OFFICIAL STATEMENT
Dated: August 1, 2017

NEW ISSUE - Book-Entry-Only

Ratings: Moody's: "Aa2"
S&P: "AA"
Fitch: "AA-"
(See "OTHER RELEVANT INFORMATION – Ratings" in this document.)

Delivery of the Bonds (as defined below) is subject to the receipt of the opinion of McCall, Parkhurst & Horton L.L.P. (defined below), Bond Counsel to the City (defined below), to the effect that, assuming continuing compliance by the City with certain covenants contained in the Twenty-Eighth 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.

$311,100,000
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Water and Wastewater System Revenue Refunding Bonds, Series 2017

Dated: Date of Initial Delivery **Due: November 15, as shown on page ii of this document**

The bonds offered in this document are the $311,100,000 City of Austin, Texas Water and Wastewater System Revenue Refunding Bonds, Series 2017 (the "Bonds"). The Bonds represent the twenty-eighth 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 June 22, 2017 (the "Twenty-Eighth Supplement"). The Master Ordinance and Twenty-Eighth Supplement are collectively referred to in this document as the "Bond Ordinance." The Twenty-Eighth Supplement delegated to a designated "Pricing Officer" the authority to effect the sale of the Bonds, subject to the terms of the Twenty-Eighth 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 the 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 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-Eighth 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 initial delivery of the Bonds and shall be payable on November 15, 2017 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 for 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. (See APPENDIX E - "Form of Bond Counsel's Opinion" in this document). Certain legal matters will be passed upon for the Underwriters by their counsel, Haynes & Boone, LLP. The Bonds are expected to be available for delivery on or about August 22, 2017.

Goldman Sachs & Co. LLC

Morgan Stanley **Ramirez & Co., Inc.**
BAIRD **Siebert Cisneros Shank & Co. L.L.C.**

CITY OF AUSTIN, TEXAS

$311,100,000 Water and Wastewater System Revenue Refunding Bonds, Series 2017
Base CUSIP No. 0524762 (1)

MATURITY SCHEDULE

Maturity Date	Principal Amount		Interest Rate	Initial Yield	CUSIP Suffix (1)	Maturity Date	Principal Amount		Interest Rate	Initial Yield	CUSIP Suffix (1)
11-15-2020	$ 14,295,000		5.000%	1.080%	E7	11-15-2029	$ 22,200,000	(2)	5.000%	2.400%	Q0
11-15-2021	15,025,000		5.000%	1.230%	F4	11-15-2030	4,445,000	(2)	5.000%	2.530%	R8
11-15-2022	11,300,000		5.000%	1.360%	G2	11-15-2031	4,670,000	(2)	5.000%	2.590%	S6
11-15-2023	13,005,000		5.000%	1.520%	H0	11-15-2032	4,905,000	(2)	5.000%	2.660%	T4
11-15-2024	15,205,000		5.000%	1.700%	J6	11-15-2033	5,165,000	(2)	5.000%	2.720%	U1
11-15-2025	18,325,000		5.000%	1.890%	K3	11-15-2034	5,425,000	(2)	5.000%	2.750%	V9
11-15-2026	6,000,000		2.500%	2.060%	M9	11-15-2035	13,870,000	(2)	5.000%	2.770%	W7
11-15-2026	13,185,000		5.000%	2.060%	L1	11-15-2036	14,525,000	(2)	5.000%	2.800%	X5
11-15-2027	20,090,000		5.000%	2.160%	N7	11-15-2037	15,185,000	(2)	5.000%	2.820%	Y3
11-15-2028	19,900,000	(2)	5.000%	2.280%	P2						

$48,620,000 Term Bond due November 15, 2042; Rate 5.000%; Initial Yield 2.930% (2), CUSIP 0524762Z0
$25,760,000 Term Bond due November 15, 2046; Rate 5.000%; Initial Yield 2.980% (2), CUSIP 0524763A4

(Interest to accrue from Date of Initial Delivery)

Optional Redemption of the Bonds

The City reserves the right, at its option, to redeem Bonds maturing on or after November 15, 2028, in whole or in part, in the principal amounts of $5,000 or any integral multiple thereof on November 15, 2027, or any date thereafter, at the par value plus accrued interest to the date fixed for redemption. "DESCRIPTION OF THE BONDS – Optional Redemption of the Bonds."

Mandatory Sinking Fund Redemption of the Bonds

The Bonds having stated maturities of November 15, 2042 and November 15, 2046, 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."

(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 Global Market Intelligence 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, 2028 will be called on the first optional call date of November 15, 2027 at a redemption price of par plus accrued interest to the redemption date.

CITY OF AUSTIN

Elected Officials

		Term Expires Jan. 5
Steve Adler	Mayor	2019
Ora Houston	Councilmember District 1	2019
Delia Garza	Councilmember District 2	2021
Sabino "Pio" Renteria	Councilmember District 3	2019
Gregorio "Greg" Casar	Councilmember District 4	2021
Ann Kitchen	Councilmember District 5	2019
Jimmy Flannigan	Councilmember District 6	2021
Leslie Pool	Councilmember District 7	2021
Ellen Troxclair	Councilmember District 8	2019
Kathryne B. Tovo, Mayor Pro Tem	Councilmember District 9	2019
Alison Alter	Councilmember District 10	2021

Appointed Officials

Elaine Hart, CPA	Interim City Manager
Robert Goode	Assistant City Manager
Sara Hensley	Interim Assistant City Manager
Bert Lumbreras	Assistant City Manager
Mark Washington	Assistant City Manager
Rey Arellano	Assistant City Manager
Greg Canally	Interim Chief Financial Officer
Ed Van Eenoo	Deputy Chief Financial Officer
Anne Morgan	City Attorney
Jannette S. Goodall	City Clerk

On September 1, 2016, the Austin City Council appointed Ms. Elaine Hart to the position of Interim City Manager, effective October 31, 2016, following the resignation of former City Manager Marc Ott. Mr. Greg Canally was appointed Interim Chief Financial Officer, also effective October 31, 2016.

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
PFM Financial Advisors LLC
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 Utility and 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, 2013 through 2016 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

	12 Months Ended 12-31-2016(2)	2016	2015	2014	2013
Combined Gross Revenues	$1,963,512	$1,941,815	$1,876,350	$1,848,012	$1,772,129
Combined Maintenance and Operating Expenses	1,216,833	1,207,225	1,186,590	1,246,865	1,137,184
Combined Net Revenues	$ 746,679	$ 734,590	$ 689,760	$ 601,147	$ 634,945
Principal and Interest on Revenue Bonds (1)	$ 33,461	$33,867	$ 33,112	$ 16,137	$ 76,067
Debt Service Coverage on Revenue Bonds (1)	22.32x	21.69x	20.83x	37.25x	8.35x

(1) Prior First Lien Obligations and Prior Subordinate Lien Obligations only, which are the only outstanding obligations, other than the outstanding Commercial Paper Obligations, secured by a pledge of the combined Net Revenues of both the Electric Utility System and the Water and Wastewater System.
(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, 2013 through 2016 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

	12 Months Ended 12-31-2016(3)	2016	2015	2014	2013
Gross Revenues	$568,078	$563,066	$ 517,253	$ 472,717	$ 477,013
Maintenance and Operating Expenditures	221,876	217,457	208,307	218,071	209,890
Net Revenues	346,202	345,609	308,946	$ 254,646	$ 267,123
Principal and Interest on Prior First Lien/Prior Subordinate Lien Obligations (1)	$14,021	$14,125	$ 22,366	$ 8,473	$ 30,718
Net Revenues Available for Parity Water/Wastewater Obligations (2)	$332,181	$331,484	$ 286,580	$ 246,173	$ 236,405
Principal and Interest on Parity Water/Wastewater Obligations	$182,972	$170,624	198,944	$ 195,673	$ 158,294
Debt Service Coverage Parity Water/Wastewater Obligations (2)	1.82x	1.94x	1.44x	1.26x	1.49x

(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, PFM Financial Advisors LLC or the Underwriters are responsible for the selection or correctness of CUSIP numbers.

None of the City, PFM Financial Advisors LLC, 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 PFM Financial Advisors LLC make any representations regarding the information concerning the Underwriters contained in this document in "OTHER RELEVANT INFORMATION – Underwriting."

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

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with and as part of their respective 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

$311,100,000

CITY OF AUSTIN, TEXAS

(Travis, Williamson and Hays Counties)

Water and Wastewater System Revenue Refunding Bonds, Series 2017

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 $311,100,000 City of Austin, Texas Water and Wastewater System Revenue Refunding Bonds, Series 2017 (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 June 22, 2017 (the "Twenty-Eighth Supplement"). The Master Ordinance and the Twenty-Eighth Supplement are collectively referred to in this document as the "Bond Ordinance." The Twenty-Eighth Supplement delegated to a designated "Pricing Officer" the authority to effect the sale of the Bonds, subject to the terms of the Twenty-Eighth 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)**.

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-eighth 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 the 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, 2017, there is $18,625,434 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, 2017, there is $109,920,696 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 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 (as defined in the Master Ordinance) are no longer outstanding. The Bonds, the Previously Issued Parity Water/Wastewater Obligations and any additional Parity Water/Wastewater Obligations issued in the future under the Master Ordinance constitute "Separate Lien Obligations" under the Prior Lien Ordinance and are equally and ratably secured, together with the Prior Subordinate Lien Obligations, by the Net Revenues of the City's Water and Wastewater System. 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 Prior Lien Ordinance while the Prior First Lien Obligations and the Prior Subordinate Lien 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 an effective first lien on the Net Revenues of the Water and Wastewater System. See "SECURITY FOR THE BONDS – Credit Agreement – 2008 Variable Rate Bonds" in this document for a discussion of the treatment of the City's obligations under an interest rate swap agreement as a 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 $125,000,000 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, as 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 $228,800,000 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 "Refunded Bonds"). The remaining proceeds of the Bonds will be used to pay the costs of issuance of the 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-Eighth 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 a portfolio of securities authorized by Section 1207.062, Texas Government Code, which authorizes securities, including direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States, and noncallable obligations of an agency or instrumentality of the United States rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent (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	$ 311,100,000.00
Premium	62,394,185.95
City Contribution	3,289,310.94
Total	$ 376,783,496.89
Uses:	
Deposit with Paying Agent for Refunded Notes	$ 125,000,000.00
Deposit to Escrow Fund for Refunded Bonds (1)	249,581,695.63
Cost of Issuance	895,051.38
Underwriters' Discount	1,306,749.88
Total	$ 376,783,496.89

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(1) Amount, together with investment earnings thereon, to pay principal of and interest on the Refunded Bonds payable on and until the redemption date.

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DEBT PAYABLE FROM SYSTEMS REVENUES
(As of July 31, 2017)

Combined Utility Systems Obligations	
Prior First Lien Obligations	$18,625,434
Prior Subordinate Lien Obligations	109,920,696
Sub-Total	$128,546,130
Parity Electric Utility Obligations (a)	$1,126,395,000
Parity Water/Wastewater Obligations (b)	$2,255,670,000
Commercial Paper (c)	$124,747,000
General Obligation Debt (d)	$10,306,950
Assumed MUD Obligations (e)	$4,807,898
TOTAL	$3,650,427,978

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 in this document collectively as the "Commercial Paper Obligations." The Commercial Paper Obligations and the reimbursement obligations to the respective banks providing the direct pay letter of credit supporting the Commercial Paper Obligations are payable from the Net Revenues of 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 Parity Water/Wastewater Obligations. Austin Water's current Financial Policy provides that the proceeds of Commercial Paper Obligations 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. Excludes the Refunded Notes.

(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.

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DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Prior First Lien Obligations (a)	Prior Subordinate Lien Obligations (a)	Total Prior First Lien & Prior Subordinate Lien Obligations	The Series 2017 Bonds		Electric Utility Parity Obligations (a)	Parity Water / Wastewater Obligations (a) (b)	Assumed MUD Obligations (a) (c)	Total Debt Service Payable From Systems Revenues
				Principal	Interest				
2017	-	-	-	-	-	-	1,317,840	451,417	1,769,257
2018	62,050,000	18,383,013	80,433,013	-	11,254,208	81,023,426	130,839,916	648,483	304,199,045
2019	28,035,000	18,491,838	46,526,838	-	15,405,000	82,236,376	122,655,498	659,459	267,483,170
2020		21,090,425	21,090,425	-	15,405,000	88,664,540	156,952,605	661,645	282,774,215
2021		14,963,350	14,963,350	14,295,000	15,047,625	86,834,126	170,577,870	669,724	302,387,695
2022		20,964,250	20,964,250	15,025,000	14,314,625	87,825,724	165,881,101	663,681	304,674,382
2023		19,950,225	19,950,225	11,300,000	13,656,500	83,497,840	159,998,975	666,568	289,070,108
2024		19,666,450	19,666,450	13,005,000	13,048,875	84,262,955	166,067,500	664,896	296,715,676
2025		15,834,863	15,834,863	15,205,000	12,343,625	84,059,974	160,944,949	668,673	289,057,083
2026				18,325,000	11,505,375	86,644,774	153,451,001	604,005	270,530,155
2027				19,185,000	10,642,625	97,768,898	152,550,987		280,147,511
2028				20,090,000	9,735,750	97,556,236	158,891,211		286,273,196
2029				19,900,000	8,736,000	84,646,544	143,466,933		256,749,478
2030				22,200,000	7,683,500	71,221,830	136,354,377		237,459,707
2031				4,445,000	7,017,375	71,117,481	116,620,872		199,200,727
2032				4,670,000	6,789,500	61,551,196	102,256,800		175,267,495
2033				4,905,000	6,550,125	61,268,118	102,292,897		175,016,140
2034				5,165,000	6,298,375	57,081,010	102,244,078		170,788,464
2035				5,425,000	6,033,625	56,912,786	102,060,341		170,431,752
2036				13,870,000	5,551,250	56,898,190	93,407,606		169,727,046
2037				14,525,000	4,841,375	56,654,368	91,373,772		167,394,514
2038				15,185,000	4,098,625	56,512,829	79,446,392		155,242,845
2039				15,860,000	3,322,500	55,270,106	72,177,809		146,630,415
2040				16,550,000	2,512,250	31,494,251	72,044,829		122,601,330
2041				5,135,000	1,970,125	31,343,035	71,891,677		110,339,837
2042				5,400,000	1,706,750	30,947,500	60,607,500		98,661,750
2043				5,675,000	1,429,875	28,333,875	47,489,250		82,928,000
2044				5,965,000	1,138,875	29,412,125	35,787,875		72,303,875
2045				6,270,000	833,000	29,038,625	11,529,250		47,670,875
2046				6,595,000	511,375	29,110,000	11,515,875		47,732,250
2047				6,930,000	173,250				7,103,250
Total	90,085,000	149,344,413	239,429,413	311,100,000	219,556,958	1,859,188,737	3,152,697,585	6,358,550	5,788,331,243

(a) Debt outstanding as of July 31, 2017.
(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-eighth 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 – 2008 Variable Rate Bonds" in this document. The Master Ordinance and the Twenty-Eighth 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, if applicable, 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 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 (as defined in the Master Ordinance) 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%. The sequestration rate for federal fiscal year 2015 was 7.3%, 6.8% for fiscal year 2016, 6.9% for fiscal year 2017, and 6.6% for fiscal year 2018. For federal fiscal years 2019 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 increased by approximately 0.10% to 6.9% in federal fiscal year 2017. 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 whether 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, 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, and its Water and Wastewater System Revenue Refunding Bonds, Series 2016 (the "Series 2016 Bonds"), issued in the aggregate principal amount of $247,770,000 on June 1, 2016. **Pursuant to the terms of the Twenty-Eighth Supplement, the City has determined <u>not</u> 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, the Series 2016 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 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, the Series 2016 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.

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 ($41,393,860.91) and surety bonds originally issued by Ambac Assurance Corporation ($5,959,371) and XL Capital Assurance Inc. ($2,873,918).

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

A separate reserve fund was established under the Prior Lien Ordinance (the "Prior Lien Reserve Fund") 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 Prior Lien Reserve Fund to allow for the funding of all or a part of the amount required to be maintained in the Prior Lien 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 Prior Lien 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 Prior Lien 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 S&P Global Services, a division of Services LLC ("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 Prior Lien Reserve Fund.

The amount on deposit to the credit of the Prior Lien Reserve Fund under the Prior Lien Ordinance as of May 31, 2017, is $27,208,016 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 Prior Lien Reserve Fund, and following such substitution, the cash and securities released from the Prior Lien 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 will be issued with a lien on the Net Revenues of both the Electric Utility System and the Water and Wastewater System 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 deposited 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 – 2008 Variable Rate Bonds

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, 2017, the net aggregate monthly payments the City has made under the 2008 Swap Agreement equal $108,407,590.23.

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, 2016 – 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 their initial delivery to the Underwriters (the "Dated Date"). Interest on the Bonds will accrue from their Dated Date and will be payable on November 15, 2017, 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. 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, 2028, in whole or in part, in the principal amounts of $5,000 or any integral multiple thereof on November 15, 2027, 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, 2042 and November 15, 2046, respectively (the "Term Bonds"), shall be subject to mandatory sinking fund 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:

5.00% Term Bond due November 15, 2042	
Year	Principal Amount
2038	$15,860,000
2039	16,550,000
2040	5,135,000
2041	5,400,000
2042*	5,675,000

5.00% Term Bond due November 15, 2046	
Year	Principal Amount
2043	$5,965,000
2044	6,270,000
2045	6,595,000
2046*	6,930,000

*Stated maturity.

Approximately 45 days prior to each mandatory sinking fund 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 sinking fund 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 sinking fund 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 sinking fund 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.

In connection with the sale of the Bonds, the City has warranted that it will not defease the Bonds with obligations described in clause (iii) of the term Government Oblgiations.

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 (defined below), 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-Eighth 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-Eighth 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-Eighth 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-Eighth 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-Eighth Supplement. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property.

On April 1, 2016, the Texas Supreme Court ruled in Wasson Interests, Ltd. v. City of Jacksonville, 489 S.W. 3d 427 (Tex. 2016) that 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-Eighth 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-Eighth 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 MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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, PFM Financial Advisors LLC, and the Underwriters each believes to be reliable, but the City, PFM Financial Advisors LLC, and the Underwriters take no 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 the proposed fiscal year 2017-18, the Electric Utility System has approximately 1,749 full-time regular employees and the Water and Wastewater System has approximately 1,185 full-time regular employees.

THE WATER AND WASTEWATER SYSTEM

Management

Name	Title	Length of Service with City*
Greg Meszaros	Director	10 Years
David Anders	Assistant Director, Financial Services	29 Years
Rick Coronado, P.E.	Assistant Director, Operations***	22 Years
Chris Chen, P.E.	Assistant Director, Engineering Services	4 Years
Kevin Critendon, P.E.	Assistant Director, Water Resources Management	6 Years
Daryl Slusher	Assistant Director, Environmental Affairs and Conservation	21 Years**

*As of June 1, 2017.
**Length of service not continuous.
*** Assistant Director, Treatment, Jane Burazer retired in November 2016 after 23 years of service, and Treatment was merged into Operations in March 2017.

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 System operating and capital funds during fiscal year 2013. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Reuse Facilities" in this document. The City has previously acquired the systems and assets of eleven WCIDs. The City has paid off and extinguished the bonded indebtedness of all of these WCIDs.

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

Water Supply

In 1888, City leaders campaigned successfully for the first Austin dam across the Colorado River, which was completed early in 1893 and was reported to be the largest dam in the world when originally constructed. In 1934, a $4,500,000 loan and grant was obtained from the Public Works Administration to complete the Buchanan Dam. The 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	2016 – 1,478,341 Acre-Feet

* Data from 2006 to 2016 is referenced from USGS Water-Year Summary Statistics.

Using the last twenty-nine years from 1987-2016, 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. Significant rainfall in 2015 increased the combined storage of Lakes Travis and Buchanan to 2.04 million acre feet as of May 2016. After extensive outreach and community input, the City of Austin implemented a newly modified conservation stage on May 18, 2016. Under the new conservation stage restrictions, customers are permitted to water their landscapes twice-per-week with hose end sprinklers and once-per-week with automatic irrigation systems. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates" in this document.

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

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.

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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 2007 through 2016.

Fiscal Year	Total Pumpage (Millions of Gallons)	Percent Change	Maximum Day Pumpage (Millions of Gallons)
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
2016	44,661	2.7%	198

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)
2017	44,194	210
2018	44,048	210
2019	44,419	212
2020	44,736	213
2021	45,083	214

Source: Austin Water.

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Information Concerning Water Sales - TABLE THREE

	Fiscal Year Ended September 30									
	2012		2013		2014		2015		2016	
	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		47,094,082		45,901,736		43,239,355		43,480,893		44,687,336
Less: Sales to Other Water Utilities (1)		3,071,606		2,974,131		2,574,163		2,296,977		2,646,438
Thousand Gallons to System		44,022,476		42,927,605		40,665,192		41,183,916		42,040,898
Water Sales:										
Retail (2)	212,466	38,974,582	215,328	38,531,557	216,348	35,523,917	220,946	35,043,691	224,956	34,461,887
City Departments	498	725,182	554	671,997	549	589,856	560	602,121	610	562,262
Total Sales to Ultimate Consumer	212,964	39,699,764	215,882	39,203,554	216,897	36,113,773	221,506	35,645,812	225,566	35,024,149
Used by Water Utility		55,685		56,242		52,023		52,483		58,291
Other Unmetered Usage		1,384,566		1,349,511		1,271,237		1,278,338		1,313,808
Loss and Unaccounted For		2,882,461		2,318,298		3,228,159		4,207,283		5,644,650
Thousand Gallons to System		44,022,476		42,927,605		40,665,192		41,183,916		42,040,898
Maximum Daily Consumption		202,544		182,907		183,990		206,966		197,568
Average Daily Consumption		117,182		115,555		105,994		103,953		103,207

(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 (2012-2016)

	Fiscal Year Ended September 30 (Gallons and Dollars in Thousands)									
	2012		2013		2014		2015		2016	
	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue
Samsung	1,614,098	$7,608	1,436,772	$7,034	1,547,938	$8,382	1,558,196	$10,010	1,975,811	$12,600
The University of Texas (2)	821,457	$4,395	849,204	$4,867	827,424	$5,022	746,252	$5,517	805,549	$6,045
NXP (formerly Freescale, Inc.) (3)	599,530	$2,767	648,085	$3,116	689,059	$3,544	708,784	$4,164	676,043	$4,235
Water District 10	856,658	$3,350	850,565	$3,432	753,777	$3,183	708,235	$3,374	774,588	$2,568
Wells Branch MUD	518,536	$1,777	469,564	$1,798	423,443	$1,641	420,508	$1,937	464,228	$1,452
North Austin MUD	402,928	$1,490	387,759	$1,405	299,028	$1,232	391,524	$1,796	394,365	$1,306
Austin Independent School District (4)	393,177	$2,191	362,688	$2,208	351,478	$2,397	313,672	$2,461	318,036	$2,615
Spansion	384,288	$1,823	389,113	$1,919	329,313	$1,801	299,686	$1,868	304,672	$1,995
Northtown MUD	304,387	$1,086	289,610	$1,117	276,343	$1,081	267,479	$1,193	287,294	$890
Texas Facilities Commission (4)	238,646	$1,268	231,552	$1,309	210,128	$1,345	207,324	$1,495	224,909	$1,642
Total:	6,133,705	$27,755	5,914,912	$28,205	5,707,931	$29,629	5,621,660	$33,814	6,225,496	$35,353

(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 a renewal application was submitted in May 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 2016, 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.

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

In December 2009, the City purchased an operating interest in a regional wastewater collection and treatment system (the Brushy Creek Project) from LCRA for approximately $12 million. The City pays its portion of capital expansions and operations and maintenance costs on an annual basis, and reserves sufficient wastewater capacity to adequately serve all of the area inside the City's jurisdiction within the Brushy Creek watershed. The cities of Austin, Round Rock, Leander and Cedar Park all own joint interests in the wastewater system. The 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.

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Lift Stations

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

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 2007 through 2016.

Fiscal Year	Total Wastewater Flow (Millions of Gallons)	Percent Change
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%
2016	41,676	2.4%

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)
2017	41,349
2018	42,282
2019	43,133
2020	44,070
2021	44,767

Source: Austin Water.

COMBINED WATER AND WASTEWATER SYSTEM INFORMATION

Future Capital Improvements for Water and Wastewater System

Based on the proposed FY 2018-2022 capital spending plan, it is anticipated that the Water and Wastewater System will require approximately $890.4 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 $530.4 million additional Parity Water/Wastewater Obligations (including refunding of commercial paper issued to provide interim financing for such improvements) and (2) the application of $360.0 million of anticipated transfers from current Water and Wastewater System revenues and amounts on hand.

Additionally, the City submitted 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. Funding to the City under the SWIFT program was approved by the TWDB in 2016, and $20,430,000 in Parity Water/Wastewater Obligations were issued by the City and delivered to the TWDB on November 17, 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. On February 2, 1984, the City Council adopted a resolution that established City policy with regard to the creation of MUDs.

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

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

Under the 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 that the district does not provide and the City would 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 that superseded the existing resolution with regard to the policy and general criteria under which the City Council will consider requests to create MUDs. The policy states that the City Council shall consider the following criteria: adherence to the comprehensive plan; extension of public infrastructure with MUD or developer financing; affordable housing; environmental improvement; public transportation facilities; open space; green building; development standards; amenities; school and public safety sites; City provision of water and wastewater services; and financial viability.

The City's MUD policy provides for consideration of extraordinary public benefits, superior development, and enhancement of other City interests when negotiating a consent agreement. Ten new MUDs were subsequently created by the Texas Legislature; during the 2011 and 2013 legislative sessions, 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 did not consent to the creation of the district or enter into such agreements as are required by the terms of the City's consent ordinance, the MUDs would have been dissolved. Following staff and board and commission review, in March 2012, the City Council conducted public hearings and approved ordinances consenting to the creation of the ten MUDs. Subsequently, the City Council conducted public hearings regarding a strategic partnership agreement with each of the MUDs, Strategic Partnership Agreements were executed with each of the ten MUDs.

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 52.9 miles of mains. Additionally, a 4.0 MG water storage tank with associated pump station is in construction. An additional 5.3 miles of mains are in design or under construction. The water reuse facilities presently serve a total of 91 metered customers.

Customer demand is highly dependent on weather conditions. In calendar year 2016, customers used 1.36 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. The Revenue Stability Reserve Fund was established to help cover costs during extreme weather or economic events. The Revenue Stability Reserve 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, 2016 – TABLE SEVEN" in this document. The Revenue Stability Reserve 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. The target funding level for the Revenue Stability Reserve Fund is 120 days of the budgeted water operating requirements of the Austin Water Utility, which includes operations and maintenance, and other operating transfers, but excludes debt service and other transfers. In the event that any portion of the Revenue Stability Reserve Fund is used, the balance will be replenished to the target level within 5 years. Upon creation of the Revenue Stability Reserve Fund, the goal to reach the target funding level of 120 days of budgeted water operating requirements will be no later than 5 years. If the fund is drawn down prior to reaching the 120 day target during the first 5-year development period, the reserve fund surcharge shall not be lower than it was during the year in which the draw down occurred until such time as the fund reaches its 120 days of operating costs. Moneys in the Revenue Stability Reserve Fund are Gross Revenues under the Master Ordinance. The Revenue Stability Reserve Fund cannot be used for purposes other than for Water Utility purposes, is primarily intended to pay Water Operating Expenses or Water debt service on Parity Water/Wastewater Obligations, and may only be used to offset current year shortfalls in Water Gross Revenues that exceed 10% of budgeted levels. The City Council must approve any use of funds in the Revenue Stability Reserve Fund, no more than 50% of the balance would be used in any one year, and, if used, the Revenue Stability Reserve Fund balance would be replenished to the 120-day level within a five-year period. As of September 30, 2016, the balance of the

Revenue Stability Reserve Fund was $28.0 million; the balance of the Revenue Stability Reserve Fund is forecast to be $37.4 million by September 30, 2017; it is forecast to be fully funded to the 120-day goal by fiscal year 2018, which is currently anticipated to be approximately $46.7 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 Revenue Stability Reserve 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 Revenue Stability Reserve Fund. Notwithstanding the foregoing policy restrictions of the City currently in effect with respect to the use of moneys within the Revenue Stability Reserve Fund, the provisions of the Master Ordinance regarding the use of moneys on deposit in the System Fund (including the Revenue Stability Reserve 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 3.0% combined rate increase for the fiscal year ending September 30, 2017. Additionally, a refunding bond sale transacted during fiscal year 2016 allowed the Water and Wastewater Utility to realize approximately $16.8 million in net present value savings. In addition, in FY 2016 $18.2 million of Capital Recovery Fee collections and in FY 2017 $22 million of Capital Recovery Fee collections was used to defease (pay off) existing debt in an effort to maintain level debt service costs. For the first time in several years, the utility is proposing a zero-percent rate increase for FY 2017-2018, due to continued improvements in financial position.

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 proposed budget prepared by the Water and Wastewater Utility in July 2017 projects debt service coverage levels in fiscal year 2018 of 1.72 times debt service coverage, increasing to 1.93 times debt service coverage by fiscal year 2021; the forecasted coverage levels assume that rate increases will be implemented at various times during the forecast period. No assurance can be given that these debt service coverage levels will be achieved.

Any increase in the rates, charges or fees for water and wastewater services furnished by the Water and Wastewater System must be approved by the City Council. As a result of the Water and Wastewater Utility's annual budgeting process for the 2018 fiscal year, a zero-percent rate increase is being proposed. If any rate increase is approved by City Council as part of the fiscal year 2018 approved budget the rates would not take effect prior to November 1, 2017. 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, 2016 – 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	$ 17.25	$ 10.80
	3/4	13.00	26.00	16.00
	1	15.00	43.00	27.00
	1½	26.00	86.00	54.00
	2	42.00	138.00	86.00
	3	71.00	276.00	173.00
	4	136.00	431.00	270.00
	6	275.00	863.00	540.00
	8	916.00	1,380.00	864.00
	10	1,106.00	1,984.00	1,242.00
	12	1,336.00	2,933.00	1,836.00

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	$ 1.25
2,001 – 6,000 Gallons	3.55
6,001 – 11,000 Gallons	9.25
11,001 – 20,000 Gallons	29.75
20,001 – Over Gallons	29.75

Large Volume Fixed Minimum Charge	Min. Charge per Month (5)
NXP – Ed Bluestein (formerly Freescale)	$ 29,500
NXP – W. William Cannon (formerly Freescale)	22,000
Samsung	127,000
Novati (formerly Sematech)	3,900
Spansion	20,100

(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	$ 3.18
2,001 – 6,000 Gallons	5.05
6,001 – 11,000 Gallons	8.56
11,001 – 20,000 Gallons	12.92
20,001 – Over Gallons	14.43
Multifamily (3)	
Off Peak	5.11
Peak	5.62
Commercial (3)	
Off Peak	5.97
Peak	6.57
Large Volume (3)	
NXP – Ed Bluestein (formerly Freescale)	
Off Peak	5.04
Peak	5.55
NXP – W. William Cannon (formerly Freescale)	
Off Peak	5.58
Peak	6.13
Samsung	
Off Peak	5.62
Peak	6.18
Novati (formerly Sematech)	
Off Peak	5.48
Peak	6.03
Spansion	
Off Peak	5.44
Peak	5.98

(1) Wholesale unit charges vary between $2.59 and $5.09 per 1,000 gallons.
(2) The City has approved an inclining block rate structure to promote water conservation for Single Family Residential customers. These rates will be administered on the basis of 100 gallon increments.
(3) Off Peak: November 1 – June 30 bills. Peak: July 1 – October 31 bills.
Source: Austin Water.

