligations, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Government Obligations not required for the payment of the obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City or deposited as directed by the City.

(c) The City covenants that no deposit will be made or accepted under clause (a)(ii) of this Section and no use made of any such deposit which would cause the obligations to be treated as arbitrage bonds within the meaning of Section 103 of the Internal Revenue Code of 1986, as amended.

(d) Notwithstanding any other provisions of the ordinances, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of the obligations, the redemption premium, if any, and interest thereon, shall be applied to and used for the payment of such obligations, the redemption premium, if any, and interest thereon and the income on such money or Government Obligations shall not be considered to be "Gross Revenues" under this Ordinance.

Remedy in Event of Default. In addition to all rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Interest and Redemption Fund or the Reserve Fund as required by the ordinances authorizing the issuance of the Prior Lien Bonds or the Subordinate Lien Bonds, as the case may be, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in such ordinances, the Holders of any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the ordinance authorizing their issuance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

Special Obligations. The Bonds are special obligations of the City payable from the pledged Net Revenues of the Systems and the Holders shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

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APPENDIX E

FORM OF BOND COUNSEL'S OPINION

Proposed Form of Opinion of Bond Counsel

An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.

CITY OF AUSTIN, TEXAS
WATER AND WASTEWATER SYSTEM
REVENUE REFUNDING BONDS, SERIES 2016
$247,770,000

AS BOND COUNSEL for the City of Austin, Texas (the "City"), the issuer of the bonds described above (the "Bonds"), we have examined into the record of proceedings relating to the issuance of the Bonds. The Bonds bear interest from the date and mature on the dates specified on the face of the Bonds, and are subject to redemption prior to maturity on the dates and in the manner specified in the Bonds, all in accordance with the master ordinance (the "Master Ordinance") and the twenty-sixth supplemental ordinance to the Master Ordinance of the City authorizing the issuance of the Bonds (the "Twenty-Sixth Supplement", and together with the Master Ordinance, the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the Constitution and statutes of the State of Texas, the Charter of said City, certified copies of the proceedings of the City Council of the City, and other proofs authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond No. R-1).

IN OUR OPINION, under existing laws, such record of proceedings shows lawful authority for the issuance and sale of the Bonds in accordance with the provisions, terms and conditions of the Ordinance, which was duly adopted by the City. We are further of the opinion that, under existing laws, the Ordinance and the Bonds constitute valid and legally binding special obligations of the City, and, except as may be limited by laws applicable to the City relating to bankruptcy, reorganization, and other similar matters affecting creditors' rights, that the interest on and principal of the Bonds, together with outstanding Previously Issued Parity Water/Wastewater Obligations and Prior Subordinate Lien Obligations, are payable from, and secured by a parity lien on and pledge of, the Net Revenues of the System in the manner provided in the Ordinance. The Bonds are secured ratably by such pledge of revenues in such manner that no one Bond shall have priority of lien over any other Bond so secured. The holder or holders of the Bonds shall never have the right to demand payment out of money raised or to be raised by taxation.

THE CITY has reserved the right, subject to certain restrictions, to issue additional revenue obligations in all things on parity with the Bonds and payable from and equally secured by a lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as the Bonds.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds 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 (the "Code"). In addition, we have relied upon the report of The Arbitrage Group, Inc., independent certified public accountants, with respect to certain arithmetical and mathematical computations relating to the Bonds and the obligations refunded with the proceeds of the Bonds. In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, 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.

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

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

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,

APPENDIX F

SUMMARY OF REFUNDED BONDS

	Maturity Type	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Water and Wastewater System Revenue Refunding Bonds, Serie:	SERIAL	11/15/25	3.500%	$ 4,965,000	11/15/16	(1)
	SERIAL	11/15/26	3.500%	5,215,000	11/15/16	(1)
	SERIAL	11/15/27	3.500%	5,485,000	11/15/16	(1)
	SERIAL	11/15/28	3.500%	5,765,000	11/15/16	(1)
	SERIAL	11/15/29	3.500%	6,060,000	11/15/16	(1)
	SERIAL	11/15/30	3.500%	6,370,000	11/15/16	(1)
	SERIAL	11/15/31	3.500%	6,700,000	11/15/16	(1)
	SERIAL	11/15/32	4.250%	7,045,000	11/15/16	(1)
				47,605,000		
Water and Wastewater System Revenue Refunding Bonds, Serie:	Term 2032	11/15/32	5.000%	$ 24,680,000	11/15/17	(1)
	Term 2037	11/15/37	5.000%	38,675,000	11/15/17	(1)
				$ 63,355,000		
Total				**$ 110,960,000**		

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