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Wastewater Service Rates Effective as of November 1, 2016 – 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	$ 5.30
2,001 - Over Gallons	10.35
Multifamily	9.48
Commercial	9.48
Large Volume:	
NXP – Ed Bluestein (formerly Freescale)	8.93
NXP – W. William Cannon (formerly Freescale)	8.95
Samsung	8.28
Novati (formerly Sematech)	8.16
Spansion	8.39

(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, 2016 reflect a 3.0% 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) alleged that the City's wholesale rates were not just or reasonable. The petition alleged the new rates disproportionately increased the monthly fixed charges; collected for costs unrelated to water service; discouraged conservation; and unfairly burdened commercial and large volume customers. The petition also 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. A hearing in the Travis County District Court was held in May 2017. In the final letter decision, the District Court Judge affirmed the PUCT final order.

The four wholesale water customers represented $5.7 million, or 1.9%, of the approximate $276.7 million annual water revenue for fiscal year 2016. The final ruling in favor of the petitioners does not have a significant revenue impact to the Water and Wastewater Utility.

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

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

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

Water and Wastewater Capital Recovery Fees

On September 3, 1982, the City Council adopted an ordinance under which all new non-industrial and non-commercial customers of the Water and Wastewater System must pay a Capital Recovery Fee at the time that the customer's new tap is purchased. The fee has been revised a number of times since that date and is currently applied to all connections added to the Water and Wastewater System unless expressly waived by the City Council. In 1989, the City Council appointed an Impact Fee Advisory Committee and reauthorized the Capital Recovery Fee in compliance with procedures and methodology established by State law. The total Water and Wastewater Capital Recovery Fee was implemented August 5, 1999 and 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				
	2012	2013	2014	2015	2016
Average Monthly Bill Per Customer - Water					
Residential (1)	$ 45.04	$ 41.89	$ 38.97	$ 43.16	$ 46.60
Multifamily (1)	591.68	660.89	701.04	820.44	946.79
Commercial (1)	303.72	306.23	324.91	343.17	369.49
Large Volume	216,445.74	211,176.57	228,692.44	260,155.12	306,025.68
City Departments	738.96	598.67	641.05	683.60	653.55
Average Monthly Bill – Above Customers	$ 87.09	$ 85.53	$ 85.65	$ 94.84	$ 104.61
Sales to Other Water Utilities (2)	$ 55,877.81	$ 55,207.74	$ 53,960.56	$ 42,146.05	$ 44,412.60
Average Monthly Bill – All Customers	$ 91.80	$ 90.12	$ 89.87	$ 98.26	$ 107.95
Average Monthly Use in 1,000 Gallons – Water					
Residential (1)	7.62	6.92	6.10	5.77	5.78
Multifamily (1)	126.46	131.78	127.52	128.84	135.75
Commercial (1)	54.87	54.76	48.99	45.45	47.27
Large Volume	45,339.01	33,551.21	42,919.67	42,053.37	48,701.32
City Departments	124.96	100.44	89.81	89.16	82.47
Average Monthly Use – Above Customers	15.96	15.01	13.89	13.33	13.86
Sales to Other Water Utilities (2)	14,634.11	13,677.20	12,651.94	10,588.02	12,092.58
Average Monthly Use – All Customers	17.20	16.15	14.88	14.19	14.77
Average Revenue Per 1,000 Gallons – Water					
Residential (1)	$ 5.91	$ 6.05	$ 6.39	$ 7.48	$ 8.07
Multifamily (1)	4.68	5.02	5.50	6.37	6.97
Commercial (1)	5.54	5.59	6.63	7.55	7.82
Large Volume	4.77	6.29	5.33	6.19	6.28
City Departments	5.91	5.96	7.14	7.67	7.92
Average Revenue – Above Customers	$ 5.46	$ 5.70	$ 6.17	$ 7.11	$ 7.55
Sales to Other Water Utilities (2)	$ 3.82	$ 4.04	$ 4.27	$ 3.98	$ 3.67
Average Revenue – All Customers	$ 5.34	$ 5.58	$ 6.04	$ 6.92	$ 7.31

(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				
	2012	2013	2014	2015	2016
Average Monthly Bill Per Customer – Wastewater					
Residential (1)	$ 36.79	$ 40.94	$ 37.90	$ 36.35	$ 38.63
Multifamily (1)	895.83	1,058.16	1,096.47	1,172.57	1,237.57
Commercial (1)	350.13	367.56	383.79	395.74	411.21
Large Volume	219,013.24	216,581.48	231,555.45	224,832.98	273,628.93
City Departments	352.98	387.69	397.24	450.32	361.80
Average Monthly Bill – Above Customers	$ 83.42	$ 91.05	$ 89.91	$ 89.62	$ 96.03
Sales to Other Utilities (2)	$ 50,635.47	$ 54,488.52	$ 58,764.29	$ 55,611.39	$ 47,413.06
Average Monthly Bill – All Customers	$ 85.94	$ 93.73	$ 92.78	$ 92.27	$ 98.48
Average Monthly Use in 1,000 Gallons – Wastewater					
Residential (1)	4.33	4.53	4.15	3.88	3.87
Multifamily (1)	115.40	128.20	126.49	132.58	133.96
Commercial (1)	43.78	43.58	43.85	43.79	43.52
Large Volume	31,493.39	29,857.14	30,354.38	29,135.26	33,944.97
City Departments	45.07	46.45	45.43	47.91	36.50
Average Monthly Use – Above Customers	10.39	10.69	10.25	9.97	10.17
Sales to Other Utilities (2)	9,868.40	10,128.19	10,691.69	10,020.74	9,749.92
Average Monthly Use – All Customers	10.88	11.19	10.78	10.45	10.68
Average Revenue Per 1,000 Gallons – Wastewater					
Residential (1)	$ 8.50	$ 9.03	$ 9.13	$ 9.36	$ 9.97
Multifamily (1)	7.76	8.25	8.67	8.84	9.24
Commercial (1)	8.00	8.43	8.75	9.04	9.45
Large Volume	6.95	7.25	7.63	7.72	8.06
City Departments	7.83	8.35	8.74	9.40	9.91
Average Revenue – Above Customers	$ 8.03	$ 8.52	$ 8.77	$ 8.99	$ 9.44
Sales to Other Utilities (2)	$ 5.13	$ 5.38	$ 5.50	$ 5.55	$ 4.86
Average Revenue – All Customers	$ 7.90	$ 8.38	$ 8.61	$ 8.83	$ 9.22

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

ELECTRIC UTILITY SYSTEM
"AUSTIN ENERGY"

Management (as of March 31, 2017)

	Years at City	Additional Years of Experience	Total
General Manager			
Jacqueline Sargent, PE	2.5	26	28.5
Deputy General Managers			
Elaina Ball, *Chief Operating Officer*	4.5	12	16.5
Mark Dombroski, *Chief Financial and Risk Officer*	2.5	24	26.5
Kerry Overton, *Chief Customer and Compliance Officer*	17	11	28
Vice Presidents			
Mark Dreyfus, Ph.D., *Regulatory Affairs and Corporate Communications*	17.5	12	29.5
Gerardo Galvan, *Customer Care Services*	0.75	15	15.75
Elaine Kelly, *Customer Account Management*	9	12	21
Deborah Kimberly, *Customer Energy Solutions*	4	30	34
Khalil Shalabi, *Market Operations and Resources Planning*	3	20	23
Dan Smith, PE*, Electric Service Delivery*	14	15	29
William Sweeney, Interim VP, *Power Production*	26	4	30

Service Area

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

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

Real Estate Taxes

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

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Customer Base – Average Monthly Number of Customers

For Period ended September 30, 2016	Average Monthly Number of Customers	Percent
Residential	411,366	89.17
Commercial	47,352	10.26
Industrial	110	0.02
Public Street & Highway	7	0.00
Governmental Authorities	2,508	0.55
Total Service Area Customers	461,343	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 May 1, 2017, 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	34.5	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
Energy Developments, Inc.	2002-2003	7.8	Landfill Methane
Nacogdoches Power LLC	2012	100.0	Biomass
Duke Energy Los Vientos IV	2016	200.0	Wind
Roserock Solar	2016	157.5	Solar
East Pecos Solar LLC	2017	118.5	Solar
Total Capacity from Purchased Power		1,667.6	
Total Capacity including Purchased Power		4,138.2	

(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.

Fuel Type	Percentage of Generation As of September 30				
	2012	2013	2014	2015	2016
Coal	27.0%	25.9%	27.5%	24.4%	23.1%
Natural Gas & Oil (1)	20.5	15.7	13.1	16.1	16.5
Nuclear	21.9	22.8	23.1	26.0	24.6
Renewable Energy	14.9	20.7	22.0	23.1	29.7
Purchased Power	15.7	14.9	14.3	10.4	6.1
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 is targeted to be 40-70 days. Austin Energy's coal inventory share was 105 days as of May 31, 2017. 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 is expected to return to normal levels in the first quarter of 2018.

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

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

DESCRIPTION OF PHYSICAL PROPERTY

Fayette Power Project

The Fayette Power Project ("FPP") is a power project co-owned by the Lower Colorado River Authority ("LCRA") and Austin Energy. Austin Energy is a 50% owner in Units 1 and 2 of the FPP. A third unit, also at the facility, is 100% owned by LCRA. Pursuant to the Participation Agreement between the City and LCRA, LCRA was appointed Project Manager and a Management Committee was established, supported by 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 in September 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 STP site. The City had the right to participate in the ownership of the proposed new units, up to its existing 16 percent share of the STP. Austin Energy evaluated the City's ownership option and provided City Council with an analysis on which to base a decision. The City Council elected to decline participation in this expansion as then proposed. Nuclear Innovation North America ("NINA"), operating as a subsidiary of NRG Energy, Inc., became the lead applicant for the license and assumed responsibility for design, construction, and licensing prior to operation of STP 3 and 4 on January 24, 2011. The NRC issued the Combined License for Units 3 and 4 on February 12, 2016. A press release from NINA at the time of the license issuance stated "NINA plans to hold these licenses until market economics support construction."

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

CUSTOMER RATES

Retail Service Rates

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

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

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

- Power Supply Adjustment (PSA): recovers dollar-for-dollar fuel and power supply costs and, beginning in November 2016, includes a seasonal (summer/non-summer) rate.
- Regulatory Charge: recovers dollar-for-dollar Austin Energy's retail transmission expense and other regulatory expenses, such as ERCOT Administrative Fees. Congestion Revenue Rights are netted against the system regulatory costs. The Regulatory Charge was modified to provide for a system-wide recovery mechanism rather than a rate class approach.
- Customer Assistance Program (CAP): funds utility bill discounts for low income customers (more than 40,000 customers assisted as of September 2016). CAP was introduced during the 2012 rate update.
- Service Area Streetlights (SAL): maintains and powers the streetlights and traffic signals in the City (outside-the-city customers are not assessed this fee). The SAL charge was also modified to reflect a system-wide recovery approach.
- Energy Efficiency Services (EES): funds energy efficiency programs, the least expensive offset to new generation. The EES Charge was also modified to reflect a system-wide recovery approach.

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

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

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

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

Power Supply Adjustment

During the annual budget process, the City Council reviews Austin Energy's proposal for updating the PSA, which recovers ERCOT Settlements, fuel 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	$81.45
Houston	88.27
Corpus Christi	96.51
AUSTIN	**103.07**
San Antonio	106.78
El Paso	114.23

* Average residential bill for 1,000 KWh during the period October 2015 – September 2016, including fuel costs. Dallas/Fort Worth, Houston, and Corpus Christi are served by competitive retail service providers (REP). Many REPs design their offerings around the 1,000 kWh standard, resulting in an atypically low rate at the 1,000 kWh level, compared to the 500 kWh or 2,000 kWh consumption levels.
Source: Public Utility Commission of Texas and powertochoose.org.

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CUSTOMER STATISTICS

Five Year Electric Customer Statistics – TABLE ELEVEN[(1)]

TABLE ELEVEN[(1)] shows service area billed customer sales for fiscal years 2012 through 2016. 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				
	2012	2013	2014	2015	2016
Revenue (000's)					
Residential	$ 422,195	$ 458,657	$ 486,759	$ 465,608	$ 453,555
Commercial	409,330	474,659	480,461	467,175	484,162
Industrial	158,727	184,517	200,107	185,034	181,909
Public Street & Highway	7,881	4,625	3,058	2,412	2,679
Sales to Government Authorities	83,476	61,407	84,702	81,656	75,897
Total	$1,081,609	$1,183,865	$1,255,087	$1,201,885	$1,198,202
MWH					
Residential	4,381,194	4,162,387	4,314,699	4,320,492	4,258,275
Commercial	4,633,557	4,474,655	4,511,203	4,644,241	4,891,990
Industrial	2,648,487	2,735,012	2,850,111	2,795,815	2,817,055
Public Street & Highway	46,949	40,549	50,816	50,315	51,164
Sales to Government Authorities	1,005,961	858,130	872,857	879,415	862,344
Total	12,716,148	12,270,733	12,599,686	12,690,278	12,880,827
Average Monthly Number of Customers					
Residential	376,614	383,257	391,410	401,556	411,366
Commercial	44,006	44,850	45,407	46,253	47,352
Industrial	82	138	151	127	110
Public Street & Highway	4	5	5	6	7
Sales to Government Authorities	1,664	2,332	2,430	2,501	2,508
Total	422,370	430,582	439,403	450,443	461,343
Average Monthly KWH per Customer					
Residential	969	905	919	897	863
Commercial	8,774	8,314	8,279	8,367	8,609
Industrial	2,688,273	1,651,577	1,575,518	1,838,142	2,127,685
Public Street & Highway	978,104	675,821	846,926	653,436	609,091
Sales to Government Authorities	50,376	30,665	29,932	29,303	28,655
Average Monthly Bill per Customer					
Residential	$ 93.42	$ 99.73	$ 103.63	$ 96.63	$ 91.88
Commercial	775.14	881.94	881.77	841.70	852.07
Industrial	161,111.45	111,423.40	110,617.3	121,652.57	137,393.42
Public Street & Highway	164,187.50	77,078.23	50,972.42	31,325.98	31,891.33
Sales to Government Authorities	4,180.24	2,194.37	2,904.63	2,720.86	2,521.99
Average Revenues per KWH					
Residential	$0.09637	$0.11019	$0.11281	$0.10777	$0.10651
Commercial	0.08834	0.10608	0.10650	0.10059	0.09897
Industrial	0.05993	0.06746	0.07021	0.06618	0.06457
Public Street & Highway	0.16786	0.11405	0.06019	0.04794	0.05236
Sales to Government Authorities	0.08298	0.07156	0.09704	0.09285	0.08801

(1) Data varies from tables previously filed due to changes in the allocation of rate classes which has resulted in a more accurate depiction

Source: Austin Energy.

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Electric Rates

The PSA, Regulatory Charge, and Community Benefit Charges 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, 2016 for the City's outstanding Parity Water/Wastewater Obligations, which filing is available from the Municipal Securities Rulemaking Board (the "MSRB") on its Electronic Municipal Market Access ("EMMA") 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 $76 million in fiscal year 2016 and are expected to total approximately $78 million in fiscal year 2017. Austin Energy will continue to manage and review the need for wholesale transmission rate increases as necessitated by its investment and cost to serve.

GreenChoice® Energy Rider

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

GreenChoice Sales (kWh) by Calendar Year

2007	577,636,840
2008	723,824,901
2009	764,895,830
2010	754,203,479
2011	698,703,263
2012	744,442,709
2013	863,956,193
2014	683,986,607
2015	637,575,158
2016	733,070,000

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									
	2016		2015		2014		2013		2012	
	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		12,415,243,709		11,610,500,640		10,784,975,000		8,271,499,000		9,060,948,000
kWh Received from ERCOT		1,452,541,760		1,990,108,990		2,496,345,000		4,916,439,000		4,299,061,000
Less: kWh Delivered to ERCOT		(501,325,385)		(215,343,640)		(134,287,000)		(160,812,000)		(155,105,000)
Less: kWh Delivered to Other Utilities		-		-		-		(143,496,000)		(112,900,000)
Total kWh Delivered to Service Area		13,366,460,084		13,385.265,990		13,147,033.000		12,883,630,000		13,092,004,000
Service Area Energy Use:										
Residential	411,366	4,258,275,530	401,556	4,320,491,678	391,410	4,314,699,441	383,257	4,162,387,287	376,614	4,381,193,546
General Service (Less UT & ENW)	48,951	8,180,335,482	47,813	7,930,287,974	46,886	7,847,048,954	46,293	7,682,153,871	44,863	7,957,928,155
	460,317	12,438,611,012	449,369	12,250,780,652	438,296	12,161,748,395	429,550	11,844,541,158	421,477	12,339,121,701
Public Street Lighting	7	51,163,631	6	50,314,561	5	50,815,562	5	40,549,265	4	46,948,693
City Utility Departments (*)	309	268,278,325	349	265,271,198	352	265,731,532	345	264,950,503	191	198,728,570
Other City Departments (*)	709	110,274,454	717	110,732,138	749	105,998,996	681	108,493,578	697	117,686,130
	1,025	429,716,410	1,072	426,317,897	1,106	422,546,090	1,031	413,993,346	892	363,363,393
Total Service Area Sales	461,342	12,868,327,422	450,442	12,677,098,549	439,402	12,584,294,485	430,581	12,258,534,504	422,369	12,702,485,094
Sales to UT & ENW (Nightwatchman)	1	12,499,578	1	13,179,451	1	15,391,515	1	12,198,496	1	13,662,906
Loss and Unaccounted For		485,633,084		694,987,990		547,347,000		612,897,000		375,856,000
Total kWh Delivered to Service Area	461,343	13,366,460,084	450,443	13,385,265,990	439,403	13,147,033,000	430,582	12,883,630,000	422,370	13,092,004,000
System Peak Demand (kW)		2,755,000		2,735,000		2,578,000		2,592,000		2,702,000

*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 item that is hedged. Investment derivative instruments are entered into primarily for income or profit purposes or they are derivative instruments that do not meet the criteria of an effective hedging derivative instrument. Changes in fair value of hedging derivative instruments are deferred on the statement of net 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, 2016, $139,000 in premiums was deferred. As of September 30, 2016, the fair value of Austin Energy's futures, options, swaps, and congestion rights was an unrealized loss of $24.2 million, of which $26.1 million is reported as derivative instruments in liabilities and $1.9 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, 2016. 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 1999, Austin Energy signed a contract for the purchase of energy from landfill methane-recovery projects to be developed by Ecogas Inc. and Energy Developments, Inc. ("EDI"). Ecogas Inc. assigned its rights to EDI in October 2000. In October 2002, EDI brought on the first 5.2 MW of landfill methane generation at its 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 Leeward Energy operated Sweetwater Phase II wind project near Sweetwater, Texas under a 12-year contract. In December 2005, Austin Energy increased its purchase to a total of 126.0 MW with additional capacity from the Sweetwater Phase III project. The Phase II contract expired on March 31, 2017; the Phase III contract will expire on December 31, 2017.

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, a subsidiary of Southern Company, 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. Los Vientos III commenced commercial operation in April 2015 and Los Vientos IV commenced commercial operation in July 2016.

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

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

In May 2015, Austin Energy and a subsidiary of Power Fin Texas Solar Projects, LLC entered into a 25-year Power Purchase Agreement for the purchase up to 3.2 MW of solar generated renewable energy from a facility to be constructed in the Austin Energy service territory; this purchase will be considered a component of Austin Energy's local solar goal. Commercial operation is expected in the fourth quarter of 2017.

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

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Electric Transmission and Distribution System Statistics

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

	Number of Substations	Miles of Lines	Kilovolts
Transmission	14	624.5	345/138/69
Distribution	61	11,517	35/12.5/7.2
Overhead Primary		2,387	
Overhead Secondary		2,630	
Underground Primary		3,265	
Underground Secondary		3,235	

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

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

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

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

ISO 9001 Registration

Three major business units of Austin Energy have earned their International Organization for Standardization (ISO) 9001 registrations. ISO 9001 is a series of international quality standards designed to ensure that all activities related to providing and delivering a product or service are appropriately quality assured. To earn the registration, applicants must develop a Quality Management System that reflects standards of performance for every major process, in this case, related to building, operating, maintaining, and repairing the Electric Utility System.

- The Electric Service Delivery ("ESD") business unit –responsible for the construction, maintenance and operation of the City's Electric Utility System - became the first of any utility in the nation to earn ISO-9001:2000 registration. Auditors from the National Standards Authority of Ireland ("NSAI"), the worldwide entity that certifies ISO quality management program, issued the registration on January 3, 2008. The certification followed a rigorous four-day review in December 2007 of the 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. More recently, in June 2017, Austin Energy's Electric Service Delivery Quality Management System was recommended for upgraded certification under the ISO-9001: 2015 standard, by NSAI.

- In June 2010, Austin Energy's Customer Care business unit was also registered as an ISO 9001:2008 organization. Customer Care 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. In February 2017, Austin Energy's Customer Care Quality Management System was upgraded to certification under the ISO-9001:2015 standard.

- In January 2013, Austin Energy's Power Production & Energy and Market Operations ("PP & EMO") business unit received ISO registration for their quality management system. The PP & EMO Quality Management System includes over fifty (50) work processes related to operations, maintenance, planning, environmental compliance, plant engineering and market operations. More recently, in June 2017, Austin Energy's Power Production & Energy Market Operations Quality Management system was recommended for upgraded certification under the ISO-9001:2015 standard, by NSAI.

- In February 2017, Austin Energy's 311 Quality Management System received initial certification under the ISO – 9001:2015 standard – the first distinction of this kind for a 311 Contact Center in the United States.

Conventional System Improvements

In September 2016, the 2017-2021 Capital Improvements Spending Plan was approved by the City Council in the amount of $889,728,675. 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.

$890,000,000 Five Year Capital Spending Plan

$ in Millions	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Distribution	$ 78	$ 79	$ 79	$ 88	$ 88	$ 412
Distribution Substation	11	12	13	11	16	63
Transmission	24	25	22	29	25	125
Electric Service Delivery	113	116	114	128	129	600
Power Production	49	39	37	30	17	172
Customer Service Billing & Metering	1	2	2	0	0	5
Facilities, Technology & Support Services	15	27	33	28	10	113
Total	$ 178	$ 184	$ 186	$ 186	$ 156	$ 890

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 474,000 AMI meters: 409,000 2-way communicating residential meters and 65,000 2-way communicating commercial and industrial meters. Austin Energy has completed the replacement of its 1-way AMR meters to 2-way AMI meters. 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. Elements of the Strategic Plan were updated for Fiscal Years 2017-2021 and did not include revisions to the 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 the Resource, Generation and Climate Protection Plan to 2025 discussed further in the next section.

Austin Energy is currently working to update the 2014 Resource Plan and is expected to be presented for council consideration at the August meeting.

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:

- An additional 100 MW of Demand Response or energy efficiency to increase the DSM achieved to 1000 MW by 2025.
- 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 selected Navigant 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. Navigant recommended that Austin Energy build the gas plant in the Austin Energy Load Zone. Navigant also recognized that the results between the different portfolios are very close and so it is important to fully consider the range of risks to Austin Energy's finances that can be mitigated by the gas plant.

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 May 1, 2017, wind generation totals 1,253.8 MW of capacity. Under the 2025 Plan, Austin Energy will pursue additional wind energy PPAs and ownership opportunities. Austin Energy expects to contract a minimum of 2,450 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 property owned by Austin Energy, which went into operation in 2012. In addition, the 2014 Plan assumes full build-out of the announced 157.5 MW of solar power currently contracted with Roserock Solar which achieved commercial operation in November 2016.

In accordance with the 2014 Plan, Austin Energy issued an RFP in May 2015 for up to 600 MW of utility-scale solar and contracted approximately 439 MW of utility scale solar that are expected to be online by 2018; out of which, 118 MW of utility scale solar is in commercial operation. The City Council also directed Austin Energy to continue to explore the procurement of the remaining MW that makes up 600 MW either through PPA or ownership with a start date of 2019. These additions will 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.

Austin Energy is currently working to update the RGCP Plan consistent with the City Council's direction to reassess the RGCP Plan in a public forum every two years.

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.

- Net Revenues generated by Austin Energy shall be used for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies, and other Austin Energy requirements. Once these obligations have been met, any remaining net revenues will be deposited into Austin Energy's reserve funds in the following order until each reserve reaches its minimum funding level: Working Capital, Contingency Reserve, Power Supply Stabilization Reserve, and then Capital Reserve. The sum of the four reserves shall be the cash equivalent of no less than 150 days of operating and maintenance expense.

- Austin Energy shall maintain operating cash equivalent (also known as Working Capital) of 60 days of budgeted operations and maintenance expense, less power supply costs, plus the amount of additional monies required to bring the sum of all Austin Energy's reserves to no less than 150 days of operating and maintenance expense. As of September 30, 2016, Austin Energy's operating cash balance was $352 million and Days Cash on Hand (DCOH) was 197 days.

- Austin Energy shall maintain a minimum quick ratio of 1.50 (current assets less inventory divided by current liabilities). The source of this information shall be the Comprehensive Annual Financial Report.

- Austin Energy shall maintain either bond insurance policies or surety bonds issued by highly rated ("AAA") bond insurance companies or a funded debt service reserve or a combination of both for its existing revenue bond issues, in accordance with the Combined Utility Systems Revenue Bond Covenant.

- 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.

- The Contingency Reserve shall be created and established for unanticipated or unforeseen events that reduce revenue or increase obligations, such as costs related to a natural disaster, extended unplanned plant outages, insurance deductibles, or unexpected costs created by Federal or State legislation. The Contingency Reserve may be used to fund unanticipated power supply expenses only after the Power Supply Stabilization Reserve has been fully depleted. The Contingency Reserve shall maintain an operating cash equivalent of 60 days of budgeted operations and maintenance expense, less power supply costs. In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted funding level within two (2) fiscal years.

- The Capital Reserve shall be created and established for providing extensions, additions, replacements and improvements to the Electric Utility System. The Capital Reserve shall maintain a minimum cash equivalent of 50% of the previous year's electric utility depreciation expense.

- The Power Supply Stabilization Reserve shall be created and established for mitigating power supply cost volatility which causes frequent variation in the Power Supply Adjustment. The Power Supply Stabilization Reserve shall maintain a cash equivalent of 90 days of net power supply costs. Net power supply costs shall be defined as costs eligible for inclusion in the Power Supply Adjustment. The Power Supply Stabilization Reserve shall be funded using net revenues after meeting other obligations and consistent with the flow of funds schedule.

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

- Electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to support (1) the full cost (direct and indirect) of operations including depreciation, (2) debt service, (3) General Fund transfer, (4) equity funding of capital investments, (5) requisite deposits of all reserve accounts, (6) sufficient annual debt service requirements of the Parity Electric Utility Obligations and other bond covenant requirements, if applicable, and (7) any other current obligations. In addition, Austin Energy may recommend to Council in the budget directing excess net revenues for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies and other Austin Energy requirements such as working capital. In addition to these requirements, electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to ensure a minimum debt service coverage of 2.0x on electric utility revenue bonds. A rate adequacy review shall be completed every five years, at a minimum, through performing a cost of service study.

- A decommissioning trust shall be established external to the City to hold the proceeds for moneys collected for the purpose of decommissioning the STP. An external investment manager may be hired to administer the trust investments. As of September 30, 2016, trust market value was $212 million.

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

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Rate Regulation

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

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

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

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

ERCOT Wholesale Market Design

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

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

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

Federal Rate Regulation

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

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

Environmental Regulation - General

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

Environmental Regulation Related to Air Emissions

Clean Power Plan

In October 2015, the USEPA finalized the Clean Power Plan ("CPP") requiring CO_2 emissions reductions from the electricity section in most states, and directed each state to develop its own plan to achieve those reductions. Twenty-seven states and numerous industry groups filed a combined 39 lawsuits from a total of 157 petitioners asking the D.C. Circuit to review the rule. Briefings were completed in April 2016 and oral arguments were conducted in September 2016. The Supreme Court stayed the CPP rule on February 9, 2016, pending review in the D.C. Circuit Court. The D.C. Circuit has yet to issue a ruling; however, in June 2017, the USEPA began the process of revising the rule. Austin Energy's fleet is less carbon intense than the state-wide fleet as a whole because of investments already made in zero-and-low-carbon generation sources. Austin Energy is well-positioned to comply with this rule, if it goes into effect.

Mercury and Air Toxics Standards (MATS)

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

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

Cross-State Air Pollution Rule and Clean Air Interstate Rule

Austin Energy's large facilities have been complying with the Cross-State Air Pollution Rule ("CSAPR") since 2015. On September 7, 2016, USEPA finalized an update to the CSAPR rule. The final rule lowered Texas' Phase II ozone season budgets by approximately an additional 10%. Austin Energy has held and will continue to hold surplus allowances relative to expected emissions for all CSAPR trading programs (annual and seasonal NOx and annual SO2) for the foreseeable future.

Proposed revisions to the federal ozone National Ambient Air Quality Standard

In November 2014, the USEPA finalized a new lower national ambient air quality standard ("NAAQS") for ground-level ozone at 70 ppb. TCEQ recommended to the EPA that Travis County, where Austin Energy is located, be designated in attainment of this new standard; therefore, there are no foreseeable direct impacts to Austin Energy from this rule.

Regional Haze

In July 2016, the Fifth Circuit Court of Appeals issued a stay of the USEPA's federal regional haze plan for Texas, the latest example of a federal court halting implementation of a major USEPA regulation (*Texas v. EPA*, 2016 BL 228327, 5th Cir., No. 16-60118, July 15, 2016). This stay halts the January 2016 promulgated rule that would have imposed a regional haze federal implementation plan on Texas and Oklahoma.

The USEPA is reviewing the final July 2016 decision. In March 2016, the USEPA began a Best Available Retrofit Technology (BART) case-by-case determination of select electric generating units (EGUs) in Texas to address regional haze. Similar to all other EGU owners in Texas, Austin Energy could be impacted by this effort but is waiting on agency action (USEPA/TCEQ).

Environmental Regulation Related to Water Discharges

Cooling water intake structures

Section 316(b) of the Clean Water Act establishes requirements to minimize the impact of cooling water intake structures on aquatic organisms. The 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 several years from now.

Effluent Limit Guideline (ELG) regulations

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

Environmental Regulation Related to Hazardous Wastes and Remediation

In January 2015, the USEPA promulgated a rule that sets new requirements for the storage of Coal Combustion Residuals ("CCRs") and potentially reclassifies those CCRs as a hazardous waste when stored in a landfill. FPP, like all coal burning plants, generates CCRs such as fly ash, bottom ash and gypsum. FPP currently recycles the majority of its CCR for beneficial use, such as for road base or as cement substitutes, with the remaining fractions stored onsite in a landfill for possible future use (recycle rates depend on market demand for the product). In 2011, Austin Energy and LCRA completed a project to permanently close a "wet" ash pond where ash slurry had previously been sent for dewatering before recycle, and converted ash handling to a dry system. The final rule does not designate CCRs as hazardous and largely minimizes any requirements on existing CCR storage units currently at FPP. 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 Fall 2017.

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 accidental outage insurance, primary and excess property damage insurance is $50.4 million during any one policy year with insurance premiums being prorated per member share. This number changes annually and is calculated as 10 times the current premium for each policy.

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 2016 report provided by the City based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City established an external irrevocable trust for decommissioning with JPMorgan Chase Bank, N.A, and as of October 2016, transferred the trust to Wilmington Trust, National Association. The City has been collecting for its share of anticipated decommissioning activities, which may begin as early as 2027, through its rates since Fiscal Year 1989. The decommissioning trust market value on September 30, 2016 was $211,692,399. For Fiscal Year 2017, 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. As detailed below, all required actions by STP related to these orders have been completed and accepted by the NRC.

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

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

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

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COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM
AND WATER AND WASTEWATER SYSTEM OPERATIONS
OCTOBER 1, 2011 TO SEPTEMBER 30, 2016
(in thousands rounded)

	2016	2015	2014	2013	2012
INCOME					
Revenue	$1,941,815	$ 1,876,350	$ 1,848,012	$ 1,772,129	$ 1,633,826
Operating Expense	(1,207,225)	(1,186,590)	(1,246,865)	(1,137,184)	(1,054,566)
Balance Available for Debt Service	734,590	689,760	601,147	634,945	579,260
Depreciation and Amortization Expense	(272,769)	(264,896)	(255,892)	(249,029)	(241,884)
Earnings Before Interest Expense	461,821	424,864	345,255	385,916	337,376
Interest Incurred on Debt	(168,956)	(160,881)	(169,567)	(164,692)	(177,954)
Other	(748)	(4,802)	(10,367)	(1,908)	4,580
INCOME (LOSS) BEFORE OPERATING TRANSFERS (1) (2) (3) (4) (5)	$ 292,117	$ 259,181	$ 165,321	$ 219,316	$ 164,002
PERCENTAGES					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	(62.17%)	(63.24%)	(67.47%)	(64.17%)	(64.55%)
Balance Available for Debt Service	37.83%	36.76%	32.53%	35.83%	35.45%
Depreciation and Amortization Expense	14.05%	(14.12%)	(13.85%)	(14.05%)	(14.80%)
Earnings Before Interest Expense	23.78%	22.64%	18.68%	21.78%	20.65%
Interest Incurred on Debt	(8.70%)	(8.57%)	(9.18%)	(9.29%)	(10.89%)
Other	(0.04%)	(0.26%)	(0.56%)	(0.11%)	0.28%
INCOME (LOSS) BEFORE OPERATING TRANSFERS	15.04%	13.81%	8.95%	12.38%	10.04%

(1) Income before transfers to the General Fund and Other Funds for the 12 months ended September 30, 2016, are as follows (in thousands rounded):

Transfer to General Fund	$145,793
Transfers to Other Funds	$12,274

(2) Excludes Combined Utility Funds' deferred costs recovered in future years of ($13,617) for the 12 months ended September 30, 2016.
(3) There was no extraordinary gain or loss during each respective 12 month period.
(4) Excludes capital contributions of $118,940,163 for the 12 months ended September 30, 2016.
(5) Excludes other post-employment benefits ("OPEB") accrual of $20,997 and net pension obligation ("NPO") accrual of ($29,057) for the 12 months ended September 30, 2016.
Source: City Controller's Office.

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

	2016	2015	2014	2013	2012
REVENUE					
ELECTRIC UTILITY					
Domestic and Rural Residential	$ 446,590	$ 456,183	$ 464,616	$ 443,317	$ 414,159
Commercial General	744,047	736,884	766,591	726,789	615,588
City Utility Departments	0	0	0	0	21,356
Public Street Lighting	0	0	0	0	5,653
City General Government Departments	0	0	0	0	10,942
Sales to Other Utilities	42,119	27,798	19,305	6,358	4,057
Transmission	75,926	74,332	68,974	63,333	63,434
Rent from Electric Property	3,750	2,269	1,998	2,070	2,090
Customers' Forfeited Discounts and Penalties	6,352	6,854	6,966	8,185	1,144
Miscellaneous	51,444	47,116	38,705	38,207	41,449
Total Electric Utility	$1,370,228	$1,351,436	$1,367,155	$1,288,259	$1,179,872
WATER UTILITY					
Water Services	290,646	267,164	233,827	$229,300	$211,051
Miscellaneous Revenue	2,607	2,168	158	1,644	1,198
Revenue Stability Fee	7,223	6,905	5,722	4,864	16,638
Reserve Fund Surcharge	0	0	0	3,410	0
Reclaimed Revenue	1,384	944	820	864	567
Total Water Utility	$ 301,860	$ 277,181	$ 240,527	$ 240,082	$ 229,454
WASTEWATER UTILITY					
Wastewater Services	$ 257,161	$ 237,553	$ 231,336	$ 233,984	$ 210,534
Miscellaneous Revenue	2,813	2,257	730	2,715	2,718
Reclaimed Revenue	0	0	0	0	0
Total Wastewater Utility	$ 259,974	$ 239,810	$ 232,066	$ 236,699	$ 213,252
Interest	$ 9,754	$ 7,922	$ 8,264	$ 7,089	$ 11,247
TOTAL REVENUE	$1,941,815	$1,876,350	$1,848,012	$1,772,129	$1,633,825

Source: City Controller's Office.

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

EXPENSE	2016	2015	2014	2013	2012
ELECTRIC UTILITY					
Production	$ 215,562	$ 225,269	$ 278,893	$ 242,994	$ 330,066
Joint Facility Production	162,166	169,435	200,373	186,035	189,914
System Control	19,371	16,989	15,286	13,979	17,366
Transmission and Distribution	176,675	166,016	154,556	126,902	116,884
Jobbing and Contract Work	1,207	645	998	(204)	181
Customer Accounting and Collection	15,946	15,501	15,030	12,678	13,454
Customer Services	25,521	4,391	4,138	3,924	20,926
Administrative and General	373,320	380,038	359,520	340,986	186,884
Total Electric Utility	$ 989,768	$ 978,284	$ 1,028,794	$ 927,294	$ 875,675
WATER UTILITY					
Treatment	$ 37,835	$ 35,593	$ 35,915	$ 37,306	$ 33,464
Pipeline Operations	23,795	23,169	23,889	23,251	22,317
Engineering Services	3,296	3,472	5,159	5,261	4,926
Water Resources Management	3,733	3,699	3,443	2,216	2,047
Environmental Affairs & Conservation	7,880	7,486	8,464	8,495	6,789
Support Services - Utility	11,444	11,022	12,064	9,843	9,233
One Stop Shop	225	264	270	226	219
Reclaimed Water Services	(2,989)	(1,609)	(3,575)	(20,409)	212
Other Operating Expenses	31,577	30,155	31,582	51,230	20,133
Total Water Utility	$ 116,796	$ 113,251	$ 117,211	$ 117,419	$ 99,340
WASTEWATER UTILITY					
Treatment	38,544	36,132	37,106	$38,187	$30,301
Pipeline Operations	17,048	16,972	16,488	15,646	13,798
Engineering Services	5,263	4,966	5,789	5,955	5,716
Water Resources Management	4,150	3,911	3,779	2,248	2,105
Environmental Affairs & Conservation	2,925	2,911	2,343	2,062	1,877
Support Services - Utility	11,454	10,769	11,482	10,554	9,869
One Stop Shop	361	346	289	394	348
Other Operating Expenses	20,916	19,048	23,584	17,425	15,537
Total Wastewater Utility	$ 100,611	$ 95,055	$ 100,860	$ 92,471	$ 79,551
TOTAL EXPENSE (1)	$1,207,225	$1,186,590	$1,246,865	$1,137,184	$1,054,566
NET REVENUE AVAILABLE FOR DEBT SERVICE	$ 734,590	$ 689,760	$ 601,147	$ 634,945	$ 579,259
Electric Customers	469,534	450,479	439,403	430,582	412,552
Water Customers	227,432	223,162	217,035	217,070	214,971
Wastewater Customers	214,373	212,260	204,482	203,896	202,444

(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, 2012 through September 30, 2016 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 FY12 through FY16 were largely attributable to weather and system rate changes, including imposition of Stage 2 watering restrictions beginning in September 2011. See "WATER SYSTEM – Water Use Management Plan and LCRA Water 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 FY12 through FY16 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 FY12 through FY16 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)

	2016	2015	2014	2013	2012
Plant Cost					
Utility Systems					
Electric	$5,288,802	$5,141,259	$4,980,357	$4,851,811	$4,723,204
Water	2,736,990	2,663,637	2,576,314	2,415,970	2,209,639
Wastewater	2,416,799	2,352,947	2,299,833	2,255,208	2,205,455
Total Cost	$10,442,591	$10,157,843	$9,856,504	$9,522,989	$9,138,298
Allowance for Depreciation:					
Electric	2,678,849	$2,537,491	$2,392,899	$2,265,036	$2,131,588
Water	752,394	701,383	650,103	607,609	564,937
Wastewater	935,782	876,532	817,485	760,206	707,281
Total Depreciation	$4,367,025	$4,115,406	$3,860,486	$3,632,851	$3,403,806
Cost after Depreciation	$6,075,566	$6,042,437	$5,996,018	$5,890,138	$5,734,492
Equity in Utility Systems					
Utility Systems	$10,442,591	$10,157,843	$9,856,504	$9,522,989	$9,138,298
Plus: Inventories, Materials and Supplies (1)	55,187	51,884	56,649	54,181	56,017
Net Construction Assets and Unamortized Bond Issue Cost	114,533	164,690	151,561	112,273	104,298
	$10,612,311	$10,374,417	$10,064,714	$9,689,443	$9,298,613
Less:					
Allowance for Depreciation	$4,367,025	$4,115,406	$3,860,486	$3,632,851	$3,403,806
Total	$4,367,025	$4,115,406	$3,860,486	$3,632,851	$3,403,806
Utility Systems, Net	$6,245,285	$6,259,012	$6,204,228	$6,056,592	$5,894,807
Revenue Bonds and Other Debt Outstanding	4,014,446(2)	4,076,665	4,062,603	3,917,857	3,808,929
Net Debt	$4,014,446	$4,076,665	$4,062,603	$3,917,857	$3,808,929
Equity in Utility Systems	$2,230,840	$2,182,346	$2,141,625	$2,138,735	$2,085,878
Percentage of Equity in Utility Systems	35.72%	34.87%	34.52%	35.31%	35.39%

(1) Does not include fuel, oil or coal inventories of approximately $27,148,948 million at September 30, 2016. Consists primarily of spare parts inventory at Fayette Plant and South Texas Project.

(2) Includes Revenue Bonds and Tax and Revenue Bonds of $3,873,891,400 (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 $1,040,097; Commercial Paper of $129,915,504 (net of discounts); General Obligation Bonds of $2,159,087; and Contractual Obligations of $7,439,703.

Source: City Controller's Office

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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. There are additional claims described below that are proceeding through the judicial process, and the City is not able to predict the impact that those proceedings may have on the financial condition of the Electric Utility System or Water and Wastewater System.

Electric Utility System Litigation

On May 3, 2017, Data Foundry, Inc., filed a lawsuit against the City (Cause No. D-1-GN-17-000937 in the 419th Judicial District Court of Travis County, Texas), alleging that the ERCOT nodal market design disqualifies the City's electric generation assets from being considered as used and useful for the purpose of establishing rates for electric service to the City's retail customers. The lawsuit seeks declaratory relief that the City's current retail electric rates are unlawful due to the inclusion of costs and return related to generation assets, and seeks a permanent injunction against the City's establishing electric rates that include costs and return related to generation assets and operations. The City has filed a motion to dismiss the case under Rule 91(a) of the Texas Rules of Civil Procedure, and a hearing on the City's motion is currently set for July 3, 2017.

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 and on August 11, 2016 he resigned as City Manager after accepting the position of Executive Director of the International City/County Management Association in Washington, D.C. Mr. Ott's resignation was effective October 31, 2016. On September 1, 2016, the City Council appointed Ms. Elaine Hart, the City's Chief Financial Officer, as Interim City Manager, effective October 31, 2016.

Interim City Manager – 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.

Interim Chief Financial Officer – Greg Canally

Mr. Greg Canally is currently the Interim Chief Financial Officer for the City of Austin. Prior to this appointment, Mr. Canally served as the Deputy Chief Financial Officer over the Treasury Office, Purchasing Office & Capital Contract Office, and worked as the Finance lead on economic development, transportation initiatives, facility master planning, and a variety of information technology issues for the City. Mr. Canally has been with the City of Austin for 17 years, entirely in the Finance Department. From 2004 thru 2008, he was the City's Budget Officer. He is past member of Government Finance Officers Association's Committee on Economic Development and Capital Planning. Prior to his work in municipal government, Mr. Canally worked as a project manager/economist for HDR Engineering, working with all levels of government to implement Water Planning solutions in Texas. Mr. Canally holds a Bachelor of Science in Economics from Villanova University and a Master of Science in Economics from the University of Texas at Austin.

Services Provided by the City

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

Employees

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

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

Annexation Program

The City annexes territory on a regular basis. Chapter 43 of the Texas Local Government Code regulates annexation of property by Texas municipalities. 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 2007.

Calendar Year	Full Purpose Acres (1)	Limited Purpose Acres
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
2016	311	0

(1) Includes acres converted from limited purpose to full purpose status.
Source: Planning and Development Review Department.

Recent Annexation

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

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

The City annexed seven areas for full purposes in 2014, including approximately 900 acres of undeveloped land. If developed as anticipated, these areas would include an estimated 1,498 dwelling units and a projected population of 3,747 persons at build-out. The taxable assessed value ("TAV") for these areas as of January 1, 2017 was approximately $12.6 million.

In 2013, the Wildhorse Ranch and the remainder of the Goodnight Ranch proposed developments were converted from limited to full purpose annexation status. In addition, the City annexed one commercial area and several undeveloped areas for full purposes for a total of 3,484 acres for the year. The TAV for these areas was approximately $17 million. 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.

Future Annexation

Two area MUDs are scheduled for annexation under approved SPAs with the City. 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 2016 was approximately $11.7 million.

The following describes the contributions in place as of October 1, 2016. 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 18.7% of payroll, and the City contributes 22.05%. The Police Officers contribute 13.0% and the City contributes 21.313% of payroll.

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, 2015 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, 2014 using the final 2015 assumptions and then was rolled forward to the plan's year ending December 31, 2015.

The COAERS, as of December 31, 2015, had a net pension liability of $1.2 billion – of which approximately $142.2 million is allocable to Austin Water – with a plan fiduciary net position as a percentage of the total pension liability of 63.2%. The Police Officers plan, as of December 31, 2015, had a net pension liability of $384.7 million with a plan fiduciary net position as a percentage of the total pension liability of 62.6%. The Fire Fighters plan, as of December 31, 2015 had a net pension liability of $128.4 million with a plan fiduciary net position as a percentage of the total pension liability of 86.0%.

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, 2015, the amortization period of the unfunded actuarial accrued liability for the COAERS was 33 years, for the Police Officers' Fund was 31.3 years and the Firefighters' Fund was 12.29 years.

As of December 31, 2015, the actuarial accrued liability for the COAERS was $3,391,796,116 and the funded ratio was 68.0%.

The actuarial accrued liability for the Police Officers' Fund was $1,036,118,138 and the funded ratio was 66.6%. The actuarial accrued liability for the Firefighters' Fund was $921,875,579 and the funded ratio was 89.9%. 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.

On June 21, 2017, the COAERS Board of Trustees received a GASB Statement No. 68 report of the COAERS for the plan's fiscal year ended December 31, 2016. The report stated that as of December 31, 2016, COAERS had a net pension liability of $1.292 billion with a plan fiduciary net position as a percentage of the total pension liability of 64.03%. Additionally, the actuarial accrued liability for the COAERS was $3,591,376,306 and the funded ratio was 67.5% funded. Austin Water's allocable share of the unfunded actuarial liability for COAERS has not been determined.

On July 26, 2017, the Police Officers' Fund Board received an actuarial valuation report of the Police Officers' Fund for the plan's fiscal year ended December 31, 2016. The report stated that as of December 31, 2016, the Police Officers' Fund had a net pension liability of $420.2 million with a plan fiduciary net position as a percentage of the total pension liability of 62.02%. Additionally, the actuarial accrued liability for the Police Officers' Fund was $1,106,505,413 and the funded ratio was 66.2%.

On July 25, 2017, the Firefighters' Fund Board received an actuarial valuation report of the Firefighters' Fund for the plan's fiscal year ended December 31, 2016. The report stated that as of December 31, 2016, the Firefighter's Fund had a net pension liability of $148.1 million with a plan fiduciary net position as a percentage of the total pension liability of 84.85%. Additionally, the actuarial accrued liability for the Firefighters' Fund was $981,771,267 and the funded ratio was 88.3%.

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 $39.3 million for 4,644 retirees in 2016 and $39.5 million for 4,431 retirees in 2015. As of September 30, 2016, the net OPEB obligation is $863.6 million, of which $83.3 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 $9.36 million for claims and damages at the end of fiscal year 2016. 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 ("FDIC") or by explicit full faith and credit of the United States;
(5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent;
(6) bonds issued, assumed or guaranteed by the State of Israel;
(7) interest-bearing banking deposits that are guaranteed insured by the FDIC or the National Credit Union Share Insurance Fund or their respective successors;
(8) 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;
(9) 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;
(10) 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;
(11) 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;
(12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that comply with Securities and Exchange Commission Rule 2a-7;
(13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and either has a duration of one year or more and is invested exclusively in obligations described in this paragraph, or has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and,
(14) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Code) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than "AAA", "AAA-m" or at an equivalent rating by at least one nationally recognized rating service.

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

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

(i) the value of securities loaned under the program are not collateralized at less than 100%, including accrued income, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) above, or an authorized investment pool;
(ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City;
(iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and
(iv) the agreement to lend securities has a term of one year or less.

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, 2017, the City's investable funds were invested in the following categories.

Type of Investment	Percentage
U. S. Treasuries	10%
U. S. Agencies	41%
Money Market Funds	3%
Local Government Investment Pools	46%

The dollar weighted average maturity for the combined City investment portfolios is 255 days. The City prices the portfolios weekly utilizing a market pricing service.

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 ("IRS") by the City with respect to the Bonds or the facilities financed or refinanced with the proceeds of the Bonds. 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 the IRS will commence an audit of the Bonds, or as to whether the IRS would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the IRS 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 IRS. 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 OF INFORMATION

In the Twenty-Eighth 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 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 UTILITY SYSTEM – Customer Base–Average Monthly Number of Customers," (iii) "ELECTRIC UTILITY 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 2017 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 IRS 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-Eighth 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-Eighth 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

Multiple rating changes occurred with respect to certain obligations of the City between 2011 and 2013 and in 2015 and 2016, and the City did not file event notices with respect to such rating changes. The City has filed event notices with respect to the current ratings of certain of its outstanding obligations. Subsequently, notices of such rating changes that occurred in 2015 and 2016 were filed. 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. With respect to the City's continuing disclosure reports regarding its outstanding Airport System Revenue Bonds, the City determined that (i) a table regarding detailed Airport revenues was inadvertently omitted from such reports that were filed in 2012 and 2013, however, the total of such Airport revenues was included in such annual filings and such table was included in subsequent annual continuing disclosure reports, and (ii) a table had transposed years in the presentation of data in such report that was filed in 2015, and the City filed corrected information for such table on May 8, 2015. On April 25, 2016, the City filed updated financial information and operating data to reflect audited financial information as well as updated information in the "Comparative Analysis of Electric Utility System and Water and Wastewater System Operations," "Operating Statement Electric Utility System and Water and Wastewater System" and "The Electric Utility System and Water and Wastewater System (Plant Cost and Equity in Utility Systems)" tables previously filed. On June 30, 2017, the City filed updated financial information and operating data to reflect Fiscal Year 2016 information on the first page of the "Water Service Rates" table. The City has implemented procedures to ensure timely filing of all future financial information and event notices and will continue to provide updates to the financial information and operating data as changes occur.

OTHER RELEVANT INFORMATION

Ratings

The Bonds 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-Eighth 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-Eighth 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, Underwriters' Counsel, and (ii) for the City by Norton Rose Fulbright US LLP, Disclosure Counsel. The payment of legal fees to Bond Counsel, 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

PFM Financial Advisors LLC ("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 $1,306,749.88. 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.

The City intends to use a portion of the proceeds from this offering to refund the Refunded Bonds. Goldman, Sachs & Co., or underwriters for this offering, or an affiliate thereof may hold certain of the Refunded Bonds that are being refunded and, as a result, would receive a portion of the proceeds from this offering in connection with such Refunded Bonds being refunded by the City.

Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this 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 report 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 report of the Verification Agent will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

Independent Auditors

The financial data as of and for the 12 months ended December 31, 2016 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.

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-Eighth Supplement will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the offering of the Bonds by the Underwriters.

/s/ Steve Adler
Mayor
City of Austin, Texas

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

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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, expiring in 2019, with remaining Councilmembers serving terms that expire in 2021. 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 2016 population of 925,491 according to the City's estimates. Over the past ten years, Austin's population has increased by approximately 26.4%, or 193,110 residents. Geographically, the City consists of approximately 326 square miles. The current estimated median household income for residents of the City is $56,163 according to Nielsen SiteReports. The City's per capita income is estimated to be $55,065 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 46.9% of adults twenty-five years or older holding a bachelor's or advanced degree, compared to 29.8% for the U.S. as a whole. Higher education is a significant aspect of life in the Austin area, which is host to six universities, a robust community college system, and numerous other institutions of higher learning. The University of Texas at Austin (UT), the sixth largest public university in the nation, is known as a world-class center of education and research and was ranked 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 2 (tie) in its 2016 *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 the Austin economy has diversified over the last decade, the technology industry continues to play a large role in the City's economic expansion. According to Moody's Analytics, from 2010 to 2015 the number of technology jobs in Austin increased over 37%, the third highest rate in the nation. In 2016 evidence of this growth came in many forms. Apple Inc. expanded its Austin-based workforce and completed a 1.1 million square foot campus in northwest Austin. Oracle is building a new corporate office on a 27-acre site in Austin and will expand its workforce in the area by 50%. Samsung announced plans to invest an additional $1 billion in, and will hire additional employees at, its Austin manufacturing facility.

High rates of entrepreneurship also played a significant role in Austin's economic expansion. The Ewing Marion Kauffman Foundation annually evaluates startup and entrepreneurship activity in 40 major U.S. metropolitan areas. In 2016, for the second year in a row, the Kaufman Startup Index ranked Austin number one in startup activity and number two in the rate of growth of entrepreneurial business growth in the U.S. In addition during 2016, CNBC recognized Austin as "America's Best Place to Start a Business".

Texas Economy – The Texas economy has been strong for well over a decade. With a $1.59 trillion economy, of the fifty United States, Texas ranks second only to California. In October 2016, *Forbes* listed Texas as one of the top five 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 12th year in a row stating, "Despite having been hit hard by the shale energy bust, Texas is still held in high esteem by CEOs for its favorable economic reforms."

With the current downturn in oil prices, job growth in Texas has been slowing but is still positive. For the year ended December 2016, Texas added 213,500 nonagricultural jobs. This results in job growth of 1.8%, higher than the national employment growth rate of 1.4%. All major Texas metro areas had more jobs in December 2016 than in December 2015. In May 2016, the US Census Bureau reported that five of the nation's eleven fastest growing cities with populations in excess of 50,000 were in Texas led by Georgetown, part of the Austin-Round Rock MSA.

Employment – Austin area employment growth continued to be solid in 2016. Employment grew by 1.9%, slightly above the Texas average. Austin's unemployment rate was at 3.2% in December 2016, near the 2015 level of 3.1%, and well below the December State and National unemployment rates of 4.6% and 4.7%, respectively. Recently high tech manufacturing is losing jobs but it is more than made up for by expansion of technical services, with its higher salaries for positions such as engineers.

Sales Taxes – Consumer spending growth (as measured by sales tax collections) reflects Austin's population and economic growth. Since 2009, sales tax revenue has steadily increased. Fiscal year 2016 experienced a 4.2% increase over fiscal year 2015, which was a 7.7% increase over 2014.

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 "The Economic Impact of Music in Austin, 2016 Update", (based on 2014 data), TXP, Inc. estimates that the collective impact of music and music-related tourism exceeds $1.8 billion annually, supporting more than 20,000 jobs.

In March 2016, South by Southwest (SXSW) hosted its 30th annual festival, conference, and trade show, providing a unique convergence of original music, independent films, and emerging technologies and more recently education and sustainability. This year's SXSW core events attracted approximately 88,000 registrants and included keynote addresses by the President of the United States as well as the First Lady. According to an economic impact analysis prepared by Greyhill Advisors, SXSW was responsible for injecting more than $325 million into the Austin economy during 2016.

Other major festivals and events impacting the tourism economy include University of Texas athletic events, Austin City Limits Music Festival, Austin Film Festival, and Fun Fun Fun Fest. In addition, the Circuit of the America's, just southeast of Austin, is home to the Formula 1 United States Grand Prix, a motorcycle grand prix event, and other racing and concert events which also contribute substantially to the tourism economy.

The growing local economy in Austin relies on quality air service to foster business, government, and leisure travel. During 2016 Austin's airport, ABIA, set a new record for annual traffic for the sixth consecutive year. In 2016, over 12.4 million passengers passed through ABIA. Air carriers continue to add direct flights to Austin facilitating both domestic and international connections throughout the world. ABIA was ranked fourth Best Domestic Airport in the 2016 Travel & Leisure reader's poll, up from 5th in 2015. 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 began on a nine-gate terminal and apron expansion. This expansion will accommodate approximately 4 million additional passengers annually, an increase of 27 percent. In addition, a new Hyatt Place Hotel, parking facilities, and pet boarding facility are under construction.

The rate of increase of hotel motel tax revenues has slowed somewhat from an increase of 15% in 2015 to an increase of 7.6% in 2016. While the rate of increase has slowed from the last several years, the current growth rate is still a healthy one. High occupancy rates have spurred construction of new hotels across the Austin metro area in the last few years. The greatest concentration is downtown where hoteliers such as JW Marriott, Westin, and Kimpton opened new facilities in 2015. Currently more than 2,000 additional rooms are under construction downtown including a 1,048 room Fairmont Hotel which is located adjacent to the Austin Convention Center and is slated to open in summer 2017. With the additional hotel inventory, Austin is able to accommodate an increase in both number and size of events hosted. The additional inventory is also 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 (University), (Dell Med) became operational and accepted its first class of 50 students. 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. The hospital, Dell Seton Medical Center at the University of Texas, is scheduled to open in 2017. This partnership is expected to spur growth in the life sciences sector of the economy.

To leverage the economic potential created by the medical school, a nonprofit organization, Capital City Innovation, Inc., was established in 2016 to oversee the district. 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.

Real Estate – All sectors of the real estate market are performing well. The residential market in the Austin area has slowed a bit from the aggressive market conditions of the last few years. Home sales for 2016 were up 3.9% over 2015 when sales were 5% over 2014. More than 29,000 homes were sold in the MSA; setting a record for annual single-family home sales. As of the end of December 2016, the market featured two months of housing inventory, two-thirds less than 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 7% over the previous year to $284,000.

As of September 2016, multifamily occupancy rates were near 94%. Total absorption for the first six months of 2016 was 4,193, an amount consistent with the last 6 months of 2015. With strong occupancy and absorption, rents per square foot continue to increase but at a slower pace. As of September 2016, the average effective rent per square foot was $1.40, growing more than 3% of the last twelve months.

The commercial real estate market is also solid. As of the end of 2016, average vacancy rates for commercial real estate were 7.9%, 4.8%, and 3.5% in the office, industrial, and retail sectors, respectively. Average asking rates for office space are at an historic high of $34.83 per square foot driving some offices into flex industrial space impacting that market. For the 24th consecutive quarter Austin experienced positive net absorption in the office space market ending the year with total absorption of over 1.7 million square feet during the year. According to Emerging Trends in Real Estate 2017 published by PricewaterhouseCoopers US and the Urban Land Institute, Austin will be the top market to watch in 2017. Among other things, the study cited a diverse economy, a growing educated labor force, and "the undeniable "hip" factor that makes Austin attractive to the millennial-dominated workforce."

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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 Best Cities in the US to Start a Small Business
American City Business Journals
April 2016

#2 2016 Destination Experience Satisfaction Study
JD Power and Associates
October 2016

#4 Best Metro Areas for Young Entrepreneurs
Nerdwallet.com
December 2016

#6 Best Places to Live and Work as a Moviemaker (Big Cities) 2016
MovieMaker - January 2017

#2 World's Best Tech Hubs to Live and Work In
Expert Market – June 2016

#1 Healthiest City in Texas
24/7 Wall St.
September 2016

#5 Top Ten Cities for Creatives
SmartAsset – June 2016

#1 2016 STEM Job Growth Index
RCLCO – Robert Charles Lessar & Co. – June 2016

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

Achieving the Vision – The City could not achieve its vision of making Austin the most livable city in the country without a highly dedicated and exceptional workforce to support City Council's policies and initiatives. Council's priorities of affordability, equal opportunity for all residents, mobility, health, and safety can only be achieved by partnering with the community in engaging ways.

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. Reflecting the PRIDE that the City's employees take in their work, Austin ranks 25 percentage points above the national average for large cities for overall quality of customer service. During 2016, Forbes included the City of Austin in the top 25 of its list of America's Best Employers. Austin was the highest ranked governmental employer in this survey of more than 30,000 workers from companies with more than 5,000 employees.

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. Imagine Austin, a comprehensive plan for the City's future, sets a context to guide decision-makers for the next 30 years. The plan adheres to 6 core principles established in collaboration with Austin citizens:

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

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

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

CodeNext – One initiative resulting from Imagine Austin is CodeNEXT, a major revision of the City's land development code which determines how land can be used throughout the City. A draft of the revised code was published in January 2017. Currently the public is learning about the draft and providing feedback through a variety of mechanisms. Final adoption of the plan is expected in mid-2018.

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 downtown development and an enhanced tax base. In recent years that vision in 2000 is becoming a reality. The waterfront once filled with warehouses and utility operations has evolved into a vibrant neighborhood filled with residences, offices, restaurants, hotels, a new library, green spaces, and entertainment venues.

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. Construction in this area includes:

- A street grid for the area, portions of which were opened in 2016.
- The City's new central library which will open in 2017. 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 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. Construction of the site was completed in 2016, and the development has an assessed value of over $209 million, 60% higher than originally projected.
- 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 to address problems of flooding, erosion, and water pollution along lower Waller Creek continues. The major components of this mile-long stormwater bypass tunnel are scheduled to be complete by the end of 2017. 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 over 40 percent complete, and has a current assessed value of over one billion dollars. Demand for housing at Mueller continues to be high due to its proximity to downtown and many amenities. During 2016, construction of the town center continued as several mixed-use buildings are taking shape. In support of the City's commitment to sustainability, an important part of the Mueller partnership agreement was sustainability. In November 2016, Mueller was certified as LEED Gold for Neighborhood Development Stage 3 by the U.S. Green Building Council. Mueller is the largest neighborhood in the world to attain this certification.

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 and the impact is felt the most by those in the service, music, and creative areas. Since 2012, the median sales price of a home has increased almost 40%; gradually pricing more and more families out of the home buying market. Further, shortages of multifamily housing impact Austin renters who on average pay more than 30% of their incomes for 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. During 2016, to help mitigate the impact increases in the appraised value of homes, City Council increased the City's general homestead exemption from 6% to 8% and also increased the fixed-value exemption for senior and disabled homeowners by more than 3%. In addition, Austin Energy underwent a cost of service and rate review. After a year-long process including public and customer participation, an agreement was reached among 22 parties representing all stakeholders in the process. In August 2016, City Council approved the agreement which lowers base rates for most customers beginning in January 2017.

Another growth-related issue is traffic congestion. According to the Texas A&M Transportation Institute, Austin has the 7th worst traffic in the nation and traffic issues will continue to be exacerbated by future growth. To help ease mobility issues and transit times, in November 2016, Austinites approved a $720 million general obligation bond proposition to fund transportation and mobility improvements. Approximately two thirds of the funding will be devoted to corridor improvement projects with the remainder earmarked for regional and local mobility improvements. In addition, the 2017 budget includes additional funding for street repair as well as for expanding staffing to enhance signal timing, promote safety, and improve mobility.

Other entities are also doing their part to help alleviate congestion. State entities are expanding toll lanes and roads and improving interchanges along major corridors through the City. These actions will help ease traffic delays, but continued focus on mobility by all parties will be required to meet existing demands as well as further stress placed on the system as the population grows and more Austin workers live in the surrounding area.

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 budget. The focus continues in 2017 with the implementation of an expedited permit review program, expansion of third-party review services, additional staffing for the review and inspection areas, and a customer survey to gauge the impacts of corrective actions taken to date.

Transparency – Transparency and open government are high priorities for the City of Austin. In 2016, as a result of its efforts in this area, the City was selected by the Open Government Partnership to participate in a new pilot program for regional governments to collaborate on innovations around transparency issues. Austin was one of eight cities worldwide and the only U.S. city to be included in this program.

In November 2016, the City of Austin was designated as one of the top-ranked U.S. digital cities by the Center for Digital Government and the Digital Communities Program. Austin was ranked fifth in the population category of 500,000 or more in this survey that "recognizes cities using technology to improve citizen services, enhance transparency and encourage citizen engagement." One of the projects highlighted in the survey was Austin Finance Online that 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.

Another project highlighted in this survey was the City's Open Data Portal as well as a collaboration with the community group, Open Austin, to develop unique tools based on the open data available through the portal. In June 2016, the City's open data policy also received high marks from the Sunlight Foundation, a national nonpartisan, non-profit organization.

Innovation and Sustainability – Austin's commitment to sustainability and innovation was recognized by a number of organizations over the last year. In February 2017, Austin was the winner of the Smart Cities Council Readiness Challenge Grant. The City was one of five cities chosen from a pool of over 130 applicants. All the winners "will receive a tailored Readiness Workshop during 2017 to develop a roadmap for applying smart technologies to further innovation, inclusion and investment within their cities." In addition, the City's Neighborhood Partnering Program received an Outstanding Achievement in Innovation award from the Alliance for Innovation. Through this program, the City works with community groups to develop and resource improvement projects on City property or rights-of-way, transforming vacant lots into community gardens and retaining walls into vibrant mosaics.

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 2015 and ranked third when compared to all utilities both public and private.

In January 2016, Austin Energy was awarded a $4.3 million grant to pilot a platform to promote integrated distributed energy resources including community solar, battery storage, and smart inverter technologies. In September, U.S. Department of Energy SunShot Initiative awarded the City of Austin with a gold designation to recognize the City's work to improve access to solar energy.

During 2015, Council approved an update of Austin Energy's Energy Resource Plan to 2025; which increased the renewable energy goal to 55% by 2025. Progress towards this goal was made during 2016 with the purchase of 438 MW of utility-scale solar.

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

Austin leaders are continually looking towards and planning for the future. A key City financial policy requires annual preparation of a five-year financial forecast projecting revenues and expenditures for all operating funds. This forecast is used as a tool to develop the following year's operating budget. In addition, the City annually prepares a five-year Capital Improvement Project (CIP) Plan that outlines all capital projects in progress, those that will be implemented in the five-year horizon, and related funding sources. A second plan covering a 10-year planning horizon, the Long-Range CIP Strategic Plan, is also updated annually. This plan provides a data-driven approach to planning for how the City's future capital improvements support the way Austin functions and grows. Such an approach assists in aligning the City's CIP investments with the Imagine Austin Comprehensive Plan as the City strives to strike a balance between ongoing capital needs necessary to maintain services for a rapidly growing community and strategic investments that support community priorities.

City departments prepare a number of other long- and mid-range service plans that provide input into decisions made in the planning and budgeting process. These plans range from annexation to clean energy and climate protection to strategic mobility planning. A brief summary of these planning documents can be found in the Integrated Planning section of Volume 2 of the City's approved budget.

Maintaining sound financial and economic development policies within the City organization allows for a high level of services to the community. Because of consistent adherence to our financial policies and the area's healthy economy, the City's bond ratings for General Obligation bonds continue to be "AAA" for all three bond rating agencies, Moody's (Aaa), S&P's and Fitch. In November 2016, two of the three rating agencies upgraded Austin Energy's ratings. Moody's ratings are now Aa3 and S&P's are now AA Stable. Both agencies cited numerous factors impacting their decisions including improved liquidity levels and debt service coverage. Fitch ratings remained constant at AA- Stable. Finally, Austin Water Utility bond ratings were improved from negative to stable in 2016.

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 2016 CAFR, the City continues to meet its responsibility for sound financial management.

Budgetary Information

The 2017 Budget was developed in a manner true to the City's unwavering 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 Austin's citizens, employees, and Councilmembers. The result was a budget built around the ideals of livability, affordability and inclusivity that dictate the operations of Austin's City government.

The structurally balanced fiscal year 2017 Approved Budget totals $3.7 billion and includes $971 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 Austin. The 2017 budget was approved with a decrease to the property tax rate of more than 1.7 cents, from 45.89 to 44.18 cents per $100 of taxable value.

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 2017 is $1.28 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 the Austin Water Utility, which provides water and wastewater services to more than one million retail and wholesale customers spanning more than 540 square miles within Austin and surrounding areas. The fiscal year 2017 budget projects revenues of $580 million. Growth in revenue is the result of projected customer growth as well as a combined system-wide rate increase of 3%. In the fall of 2016, the utility began a cost of service study to determine how future rates will be established.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting to a governmental unit that publishes a Comprehensive Annual Financial Report that meets the GFOA program standards. The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its 2015 CAFR. The City has received this award for 9 consecutive years. The certificate is valid for a period of one year only. City management believes that this 2016 CAFR conforms to the Certificate of Achievement Program requirements, and it is submitting it to the GFOA for review.

The City also received the GFOA Distinguished Budget Presentation award for the 2016 budget as well as a 2015 Certificate of Excellence in Performance Measurement from the International City/County Management Association (ICMA).

Employment by Industry in the Austin Metropolitan Area (1)

Employment Characteristics

	2012	% of total	2013	% of total	2014	% of total	2015	% of total	2016	% of total
Mining, Logging, and Construction	44,000	5.10%	47,400	5.20%	52,900	5.60%	56,800	5.80%	60,300	5.90%
Manufacturing	56,700	6.50%	58,200	6.40%	56,200	5.90%	54,900	5.60%	56,300	5.50%
Trade, Transportation, and Utilities	153,000	17.60%	161,400	17.80%	165,900	17.50%	173,800	17.60%	176,800	17.40%
Information	23,800	2.70%	24,900	2.70%	26,700	2.80%	28,000	2.80%	28,900	2.80%
Financial Activities	48,300	5.60%	50,700	5.60%	53,000	5.60%	55,400	5.60%	57,700	5.70%
Professional and Business Services	134,200	15.40%	144,600	15.90%	154,900	16.40%	165,000	16.70%	171,100	16.80%
Education and Health Services	100,600	11.60%	104,400	11.50%	109,100	11.50%	114,300	11.60%	118,600	11.60%
Leisure and Hospitality	97,200	11.20%	101,600	11.20%	108,600	11.50%	118,100	12.00%	123,200	12.10%
Other Services	39,600	4.60%	41,200	4.50%	42,400	4.50%	42,500	4.30%	44,700	4.40%
Government	171,700	19.80%	172,900	19.10%	175,700	18.60%	177,800	18.00%	181,200	17.80%
Total nonfarm employment	869,100	100.00%	907,300	100.00%	945,400	100.00%	986,600	100.00%	1,018,800	100.00%

(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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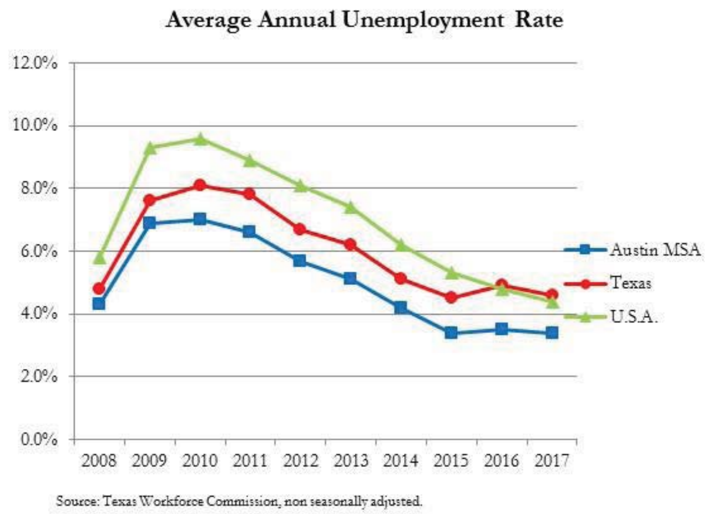
Average Annual Unemployment Rate



	Austin MSA	Texas	U.S.A.
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%
2016	3.5%	4.9%	4.8%
2017(1)	3.4%	4.6%	4.4%

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

Source: Texas Labor Market Review, Texas Workforce Commission.

(1) As of June 2017.

City Sales Tax Collections (In Millions) (1)(2)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
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	1-1-17	17.697
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	2-1-17	21.866
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	3-1-17	16.597
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	4-1-17	17.370
5-1-12	15.239	5-1-13	15.962	5-1-14	17.750	5-1-15	19.404	5-1-16	19.258	5-1-17	18.790
6-1-12	12.949	6-1-13	12.869	6-1-14	15.581	6-1-15	15.958	6-1-16	17.070	6-1-17	16.838
7-1-12	13.168	7-1-13	14.699	7-1-14	14.723	7-1-15	16.180	7-1-16	16.836	7-1-17	18.059
8-1-12	15.371	8-1-13	16.088	8-1-14	16.970	8-1-15	19.483	8-1-16	21.467		
9-1-12	14.220	9-1-13	14.119	9-1-14	15.385	9-1-15	16.429	9-1-16	16.352		
10-1-12	13.960	10-1-13	14.644	10-1-14	15.309	10-1-15	16.514	10-1-16	17.106		
11-1-12	14.570	11-1-13	16.187	11-1-14	17.734	11-1-15	18.952	11-1-16	19.059		
12-1-12	14.373	12-1-13	14.192	12-1-14	15.735	12-1-15	16.269	12-1-16	17.033		

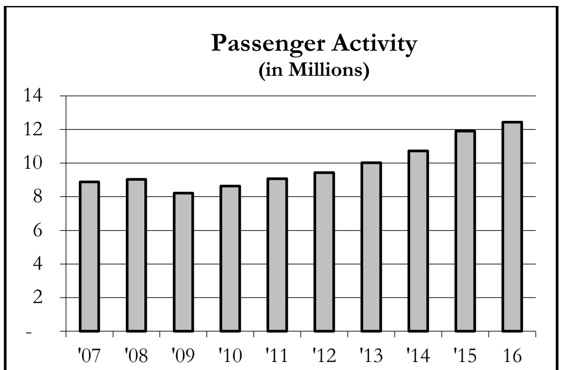
(1) Sales taxes are not pledged to the payment of the Bonds.
(2) Collections for 10-1-11 reflect an increase of $1,162,541 in future period and audit collection adjustments from the prior year. Sales taxes are not pledged to the payment of the Bonds.
Source: City of Austin, Budget Office

Ten Largest Employers (As of September 30, 2016)

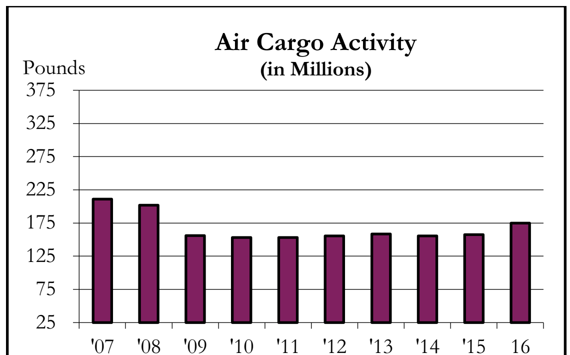
Employer	Product or Service	Employees
State Government	Government	38,709
The University of Texas at Austin	Education	23,665
City of Austin	Government	13,371
Dell Computer Corporation	Computers	13,000
Federal Government	Government	12,800
HEB Grocery	Grocery/Retail	12,198
Austin Independent School District	Education	11,568
Seton Healthcare Network	Healthcare	10,270
St. David's Healthcare Partnership	Healthcare	8,598
IBM Corporation	Computers	6,074

Source: 2016 Comprehensive Annual Financial Report.

Transportation



Source: COA Aviation Department. Calendar Year basis.



Source: COA Aviation Department. Calendar Year basis.

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 (AMT), to finance the design and construction costs of improvements to ABIA. The projects include terminal expansions (to be completed by summer 2018), parking garage project design (financing for the construction costs anticipated in 2016), and other various capital improvements including HVAC, miscellaneous repair and replacement projects. The City issued $314,965,000 in Airport System Revenue Bonds (AMT and non-AMT), in February 2017.

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)
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	1,781,409	76,507,673	46,689	42,948	6.6%
2012	821,012	319	1,835,298	84,319,550	46,818	45,943	5.7%
2013	841,649	321	1,884,439	87,138,010	46,436	46,241	5.1%
2014	878,002	321	1,943,465	95,231,402	49,227 (6)	49,001	4.2%
2015	899,919	323	2,000,860	102,072,207	52,519 (6)	51,014	3.4%
2016	925,491	326	2,006,327 (6)	110,478,550 (5)	56,163 (6)	55,065 (5)	3.2%
2007-2016 Change	25.89%	9.47%	27.16%	84.36%	32.89%	44.99%	

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.

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
2016	461,345	227,432	223,158

(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 $1.39 per square foot, with an occupancy rate of 94.0% as of June 2016, per Capitol Market Research.

Residential Sales Data

Year	Number of Sales	Total Volume ($)	Average Price ($)
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	21,034	5,281,953,406	251,100
2012	25,198	6,706,091,541	266,100
2013	29,970	8,601,985,078	287,000
2014	30,150	9,269,541,100	307,400
2015	31,560	10,462,239,995	331,500
2016	32,955	11,450,827,153	347,500

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
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%
2016 (1)	90.4%

(1) As of June 2016.
Source: Oxford Commercial.

Education

The Austin Independent School District has an enrollment of 83,591 for the 2016/2017 school year and an estimated average daily attendance of 76,413. The District includes 130 campus buildings.

School Year	Average Daily Attendance
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	76,454
2016/17	77,803

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.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Austin, Texas (the "City"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of discretely presented component units which represents 100% of the assets and net position, and 99.8% of 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Deloitte & Touche LLP

March 10, 2017

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, 2016.

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. 73, No. 76, No. 79, and No. 82.

FINANCIAL HIGHLIGHTS

Government-wide financial statements
The assets of the City exceeded its liabilities at the end of the fiscal year 2016, resulting in $4.3 billion of net position. Net position associated with governmental activities is approximately $0.6 billion, or 14.7% of total net position, while the net position associated with business-type activities is approximately $3.7 billion, or 85.3% of the total net position of the City. The largest portion of net position consists of net investment in capital assets, which is $4 billion, or 92.1% of total net position.

The City's unrestricted net position is a deficit of $474.3 million. Unrestricted net position for governmental activities is a deficit of $1.2 billion, while unrestricted net position for business-type activities is approximately $737.2 million, or 20% of total business-type net position. The deficit in governmental unrestricted net position is largely due to the net pension liability of $1.1 billion and other postemployment benefits payable of $537.8 million.

During fiscal year 2016, total net position for the City of Austin increased $222.8 million or 5.5%. Of this amount, governmental activities decreased $29.1 million, or 4.4% from the previous year and business-type activities increased $252 million, or 7.4%.

Total revenues for the City increased $255.2 million; revenues for governmental activities increased $106.4 million; revenues for business-type activities increased $148.8 million. Total expenses for the City increased $216.3 million; expenses for governmental activities increased $168.3 million; expenses for business-type activities increased $48 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 nine separately budgeted activities, all of which comprise the General Fund for GAAP reporting. RSI provides a comparison of revenues, expenditures and other financing sources and uses to budget and demonstrates budgetary compliance. In addition, trend information related to the City's retirement and other postemployment benefits plans is presented in RSI. Following the RSI are other statements and schedules, including the combining statements for nonmajor governmental and enterprise funds, internal service funds, and fiduciary funds.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net position

The following table reflects a summary statement of net position compared to prior year:

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

	Governmental Activities		Business-Type Activities		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Current assets	$ 620,994	688,543	1,451,381	1,339,775	2,072,375	2,028,318
Capital assets	2,898,442	2,792,395	7,692,806	7,446,085	10,591,248	10,238,480
Other noncurrent assets	138,151	1,488	1,797,435	1,644,741	1,935,586	1,646,229
Total assets	3,657,587	3,482,426	10,941,622	10,430,601	14,599,209	13,913,027
Deferred outflows of resources	393,054	167,627	413,338	313,209	806,392	480,836
Current liabilities	333,146	324,557	532,423	489,483	865,569	814,040
Noncurrent liabilities	3,077,582	2,661,982	6,002,049	5,923,535	9,079,631	8,585,517
Total liabilities	3,410,728	2,986,539	6,534,472	6,413,018	9,945,200	9,399,557
Deferred inflows of resources	7,009	1,464	1,142,181	904,455	1,149,190	905,919
Net position:						
Net investment in capital assets	1,719,704	1,645,359	2,250,698	2,223,964	3,970,402	3,869,323
Restricted	124,695	133,984	690,459	642,052	815,154	776,036
Unrestricted (deficit)	(1,211,495)	(1,117,293)	737,150	560,321	(474,345)	(556,972)
Total net position	$ 632,904	662,050	3,678,307	3,426,337	4,311,211	4,088,387

In the current fiscal year, total assets increased $686.2 million and deferred outflows of the City increased by $325.6 million. Total liabilities increased $545.6 million and deferred inflows increased by $243.3 million. Governmental-type total assets increased by $175.2 million and business-type increased by $511 million, while governmental-type liabilities increased by $424.2 million and business-type increased by $121.5 million.

The most significant increase in governmental total assets resulted from an increase in capital assets of $106 million as the City continues to build out projects from the 2006 and 2012 bond programs. Factors in the increase of governmental-type liabilities include increases in the bonds payable of $77.3 million, related to the 2006 ($43.2 million) and 2012 ($61.8 million) bond programs along with increases in the net pension liability of $281.2 million and other postemployment benefits payable of $53 million.

The most significant factor in the increase of business-type total assets is related to growth in capital assets of $246.7 million or 48.3% of the increase in business-type total assets. The primary factors in the increase in business-type total liabilities of $121.5 million include a decrease in long term debt of $89.6 million and an increase in the net pension liability of $189 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 $4.3 billion at the end of the current fiscal year. However, the largest portion of the City's net position is represented in the net investment in capital assets (e.g. land, buildings, and equipment offset by related debt), which is $4 billion, or 92.1% 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, $815.2 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 $474.3 million of unrestricted net position. Unrestricted net position decreased $82.6 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 $1.2 billion and $474.3 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	
	2016	2015	2016	2015	2016	2015
Program revenues:						
Charges for services	$ 182,045	160,708	2,411,212	2,296,132	2,593,257	2,456,840
Operating grants and contributions	47,430	45,470	739	1,039	48,169	46,509
Capital grants and contributions	95,486	70,484	144,139	110,580	239,625	181,064
General revenues:						
Property tax	507,485	476,439	--	--	507,485	476,439
Sales tax	212,634	204,029	--	--	212,634	204,029
Franchise fees and gross receipts tax	147,773	141,368	--	--	147,773	141,368
Interest and other	41,708	21,951	10,936	10,498	52,644	32,449
Special item - land sale	4,309	11,983	--	--	4,309	11,983
Total revenues	1,238,870	1,132,432	2,567,026	2,418,249	3,805,896	3,550,681
Program expenses:						
General government	177,302	131,993	--	--	177,302	131,993
Public safety	657,846	601,112	--	--	657,846	601,112
Transportation, planning, and sustainability	66,739	77,349	--	--	66,739	77,349
Public health	100,195	85,326	--	--	100,195	85,326
Public recreation and culture	147,191	134,567	--	--	147,191	134,567
Urban growth management	179,081	135,386	--	--	179,081	135,386
Interest on debt	61,500	55,855	--	--	61,500	55,855
Electric	--	--	1,226,585	1,203,729	1,226,585	1,203,729
Water	--	--	244,907	294,624	244,907	294,624
Wastewater	--	--	237,450	219,320	237,450	219,320
Airport	--	--	135,860	120,015	135,860	120,015
Convention	--	--	63,796	65,657	63,796	65,657
Environmental and health services	--	--	102,994	97,690	102,994	97,690
Public recreation	--	--	8,266	8,824	8,266	8,824
Urban growth management	--	--	173,360	135,360	173,360	135,360
Total expenses	1,389,854	1,221,588	2,193,218	2,145,219	3,583,072	3,366,807
Excess (deficiency) before transfers	(150,984)	(89,156)	373,808	273,030	222,824	183,874
Transfers	121,838	70,865	(121,838)	(70,865)	--	--
Increase (decrease) in net position	(29,146)	(18,291)	251,970	202,165	222,824	183,874
Beginning net position, as previously reported	662,050	1,308,194	3,426,337	3,328,362	4,088,387	4,636,556
Restatement adjustment	--	(627,853)	--	(104,190)	--	(732,043)
Beginning net position, as restated	662,050	680,341	3,426,337	3,224,172	4,088,387	3,904,513
Ending net position	$ 632,904	662,050	3,678,307	3,426,337	4,311,211	4,088,387

Total net position of the City increased by $222.8 million in the current fiscal year. Governmental net position decreased by $29.1 million. The decrease is attributable to expenses exceeding revenues by $150.9 million before transfers from other funds of $121.8 million. Business-type net position increased by $252 million due to revenues exceeding expenses by $373.8 million, before transfers to other funds of $121.8 million.

The beginning balance of fiscal year 2015 was restated for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27.*

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

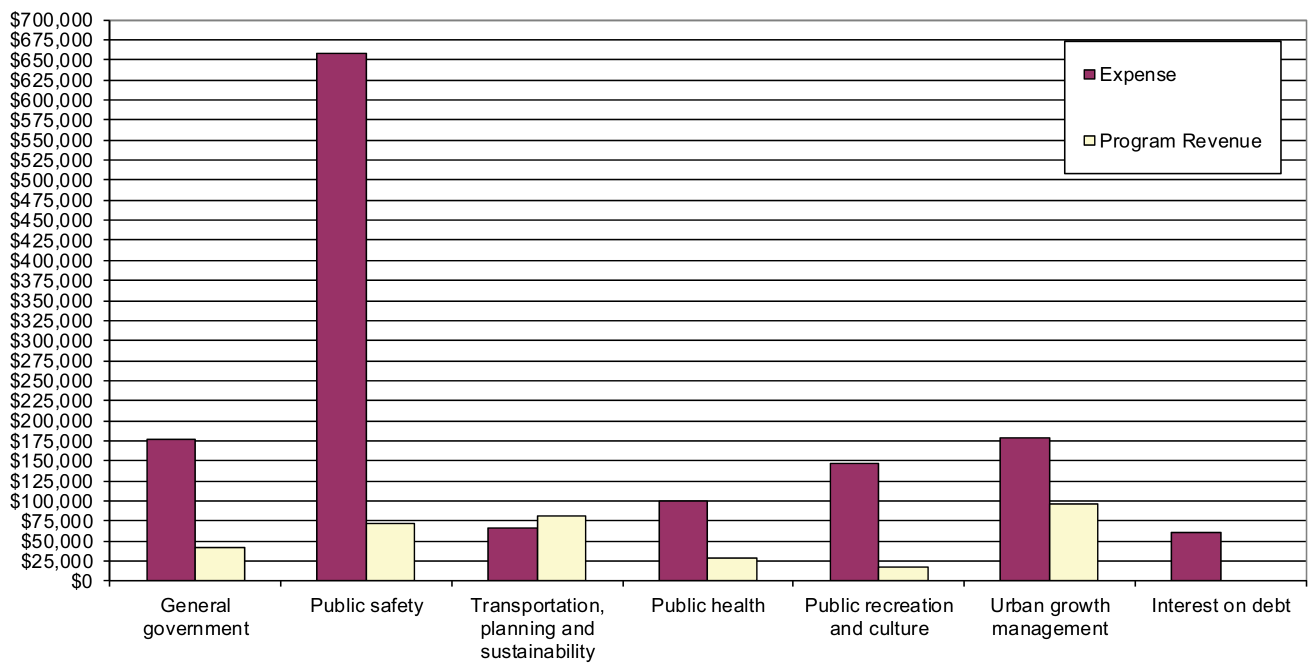
c -- Program revenues and expenses -- governmental activities

Governmental activities decreased the City's net position by $29.1 million in fiscal year 2016, a 4.4% decrease of governmental net position from the previous year. Key factors for the change from fiscal year 2015 to 2016 are as follows:

- The City's property tax revenue increased by $31 million from the previous year due to an increase in assessed property values of $12 billion, while the property tax rate per $100 of valuation decreased from 0.4809 to 0.4589.
- Sales tax collections and franchise fees for the year were $8.6 million and $6.4 million, respectively, more than the prior year as result of the continued improvement in the Austin economy.
- The City sold a piece of land for $4.3 million, which is reported as a special item. See Note 1 for more details.
- Public safety expenses, urban growth management, and general government expenses increased $56.7 million, $43.7 million, and $45.3 million, respectively, primarily due to increases in salaries and contractual expenditures. This increase in salaries can be attributed to an additional 157 full time equivalents and general wage increases, 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.

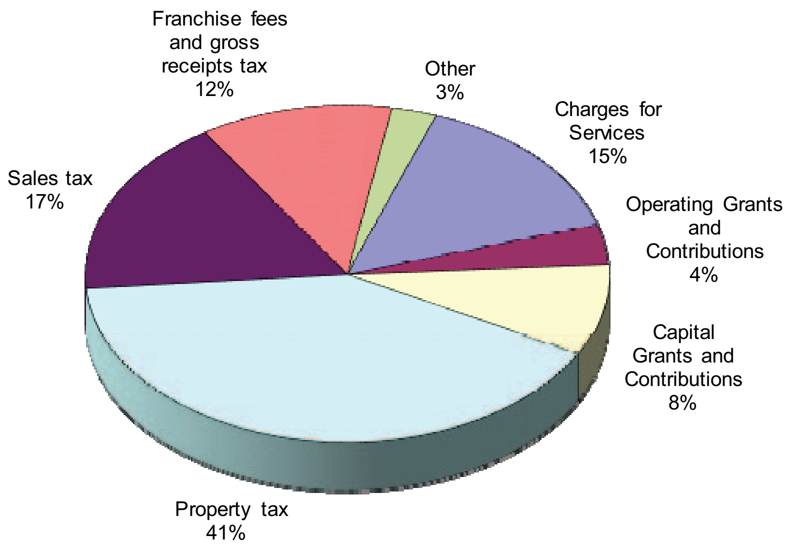
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



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



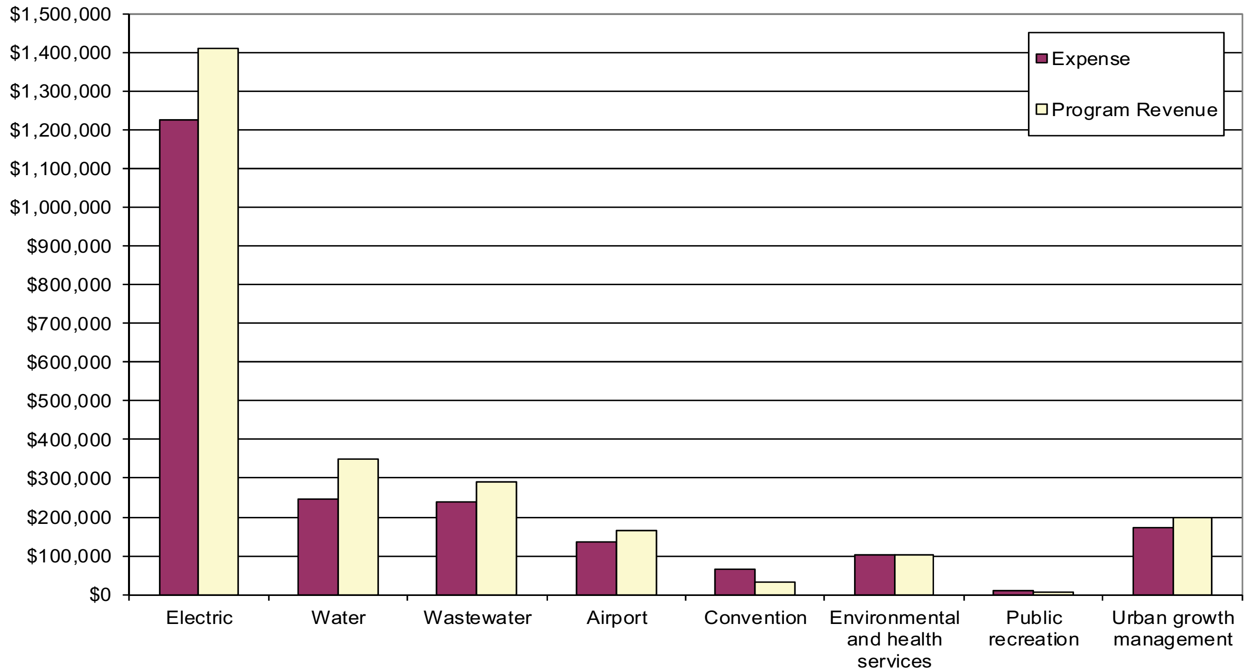
d -- Program revenues and expenses -- business-type activities
Business-type activities increased the City's net position by approximately $252 million, accounting for a 7.4% increase in the City's total net position. Key factors include:

- Austin Energy net position increased approximately $77.8 million. This increase is consistent with prior year results. Operating revenues increased slightly primarily due to an increase in regulatory revenue and operating expenses increased primarily due to transmission costs.
- Austin Water Utility net position increased approximately $115.1 million. Revenues increased 11.5% largely due to a combined utility rate increase of 4.9% for fiscal year 2016. Expenses decreased by 6.1% due to a decrease in expenses resulting from accounting for regulated operations.
- Airport net position increased approximately $29 million. Revenues increased 8% due to an increase in passenger traffic and higher rental and landing fees. Passenger traffic increased 6.7% over the previous year. Expenses increased 13.2% due to an increase in operating and maintenance costs.
- Convention Center net position increased approximately $11 million. Revenues and transfers from the Hotel Occupancy and Vehicle Rental Tax Funds increased 11.4% due to additional hotels put in service causing an increase in total room nights as well as growth of large events, including the Formula 1 event and South by Southwest. Expenses stayed relatively flat in fiscal year 2016.
- Environmental and health services activities are comprised of the Austin Resource Recovery nonmajor enterprise fund. Net position increased approximately $0.2 million. Revenues increased by 7.1% due mainly to an increase in the Clean Community Fee of $0.25 per residential account and $3.50 per commercial customer account and an increase to the base customer charge of $1.70. Expenses increased by 5.4% 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 $19 million. Drainage revenues increased by 7.7% primarily due to a newly restructured monthly Drainage Utility Fee as well as residential growth. Drainage expenses increased 8.9% due to an increase in operations and support services costs. Transportation revenues increased approximately 20.7% primarily due to an increase in the Transportation User Fee of $1.52 per single-family home and a 20% increase in the downtown parking hourly rate. Transportation expenses increased 33.4% due to an increase in operations and support services costs.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

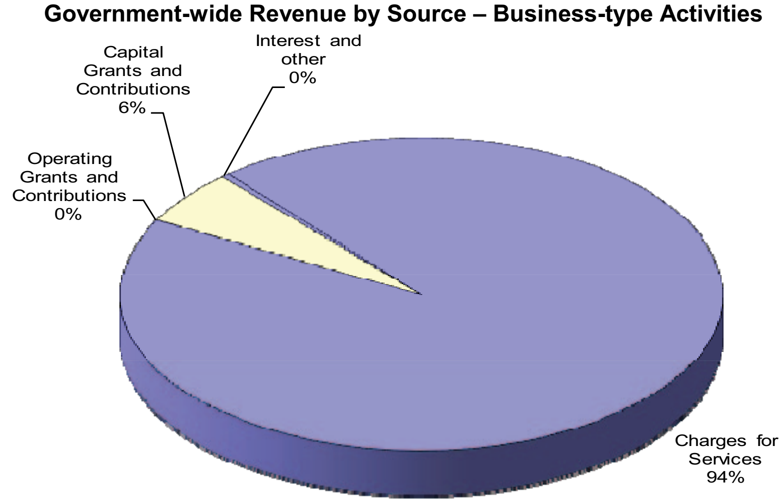
As shown in the following chart, Austin Energy (electric), with expenses of $1.2 billion is the City's largest business-type activity, followed by water with $244.9 million, wastewater with $237.5 million, urban growth management with $173.4 million, airport with $135.9 million, environmental and health services with $103 million, convention with $63.8 million, and public recreation with $8.3 million. For the fiscal year, operating revenues exceeded operating expenses for all business-type activities except convention and public recreation.

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



For all business-type activities, charges for services provide the largest percentage of revenues (93.92%), followed by capital grants and contributions (5.62%), interest and other revenues (0.43%), and operating grants and contributions (0.03%).

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

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

At the end of the fiscal year, the City of Austin's governmental funds reported combined ending fund balances of $483.9 million, an increase of $65.3 million from the previous year. Approximately $1.6 million is nonspendable, $186.4 million is restricted, $42.5 million is committed, $136.5 million is assigned, and $116.9 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 $0.5 million, assigned fund balance of $28.7 million, and unassigned fund balance of $131.7 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 14.1% of total General Fund expenditures of $932.2 million, and total fund balance represents 17.3% of expenditures. The City's financial policies provide that surplus fund balance be identified for budget stabilization. This amount is a component of unassigned fund balance. The fund balance identified for budget stabilization was $70.9 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 $16.2 million during the fiscal year. Significant differences from the previous year include:

- Property tax revenues increased $25.3 million due to an increase in assessed property values.
- Sales tax revenues increased $8.6 million, and licenses, permits, and inspections increased $8.5 million.
- The City sold a piece of land for $4.3 million, which is reported as a special item. See Note 1 for more details.

General Fund expenditures increased $53.4 million, due primarily to increases in the following areas: general government ($16.5 million), public safety ($12.6 million), public health ($10.9 million), and urban growth management ($6.7 million). These increases are primarily due to the addition of 200 FTEs, wage increases, 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 $248.2 million before consolidation of the internal service funds activities.

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

OTHER INFORMATION

a -- General Fund budgetary highlights

The original revenue budget of the General Fund was not amended during fiscal year 2016. The original expenditure budget of the General Fund was amended during fiscal year 2016 to increase expenditures due to additional public safety support for the Spring Festival Season ($1.5 million), increase in childcare services for families in the Passage Program ($160 thousand), and to PARD to hire temporary and seasonal staff for the 2016 summer swim season ($418 thousand). These amounts were appropriated from the Budget Stabilization Reserve.

During the year, revenues were $9 million more than budgeted. Tax collections were $2.3 million more than budgeted due to a higher collection rate of 99.4% above the budgeted 98.5% collection rate; licenses, permits and inspections were $5.7 million more than budgeted due to higher fees, and larger than anticipated inspection volume; and charges for services/goods were $3.1 million more than budgeted due to higher collection of Emergency Medical Services fees.

OTHER INFORMATION, continued

Actual budget-basis expenditures were $5.4 million less than budgeted. Fire exceeded budget by $3.6 million as a result of sworn overtime as a result of sworn vacancies and retirements. All other departments were under budget. The total budget-basis fund balance at year-end was $157.4 million.

b -- Capital assets
The City's capital assets for governmental and business-type activities as of September 30, 2016, total $10.6 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 $352.8 million, with an increase of 3.8% for governmental activities and an increase of 3.3% 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	
	2016	2015	2016	2015	2016	2015
Building and improvements	$ 551	550	1,776	1,649	2,327	2,199
Plant and equipment	74	77	2,321	2,306	2,395	2,383
Vehicles	50	47	81	82	131	129
Electric plant	--	--	2,222	2,219	2,222	2,219
Non-electric plant	--	--	144	138	144	138
Nuclear fuel	--	--	47	47	47	47
Water rights	--	--	83	84	83	84
Infrastructure	1,581	1,451	--	--	1,581	1,451
Land and improvements	374	368	651	594	1,025	962
Construction in progress	241	272	341	300	582	572
Plant held for future use	--	--	23	23	23	23
Other assets not depreciated	27	27	4	4	31	31
Total net capital assets	$ 2,898	2,792	7,693	7,446	10,591	10,238

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

- Governmental capital assets increased $106 million primarily due to additions of new facilities and improvements to existing facilities. Significant additions and improvements were also made including acquisitions of parkland, upgrades to information technology equipment, pedestrian facility improvements, and street reconstructions across the City. Construction on the new Central Library and Waller Creek Tunnel has progressed throughout the fiscal year.

- Business-type activities purchased, constructed or received capital asset contributions of $246.7 million. Asset additions included a $151 million of Airport assets with the October 2015 opening of the Consolidated Rental Car Facility (CONRAC) and continued work on terminal and apron expansion projects. Additionally, the Drainage Fund continued to acquire properties at risk of flooding in Onion 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	
	2016	2015	2016	2015	2016	2015
General obligation bonds and other tax supported debt, net	$ 1,376	1,298	136	133	1,512	1,431
Commercial paper notes, net	--	--	130	200	130	200
Revenue bonds, net	--	--	4,579	4,601	4,579	4,601
Capital lease obligations	--	--	1	1	1	1
Total	$ 1,376	1,298	4,846	4,935	6,222	6,233

During fiscal year 2016, the City's total outstanding debt decreased by $12.3 million. The City issued new debt, used cash to defease debt and refinanced portions of existing debt to achieve lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities increased by $77.3 million. The resulting net increase is a combination of the issuance of $315.8 million in new debt to be used primarily for facility improvements, streets and signals, drainage improvements, watershed home buyouts, central library, parks and recreation, capital equipment, transportation projects, affordable housing and the Waller Creek Tunnel project, offset by debt payments during the year.

- Outstanding debt for business-type functions decreased by $89.6 million. The City issued $247.8 million in Water and Wastewater System separate lien revenue refunding bonds to refund separate lien debt, offset by debt payments during the year and the defeasance of $13.6 million in Water and Wastewater combined utility system revenue bonds and separate lien bonds.

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, 2016 and 2015 were as follows:

Debt	Moody's Investors Service, Inc.		Standard & Poor's		Fitch, Inc.	
	2016	2015	2016	2015	2016	2015
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	A1	A	A	NUR (1)	NUR (1)
Convention Center revenue bonds	Aa3	Aa3	AA-	AA-	NUR (1)	NUR (1)
Convention Center revenue bonds - subordinate	A1	A1	A	A	NUR (1)	NUR (1)

(1) No underlying rating

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 to the area. Both the Austin and the Texas economies continue to expand at rates slightly above the national economy. The City's primary economic drivers, the technology sector, business startups and growth of entrepreneurial business, and tourism, are expected to continue to generate job growth. In addition the opening of a new medical school in 2016 and teaching hospital in 2017 are expected to spur growth in the life sciences sector of the economy. As a result, employment growth of 3% to 3.4% is expected over the next two years. All sectors of the real estate market are performing well. Although home sales have slowed a bit from the aggressive market conditions of the last several years, more than 29,000 homes were sold in the Metropolitan Statistical Area setting a record for annual single-family home sales. In 2016 sales tax revenue increased 4.2% following a 7.7% increase in 2015, another indicator that the economy is slowing to more normal and sustainable levels. For 2017, the rate of growth in sales tax collections is expected to be 5%. Overall the Austin economy is expected to continue to grow at a steady pace barring any events at the national or international level that would have an adverse impact.

The City's 2017 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 taxable property values within the City increased by 14.1% in 2016 for fiscal year 2017. The property tax rate for fiscal year 2017 is 44.18 cents per $100 valuation, down from 45.89 cents per $100 valuation in 2016. The tax rate consists of 33.99 cents for the General Fund and 10.19 cents for debt service. Each 1 cent of the 2016 (fiscal year 2017) property tax rate is equivalent to $12,614,658 of tax levy, as compared to $11,052,603 in the previous year. In fiscal year 2017, Austin Water Utility will implement a 3% combined system-wide rate increase. Under an agreement approved by the City Council in August 2016, electric base rates for most customers were reduced effective January 2017.

e -- Requests for Information

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

BASIC FINANCIAL STATEMENTS

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(In thousands)

	Governmental Activities	Business-type Activities	Total (†)	Component Units
ASSETS				
Current assets:				
Cash	$ 64	61	125	4,532
Pooled investments and cash	471,712	716,491	1,188,203	--
Pooled investments and cash - restricted	1,999	107,405	109,404	--
Total pooled investments and cash	473,711	823,896	1,297,607	--
Investments - restricted	20,470	181,427	201,897	--
Cash held by trustee - restricted	5,207	--	5,207	--
Investments held by trustee - restricted	1	--	1	
Working capital advances	--	1,982	1,982	--
Property taxes receivable, net of allowance of $4,678	11,489	--	11,489	--
Accounts receivable, net of allowance of $274,418	99,319	235,836	335,155	2,980
Receivables from other governments	11,545	--	11,545	--
Receivables from other governments - restricted	--	8,412	8,412	--
Notes receivable, net of allowance of $14,044	22,863	--	22,863	--
Internal balances	(34,581)	34,581	--	--
Inventories, at cost	1,886	87,145	89,031	978
Real property held for resale	4,937	--	4,937	--
Regulatory assets, net of accumulated amortization	--	52,556	52,556	--
Prepaid expenses	1,039	9,745	10,784	538
Other receivables - restricted	--	728	728	--
Other assets	3,044	15,012	18,056	--
Total current assets	620,994	1,451,381	2,072,375	9,028
Noncurrent assets:				
Cash - restricted	--	4,972	4,972	353
Pooled investments and cash - restricted	133,161	556,545	689,706	--
Investments - restricted	--	285,824	285,824	68,278
Investments held by trustee - restricted	1,739	228,310	230,049	1,652
Cash held by trustee - restricted	1,823	--	1,823	--
Interest receivable - restricted	--	528	528	--
Depreciable capital assets, net	2,256,926	6,673,948	8,930,874	181,200
Nondepreciable capital assets	641,516	1,018,858	1,660,374	8,317
Derivative instruments - energy risk management	--	1,921	1,921	--
Regulatory assets, net of accumulated amortization	--	696,309	696,309	--
Other receivables - restricted	--	9,744	9,744	--
Other long-term assets	1,428	13,282	14,710	5,449
Total noncurrent assets	3,036,593	9,490,241	12,526,834	265,249
Total assets	3,657,587	10,941,622	14,599,209	274,277
Deferred outflows of resources	$ 393,054	413,338	806,392	17,860

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

(Continued)

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

(In thousands) (Continued)

	Governmental Activities	Business-type Activities	Total (†)	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	$ 40,300	84,682	124,982	10,357
Accounts and retainage payable from restricted assets	14,377	35,614	49,991	--
Accrued payroll	29,124	16,096	45,220	244
Accrued compensated absences	60,643	24,981	85,624	--
Due to other governments	24	3,809	3,833	
Claims payable	24,523	--	24,523	--
Accrued interest payable from restricted assets	10	105,190	105,200	9,564
Interest payable on other debt	8,290	965	9,255	--
Bonds payable	55,506	15,010	70,516	43,321
Bonds payable from restricted assets	20,762	181,573	202,335	--
Capital lease obligations payable	--	51	51	25
Customer and escrow deposits payable from restricted assets	65,458	49,228	114,686	--
Accrued landfill closure and postclosure costs	--	2,704	2,704	--
Decommissioning liability payable from restricted assets	--	7,333	7,333	--
Other liabilities	14,129	4,244	18,373	--
Other liabilities payable from restricted assets	--	943	943	--
Total current liabilities	333,146	532,423	865,569	63,511
Noncurrent liabilities, net of current portion:				
Accrued compensated absences	76,039	124	76,163	--
Claims payable	24,815	--	24,815	--
Capital appreciation bond interest payable	--	70,716	70,716	--
Commercial paper notes payable, net of discount	--	129,916	129,916	--
Bonds payable, net of discount and inclusive of premium	1,299,503	4,517,988	5,817,491	260,989
Net pension liability	1,125,290	634,844	1,760,134	--
Other postemployment benefits payable	537,840	325,744	863,584	--
Capital lease obligations payable	--	989	989	7
Accrued landfill closure and postclosure costs	--	9,899	9,899	--
Decommissioning liability payable from restricted assets	--	179,017	179,017	--
Derivative instruments - energy risk management	--	26,151	26,151	--
Derivative instruments - interest rate swaps	--	70,524	70,524	--
Other liabilities	14,095	32,366	46,461	--
Other liabilities payable from restricted assets	--	3,771	3,771	--
Total noncurrent liabilities	3,077,582	6,002,049	9,079,631	260,996
Total liabilities	3,410,728	6,534,472	9,945,200	324,507
Deferred inflows of resources	7,009	1,142,181	1,149,190	--
NET POSITION				
Net investment in capital assets	1,719,704	2,250,698	3,970,402	(100,740)
Restricted for:				
Bond reserve	--	43,458	43,458	--
Capital projects	41,920	220,214	262,134	--
Debt service	12,472	98,877	111,349	21,427
Housing activities	25,979	--	25,979	--
Operating reserve	--	46,026	46,026	--
Passenger facility charges	--	72,745	72,745	--
Perpetual care:				
Expendable	1	--	1	--
Nonexpendable	1,070	--	1,070	--
Renewal and replacement	--	19,830	19,830	--
Strategic reserve	--	189,309	189,309	--
Tourism	20,251	--	20,251	--
Other purposes	23,002	--	23,002	--
Unrestricted (deficit)	(1,211,495)	737,150	(474,345)	46,943
Total net position	$ 632,904	3,678,307	4,311,211	(32,370)

(†) 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, 2016
(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	$ 177,302	15,915	21	13,729	(147,637)	--	(147,637)	--
Public safety	657,846	65,087	6,539	--	(586,220)	--	(586,220)	--
Transportation, planning, and sustainability	66,739	4,572	618	75,185	13,636	--	13,636	--
Public health	100,195	9,160	19,662	--	(71,373)	--	(71,373)	--
Public recreation and culture	147,191	8,781	2,402	6,502	(129,506)	--	(129,506)	--
Urban growth management	179,081	78,530	18,188	70	(82,293)	--	(82,293)	--
Interest on debt	61,500	--	--	--	(61,500)	--	(61,500)	--
Total governmental activities	1,389,854	182,045	47,430	95,486	(1,064,893)	--	(1,064,893)	--
Business-type activities								
Electric	1,226,585	1,370,228	45	40,862	--	184,550	184,550	--
Water	244,907	301,860	--	47,335	--	104,288	104,288	--
Wastewater	237,450	259,974	--	30,743	--	53,267	53,267	--
Airport	135,860	159,866	548	3,018	--	27,572	27,572	--
Convention	63,796	33,221	--	--	--	(30,575)	(30,575)	--
Environmental and health services	102,994	103,420	118	--	--	544	544	--
Public recreation	8,266	6,480	--	221	--	(1,565)	(1,565)	--
Urban growth management	173,360	176,163	28	21,960	--	24,791	24,791	--
Total business-type activities	2,193,218	2,411,212	739	144,139	--	362,872	362,872	--
Total primary government	$ 3,583,072	2,593,257	48,169	239,625	(1,064,893)	362,872	(702,021)	--
Component Units	87,576	98,565	200	--	--	--	--	11,189
General revenues:								
Property tax					507,485	--	507,485	--
Sales tax					212,634	--	212,634	--
Franchise fees and gross receipts tax					147,773	--	147,773	--
Interest and other					41,708	10,936	52,644	23
Special item - land sale					4,309	--	4,309	--
Transfers-internal activities					121,838	(121,838)	--	--
Total general revenues and transfers					1,035,747	(110,902)	924,845	23
Change in net position					(29,146)	251,970	222,824	11,212
Beginning net position, as previously reported					662,050	3,426,337	4,088,387	(43,582)
Ending net position					$ 632,904	3,678,307	4,311,211	(32,370)

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

Governmental Funds
Balance Sheet
September 30, 2016
(In thousands)

City of Austin, Texas
Exhibit B-1

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash	$ 52	--	52
Pooled investments and cash	160,731	313,566	474,297
Investments	--	20,470	20,470
Cash held by trustee - restricted	--	5,472	5,472
Investments held by trustee - restricted	--	1,740	1,740
Property taxes receivable, net of allowance	7,885	3,604	11,489
Accounts receivable, net of allowance	61,065	29,012	90,077
Receivables from other governments	1	11,204	11,205
Notes receivable, net of allowance	199	22,664	22,863
Due from other funds	--	15,560	15,560
Advances to other funds	--	9,516	9,516
Inventories, at cost	49	--	49
Real property held for resale	--	4,937	4,937
Prepaid items	497	--	497
Other assets	58	2,986	3,044
Total assets	230,537	440,731	671,268
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Accounts payable	21,578	16,851	38,429
Accrued payroll	23,630	111	23,741
Accrued compensated absences	162	--	162
Due to other funds	204	15,560	15,764
Due to other governments	--	20	20
Unearned revenue	--	4,106	4,106
Advances from other funds	861	8,583	9,444
Deposits and other liabilities	5,830	65,502	71,332
Total liabilities	52,265	110,733	162,998
Deferred inflows of resources	17,283	7,068	24,351
Fund balances			
Nonspendable:			
Inventories and prepaid items	546	--	546
Permanent funds	--	1,070	1,070
Restricted	--	186,395	186,395
Committed	--	42,508	42,508
Assigned	28,700	107,833	136,533
Unassigned	131,743	(14,876)	116,867
Total fund balances	160,989	322,930	483,919
Total liabilities, deferred inflows of resources, and fund balances	$ 230,537	440,731	671,268

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, 2016
(In thousands)

City of Austin, Texas
Exhibit B-1.1

Total fund balances - Governmental funds		$ 483,919
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	4,465,271	
Less: accumulated depreciation	(1,630,063)	
		2,835,208
Other long-term assets and certain revenues are not available as current-period resources and are not reported in the funds.		
Other assets	1,428	
		1,428
Deferred outflows represent the consumption of net position that are applicable to a future reporting period.		
Deferred outflow of resources	392,923	
		392,923
Long-term liabilities are not payable in the current period and are not reported in the funds.		
Compensated absences	(127,329)	
Interest payable	(8,290)	
Bonds and other tax supported debt payable, net	(1,373,057)	
Net pension liability	(1,125,290)	
Other postemployment benefits payable	(537,840)	
Other liabilities	(15,507)	
		(3,187,313)
Deferred inflows represent an acquisition of net position that is applicable to a future reporting period.		
Unavailable revenue		
Property taxes and interest	11,557	
Accounts and other taxes receivable	12,791	
Pension actuarial experience deferral	(7,005)	
		17,343
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.		89,396
Total net position - Governmental activities		$ 632,904

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

(In thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	$ 383,550	125,554	509,104
Sales taxes	212,634	--	212,634
Franchise fees and other taxes	47,855	99,918	147,773
Fines, forfeitures and penalties	15,027	5,052	20,079
Licenses, permits and inspections	47,470	2,716	50,186
Charges for services/goods	59,062	39,849	98,911
Intergovernmental	--	56,746	56,746
Property owners' participation and contributions	--	14,554	14,554
Interest and other	15,205	23,129	38,334
Total revenues	780,803	367,518	1,148,321
EXPENDITURES			
Current:			
General government	117,102	1,671	118,773
Public safety	569,002	7,459	576,461
Transportation, planning and sustainability	814	6,225	7,039
Public health	72,392	19,684	92,076
Public recreation and culture	105,835	10,696	116,531
Urban growth management	67,096	88,363	155,459
Debt service:			
Principal	--	80,859	80,859
Interest	--	61,388	61,388
Fees and commissions	--	13	13
Capital outlay-capital project funds	--	142,822	142,822
Total expenditures	932,241	419,180	1,351,421
Deficiency of revenues over expenditures	(151,438)	(51,662)	(203,100)
OTHER FINANCING SOURCES (USES)			
Issuance of tax supported debt	--	142,775	142,775
Issuance of refunding bonds	--	139,690	139,690
Bond premiums	--	33,305	33,305
Payment to refunding bond escrow agent	--	(159,589)	(159,589)
Transfers in	157,201	91,130	248,331
Transfers out	(26,246)	(114,161)	(140,407)
Total other financing sources (uses)	130,955	133,150	264,105
Net change in fund balances, before special items	(20,483)	81,488	61,005
Special item - land sale (See Note 1)	4,309	--	4,309
Net change in fund balances	(16,174)	81,488	65,314
Fund balances at beginning of year	177,163	241,442	418,605
Fund balances at end of year	$ 160,989	322,930	483,919

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

(In thousands)

Net change in fund balances - Governmental funds		$ 65,314
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	113,962	
Depreciation expense	(113,836)	
Loss on disposal of capital assets	(259)	
		(133)
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	(1,619)	
Charges for services	311	
Interest and other	3,605	
Capital asset contributions	71,408	
		73,705
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	(156,181)	
Principal repayment on long-term debt	80,859	
Issuance of refunding bonds	(139,690)	
Refunding bond premiums	(19,899)	
Payment to refunding bond escrow agent	159,589	
		(75,322)
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	(4,600)	
Pensions	(67,450)	
Other postemployment benefits	(52,986)	
Interest and other	33,999	
		(91,037)
A portion of the net revenue (expense) of the internal service funds is reported with the governmental activities.		(1,673)
Change in net position - Governmental activities		$ (29,146)

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

Proprietary Funds
Statement of Net Position
September 30, 2016
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water Utility	Airport
ASSETS			
Current assets:			
Cash	$ 21	5	3
Pooled investments and cash	351,763	117,108	10,964
Pooled investments and cash - restricted	29,477	41,043	24,497
Total pooled investments and cash	381,240	158,151	35,461
Investments - restricted	53,748	91,744	25,257
Cash held by trustee - restricted	--	--	--
Working capital advances	1,982	--	--
Accounts receivable, net of allowance	145,082	65,755	5,839
Receivables from other governments	--	--	--
Receivables from other governments-restricted	6,044	--	1,088
Due from other funds	622	301	--
Inventories, at cost	79,944	2,341	1,815
Regulatory assets, net of accumulated amortization	19,091	33,465	--
Prepaid expenses	9,575	22	29
Other receivables - restricted	10	689	--
Other assets	14,577	--	435
Total current assets	711,936	352,473	69,927
Noncurrent assets:			
Cash - restricted	4,972	--	--
Pooled investments and cash - restricted	56,718	98,463	376,593
Advances to other funds	18,531	2,405	--
Advances to other funds - restricted	--	--	51
Investments - restricted	199,390	58,421	14,708
Investments held by trustee - restricted	211,692	16,618	--
Interest receivable - restricted	528	--	--
Depreciable capital assets, net	2,420,254	3,177,382	712,395
Nondepreciable capital assets	189,699	371,441	165,941
Derivative instruments - energy risk management	1,921	--	--
Regulatory assets, net of accumulated amortization	436,123	260,186	--
Other receivables - restricted	9,744	--	--
Other long-term assets	1,111	--	12,171
Total noncurrent assets	3,550,683	3,984,916	1,281,859
Total assets	4,262,619	4,337,389	1,351,786
Deferred outflows of resources	$ 141,510	129,641	54,517

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	12
Pooled investments and cash	236,656	716,491	130,576
Pooled investments and cash - restricted	12,388	107,405	1,999
Total pooled investments and cash	249,044	823,896	132,575
Investments - restricted	10,678	181,427	--
Cash held by trustee - restricted	--	--	1,558
Working capital advances	--	1,982	--
Accounts receivable, net of allowance	19,160	235,836	9,242
Receivables from other governments	--	--	340
Receivables from other governments-restricted	1,280	8,412	--
Due from other funds	1,732	2,655	1,005
Inventories, at cost	3,045	87,145	1,837
Regulatory assets, net of accumulated amortization	--	52,556	--
Prepaid expenses	119	9,745	542
Other receivables - restricted	29	728	--
Other assets	--	15,012	--
Total current assets	285,119	1,419,455	147,111
Noncurrent assets:			
Cash - restricted	--	4,972	--
Pooled investments and cash - restricted	24,771	556,545	--
Advances to other funds	--	20,936	42
Advances to other funds - restricted	370	421	--
Investments - restricted	13,305	285,824	--
Investments held by trustee - restricted	--	228,310	--
Interest receivable - restricted	--	528	--
Depreciable capital assets, net	363,917	6,673,948	62,618
Nondepreciable capital assets	291,777	1,018,858	616
Derivative instruments - energy risk management	--	1,921	--
Regulatory assets, net of accumulated amortization	--	696,309	--
Other receivables - restricted	--	9,744	--
Other long-term assets	--	13,282	--
Total noncurrent assets	694,140	9,511,598	63,276
Total assets	979,259	10,931,053	210,387
Deferred outflows of resources	87,670	413,338	131

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

Proprietary Funds
Statement of Net Position
September 30, 2016
(In thousands)

	Business-Type Activities		
	Austin Energy	**Austin Water Utility**	**Airport**
LIABILITIES			
Current liabilities:			
Accounts payable	$ 72,191	4,413	2,484
Accounts and retainage payable from restricted assets	4,513	17,634	8,533
Accrued payroll	6,559	3,484	1,143
Accrued compensated absences	10,271	5,531	1,988
Claims payable	--	--	--
Due to other funds	--	--	157
Due to other funds payable from restricted assets	--	261	--
Due to other governments	3,804	--	5
Accrued interest payable from restricted assets	24,309	73,561	5,962
Interest payable on other debt	137	135	--
Bonds payable	--	--	24
Bonds payable from restricted assets	44,405	103,078	21,940
Capital lease obligations payable	51	--	--
Customer and escrow deposits payable from restricted assets	29,477	13,080	760
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning liability payable from restricted assets	7,333	--	--
Other liabilities	899	1,130	2,215
Other liabilities payable from restricted assets	459	--	68
Total current liabilities	204,408	222,307	45,279
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	--	--	--
Claims payable	--	--	--
Advances from other funds	--	977	666
Advances from other funds payable from restricted assets	--	16,766	--
Capital appreciation bond interest payable	3,309	67,407	--
Commercial paper notes payable, net of discount	87,746	42,170	--
Bonds payable, net of discount and inclusive of premium	1,295,191	2,440,820	524,611
Net pension liability	266,357	142,157	44,268
Other postemployment benefits payable	128,415	83,250	21,935
Capital lease obligations payable	989	--	--
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning liability payable from restricted assets	179,017	--	--
Derivative instruments - energy risk management	26,151	--	--
Derivative instruments - interest rate swaps	--	23,426	32,027
Other liabilities	32,366	--	--
Other liabilities payable from restricted assets	3,771	--	--
Total noncurrent liabilities	2,023,312	2,816,973	623,507
Total liabilities	2,227,720	3,039,280	668,786
Deferred inflows of resources	$ 345,351	637,424	159,119

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

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	Total	Activities-Internal Service Funds
LIABILITIES			
Current liabilities:			
Accounts payable	5,594	84,682	16,247
Accounts and retainage payable from restricted assets	4,934	35,614	--
Accrued payroll	4,910	16,096	5,383
Accrued compensated absences	7,191	24,981	8,770
Claims payable	--	--	24,523
Due to other funds	2,033	2,190	1,005
Due to other funds payable from restricted assets	--	261	--
Due to other governments	--	3,809	4
Accrued interest payable from restricted assets	1,358	105,190	10
Interest payable on other debt	693	965	--
Bonds payable	14,986	15,010	441
Bonds payable from restricted assets	12,150	181,573	--
Capital lease obligations payable	--	51	--
Customer and escrow deposits payable from restricted assets	5,911	49,228	283
Accrued landfill closure and postclosure costs	2,704	2,704	--
Decommissioning liability payable from restricted assets	--	7,333	--
Other liabilities	--	4,244	2,455
Other liabilities payable from restricted assets	416	943	--
Total current liabilities	62,880	534,874	59,121
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	124	124	421
Claims payable	--	--	24,815
Advances from other funds	3,062	4,705	--
Advances from other funds payable from restricted assets	--	16,766	--
Capital appreciation bond interest payable	--	70,716	--
Commercial paper notes payable, net of discount	--	129,916	--
Bonds payable, net of discount and inclusive of premium	257,366	4,517,988	2,273
Net pension liability	182,062	634,844	--
Other postemployment benefits payable	92,144	325,744	--
Capital lease obligations payable	--	989	--
Accrued landfill closure and postclosure costs	9,899	9,899	--
Decommissioning liability payable from restricted assets	--	179,017	--
Derivative instruments - energy risk management	--	26,151	--
Derivative instruments - interest rate swaps	15,071	70,524	--
Other liabilities	--	32,366	--
Other liabilities payable from restricted assets	--	3,771	--
Total noncurrent liabilities	559,728	6,023,520	27,509
Total liabilities	622,608	6,558,394	86,630
Deferred inflows of resources	287	1,142,181	1

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

(Continued)

Proprietary Funds
Statement of Net Position
September 30, 2016
(In thousands)

	Business-Type Activities		
	Austin Energy	**Austin Water Utility**	**Airport**
NET POSITION			
Net investment in capital assets	$ 1,026,409	496,702	332,774
Restricted for:			
Bond reserve	10,080	20,584	2,483
Capital projects	25,859	35,065	141,041
Debt service	29,439	18,184	41,521
Operating reserve	--	28,018	13,580
Passenger facility charges	--	--	72,745
Renewal and replacement	9,064	--	10,000
Strategic reserve	189,309	--	--
Unrestricted	540,898	191,773	(35,746)
Total net position	$ 1,831,058	790,326	578,398
Reconciliation to government-wide Statement of Net Position			
Adjustment to consolidate internal service activities	14,974	8,784	2,757
Total net position - Business-type activities	$ 1,846,032	799,110	581,155

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

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
NET POSITION			
Net investment in capital assets	394,813	2,250,698	60,520
Restricted for:			
Bond reserve	10,311	43,458	--
Capital projects	18,249	220,214	1,999
Debt service	9,733	98,877	--
Operating reserve	4,428	46,026	--
Passenger facility charges	--	72,745	--
Renewal and replacement	766	19,830	--
Strategic reserve	--	189,309	--
Unrestricted	5,734	702,659	61,368
Total net position	444,034	3,643,816	123,887
Reconciliation to government-wide Statement of Net Position			
Adjustment to consolidate internal service activities	7,976	34,491	
Total net position - Business-type activities	452,010	3,678,307	

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, 2016
(In thousands)

	Business-Type Activities		
	Austin Energy	**Austin Water Utility**	**Airport**
OPERATING REVENUES			
Utility services	$ 1,370,228	561,834	--
User fees and rentals	--	--	135,765
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	1,370,228	561,834	135,765
OPERATING EXPENSES			
Operating expenses before depreciation	1,020,959	236,320	88,257
Depreciation and amortization	156,699	116,070	28,092
Total operating expenses	1,177,658	352,390	116,349
Operating income (loss)	192,570	209,444	19,416
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	6,632	1,212	1,891
Interest on revenue bonds and other debt	(60,913)	(108,042)	(21,161)
Interest capitalized during construction	--	--	1,282
Passenger facility charges	--	--	24,101
Cost (recovered) to be recovered in future years	8,544	(21,471)	--
Other nonoperating revenue (expense)	1,701	(1,231)	535
Total nonoperating revenues (expenses)	(44,036)	(129,532)	6,648
Income (loss) before contributions and transfers	148,534	79,912	26,064
Capital contributions	40,862	78,078	3,018
Transfers in	867	--	5
Transfers out	(114,203)	(43,864)	(442)
Change in net position	76,060	114,126	28,645
Total net position - beginning	1,754,998	676,200	549,753
Total net position - ending	$ 1,831,058	790,326	578,398
Reconciliation to government-wide Statement of Activities			
Change in net position	76,060	114,126	28,645
Adjustment to consolidate internal service activities	1,786	1,003	381
Change in net position - Business-type activities	$ 77,846	115,129	29,026

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

	Business-Type Activities: Nonmajor Enterprise Funds	Business-Type Activities: Total	Governmental Activities-Internal Service Funds
OPERATING REVENUES			
Utility services	--	1,932,062	--
User fees and rentals	319,284	455,049	--
Billings to departments	--	--	412,968
Employee contributions	--	--	37,844
Operating revenues from other governments	--	--	4,372
Other operating revenues	--	--	8,186
Total operating revenues	319,284	2,387,111	463,370
OPERATING EXPENSES			
Operating expenses before depreciation	301,062	1,646,598	431,732
Depreciation and amortization	30,236	331,097	12,364
Total operating expenses	331,298	1,977,695	444,096
Operating income (loss)	(12,014)	409,416	19,274
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	1,201	10,936	162
Interest on revenue bonds and other debt	(9,899)	(200,015)	(112)
Interest capitalized during construction	1,381	2,663	--
Passenger facility charges	--	24,101	--
Cost (recovered) to be recovered in future years	--	(12,927)	--
Other nonoperating revenue (expense)	(42,878)	(41,873)	(8,693)
Total nonoperating revenues (expenses)	(50,195)	(217,115)	(8,643)
Income (loss) before contributions and transfers	(62,209)	192,301	10,631
Capital contributions	22,181	144,139	11,150
Transfers in	78,178	79,050	1,135
Transfers out	(8,806)	(167,315)	(20,794)
Change in net position	29,344	248,175	2,122
Total net position - beginning	414,690	3,395,641	121,765
Total net position - ending	444,034	3,643,816	123,887
Reconciliation to government-wide Statement of Activities			
Change in net position	29,344	248,175	
Adjustment to consolidate internal service activities	625	3,795	
Change in net position - Business-type activities	29,969	251,970	

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2016
(In thousands)

	Business-Type Activities		
	Austin Energy	**Austin Water Utility**	**Airport**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 1,392,139	562,274	129,194
Cash received from other funds	34,035	8,104	--
Cash payments to suppliers for goods and services	(683,020)	(43,836)	(24,080)
Cash payments to other funds	(45,645)	(69,870)	(23,744)
Cash payments to employees for services	(192,399)	(103,355)	(34,552)
Cash payments to claimants/beneficiaries	--	--	--
Taxes collected and remitted to other governments	(44,098)	--	--
Net cash provided by operating activities	461,012	353,317	46,818
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	867	--	5
Transfers out	(114,091)	(43,599)	(10)
Contributions from other funds	--	--	--
Contributions to other funds	--	(336)	--
Loans to other funds	--	--	--
Loans from other funds	464	--	--
Loan repayments to other funds	--	(396)	(178)
Loan repayments from other funds	664	300	--
Collections from other governments	(28)	1,765	880
Net cash provided (used) by noncapital financing activities	(112,124)	(42,266)	697
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	55,700	62,420	--
Proceeds from the sale of general obligation bonds and other tax supported debt	--	2,369	--
Principal paid on long-term debt	(66,371)	(89,689)	(18,375)
Proceeds from the sale of capital assets	15,781	--	--
Interest paid on revenue bonds and other debt	(62,966)	(106,822)	(21,528)
Passenger facility charges	--	--	24,101
Acquisition and construction of capital assets	(179,840)	(100,139)	(63,807)
Contributions from state and federal governments	--	587	3,019
Contributions in aid of construction	40,776	34,469	--
Bond issuance costs	--	(1,796)	--
Bond premiums	--	58,671	--
Cash paid for bond defeasance	--	(18,135)	--
Bonds issued for advanced refundings of debt	--	247,770	--
Cash paid for bond refunding escrow	--	(115,920)	--
Cash paid to payoff commercial paper	--	(188,785)	--
Cash paid for nuclear fuel inventory	(18,379)	--	--
Net cash provided (used) by capital and related financing activities	$ (215,299)	(215,000)	(76,590)

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	317,270	2,400,877	46,770
Cash received from other funds	3,525	45,664	412,968
Cash payments to suppliers for goods and services	(66,439)	(817,375)	(82,468)
Cash payments to other funds	(60,163)	(199,422)	(21,717)
Cash payments to employees for services	(145,848)	(476,154)	(159,071)
Cash payments to claimants/beneficiaries	--	--	(168,041)
Taxes collected and remitted to other governments	--	(44,098)	--
Net cash provided by operating activities	48,345	909,492	28,441
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	77,624	78,496	--
Transfers out	(8,627)	(166,327)	(20,095)
Contributions from other funds	1,063	1,063	--
Contributions to other funds	(631)	(967)	--
Loans to other funds	(504)	(504)	--
Loans from other funds	620	1,084	--
Loan repayments to other funds	(639)	(1,213)	--
Loan repayments from other funds	70	1,034	--
Collections from other governments	536	3,153	--
Net cash provided (used) by noncapital financing activities	69,512	(84,181)	(20,095)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	118,120	--
Proceeds from the sale of general obligation bonds and other tax supported debt	20,669	23,038	--
Principal paid on long-term debt	(29,499)	(203,934)	(369)
Proceeds from the sale of capital assets	--	15,781	--
Interest paid on revenue bonds and other debt	(11,024)	(202,340)	(131)
Passenger facility charges	--	24,101	--
Acquisition and construction of capital assets	(80,540)	(424,326)	(10,548)
Contributions from state and federal governments	--	3,606	--
Contributions in aid of construction	13,112	88,357	--
Bond issuance costs	(163)	(1,959)	(5)
Bond premiums	3,189	61,860	--
Cash paid for bond defeasance	--	(18,135)	--
Bonds issued for advanced refundings of debt	--	247,770	--
Cash paid for bond refunding escrow	--	(115,920)	--
Cash paid to payoff commercial paper	--	(188,785)	--
Cash paid for nuclear fuel inventory	--	(18,379)	--
Net cash provided (used) by capital and related financing activities	(84,256)	(591,145)	(11,053)

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2016
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water Utility	Airport
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	$ (277,743)	(220,428)	(44,417)
Proceeds from sale and maturities of investment securities	245,859	202,984	41,306
Interest on investments	3,864	1,212	1,848
Net cash provided (used) by investing activities	(28,020)	(16,232)	(1,263)
Net increase (decrease) in cash and cash equivalents	105,569	79,819	(30,338)
Cash and cash equivalents, October 1	337,382	176,800	442,395
Cash and cash equivalents, September 30	442,951	256,619	412,057
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	192,570	209,444	19,416
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	156,699	116,070	28,092
Change in assets and liabilities:			
Decrease in working capital advances	2,962	--	--
(Increase) decrease in accounts receivable	14,161	7,601	(1,605)
Increase (decrease) in allowance for doubtful accounts	(2,309)	(200)	187
Decrease in due from other funds	--	--	--
(Increase) decrease in inventory	705	(187)	17
(Increase) decrease in prepaid expenses and other assets	29,913	(3)	(6)
Increase in deferred outflows related to operations	(57,633)	(30,776)	(9,637)
Decrease in advances to other funds	--	--	--
Decrease in other long-term assets	21,705	--	--
Increase (decrease) in accounts payable	4,165	(272)	38
Increase in accrued payroll and compensated absences	1,451	857	309
Increase (decrease) in claims payable	--	(932)	--
Increase in due to other governments	--	--	--
Increase in due to other funds	--	--	--
Increase in net pension liability	76,068	41,398	13,365
Increase in other postemployment benefits payable	12,755	8,242	2,198
Increase (decrease) in other liabilities	464	--	(403)
Increase (decrease) in customer deposits	161	2,075	(101)
Increase (decrease) in deferred inflows related to operations	7,175	--	(5,052)
Total adjustments	268,442	143,873	27,402
Net cash provided by operating activities	$ 461,012	353,317	46,818

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
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(18,825)	(561,413)	--
Proceeds from sale and maturities of investment securities	18,577	508,726	--
Interest on investments	1,202	8,126	162
Net cash provided (used) by investing activities	954	(44,561)	162
Net increase (decrease) in cash and cash equivalents	34,555	189,605	(2,545)
Cash and cash equivalents, October 1	239,292	1,195,869	136,690
Cash and cash equivalents, September 30	273,847	1,385,474	134,145
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	(12,014)	409,416	19,274
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	30,236	331,097	12,364
Change in assets and liabilities:			
Decrease in working capital advances	--	2,962	--
(Increase) decrease in accounts receivable	2,090	22,247	(4,018)
Increase (decrease) in allowance for doubtful accounts	(583)	(2,905)	--
Decrease in due from other funds	--	--	(324)
(Increase) decrease in inventory	(511)	24	(368)
(Increase) decrease in prepaid expenses and other assets	(44)	29,860	(381)
Increase in deferred outflows related to operations	(39,748)	(137,794)	(33)
Decrease in advances to other funds	--	--	29
Decrease in other long-term assets	--	21,705	--
Increase (decrease) in accounts payable	1,645	5,576	(1,072)
Increase in accrued payroll and compensated absences	1,488	4,105	1,145
Increase (decrease) in claims payable	--	(932)	1,874
Increase in due to other governments	--	--	4
Increase in due to other funds	--	--	335
Increase in net pension liability	58,204	189,035	--
Increase in other postemployment benefits payable	9,705	32,900	--
Increase (decrease) in other liabilities	(2,127)	(2,066)	(665)
Increase (decrease) in customer deposits	4	2,139	277
Increase (decrease) in deferred inflows related to operations	--	2,123	--
Total adjustments	60,359	500,076	9,167
Net cash provided by operating activities	48,345	909,492	28,441

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2016
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water Utility	Airport
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Capital appreciation bonds interest accreted	$ (475)	(8,886)	--
Capital assets contributed from other funds	--	32	--
Capital assets contributed to other funds	--	(990)	--
Capital assets acquired through service concession arrangements	--	--	151,565
Contributed facilities	--	42,991	--
Contributions in aid of construction	86	--	--
Increase in the fair value of investments	(1,799)	--	--
Amortization of bond (discounts) premiums	6,321	13,568	1,252
Amortization of gain/loss on refundings	(8,005)	(5,997)	(890)
Gain (loss) on disposal of assets	2,393	(258)	(108)
Costs (recovered) to be recovered	8,544	(21,471)	--
Transfers (to) from other funds	(112)	(265)	(432)
Capitalized interest	--	--	1,282

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	--	(9,361)	--
Capital assets contributed from other funds	9,060	9,092	19,928
Capital assets contributed to other funds	(42,418)	(43,408)	(224)
Capital assets acquired through service concession arrangements	--	151,565	--
Contributed facilities	--	42,991	--
Contributions in aid of construction	--	86	--
Increase in the fair value of investments	--	(1,799)	--
Amortization of bond (discounts) premiums	2,160	23,301	40
Amortization of gain/loss on refundings	(1,135)	(16,027)	(22)
Gain (loss) on disposal of assets	(878)	1,149	(81)
Costs (recovered) to be recovered	--	(12,927)	--
Transfers (to) from other funds	375	(434)	436
Capitalized interest	1,381	2,663	--

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

(In thousands)

	Private-purpose Trust	Agency
ASSETS		
Pooled investments and cash	$ 1,978	2,006
Other assets	122	--
Total assets	2,100	2,006
LIABILITIES		
Accounts payable	--	1
Due to other governments	--	1,411
Deposits and other liabilities	1,388	594
Total liabilities	1,388	2,006
NET POSITION		
Held in trust	712	
Total net position	$ 712	

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

	Private-Purpose Trust
ADDITIONS	
Contributions	$ 1,092
Interest and other	11
Total additions	1,103
DEDUCTIONS	
Benefit payments	1,422
Total deductions	1,422
Net additions (deductions)	(319)
Total net position - beginning	1,031
Total net position - ending	$ 712

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Austin, Texas (the City) is a municipal corporation incorporated under Article XI, Section 5 of the Constitution of the State of Texas (Home Rule Amendment). The City operates under a Council-Manager form of government. The City Council is composed of a Mayor who is elected at large and ten Councilmembers who are elected by geographic district, all of whom serve four-year staggered terms subject to a maximum of two consecutive terms. A petition signed by 5% of the registered voters waives the term limit for a Councilmember.

The City's major activities or programs include general government; public safety; transportation, plannip42ng, 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. 74, No. 73, No. 79, and No. 82. In fiscal year 2016, the City implemented the following GASB Statements:

GASB Statement	Impact
72 – *"Fair Value Measurement and Application"*	This statement provides general principles for measuring fair value, additional guidance regarding fair value application, and enhances disclosures about fair value measurements. The implementation of this standard resulted in additional disclosures in the investment footnote (see Note 3).
73 – *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"*	This statement primarily provides guidance to entities that do not have a trust fund for administering pension funds. Only one section regarding notes to Required Supplementary Information currently applies to the City and was implemented for 2016.
76 – *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"*	This statement establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. The implementation of this standard had no impact on the amounts reported in the financial statements.
79 – *"Certain External Investment Pools and Pool Participants"*	This statement provides general principles for disclosure related to participation in external investment pools that meet the criteria in this statement. The implementation of this standard resulted in additional disclosures in the investment footnote (see Note 3).
82 – "*Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73"*	This statement was implemented for 2016. It primarily impacted the payroll-related measures presented in the Required Supplementary Information and required a restatement of those measures as previously presented in 2015.

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 incurred. However, expenditures related to compensated absences and arbitrage are recorded when payment is due. Debt service expenditures are recognized when payment is due. The reported fund balance of governmental funds is considered a measure of available spendable resources.

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

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

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

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

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

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

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

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. Interest earned on investments purchased with pooled cash is allocated monthly to each participating fund based upon the fund's average daily balance. Funds that carry a negative balance in pooled cash and investments are not allocated interest earnings nor charged interest expense.

Investments -- Certain investments are required to be reported at fair value. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. As of September 30, 2016, the City carries all of its investments in U.S. government and agency debt securities at fair value and money market mutual funds at amortized cost. Investments in local government investment pools are carried at either NAV or at amortized cost.

Accounts Receivable -- Balances of accounts receivable, reported on the government-wide statement of net position, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2016 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern-ments	Other	Total
Governmental activities						
General Fund	$ 256,172	18,566	45,119	--	--	319,857
Nonmajor governmental funds	1,285	--	22,732	2,607	2,958	29,582
Internal service funds	9,242	--	--	--	--	9,242
Allowance for doubtful accounts	(249,929)	(8,863)	--	(570)	--	(259,362)
Total	$ 16,770	9,703	67,851	2,037	2,958	99,319

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

	Austin Energy	Austin Water	Airport	Nonmajor Enterprise	Total
Accounts Receivable	$ 153,332	69,017	7,446	21,097	250,892
Allowance for doubtful accounts	(8,250)	(3,262)	(1,607)	(1,937)	(15,056)
Total	$ 145,082	65,755	5,839	19,160	235,836

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	$ 41,903	115,770	281,830	24,713	464,216
Customer and escrow deposits	29,478	13,025	759	5,608	48,870
Debt service	53,748	91,744	47,484	11,201	204,177
Environmental and landfill	--	--	--	84	84
Federal grants	12,240	--	1,088	1,280	14,608
Operating reserve account	14,281	28,018	13,580	5,678	61,557
Passenger facility charge account	--	--	72,745	--	72,745
Plant decommissioning	212,220	--	--	--	212,220
Renewal and replacement account	9,064	--	10,000	952	20,016
Revenue bond reserve	10,080	58,421	14,708	13,305	96,514
Strategic reserve	189,309	--	--	--	189,309
	$ 572,323	306,978	442,194	62,821	1,384,316

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):

		Business-type Activites			
Assets	**Governmental Activites (1)**	**Austin Energy**	**Austin Water Utility**	**Airport**	**Nonmajor Enterprise**
Buildings and improvements	5-40	--	15-50	15-40	12-40
Plant and equipment	5-50	--	5-60	4-50	5-40
Vehicles	3-20	3-15	3-20	3-20	3-30
Electric plant	--	3-50	--	--	--
Non-electric plant	--	3-30	--	--	--
Communication equipment	7-15	--	7	7	7
Furniture and fixtures	12	--	12	12	12
Computers and EDP equipment	3-7	--	3-7	3-7	3-7
Nuclear fuel	--	(2)	--	--	--
Water rights	--	--	101	--	--
Infrastructure					
Streets and roads	30	--	--	--	--
Bridges	50	--	--	--	--
Drainage systems	50	--	--	--	--
Pedestrian facilities	20	--	--	--	--
Traffic signals	25	--	--	--	--

(1) Includes internal service funds
(2) Nuclear fuel is amortized over units of production

Depreciation of assets is classified by functional component. The City considers land, arts and treasures, and library collections to be inexhaustible; therefore, these assets are reported as nondepreciable. The true value of arts and treasures is expected to be maintained over time and, thus, is not depreciated. The initial investment of library collections for each library is capitalized. All subsequent expenditures related to the maintenance of the collection (replacement of individual items) are expensed, with the overall value of the collection being maintained, and therefore, not depreciated.

In the government-wide and proprietary fund statements, the City recognizes a gain or loss on the disposal of assets when it retires or otherwise disposes of capital assets.

Water rights represent the amortized cost of a $100 million contract, net of accumulated amortization, of $16.8 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 position that are applicable to a future reporting period. Deferred outflows have a positive effect on net position, similar to assets. Deferred inflows of resources represent the acquisition of net position that have a negative effect on net position, similar to liabilities.

The following chart reflects the activities included in deferred outflows and inflows (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.	$96,675	1,921
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.	123,003	285
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.		980,860
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.		160,436
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.	586,714	5,687

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 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 unused vacation, exception vacation, and sick leave eligible for payout upon termination for employees that terminated by the 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
	56	N/A	N/A	N/A	N/A
Exception vacation (4)	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
	56	N/A	N/A	N/A	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	864
	53	N/A	N/A	1,080	N/A
	56	N/A	N/A	N/A	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, 2016, the City's total actuarial accrued liability for these retiree benefits was approximately $1.5 billion. The City funds the costs of these benefits on a pay-as-you-go basis.

Long-Term Debt -- The debt service for general obligation bonds and other general obligation debt (including loans), issued to fund general government capital projects, is paid from tax revenues, interfund transfers, and intergovernmental revenues. Such general obligation debt is reported in the government-wide statements under governmental activities.

The debt service for general obligation bonds and other general obligation debt issued to finance proprietary fund capital projects is normally paid from net revenues of the applicable proprietary fund, although such debt will be repaid from tax revenues if necessary. Such general obligation debt is shown as a specific liability of the applicable proprietary fund, which is appropriate under generally accepted accounting principles and in view of the expectation that the proprietary fund will provide resources to service the debt.

Revenue bonds issued to finance capital projects of certain enterprise funds are to be repaid from select revenues of these funds. Note 6 contains more information about pledged revenues by fund. The corresponding debt is recorded in the applicable fund.

The City has certain contractual commitments with several municipal utility districts (MUDs) for the construction of additions and improvements to the City's water and wastewater system that serve the MUDs and surrounding areas. These additions and improvements are funded by other tax supported debt, whose principal and interest are payable primarily from the net revenues of Austin Water Utility.

For proprietary funds and for governmental activities in the government-wide financial statements, the City defers and amortizes gains and losses realized on refundings of debt and reports both the new debt 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.

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

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

Landfill Closure and Postclosure Care Costs -- Municipal solid waste landfill costs and the liability for landfill closure and postclosure costs are reported in Austin Resource Recovery, a nonmajor enterprise fund.

Operating Revenues -- Revenues are recorded net of allowances, including bad debt, in the government-wide and proprietary fund-level statements. The funds listed below report revenues net of bad debt expense, as follows (in thousands):

	Bad Debt Expense
Austin Energy	$ 5,869
Austin Water Utility	2,200
Airport	189
Nonmajor Enterprise	1,528

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, 2016. The amount of unbilled revenue recorded, as of September 30, 2016, was $34.9 million. Austin Water Utility records unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2016. The amount of unbilled revenue reported in accounts receivable as of September 30, 2016 was $18 million for water and $14.3 million for wastewater.

Revenues are also recorded net of discounts in the government-wide and proprietary fund-level statements. Discounts are offered as incentives geared towards generating additional revenue in the form of new or expanded business, or to encourage events with a significant economic impact, as well as expedient event planning. The funds listed below report revenues net of discounts, as follows (in thousands):

	Discounts
Airport	$ 1,219
Nonmajor Enterprise	2,168

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 $4.31 million in fiscal year 2016; sales to date total $32.12 million. The final sale is anticipated in fiscal year 2019, according to the current schedule. Due to 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 2016 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	$ 49	--	--	--	--	49
Prepaid items	497	--	--	--	--	497
Permanent funds	--	--	--	--	1,070	1,070
Total Nonspendable	546	--	--	--	1,070	1,616
Restricted						
Municipal court services	--	2,602	--	--	--	2,602
Police special purpose	--	6,860	--	--	--	6,860
Fire special purpose	--	46	--	--	--	46
Transportation, planning, and sustainability	--	224	--	--	--	224
Public health services	--	289	--	--	--	289
Parks services	--	2,224	--	--	--	2,224
Library services	--	1,802	--	--	1	1,803
Tourism programs	--	23,727	--	--	--	23,727
Affordable housing programs	--	27,055	--	--	--	27,055
Urban growth programs	--	4,403	--	--	--	4,403
Capital construction	--	--	--	95,533	--	95,533
Debt service	--	--	21,629	--	--	21,629
Total Restricted	--	69,232	21,629	95,533	1	186,395
Committed						
Transportation, planning, and sustainability	--	92	--	--	--	92
Parks services	--	5,091	--	--	--	5,091
Affordable housing programs	--	3,871	--	--	--	3,871
Urban growth programs	--	33,454	--	--	--	33,454
Total Committed	--	42,508	--	--	--	42,508
Assigned						
Municipal court services	182	--	--	--	--	182
Police special purpose	3,444	39	--	--	--	3,483
Fire special purpose	1,205	--	--	--	--	1,205
EMS special purpose	1,138	--	--	--	--	1,138
Transportation, planning, and sustainability	486	9	--	--	--	495
Public health services	4,531	30	--	--	--	4,561
Parks services	1,953	119	--	--	--	2,072
Library services	172	6	--	--	--	178
Tourism programs	--	63	--	--	--	63
Affordable housing programs	90	5,537	--	--	--	5,627
Urban growth programs	15,499	5,222	--	--	--	20,721
Capital construction	--	--	--	96,808	--	96,808
Total Assigned	28,700	11,025	--	96,808	--	136,533
Unassigned	131,743	(6,370)	--	(8,506)	--	116,867
Total Fund Balance	$ 160,989	116,395	21,629	183,835	1,071	483,919

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 two reserve funds: an emergency reserve and a budget stabilization reserve. These reserves are part of unassigned fund balance for the General Fund. As of September 30, 2016, the emergency reserve maintains a balance of six percent of total General Fund requirements, or $54.7 million, and the budget stabilization reserve reports a balance of $70.9 million. The funds in the budget stabilization reserve may be appropriated to fund capital or other one-time costs, but such appropriation should not exceed one-third of the total amount in the reserve.

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 money market mutual fund.

Pensions -- For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's three pension plans and additions to/deductions from each plan's fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability, pension expenses, and long-term deferrals are allocated to funds based on actual contributions by fund during the corresponding measurement period with the exception of the internal service funds, which are presented in governmental activities in the government-wide statements (see Note 7).

Risk Management -- The City is exposed to employee-related risks for health benefits and workers' compensation, as well as to various risks of loss related to torts; theft of, damage to, or destruction of assets; fraud; and natural disasters. The City is self-insured for legal liabilities, workers' compensation claims, and employee health benefits.

The City does not participate in a risk pool but purchases commercial insurance coverage for property loss or damage, commercial crime, fidelity bonds, airport operations, and contractors working at selected capital improvement project sites (see Note 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, 2016 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	Restricted
General Fund	$ 160,731	--
Nonmajor governmental funds	313,566	--
Austin Energy	351,763	86,195
Austin Water Utility	117,108	139,506
Airport	10,964	401,090
Nonmajor enterprise funds	236,656	37,159
Internal service funds	130,576	1,999
Fiduciary funds	3,984	--
Subtotal pooled investments and cash	1,325,348	665,949
Total pooled investments and cash	$ 1,991,297	

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 did not participate in any reverse repurchase agreements or security lending arrangements during fiscal year 2016.

All City investments are insured, registered, or held by an agent in the City's name; therefore, the City is not exposed to custodial credit risk.

The City participates in TexPool, TexasDAILY, TexStar, and Lone Star (collectively referred to as the LGIPs). 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.

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

The City invests in LGIPs to provide its liquidity needs. The LGIPs were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. The LGIPs are structured like money market mutual funds and allow shareholders the ability to deposit or withdraw funds on a daily basis. In addition, interest rates are adjusted on a daily basis, and the funds seek to maintain a constant NAV of $1.00, although this cannot be fully guaranteed. The LGIPs are rated AAAm and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2016, TexPool, TexasDAILY, TexStar, and Lone Star had a weighted average maturity of 45 days, 55 days, 41 days, and 31 days, respectively. The City's LGIP investments are not subject to limitations, penalties, or restrictions on withdrawals outside emergency conditions that make the sale of assets or determination of fund NAV not reasonably practical, and therefore, the City considers holdings in these funds to have an effective weighted average maturity of one day.

GASB Statement No. 79 established an option for certain external investment pools and pool participants to continue measuring these investment pools at amortized cost rather than fair value. Qualifying pool participants may measure investments at amortized cost if certain criteria are met. All City LGIPs are qualifying pools for purposes of GASB Statement No. 79. TexStar measures their investments at fair value while TexPool, TexasDAILY and Lone Star opted to report at amortized cost.

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

The City has the following recurring fair value measurements as of September 30, 2016:

- U.S. Treasury securities of $324 million are valued using other observable inputs, including but not limited to, model processes, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing (Level 2 inputs).
- U.S. Agency securities of $1.2 billion are valued using other observable inputs, including but not limited to, model processes, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing (Level 2 inputs).

As of September 30, 2016, the City presented Money Market Funds of $116 million, LGIPs of $838 million are valued using amortized cost, and LGIP's of $234 million valued using NAV.

The following table includes the portfolio balances of all non-pooled and pooled investments of the City at September 30, 2016 (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments:				
Local Government Investment Pools	$ 20,470	342,034	--	362,504
Money Market Funds	1,740	113,844	--	115,584
US Treasury Notes	--	33,606	--	33,606
US Agency Bonds	--	206,077	--	206,077
Total non-pooled investments	22,210	695,561	--	717,771
Pooled investments:				
Local Government Investment Pools	216,016	491,658	1,419	709,093
US Treasury Notes	88,459	201,217	581	290,257
US Agency Bonds	304,991	693,777	1,984	1,000,752
Total pooled investments	609,466	1,386,652	3,984	2,000,102
Total investments	$ 631,676	2,082,213	3,984	2,717,873

Concentration of Credit Risk
At September 30, 2016, 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 ($308.3 or 11%), Federal Home Loan Bank ($327.3 or 12%), Federal Home Loan Mortgage Corporation ($295.5 or 11%), and Federal National Mortgage Association ($275.8 or 10%).

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

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.

b -- Investment Categories

As of September 30, 2016, the City had the following investments in each of these strategic categories (in thousands):

Investment Type by Category	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	Weighted Average Maturity (days)
Operating funds					
Local Government Investment Pools	$ 216,016	491,658	1,419	709,093	1
US Treasury Notes	88,459	201,217	581	290,257	244
US Agency Bonds	304,991	693,777	1,984	1,000,752	520
Total operating funds	609,466	1,386,652	3,984	2,000,102	
Debt service funds					
General Obligation Debt Service					
Local Government Investment Pools	20,470	--	--	20,470	1
Utility (1)					
Local Government Investment Pools	--	145,492	--	145,492	1
Airport					
Local Government Investment Pools	--	25,181	--	25,181	1
Nonmajor Enterprise-Convention Center					
Local Government Investment Pools	--	10,678	--	10,678	1
Total Debt service funds	20,470	181,351	--	201,821	
Debt service reserve funds					
Utility (1)					
Local Government Investment Pools	--	41,394	--	41,394	1
Airport					
Local Government Investment Pools	--	14,708	--	14,708	1
Nonmajor Enterprise-Convention Center					
Local Government Investment Pools	--	13,305	--	13,305	1
Total Debt service reserve funds	--	69,407	--	69,407	
Special projects/purpose funds					
Austin Energy Strategic Reserve					
Local Government Investment Pools	--	64,092	--	64,092	1
US Treasury Notes	--	15,050	--	15,050	141
US Agency Bonds	--	110,167	--	110,167	1141
Total Austin Energy Strategic Reserve	--	189,309	--	189,309	
Austin Energy Nuclear Decommissioning Trust Funds (NDTF)					
Money Market Funds	--	97,226	--	97,226	1
US Treasury Notes	--	18,556	--	18,556	308
US Agency Bonds	--	95,910	--	95,910	619
Total Austin Energy NDTF	--	211,692	--	211,692	
Special Projects - Utility Reserve (1)					
Local Government Investment Pools	--	27,108	--	27,108	1
Special Projects - Airport Construction					
Local Government Investment Pools	--	76	--	76	1
Special Purpose Funds - Investments Held by Trustee					
Money Market Funds	1,740	16,618	--	18,358	1
Total Special projects/purpose funds	1,740	444,803	--	446,543	
Total funds	**$ 631,676**	**2,082,213**	**3,984**	**2,717,873**	

(1) Includes combined pledge debt service

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

Credit Risk

At September 30, 2016, City funds held investments in LGIPs and Money Market Funds rated AAAm by Standard & Poor's, short-to-medium term U.S. Agency bonds rated AA+ by Standard & Poor's, and the remaining investments in Treasury securities, which are direct obligations of the U.S. government.

Concentration of Credit Risk

Operating Funds
At September 30, 2016, 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 ($303.2 or 15%), Federal Home Loan Bank ($287.2 or 14%), Federal Home Loan Mortgage Corporation ($250.2 or 13%), and Federal National Mortgage Association ($160.1 or 8%).

Special Projects or Special Purpose Funds
At September 30, 2016, 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 ($30.0 or 16%), Federal Home Loan Mortgage Corporation ($20.1 or 11%), and Federal National Mortgage Association ($55.0 or 29%).

At September 30, 2016, the NDTF held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Home Loan Mortgage Corporation ($25.2 or 12%), Federal National Mortgage Association ($60.7 or 29%).

Interest Rate Risk

Operating Funds
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the City's cash flow requirements. Three years is the maximum period before maturity.

At September 30, 2016, less than half of the Investment Pool was invested in AAAm rated LGIPs, with the remainder invested in short-to-medium term U.S. Agency and Treasury obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity of all securities was 296 days, which was less than the threshold of 365 days.

Debt Service Funds
Investment strategies for debt service funds have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. As a means of minimizing risk of loss due to interest rate fluctuations, securities purchased cannot have a stated final maturity date which exceeds the debt service payment date.

Debt Service Reserve Funds
Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. Except as may be required by bond ordinance specific to an individual issue, securities should be of high quality, with short-term to intermediate-term securities.

Special Projects or Special Purpose Funds
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities in this category not exceed the anticipated cash flow requirements of the funds.

Special Purpose Funds - Austin Energy Strategic Reserve Fund
At September 30, 2016, the portfolios held investments in TexPool, U.S. Treasury, and U.S. Agency obligations with maturities that will meet anticipated cash flow requirements and an overall dollar weighted average maturity of 675 days.

Special Purpose Funds - Austin Energy Nuclear Decommissioning Trust Funds (NDTF)
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy for the NDTF portfolios requires that the dollar weighted average maturity, using final stated maturity dates, shall not exceed seven years, although the portfolio's weighted average maturity may be substantially shorter if market conditions so dictate. At September 30, 2016, the dollar weighted average maturity was 306 days.

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

Special Purpose Funds - Investments Held by Trustee
Investment objectives for these special purpose funds have as the primary objective the safety of principal and assurance of liquidity adequate to cover construction expense draws. As a means of minimizing risk of loss due to interest rate fluctuations, funds are being held in overnight money market funds.

c -- Investment and Deposits

Investments and deposits portfolio balances at September 30, 2016, are as follows (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments and cash	$ 29,304	700,594	--	729,898
Pooled investments and cash	611,138	1,390,454	3,984	2,005,576
Total investments and cash	640,442	2,091,048	3,984	2,735,474
Unrestricted cash	64	61	--	125
Restricted cash	7,030	4,972	--	12,002
Pooled investments and cash	611,138	1,390,454	3,984	2,005,576
Investments	22,210	695,561	--	717,771
Total	$ 640,442	2,091,048	3,984	2,735,474

A difference of $14.3 million exists between portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

Deposits
The September 30, 2016 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	--	4,972	4,972
Cash held by trustee			
Restricted	7,030	--	7,030
Pooled cash	1,672	3,802	5,474
Total deposits	$ 8,766	8,835	17,601

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, 2016.

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, 2015, upon which the 2016 levy was based, was $110,526,026,399.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2016, 99.54% of the current tax levy (October 1, 2015) was collected. The statutory lien date is January 1.

The methods of property assessment and tax collection are determined by Texas statutes. The statutes provide for a property tax code, countywide appraisal districts, a State property tax board, and certain exemptions from taxation, such as intangible personal property, household goods, and family-owned automobiles.

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District, the Williamson Central Appraisal District, and the Hays Central Appraisal District. The appraisal districts are required under the Property Tax Code to assess all real and personal property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every two years; however, the City may require more frequent reviews of appraised values at its own expense. The Travis Central Appraisal District and the Hays Central Appraisal District have chosen to review the value of property in their respective districts every two years, while the Williamson Central Appraisal District has chosen to review the value of property on an annual basis. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action.

The City is authorized to set tax rates on property within the city limits. However, if the effective tax rate, excluding tax rates for bonds, certificates of obligation, and other contractual obligations, as adjusted for new improvements and revaluation, exceeds the rate for the previous year by more than 8%, State statute allows qualified voters of the City to petition for an election to determine whether to limit the tax rate increase to no more than 8%.

The City is permitted by Article XI, Section 5 of the State of Texas Constitution to levy taxes up to $2.50 per $100 of assessed valuation for general governmental services, including the payment of principal and interest on general obligation long-term debt. Under the City charter, a limit on taxes levied for general governmental services, exclusive of payments of principal and interest on general obligation long-term debt, has been established at $1.00 per $100 assessed valuation. A practical limitation on taxes levied for debt service of $1.50 per $100 of assessed valuation is established by state statute and City charter limitations. Through contractual arrangements, Travis, Williamson, and Hays Counties bill and collect property taxes for the City.

The tax rate to finance general governmental functions, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2016, was $0.3527 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, 2016 was $0.1062 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $0.6473 per $100 assessed valuation, and could levy approximately $715,434,969 in additional taxes from the assessed valuation of $110,526,026,399 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, 2016, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Depreciable capital assets				
Building and improvements	$ 861,875	26,078	(7)	887,946
Plant and equipment	245,398	18,995	(4,827)	259,566
Vehicles	127,244	13,591	(5,714)	135,121
Infrastructure	2,494,659	199,115	(61)	2,693,713
Total depreciable capital assets	3,729,176	257,779	(10,609)	3,976,346
Less accumulated depreciation for				
Building and improvements	(311,378)	(25,276)	28	(336,626)
Plant and equipment	(168,406)	(21,578)	4,659	(185,325)
Vehicles	(80,684)	(10,421)	5,549	(85,556)
Infrastructure	(1,042,988)	(68,925)	--	(1,111,913)
Total accumulated depreciation	(1,603,456)	(126,200) (2)	10,236	(1,719,420)
Depreciable capital assets, net	2,125,720	131,579	(373)	2,256,926
Nondepreciable capital assets				
Land and improvements	368,037	14,066	(8,129)	373,974
Arts and treasures	9,233	124	--	9,357
Library collections	17,610	--	--	17,610
Construction in progress	271,795	152,767	(183,987)	240,575
Total nondepreciable assets	666,675	166,957	(192,116)	641,516
Total capital assets	$ 2,792,395	298,536	(192,489)	2,898,442

(1) Increases and decreases do not include transfers (at net book value) between Governmental Activities.

(2) Components of accumulated depreciation/amortization increases:

Governmental Activities:	
General government	$ 5,236
Public safety	14,656
Transportation, planning and sustainability	56,333
Public health	1,553
Public recreation and culture	16,718
Urban growth management	19,340
Internal service funds	12,364
Total increases in accumulated depreciation/amortization	$ 126,200

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Total

Capital asset activity for the year ended September 30, 2016, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Depreciable capital assets				
Building and improvements	$ 2,317,368	185,485	(11)	2,502,842
Plant and equipment	3,681,756	114,839	(4,433)	3,792,162
Vehicles	204,992	18,529	(9,868)	213,653
Electric plant	4,670,279	157,655	(23,375)	4,804,559
Non-electric plant	200,540	14,785	(19)	215,306
Nuclear fuel	345,841	16,872	--	362,713
Water rights	100,000	--	--	100,000
Total depreciable capital assets	11,520,776	508,165	(37,706)	11,991,235
Less accumulated depreciation/amortization for				
Building and improvements	(668,532)	(58,456)	7	(726,981)
Plant and equipment	(1,374,830)	(99,666)	3,305	(1,471,191)
Vehicles	(123,232)	(17,283)	7,898	(132,617)
Electric plant	(2,451,372)	(146,086)	14,930	(2,582,528)
Non-electric plant	(62,479)	(8,618)	10	(71,087)
Nuclear fuel	(299,017)	(17,075)	--	(316,092)
Water rights	(15,803)	(988)	--	(16,791)
Total accumulated depreciation/amortization	(4,995,265)	(348,172) (2)	26,150	(5,317,287)
Depreciable capital assets, net	6,525,511	159,993	(11,556)	6,673,948
Nondepreciable capital assets				
Land and improvements	593,807	56,742	(41)	650,508
Arts and treasures	3,864	217	--	4,081
Construction in progress	299,788	445,999	(404,633)	341,154
Plant held for future use	23,115	--	--	23,115
Total nondepreciable assets	920,574	502,958	(404,674)	1,018,858
Total capital assets	$ 7,446,085	662,951	(416,230)	7,692,806

(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	$ 173,774
Water	55,676
Wastewater	60,394
Airport	28,092
Convention Center	9,112
Environmental and health services	8,613
Public recreation	834
Urban growth management	11,677
Total increases in accumulated depreciation/amortization	$ 348,172

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Austin Energy

Capital asset activity for the year ended September 30, 2016, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets				
Vehicles	$ 30,586	2,484	(453)	32,617
Electric plant	4,670,279	157,655	(23,375)	4,804,559
Non-electric plant	200,540	14,785	(19)	215,306
Nuclear fuel	345,841	16,872	--	362,713
Total depreciable capital assets	5,247,246	191,796	(23,847)	5,415,195
Less accumulated depreciation/amortization for				
Vehicles	(23,640)	(1,995)	401	(25,234)
Electric plant	(2,451,372)	(146,086)	14,930	(2,582,528)
Non-electric plant	(62,479)	(8,618)	10	(71,087)
Nuclear fuel	(299,017)	(17,075)	--	(316,092)
Total accumulated depreciation/amortization	(2,836,508)	(173,774) (1)	15,341	(2,994,941)
Depreciable capital assets, net	2,410,738	18,022	(8,506)	2,420,254
Nondepreciable capital assets				
Land and improvements	63,913	628	(30)	64,511
Plant held for future use	23,115	--	--	23,115
Construction in progress	106,002	177,858	(181,787)	102,073
Total nondepreciable assets	193,030	178,486	(181,817)	189,699
Total capital assets	$ 2,603,768	196,508	(190,323)	2,609,953

(1) Components of accumulated depreciation/amortization increases:

Current year depreciation	$ 156,699
Current year amortization included in operating expense	17,075
Total increases in accumulated depreciation/amortization	$ 173,774

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Austin Water Utility

Capital asset activity for the year ended September 30, 2016, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets				
Building and improvements	$ 1,160,190	21,697	--	1,181,887
Plant and equipment	3,456,431	104,630	(1,301)	3,559,760
Vehicles	39,663	2,108	(1,069)	40,702
Water rights	100,000	--	--	100,000
Total depreciable capital assets	4,756,284	128,435	(2,370)	4,882,349
Less accumulated depreciation/amortization for				
Building and improvements	(255,516)	(23,999)	--	(279,515)
Plant and equipment	(1,289,518)	(88,633)	838	(1,377,313)
Vehicles	(29,844)	(2,450)	946	(31,348)
Water rights	(15,803)	(988)	--	(16,791)
Total accumulated depreciation/amortization	(1,590,681)	(116,070) (1)	1,784	(1,704,967)
Depreciable capital assets, net	3,165,603	12,365	(586)	3,177,382
Nondepreciable capital assets				
Land and improvements	230,920	14	(11)	230,923
Arts and treasures	84	19	--	103
Construction in progress	120,562	112,227	(92,374)	140,415
Total nondepreciable assets	351,566	112,260	(92,385)	371,441
Total capital assets	$ 3,517,169	124,625	(92,971)	3,548,823

(1) Components of accumulated depreciation/amortization increases:

Current year depreciation	
Water	$ 54,688
Wastewater	60,394
Current year amortization	
Water	988
Total increases in accumulated depreciation/amortization	$ 116,070

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport

Capital asset activity for the year ended September 30, 2016, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets				
Building and improvements	$ 825,117	159,788	--	984,905
Plant and equipment	28,212	3,028	(1,984)	29,256
Vehicles	12,214	2,866	(695)	14,385
Total depreciable capital assets	865,543	165,682	(2,679)	1,028,546
Less accumulated depreciation for				
Building and improvements	(267,970)	(25,116)	--	(293,086)
Plant and equipment	(15,658)	(1,584)	1,472	(15,770)
Vehicles	(6,570)	(1,392)	667	(7,295)
Total accumulated depreciation	(290,198)	(28,092) (1)	2,139	(316,151)
Depreciable capital assets, net	575,345	137,590	(540)	712,395
Nondepreciable capital assets				
Land and improvements	96,381	--	--	96,381
Arts and treasures	3,168	198	--	3,366
Construction in progress	14,077	67,259	(15,142)	66,194
Total nondepreciable assets	113,626	67,457	(15,142)	165,941
Total capital assets	$ 688,971	205,047	(15,682)	878,336

(1) Components of accumulated depreciation/amortization increases:

Current year depreciation	$ 28,092

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2016, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Depreciable capital assets				
Building and improvements	$ 332,061	4,000	(11)	336,050
Plant and equipment	197,113	7,181	(1,148)	203,146
Vehicles	122,529	11,071	(7,651)	125,949
Total depreciable capital assets	651,703	22,252	(8,810)	665,145
Less accumulated depreciation for				
Building and improvements	(145,046)	(9,341)	7	(154,380)
Plant and equipment	(69,654)	(9,449)	995	(78,108)
Vehicles	(63,178)	(11,446)	5,884	(68,740)
Total accumulated depreciation	(277,878)	(30,236) (2)	6,886	(301,228)
Depreciable capital assets, net	373,825	(7,984)	(1,924)	363,917
Nondepreciable capital assets				
Land and improvements	202,593	56,100	--	258,693
Arts and treasures	612	--	--	612
Construction in progress	59,147	88,655	(115,330)	32,472
Total nondepreciable assets	262,352	144,755	(115,330)	291,777
Total capital assets	$ 636,177	136,771	(117,254)	655,694

(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	$ 9,112
Environmental and health services	8,613
Public recreation	834
Urban growth management	11,677
Total increases in accumulated depreciation/amortization	$ 30,236

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Capitalized Interest
The City has recorded capitalized interest for fiscal year 2016 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Enterprise Funds		
Major fund:		
Airport	$	1,282
Nonmajor enterprise funds:		
Convention Center		654
Drainage		727

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 of $148.6 million, other assets of $12.6 million and deferred inflows of $147.8 million derived from three 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.

The City entered into a Master Lease Agreement with Austin CONRAC LLC, a corporation established to operate Austin's consolidated rent-a-car facility ("CONRAC"). The master lease, with a 20 year initial term and a 10 year extension option, provides for construction, financing, and management of a joint use facility. CONRAC began operations October 1, 2015. The operator pays annual rent of $900,000 to the Airport. The present value of the future rent payments was $13 million at lease inception. As of September 30, 2016, the unamortized balance was $12.6 million and is presented in other assets and deferred inflows of resources. The CONRAC was financed with $143 Million in City of Austin-issued Rental Car Special Facility Bonds, conduit debt secured by customer facilities charges (CFC). CFC funds are remitted by rental car concessionaires directly to the bond trustee. See Note 15 for conduit debt information. Construction costs totaled $151.5 million through September 30, 2016, and the City has recorded the asset with a corresponding deferred inflow of resources to be amortized over the 30 year term of the master lease agreement.

As of September 30, 2016, the City reported the following SCA activities (in thousands):

Service Concession Arrangement	Asset Construction Cost	Beginning Accumulated Depreciation	Current Year Depreciation	Ending Accumulated Depreciation	Net Book Value
Governmental Activities:					
Umlauf Sculpture Garden	$ 2,337	1,398	59	1,457	880
YMCA Northeast Recreation Center	1,333	94	33	127	1,206
Business-type Activities:					
CONRAC facility	151,565	--	5,052	5,052	146,513
	155,235	1,492	5,144	6,636	148,599

	Beginning Deferred Inflows	Beginning Accumulated Amortization	Current Year Amortization	Ending Accumulated Amortization	Ending Deferred Inflows
Governmental Activities:					
Umlauf Sculpture Garden	2,337	1,862	78	1,940	397
YMCA Northeast Recreation Center	1,333	345	67	412	921
Business-type Activities:					
CONRAC facility	151,565	--	5,052	5,052	146,513
CONRAC base rent agreement	13,041	--	436	436	12,605
	$ 168,276	2,207	5,633	7,840	160,436

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, 2016, were as follows (in thousands):

Description	October 1, 2015	Increases	Decreases	September 30, 2016	Amounts Due Within One Year
Governmental activities					
General obligation bonds, net	$ 1,030,680	275,111	(197,233)	1,108,558	58,614
Certificates of obligation, net	165,350	30,055	(29,204)	166,201	5,890
Contractual obligations, net	102,396	10,604	(11,988)	101,012	11,764
Debt service requirements total	1,298,426	315,770	(238,425)	1,375,771	76,268
Other long-term obligations					
Accrued compensated absences	132,389	4,805	(512)	136,682	60,643
Claims payable	47,464	26,485	(24,611)	49,338	24,523
Net pension liability	844,086	381,807	(100,603)	1,125,290	--
Other postemployment benefits	484,854	52,986	--	537,840	--
Other liabilities	92,306	5,984	(4,608)	93,682	79,587
Governmental activities total	2,899,525	787,837	(368,759)	3,318,603	241,021
Total business-type activities					
General obligation bonds, net	28,852	--	(4,779)	24,073	3,406
Certificates of obligation, net	40,695	20,637	(2,518)	58,814	2,141
Contractual obligations, net	54,686	5,590	(14,739)	45,537	12,082
Other tax supported debt, net	8,450	--	(795)	7,655	539
General obligation bonds and other tax supported debt total	132,683	26,227	(22,831)	136,079	18,168
Commercial paper notes, net	200,581	118,120	(188,785)	129,916	--
Revenue bonds, net	4,600,817	306,441	(328,766)	4,578,492	178,415
Capital lease obligations	1,089	--	(49)	1,040	51
Debt service requirements total	4,935,170	450,788	(540,431)	4,845,527	196,634
Other long-term obligations					
Accrued compensated absences	24,708	698	(301)	25,105	24,981
Net pension liability	445,809	239,367	(50,332)	634,844	--
Other postemployment benefits	292,845	32,899	--	325,744	--
Accrued landfill closure and postclosure costs	11,448	1,384	(229)	12,603	2,704
Decommissioning expense payable	183,008	3,801	(459)	186,350	7,333
Other liabilities	100,773	6,953	(17,174)	90,552	54,415
Business-type activities total	5,993,761	735,890	(608,926)	6,120,725	286,067
Total liabilities (1)	$ 8,893,286	1,523,727	(977,685)	9,439,328	527,088

(1) This schedule excludes select short-term liabilities of $92,125 for governmental activities. For business-type activities, it excludes select short-term liablities of $246,356, capital appreciation bond interest payable of $70,716 and derivative instruments of $96,675.

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

Description	October 1, 2015	Increases	Decreases	September 30, 2016	Amounts Due Within One Year
Business-type activities:					
Electric activities					
General obligation bonds, net	$ 529	--	(123)	406	127
General obligation bonds and other tax supported debt total	529	--	(123)	406	127
Commercial paper notes, net	32,046	55,700	--	87,746	--
Revenue bonds, net	1,410,643	--	(71,453)	1,339,190	44,278
Capital lease obligations	1,089	--	(49)	1,040	51
Debt service requirements total	1,444,307	55,700	(71,625)	1,428,382	44,456
Other long-term obligations					
Accrued compensated absences	10,257	61	(47)	10,271	10,271
Net pension liability	190,289	97,186	(21,118)	266,357	--
Other postemployment benefits	115,660	12,755	--	128,415	--
Decommissioning expense payable	183,008	3,801	(459)	186,350	7,333
Other liabilities	74,542	4,391	(11,961)	66,972	30,835
Electric activities total	2,018,063	173,894	(105,210)	2,086,747	92,895
Water and Wastewater activities					
General obligation bonds, net	2,856	--	(1,103)	1,753	856
Contractual obligations, net	7,087	2,369	(2,016)	7,440	1,830
Other tax supported debt, net	5,410	--	(509)	4,901	345
General obligation bonds and other tax supported debt total	15,353	2,369	(3,628)	14,094	3,031
Commercial paper notes, net	168,535	62,420	(188,785)	42,170	--
Revenue bonds, net	2,448,471	306,441	(225,108)	2,529,804	100,047
Debt service requirements total	2,632,359	371,230	(417,521)	2,586,068	103,078
Other long-term obligations					
Accrued compensated absences	5,472	203	(144)	5,531	5,531
Net pension liability	100,759	52,676	(11,278)	142,157	--
Other postemployment benefits	75,008	8,242	--	83,250	--
Other liabilities	13,073	2,075	(938)	14,210	14,210
Water and Wastewater activities total	2,826,671	434,426	(429,881)	2,831,216	122,819
Airport activities					
General obligation bonds, net	105	--	(25)	80	24
General obligation bonds and other tax supported debt total	105	--	(25)	80	24
Revenue bonds, net	566,098	--	(19,603)	546,495	21,940
Debt service requirements total	566,203	--	(19,628)	546,575	21,964
Other long-term obligations					
Accrued compensated absences	1,949	39	--	1,988	1,988
Net pension liability	30,903	16,875	(3,510)	44,268	--
Other postemployment benefits	19,737	2,198	--	21,935	--
Other liabilities	3,552	68	(577)	3,043	3,043
Airport activities total	622,344	19,180	(23,715)	617,809	26,995
Nonmajor activities					
General obligation bonds, net	25,362	--	(3,528)	21,834	2,399
Certificates of obligation, net	40,695	20,637	(2,518)	58,814	2,141
Contractual obligations	47,599	3,221	(12,723)	38,097	10,252
Other tax supported debt, net	3,040	--	(286)	2,754	194
General obligation bonds and other tax supported debt total	116,696	23,858	(19,055)	121,499	14,986
Revenue bonds, net	175,605	--	(12,602)	163,003	12,150
Debt service requirements total	292,301	23,858	(31,657)	284,502	27,136
Other long-term obligations					
Accrued compensated absences	7,030	395	(110)	7,315	7,191
Net pension liability	123,858	72,630	(14,426)	182,062	--
Other postemployment benefits	82,440	9,704	--	92,144	--
Accrued landfill closure and postclosure costs	11,448	1,384	(229)	12,603	2,704
Other liabilities	9,606	419	(3,698)	6,327	6,327
Nonmajor activities total	$ 526,683	108,390	(50,120)	584,953	43,358

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, 2016, including those reported in certain proprietary funds (in thousands):

Series	Fiscal Year	Original Amount Issue	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
NW Austin MUD - 2004	2005	$ 2,630	855	86	(1)(3)	4.05 - 4.30%	9/1/2017-2020
NW Austin MUD - 2006	2006	7,995	6,505	2,482	(1)(3)	4.00 - 4.25%	9/1/2017-2026
NW Austin MUD - 2009	2010	2,760	295	12	(1)(3)	4.25%	3/1/2017-2018
Mueller Contractual Obligation - 2006	2006	12,000	7,810	2,059	(1)(4)	4.00 - 5.00%	9/1/2017-2026
Public Improvement - 2007	2008	97,525	4,880	226	(1)	4.64%	9/1/2017
Certificates of Obligation - 2007	2008	3,820	180	9	(1)	4.88%	9/1/2017
Contractual Obligation - 2007	2008	9,755	720	27	(2)	3.66%	11/1/2016-2017
Public Improvement Refunding - 2008	2008	172,505	55,385	6,647	(1)	5.00%	9/1/2017-2021
Public Improvement - 2008	2009	76,045	60,755	23,196	(1)	3.75 - 5.00%	9/1/2017-2028
Certificates of Obligation - 2008	2009	10,700	7,720	2,483	(1)	4.00 - 5.00%	9/1/2017-2028
Public Improvement - 2009B	2009	78,460	78,460	29,457	(1)	4.15 - 5.31%	9/1/2017-2029
Certificates of Obligation - 2009	2009	12,500	8,610	4,367	(1)	3.00 - 4.75%	9/1/2017-2039
Contractual Obligation - 2009	2009	13,800	2,725	137	(2)	3.00 - 3.25%	11/1/2016-2019
Mueller Contractual Obligation - 2009	2010	15,000	11,225	3,507	(1)(4)	3.50 - 4.25%	9/1/2017-2029
Public Improvement - 2010A	2011	79,528	66,130	23,258	(1)	2.00 - 4.00%	9/1/2017-2030
Public Improvement - 2010B	2011	26,400	24,670	9,877	(1)	3.50 - 4.65%	9/1/2017-2030
Certificates of Obligation - 2010	2011	22,300	17,710	4,705	(1)	2.00 - 3.50%	9/1/2017-2030
Contractual Obligation - 2010	2011	16,450	3,665	63	(2)	1.50 - 1.75%	11/1/2016-2017
Public Improvement Refunding - 2010	2011	91,560	71,325	15,384	(1)	4.34 - 5.00%	9/1/2017-2023
Public Improvement - 2011A	2012	78,090	68,240	28,582	(1)	2.00 - 4.00%	9/1/2017-2031
Public Improvement - 2011B	2012	8,450	7,900	3,110	(1)	2.50 - 4.50%	9/1/2017-2031
Certificates of Obligation - 2011	2012	51,150	46,580	26,015	(1)	3.00 - 5.00%	9/1/2017-2041
Contractual Obligation - 2011	2012	26,725	10,410	316	(2)	2.00%	11/1/2016-2018
Public Improvement Refunding - 2011A	2012	68,285	24,975	4,451	(1)	4.00 - 5.00%	9/1/2017-2023
Public Improvement - 2012A	2013	74,280	70,945	27,624	(1)	3.00 - 5.00%	9/1/2023-2032
Public Improvement - 2012B	2013	6,640	5,265	1,541	(1)	2.00 - 3.50%	9/1/2017-2032
Certificates of Obligation - 2012	2013	24,645	21,445	6,957	(1)	3.00 - 4.00%	9/1/2017-2037
Contractual Obligation - 2012	2013	27,135	14,345	1,038	(2)	3.00 - 4.00%	11/1/2016-2019
Mueller Contractual Obligation - 2012	2013	16,735	14,775	4,933	(1)(4)	2.00 - 3.38%	9/1/2017-2032
Public Improvement - 2013	2014	104,665	94,705	48,999	(1)	4.00 - 5.00%	9/1/2017-2033
Certificates of Obligation - 2013	2014	25,355	24,565	13,335	(1)	3.25 - 5.00%	9/1/2017-2038
Contractual Obligation - 2013	2014	50,150	32,305	1,921	(2)	2.13 - 3.00%	11/1/2016-2020
Public Improvement Refunding - 2013A	2014	43,250	30,815	7,423	(1)	5.00%	9/1/2017-2024
Public Improvement Refunding - 2013B	2014	71,455	52,350	2,600	(1)	1.58 - 2.72%	9/1/2017-2020
Public Improvement - 2014	2015	89,915	89,655	61,150	(1)	3.00 - 5.00%	9/1/2017-2034
Public Improvement - 2014	2015	10,000	9,865	5,083	(1)	1.28 - 4.02%	9/1/2017-2034
Certificates of Obligation - 2014	2015	35,490	33,060	16,979	(1)	2.00 - 5.00%	9/1/2017-2034
Certificates of Obligation - 2014	2015	9,600	8,875	3,413	(1)	1.28 - 3.92%	9/1/2017-2034
Contractual Obligation - 2014	2015	14,100	12,760	1,904	(2)	3.00 - 5.00%	11/1/2016-2021
Mueller Contractual Obligation - 2014	2015	15,845	15,600	6,858	(1)(4)	3.00 - 5.00%	9/1/2017-2029
Public Improvement and Refunding - 2015	2016	236,905	231,935	89,178	(1)	2.95 - 5.00%	9/1/2017-2035
Public Improvement - 2015	2016	10,000	9,605	4,282	(1)	2.89 - 4.27%	9/1/2018-2035
Certificates of Obligation - 2015	2016	43,710	42,165	23,636	(1)	3.00 - 5.00%	9/1/2017-2035
Contractual Obligation - 2015	2016	14,450	13,570	2,373	(2)	2.00 - 5.00%	11/1/2016-2022
			$ 1,416,335				

(1) Interest is paid semiannually on March 1 and September 1.
(2) Interest is paid semiannually on May 1 and November 1.
(3) Includes Austin Water Utility principal of $4,901 and interest of $1,652 and Drainage Fund principal of $2,754 and interest of $928.
(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 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 $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.

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.

General obligation bonds authorized and unissued amounted to $210,230,000 at September 30, 2016. Bond ratings at September 30, 2016 were Aaa (Moody's Investors Service, Inc.), AAA (Standard & Poor's), and AAA (Fitch).

c -- Business-Type Activities Long-Term Liabilities

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

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

The total combined utility systems revenue bond obligations at September 30, 2016, exclusive of discounts, premiums, and loss on refundings consists of $27,844,345 prior lien bonds and $119,001,511 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $152,881,995 at September 30, 2016. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2016, for the prior lien and subordinate lien bonds were, respectively, Aa1 and Aa2 (Moody's Investors Service, Inc.), AA+ and AA (Standard & Poor's), and AA and AA- (Fitch).

Combined Utility Systems Debt -- Revenue Bond Refunding Issues - The combined utility systems have refunded various issues of revenue bonds, notes, and certificates of obligation through refunding revenue bonds. Principal and interest on these refunding bonds are payable solely from the combined net revenues of Austin Energy and Austin Water Utility. The prior lien bonds are subordinate only to the prior lien revenue bonds outstanding at the time of issuance, while the subordinate lien bonds are subordinate to prior lien revenue bonds and to subordinate lien revenue bonds outstanding at the time of issuance.

Some of these bonds are callable prior to maturity at the option of the City. The term bonds are subject to a mandatory redemption prior to the maturity dates as defined in the respective official statements.

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

The net proceeds of each of the refunding bond issuances were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service. As a result, the refunded bonds are considered to be legally defeased and the liability for the refunded bonds has been removed from the financial statements. The accounting gains and losses due to the advance refunding of debt have been deferred and are being amortized over the life of the refunding bonds by the straight-line method. However, a gain or loss on refunded bonds is recognized when funds from current operations are used.

Combined Utility Systems Debt -- Revenue Bond Cash Defeasance - In June 2016, the City defeased $750,323 of Water and Wastewater combined utility systems revenue bonds, Series 1994, with a $3,603,150 cash payment. The funds were deposited in an irrevocable escrow account to provide for the future debt service payments on the defeased bonds. The City is legally released from the obligation for the defeased debt.

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the refunding revenue bonds outstanding at September 30, 2016 (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	1,701	10,379 (2)	7.35%	11/15/2016-2017
1994 Refunding	1995	142,559	26,143	94,012 (2)	6.60%	5/15/2017-2019
1998 Refunding	1999	139,965	109,875	33,723 (1)	5.25%	5/15/2017-2025
1998A Refunding	1999	105,350	9,127	14,768 (2)	4.25%	5/15/2017-2020
			$ 146,846			

(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, 2016, were P-1 (Moody's Investors Service, Inc.), A-1 (Standard & Poor's), and F1 (Fitch). The notes are in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of Austin Energy and Austin Water Utility.

At September 30, 2016, Austin Energy had outstanding tax exempt commercial paper notes of $74,615,000 and Austin Water Utility had $42,170,000 of commercial paper notes outstanding with interest ranging from 0.48% to 0.80%, 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%	$ 116,785	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.

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

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, 2016, 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, 2016, Austin Energy had outstanding taxable commercial paper notes of $13,135,000 (net of discount of $4,496) with interest rates ranging from 0.65% to 0.67%. 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%	$ 13,135	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, 2016, were A1 (Moody's Investors Service, Inc.), AA- (Standard & Poor's), and AA- (Fitch).

Electric Utility System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all electric system refunding revenue bonds outstanding at September 30, 2016 (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	13,230	364 (1)	5.50%	11/15/2016
2006A Refunding	2007	137,800	4,360	109 (1)	5.00%	11/15/2016
2007 Refunding	2007	146,635	37,430	4,517 (1)	5.00%	11/15/2016-2020
2008 Refunding	2008	50,000	41,475	25,700 (1)	5.20 - 6.26%	11/15/2016-2032
2008A Refunding	2008	175,000	105,460	90,637 (1)	5.00 - 6.00%	11/15/2016-2038
2010A Refunding	2010	119,255	100,565	56,293 (1)	4.00 - 5.00%	11/15/2016-2040
2010B Refunding	2010	100,990	100,990	87,417 (1)	4.54 - 5.72%	11/15/2019-2040
2012A Refunding	2013	267,770	267,770	178,663 (1)	2.50 - 5.00%	11/15/2016-2040
2012B Refunding	2013	107,715	88,880	22,007 (1)	0.92 - 3.16%	11/15/2016-2027
2015A Refunding	2015	327,845	327,845	299,939 (1)	5.00%	11/15/2021-2045
2015B Refunding	2015	81,045	81,045	28,252 (1)	1.11 - 4.66%	11/15/2017-2037
			$ 1,169,050			

(1) Interest is paid semiannually on May 15 and November 15.

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

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, 2016 (in thousands):

Gross Revenue (1)	Operating Expense (2)(3)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
$ 1,378,749	989,768	388,981	127,731	3.05

(1) Gross revenue includes revenues from operations and interest income.
(2) Excludes depreciation.
(3) Excludes other postemployment benefits and net pension liability accruals.

Water and Wastewater System Revenue Debt -- General - The City is authorized by ordinance to issue Austin Water Utility revenue obligations. Proceeds from these obligations are used only to fund water and wastewater capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of the Austin Water Utility. Bond ratings at September 30, 2016, 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 June 2016, the City issued $247,770,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2016. The net proceeds of $305,325,500 (after issue costs, discounts, and premiums) from the bond refunding were used to refund $47,605,000 of the City's separate lien revenue refunding bonds, series 2006A and $63,355,000 of the City's separate lien revenue refunding bonds, series 2007. The debt service requirements on the refunding bonds are $234,417,650 with interest at a rate of 5.0%. Interest payments are due May 15 and November 15 of each year from 2016 to 2045. Principal payments are due November 15 of each year from 2019 to 2021, and 2025 to 2045. An economic gain of $16,822,415 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $23,551,752. An accounting loss of $3,818,585, which will be deferred and amortized, was recorded on this refunding.

Water and Wastewater System Revenue Debt -- Revenue Bond Cash Defeasance - In June 2016, the City defeased $12,830,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2009, with a $14,532,262 cash payment. The funds were deposited in an irrevocable escrow account to provide for the future debt service payments on the defeased bonds. The City is legally released from the obligation for the defeased debt.

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, 2016 (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	14,950	411	(1)	5.50%	11/15/2016	
2004A Refunding	2005	165,145	14,010	2,110	(1)	5.00%	11/15/2016-2019	
2006 Refunding	2006	63,100	2,935	73	(1)	5.00%	11/15/2016	
2006A Refunding	2007	135,000	3,165	79	(1)	5.00%	11/15/2016	
2007 Refunding	2008	135,000	6,275	334	(1)	5.25%	11/15/2016-2017	
2008 Refunding	2008	170,605	113,890	38,539	(2)	0.01 - 0.65%	11/15/2016-2031	(3)
2009 Refunding	2009	175,000	129,980	50,497	(1)	4.00 - 5.13%	11/15/2016-2029	
2009A Refunding	2010	166,575	143,645	100,582	(1)	4.00 - 5.00%	11/15/2016-2039	
2010	2010	31,815	27,565	--	(4)	0.00%	11/15/2016-2041	
2010A Refunding	2011	76,855	72,730	55,348	(1)	5.00 - 5.13%	11/15/2016-2040	
2010B Refunding	2011	100,970	98,410	82,337	(1)	2.91 - 6.02%	11/15/2016-2040	
2011 Refunding	2012	237,530	236,530	161,459	(1)	2.00 - 5.00%	11/15/2016-2041	
2011 Revenue	2012	18,485	12,977	1,953	(5)	2.80%	12/1/2016	
2011 Revenue	2012	2,332	1,143	172	(5)	2.80%	12/1/2016	
2012 Refunding	2012	336,820	287,125	181,204	(1)	2.50 - 5.00%	11/15/2016-2042	
2013A Refunding	2013	282,460	276,535	191,850	(1)	3.00 - 5.00%	11/15/2016-2043	
2014 Refunding	2014	282,205	282,205	222,627	(1)	4.00 - 5.00%	5/15/2018-2043	
2015A Refunding	2015	249,145	249,145	119,672	(1)	2.00 - 5.00%	11/15/2016-2036	
2015B Refunding	2015	40,000	38,920	2,818	(1)	0.98 - 2.54%	5/15/2017-2021	
2016 Refunding	2016	247,770	247,770	234,418	(1)	5.00%	11/15/2019-2045	
			$ 2,259,905					

(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%	$ 113,890	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.

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

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

Water and Wastewater System Revenue Debt -- Pledged Revenues - The net revenue of Austin Water Utility was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2016 (in thousands):

Gross Revenue (1)	Operating Expense (2)(3)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage (4)
$ 563,066	217,457	345,609	184,750	1.87

(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.

Airport Revenue Bonds -- General - The City's Airport Fund issues airport system revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. At September 30, 2016, the total airport system obligation for prior lien bonds is $519,908,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are $307,802,120 at September 30, 2016. Revenue bonds authorized and unissued amount to $735,795,000. Bond ratings at September 30, 2016, for the revenue bonds were A (Standard & Poor's) and A1 (Moody's Investors Service, Inc.).

The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2016 (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	181,925	42,012 (2)	0.02 - 0.59%	11/15/2016-2025
2013 Revenue	2013	60,000	59,120	9,197 (3)	2.25%	11/15/2016-2028 (4)
2013A Refunding	2014	35,620	34,368	570 (3)	1.56%	11/15/2016-2018
2014 Revenue	2015	244,495	244,495	256,023 (3)	5.00%	11/15/2026-2044
			$ 519,908			

(1) Series was remarketed in 2008.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate of 4.05% in effect at the end of the fiscal year.
(3) Interest is paid semiannually on May 15 and November 15.
(4) Series matures on May 15 of the final year.

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

The Series 2005 refunding bonds that were remarketed in 2008 are variable rate demand bonds. These bonds are separated into 4 subseries with a total principal amount of $181,925,000. 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%	$ 45,500	10/15/2018
2005-2	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	45,450	10/15/2018
2005-3	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	45,500	10/15/2018
2005-4	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	45,475	10/15/2018
					$ 181,925	

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, 2016. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

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

Airport Revenue Debt -- Pledged Revenues - The net revenue of the Airport Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding (including revenue bonds and revenue notes). The table below represents the pledged amounts at September 30, 2016 (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
$ 137,826	3,700	82,330	59,196	14,800	4.00

(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.

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

Nonmajor Fund Debt:

Convention Center -- Prior and Subordinate Lien Revenue Refunding Bonds - The City's Convention Center Fund issues convention center revenue bonds and hotel occupancy tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues and the special motor vehicle rental tax revenues. At September 30, 2016, the total convention center obligation for prior and subordinate lien bonds is $160,000,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $42,054,983 at September 30, 2016. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2016.

Bond ratings at September 30, 2016, 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, 2016 (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	30,510	11,772 (1)	4.00 - 5.00%	11/15/2016-2029
2008AB Refunding	2008	125,280	93,155	21,819 (2)	0.01 - 0.68%	11/15/2016-2029
2012 Refunding	2012	20,185	17,945	6,591 (1)	2.50 - 5.00%	11/15/2016-2029
2013 Refunding	2014	26,485	18,390	1,873 (1)	4.00 - 5.00%	11/15/2016-2019
			$ 160,000			

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate of 3.25% in effect at the end of the fiscal year.

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

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
2008-A	JPMorgan Chase Bank, NA	0.42%	Raymond James	0.06%	$ 46,575	10/1/2017
2008-B	JPMorgan Chase Bank, NA	0.42%	Merrill Lynch, Pierce, Fenner & Smith Inc.	0.05%	46,580	10/1/2017
					$ 93,155	

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, 2016. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

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

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

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
2017	$ 58,614	44,419	5,890	6,330	11,764	3,453
2018	57,671	42,180	5,932	6,136	13,325	3,092
2019	62,118	39,916	6,169	5,937	12,245	2,667
2020	64,996	37,349	6,334	5,726	10,424	2,283
2021	68,522	34,387	6,594	5,504	7,905	1,936
2022-2026	343,986	124,634	37,611	23,530	22,041	6,253
2027-2031	274,600	55,124	43,127	15,212	15,990	2,041
2032-2036	104,740	9,878	31,561	6,584	2,085	70
2037-2041	--	--	13,455	1,550	--	--
	1,035,247	387,887	156,673	76,509	95,779	21,795
Less: Unamortized bond discounts	(141)	--	--	--	(8)	--
Add: Unamortized bond premiums	73,452	--	9,528	--	5,241	--
Net debt service requirements	1,108,558	387,887	166,201	76,509	101,012	21,795

Fiscal Year Ended September 30	Total Governmental Debt Service Requirements Principal	Interest	Total
2017	76,268	54,202	130,470
2018	76,928	51,408	128,336
2019	80,532	48,520	129,052
2020	81,754	45,358	127,112
2021	83,021	41,827	124,848
2022-2026	403,638	154,417	558,055
2027-2031	333,717	72,377	406,094
2032-2036	138,386	16,532	154,918
2037-2041	13,455	1,550	15,005
	1,287,699	486,191	1,773,890
Less: Unamortized bond discounts	(149)	--	(149)
Add: Unamortized bond premiums	88,221	--	88,221
Net debt service requirements	$ 1,375,771	486,191	1,861,962

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
2017	$ 3,406	1,017	2,141	2,260	12,082	1,241
2018	3,725	870	2,223	2,195	11,050	922
2019	3,171	715	2,321	2,128	9,195	605
2020	3,118	586	2,421	2,052	6,851	339
2021	3,254	443	2,541	1,970	3,285	162
2022-2026	5,939	551	14,658	8,333	1,669	73
2027-2031	--	--	17,252	4,921	--	--
2032-2036	--	--	9,589	1,424	--	--
2037-2041	--	--	1,090	105	--	--
2042-2046	--	--	--	--	--	--
	22,613	4,182	54,236	25,388	44,132	3,342
Less: Unamortized bond discounts	(6)	--	--	--	--	--
Add: Unamortized bond premiums	1,466	--	4,578	--	1,405	--
Net debt service requirements	24,073	4,182	58,814	25,388	45,537	3,342

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
2017	539	470	129,920	67	178,415	228,889
2018	545	467	--	--	133,517	238,511
2019	455	575	--	--	132,734	207,346
2020	776	258	--	--	169,308	179,557
2021	820	226	--	--	184,730	168,360
2022-2026	4,520	584	--	--	982,425	711,811
2027-2031	--	--	--	--	906,320	490,754
2032-2036	--	--	--	--	602,980	319,828
2037-2041	--	--	--	--	609,756	160,685
2042-2046	--	--	--	--	355,524	37,379
	7,655	2,580	129,920	67	4,255,709	2,743,120
Less: Unamortized bond discounts	--	--	(4)	--	(2,066)	--
Add: Unamortized bond premiums	--	--	--	--	324,849	--
Net debt service requirements	$ 7,655	2,580	129,916	67	4,578,492	2,743,120

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

(Continued)

(2) A portion of these bonds are variable rate bonds with rates ranging from 0.01% to 0.68%.
(3) Portions of these bonds are Special Assessment Revenue Bonds.

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

Business-type Activities, continued
(in thousands)

Fiscal Year Ended September 30	Capital Lease Obligations		Total Business-Type Activities Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
2017	$ 51	75	326,554	234,019	560,573
2018	55	73	151,115	243,038	394,153
2019	57	70	147,933	211,439	359,372
2020	60	67	182,534	182,859	365,393
2021	63	64	194,693	171,225	365,918
2022-2026	369	269	1,009,580	721,621	1,731,201
2027-2031	385	146	923,957	495,821	1,419,778
2032-2036	--	--	612,569	321,252	933,821
2037-2041	--	--	610,846	160,790	771,636
2042-2046	--	--	355,524	37,379	392,903
	1,040	764	4,515,305	2,779,443	7,294,748
Less: Unamortized bond discounts	--	--	(2,076)	--	(2,076)
Add: Unamortized bond premiums	--	--	332,298	--	332,298
Net debt service requirements	$ 1,040	764	4,845,527	2,779,443	7,624,970

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 Principal	General Obligation Bonds Interest	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Bonds Principal	Revenue Bonds Interest
2017	$ 127	9	87,750	53	44,278	61,128
2018	115	7	--	--	39,376	59,398
2019	109	5	--	--	41,632	54,834
2020	50	2	--	--	47,368	53,011
2021	4	--	--	--	46,866	51,084
2022-2026	--	--	--	--	263,390	219,663
2027-2031	--	--	--	--	267,435	154,914
2032-2036	--	--	--	--	192,010	101,711
2037-2041	--	--	--	--	179,105	52,170
2042-2046	--	--	--	--	130,085	16,757
	405	23	87,750	53	1,251,545	824,670
Less: Unamortized bond discounts	--	--	(4)	--	(292)	--
Add: Unamortized bond premiums	1	--	--	--	87,937	--
Net debt service requirements	406	23	87,746	53	1,339,190	824,670

Fiscal Year Ended September 30	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Austin Energy Debt Service Requirements Principal	Total Austin Energy Debt Service Requirements Interest	Total Austin Energy Debt Service Requirements Total
2017	51	75	132,206	61,265	193,471
2018	55	73	39,546	59,478	99,024
2019	57	70	41,798	54,909	96,707
2020	60	67	47,478	53,080	100,558
2021	63	64	46,933	51,148	98,081
2022-2026	369	269	263,759	219,932	483,691
2027-2031	385	146	267,820	155,060	422,880
2032-2036	--	--	192,010	101,711	293,721
2037-2041	--	--	179,105	52,170	231,275
2042-2046	--	--	130,085	16,757	146,842
	1,040	764	1,340,740	825,510	2,166,250
Less: Unamortized bond discounts	--	--	(296)	--	(296)
Add: Unamortized bond premiums	--	--	87,938	--	87,938
Net debt service requirements	$ 1,040	764	1,428,382	825,510	2,253,892

(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		Contractual Obligations		Other Tax Supported Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 856	75	1,830	221	345	301
2018	599	35	1,608	174	349	299
2019	101	7	1,352	126	291	368
2020	64	5	1,052	83	497	165
2021	36	2	671	50	525	145
2022-2026	13	1	594	28	2,894	374
2027-2031	--	--	--	--	--	--
2032-2036	--	--	--	--	--	--
2037-2041	--	--	--	--	--	--
2042-2046	--	--	--	--	--	--
	1,669	125	7,107	682	4,901	1,652
Less: Unamortized bond discounts	--	--	--	--	--	--
Add: Unamortized bond premiums	84	--	333	--	--	--
Net debt service requirements	1,753	125	7,440	682	4,901	1,652

Fiscal Year Ended September 30	Commercial Paper Notes (1)		Revenue Bonds (2) (3)		Total Austin Water Utility Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2017	42,170	14	100,047	140,610	145,248	141,221	286,469
2018	--	--	57,792	152,887	60,348	153,395	213,743
2019	--	--	53,733	127,666	55,477	128,167	183,644
2020	--	--	82,120	103,224	83,733	103,477	187,210
2021	--	--	102,634	95,401	103,866	95,598	199,464
2022-2026	--	--	530,525	403,386	534,026	403,789	937,815
2027-2031	--	--	530,600	276,131	530,600	276,131	806,731
2032-2036	--	--	354,505	174,836	354,505	174,836	529,341
2037-2041	--	--	358,601	81,223	358,601	81,223	439,824
2042-2046	--	--	153,699	13,229	153,699	13,229	166,928
	42,170	14	2,324,256	1,568,593	2,380,103	1,571,066	3,951,169
Less: Unamortized bond discounts	--	--	(1,311)	--	(1,311)	--	(1,311)
Add: Unamortized bond premiums	--	--	206,859	--	207,276	--	207,276
Net debt service requirements	$ 42,170	14	2,529,804	1,568,593	2,586,068	1,571,066	4,157,134

(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% - 0.65%.
(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		Revenue Bonds (1)	
	Principal	Interest	Principal	Interest
2017	$ 24	2	21,940	21,211
2018	21	2	23,744	20,757
2019	20	1	24,249	19,897
2020	10	--	26,135	18,933
2021	2	--	26,150	17,954
2022-2026	1	--	137,610	74,802
2027-2031	--	--	59,825	56,282
2032-2036	--	--	56,465	43,281
2037-2041	--	--	72,050	27,292
2042-2046	--	--	71,740	7,393
	78	5	519,908	307,802
Less: Unamortized bond discounts	--	--	(314)	--
Add: Unamortized bond premiums	2	--	26,901	--
Net debt service requirements	80	5	546,495	307,802

Fiscal Year Ended September 30	Total Airport Debt Service Requirements		
	Principal	Interest	Total
2017	21,964	21,213	43,177
2018	23,765	20,759	44,524
2019	24,269	19,898	44,167
2020	26,145	18,933	45,078
2021	26,152	17,954	44,106
2022-2026	137,611	74,802	212,413
2027-2031	59,825	56,282	116,107
2032-2036	56,465	43,281	99,746
2037-2041	72,050	27,292	99,342
2042-2046	71,740	7,393	79,133
	519,986	307,807	827,793
Less: Unamortized bond discounts	(314)	--	(314)
Add: Unamortized bond premiums	26,903	--	26,903
Net debt service requirements	$ 546,575	307,807	854,382

(1) Portions of these bonds are variable rate bonds with rates ranging from 0.02% to 0.59%.

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
2017	$ 2,399	931	2,141	2,260	10,252	1,020
2018	2,990	826	2,223	2,195	9,442	748
2019	2,941	702	2,321	2,128	7,843	479
2020	2,994	579	2,421	2,052	5,799	256
2021	3,212	441	2,541	1,970	2,614	112
2022-2026	5,925	550	14,658	8,333	1,075	45
2027-2031	--	--	17,252	4,921	--	--
2032-2036	--	--	9,589	1,424	--	--
2037-2041	--	--	1,090	105	--	--
	20,461	4,029	54,236	25,388	37,025	2,660
Less: Unamortized bond discounts	(6)	--	--	--	--	--
Add: Unamortized bond premiums	1,379	--	4,578	--	1,072	--
Net debt service requirements	21,834	4,029	58,814	25,388	38,097	2,660

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
2017	194	169	12,150	5,940	27,136	10,320	37,456
2018	196	168	12,605	5,469	27,456	9,406	36,862
2019	164	207	13,120	4,949	26,389	8,465	34,854
2020	279	93	13,685	4,389	25,178	7,369	32,547
2021	295	81	9,080	3,921	17,742	6,525	24,267
2022-2026	1,626	210	50,900	13,960	74,184	23,098	97,282
2027-2031	--	--	48,460	3,427	65,712	8,348	74,060
2032-2036	--	--	--	--	9,589	1,424	11,013
2037-2041	--	--	--	--	1,090	105	1,195
	2,754	928	160,000	42,055	274,476	75,060	349,536
Less: Unamortized bond discounts	--	--	(149)	--	(155)	--	(155)
Add: Unamortized bond premiums	--	--	3,152	--	10,181	--	10,181
Net debt service requirements	$ 2,754	928	163,003	42,055	284,502	75,060	359,562

(1) A portion of these bonds are variable rate bonds with rates ranging from 0.01% to 0.68%.

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, 2016, defeased bonds remaining unredeemed or unmatured are provided below (in thousands):

Refunded Bonds	Escrow Maturity	Balance (1)
General Obligation		
Certificates of Obligations, Series 2007	9/1/2017	$ 2,375
Public Improvement Bonds, Series 2007	9/1/2017	87,945
Austin Water Utility		
Series 2006	11/15/2016	34,160
Series 2006A	11/15/2016	111,485
Series 2007	11/15/2017	110,940
Series 2009A	11/15/2018	4,565
Austin Energy		
Series 2006	11/15/2016	123,200
Series 2006A	11/15/2016	44,700
Series 2008A	11/15/2018	68,340
Series 2010A	11/15/2016	1,320
		$ 589,030

(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, 2015. 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 on the greater of 20 years or years of service at time of death. If surviving spouse exists, each dependent receives 15% of the payment paid to the surviving spouse. If no surviving spouse exists, dependents split equally the amount that would have been paid to surviving spouse.
Disability Benefits	After approved for disability benefits, active members may choose from several different disability retirement options. Must have 5 years of service if disability is not job related.	After approved for disability benefits, if disability is the result of employment duties, benefit is based on the greater of 20 years or normal retirement calculation. Must have 10 years of service if disability is not job related.	For the first 30 months, eligible for retiree benefits based on the greater of service at time of disability or 20 years. After 30 months, continuance of annuity may be reevaluated.
Cost of Living Adjustments (COLA)	The plan does not require COLAs. Such increases must be deemed sustainable by the actuary and approved by the City Council and Board of Trustees of the fund. The most recent COLA was put into effect in 2002.	The plan does not require COLAs. Such increases must be approved by the Board of Trustees and the actuary of the fund. The most recent COLA was put into effect in 2007.	The plan does not require COLAs. Such increases must be approved by the Board of Trustees and the actuary of the fund. The most recent COLA was put into effect for 2015.

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

Employees Covered by Benefit Terms: Membership in the plans, is as follows:

As of December 31:	**City Employees 2015**	**Police Officers 2014**	**Fire Fighters 2014**
Inactive employees or beneficiaries currently receiving benefits	5,679	727	676
Inactive employees entitled to but not yet receiving benefits	2,389	27	5
Active employees	9,063	1,777	1,025
Total	17,131	2,531	1,706

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%	18.20% (1)
City contribution (percent of earnings)	18.00% (2)	21.313%	22.05%
City contributions year ended September 30, 2016 (in thousands)	$102,609	33,141	19,145

(1) A rate of 18.70% was effective October 1, 2016.
(2) The City contributes two-thirds of the cost of prior service benefit payments. A rate of 18% was effective October 1, 2012.

The City's net pension liability was measured as of December 31, 2015 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, 2014 using the final 2015 assumptions and then was rolled forward to the plan's year ending December 31, 2015.

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

	City Employees	**Police Officers**	**Fire Fighters**
Inflation rate	2.75%	3.25%	3.00%
Projected annual salary increases	4.00% to 6.25%	0.1% to 18.00% (1) Service based	1.00% to 6.00% Service based
Investment rate of return	7.50%	7.80%	7.70%
Ad hoc postemployment benefit changes including COLAs	None	None	None
Dates of experience studies	2011 - 2015	2014 - 2015	2004 – 2014
Source for mortality assumptions	RP-2014 Mortality Table with Blue Collar adjustment. Generational mortality improvements in accordance with Scale BB are projected from the year 2014.	RP-2000 Combined Healthy without projection - Sex Distinct.	RP2000 (Fully Generational using Scale AA) set back two years for males and females - Sex Distinct.

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

7 – RETIREMENT PLANS, continued

b -- Net Pension Liability

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
City Employees:		
International equity	30.00%	6.41%
US equity	30.00%	3.82%
Fixed income	24.50%	1.75%
Alternative investments	10.00%	5.00% to 8.75%
Real estate	5.50%	4.75%
Total	100.00%	
Police Officers:		
Domestic equity	30.00%	7.50%
International equity	15.00%	8.50%
Domestic fixed income	5.00%	2.50%
Global fixed income	5.00%	3.50%
Real estate	15.00%	4.50%
Alternative investments	22.50%	2.50%
Timber	5.00%	2.50%
Cash	2.50%	0.00%
Total	100.00%	
Fire Fighters:		
Public domestic equity	20.00%	5.40%
Public foreign equity	22.00%	7.50%
Private equity fund of funds	10.00%	5.70%
Private equity directs	5.00%	7.50%
Investment grade bonds	13.00%	0.70%
Treasury inflation protected securities	5.00%	0.40%
High yield/bank loans	5.00%	3.00%
Emerging market debt	7.00%	3.50%
Core real estate	5.00%	4.00%
Non-core real estate	5.00%	5.30%
Natural resources	3.00%	6.10%
Total	100.00%	

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

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

	City Employees	Police Officers	Fire Fighters
Single discount rate	7.50%	7.80%	7.70%
Change since last measurement date	(0.25%)	(0.10%)	None
Long-term expected rate of return on pension plan investments	7.50%	7.80%	7.70%
Cash flow assumptions	Plan member contributions will be made at the current rate. City contributions will be made at the current rate for 33 years and then will decrease to 8%.	Plan member contributions will be made at current contribution rates. City contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the member rate.	Plan member contributions will be made at current contribution rates. City contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the member rate.

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
City Employees	6.50%	$ 1,654,883	7.50%	$ 1,246,992	8.50%	$ 906,949
Police Officers	6.80%	500,407	7.80%	384,735	8.80%	286,545
Fire Fighters	6.70%	224,760	7.70%	128,407	8.70%	47,350

Pension Plan Fiduciary Net Position. Detailed information about the pension plans' fiduciary net position is available in the separately issued financial report of each of the pension systems. 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, 2015 are as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
Total pension liability at December 31, 2014 (a)	$ 3,094,056	971,623	861,468	4,927,147
Changes for the year:				
Service cost	93,506	32,138	23,309	148,953
Interest	236,844	76,999	66,405	380,248
Benefit changes	--	(4,080)	--	(4,080)
Differences between expected and actual experience	13,414	(6,318)	7,193	14,289
Assumption changes	123,493	3,904	--	127,397
Contribution buy back	--	4,648	--	4,648
Benefit payments including refunds	(169,517)	(50,005)	(44,757)	(264,279)
Net change in total total pension liability	297,740	57,286	52,150	407,176
Total pension liability at December 31, 2015 (b)	$ 3,391,796	1,028,909	913,618	5,334,323
Total plan fiduciary net position at December 31, 2014 (c)	$ 2,209,800	638,019	789,433	3,637,252
Changes for the year:				
Employer contributions	100,485	33,239	19,222	152,946
Employee contributions	54,066	20,061	15,547	89,674
Contribution buy back	--	4,648	--	4,648
Pension plan net investment income (loss)	(47,608)	(322)	6,328	(41,602)
Benefits payments and refunds	(169,517)	(50,005)	(44,757)	(264,279)
Pension plan administrative expense	(2,422)	(1,466)	(562)	(4,450)
Net change in total plan fiduciary net position	(64,996)	6,155	(4,222)	(63,063)
Total plan fiduciary net position at December 31, 2015 (d)	$ 2,144,804	644,174	785,211	3,574,189
Net pension liability at December 31, 2014 (a-c)	$ 884,256	333,604	72,035	1,289,895
Net pension liability at December 31, 2015 (b-d)	$ 1,246,992	384,735	128,407	1,760,134

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

The City Employees' fund had no changes of benefit terms that affected the total pension liability for the measurement period, however significant changes to assumptions were made as the result of an experience study of the five years ending December 31, 2015. These changes include:

- Decreasing the inflation assumption from 3.25% to 2.75%,
- Reducing the investment rate of return assumption from 7.75% to 7.5%,
- Decreasing the salary increase assumption from 4.5% to 4.0%,
- Increasing new entrant pay from 3.75% to 4.0%,
- Reducing the assumed retirement rates at most ages to better reflect the emerging trend of members retiring at later ages,
- Lowering termination rates and using a select table based on a three year select period for withdrawal rates, and
- Using the RP-2014 blue collar mortality table for males and females project from 2014 to 2026 using mortality improvement scale BB with a 62% weighting of males and a 38% weighting of females. Previously the RP-2000 white collar mortality tables were used.

The Police Officers' fund had a change in benefits and several changes in assumptions that affected the measurement of the total pension liability for the measurement period. In February 2016, the pension board approved modifications to the Forward DROP program for members with less than 23 years of creditable service as of the date of adoption.

Changes to assumptions included:

- Decreasing the investment return assumption from 7.90% to 7.80% per year compounded annually, net of expenses, and
- Slightly modifying the withdrawal rate table.

The Fire Fighters' fund had no significant changes of assumptions or other inputs and no changes of benefit terms 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, 2016, was comprised of the following (in thousands):

	Pension Expense
City Employees	$ 194,661
Police Officers	49,176
Fire Fighters	29,749
Total	$ 273,586

7 – RETIREMENT PLANS, continued
d -- Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2016 the City reported deferred outflows of resources related to pensions from the following sources (in thousands):

Source	City Employees	Police Officers	Fire Fighters	Total
Contributions to the plans subsequent to the measurement date	$ 75,132	24,299	13,994	113,425
Differences between expected and actual experience	31,097	--	6,293	37,390
Changes in assumptions	99,785	14,823	3,798	118,406
Net difference between projected and actual earnings on pension plan investments	216,981	47,822	52,690	317,493
Total	$ 422,995	86,944	76,775	586,714

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
2017	$ 90,722	14,346	15,401	120,469
2018	90,722	14,346	15,401	120,469
2019	90,503	14,346	15,401	120,250
2020	70,425	12,000	12,252	94,677
2021	5,491	1,804	1,442	8,737
Thereafter	--	5,803	2,884	8,687
Total	$ 347,863	62,645	62,781	473,289

Only one fund, the Police Officer's fund, had deferred inflow balances at September 30, 2016. Deferred inflows arising from differences between expected and actual experience totaled $5,687,000 at September 30, 2016. For each of the years 2017 through 2021, the City will recognize $632,000 in pension expense and will recognize an additional $2,527,000 thereafter.

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 pay-as-you-go cost of providing medical and life benefits was $39.3 million for 4,644 retirees in 2016 and $39.5 million for 4,431 retirees in 2015.

b -- Annual Other Postemployment Benefits (OPEB) Cost and Net OPEB Obligation

The annual cost associated with the City's OPEB retiree benefits for the fiscal year ended September 30, 2016 is as follows (in thousands):

	OPEB Obligation
Annual required contribution	$ 136,706
Interest on net OPEB obligation	32,742
Adjustment to annual required contribution	(44,249)
Annual OPEB cost	125,199
Contributions made	(39,314)
Change in net OPEB obligation	85,885
Beginning net OPEB obligation	777,699
Net OPEB obligation	$ 863,584

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
2014	$ 124,861	27%	690,265
2015	126,916	31%	777,699
2016	125,199	31%	863,584

c -- Schedule of Funding Progress at September 30, 2016 (in thousands):

Actuarial Value of Assets	Actuarial Accrued Liability	UAAL (1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
$ --	1,527,927	1,527,927	0%	808,529	189.0%

(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.

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	None
Salary increase	None
Payroll Increase	None
Health care cost trend rate	6.5% in 2016, 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.

The City implemented GASB Statement No. 72, *Fair Value Measurement and Application,* for the fiscal year ended September 30, 2016. This statement provides guidance for measuring the fair value of assets and liabilities, including liabilities arising in connection with hedging derivative instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, which is the City's fiscal year end date of September 30. This accounting standard requires consideration of nonperformance risk when measuring the fair value of a liability and to consider the effect of the government's own credit quality and any other factors that might affect the likelihood that the obligation will or will not be fulfilled.

a -- Energy Risk Management Program

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

9 – DERIVATIVE INSTRUMENTS, continued
a -- Energy Risk Management Program, continued

Hedging Derivative Instruments

Natural Gas Derivatives
Austin Energy purchases financial contracts on the New York Mercantile Exchange (NYMEX) to provide a hedge against the physical delivery price of natural gas from its various hubs. Austin Energy enters into basis swaps to protect delivery price differences between Henry Hub and its natural gas delivery points, Western Area Hub Association (WAHA), Katy, and the Houston Ship Channel (HSC).

The fair value of futures, swaps, and basis swap contracts is determined using the NYMEX closing settlement prices as of the last day of the reporting period, hierarchy level 2 market approach. The fair value is calculated by deriving the difference between the closing futures price on the last day of the reporting period and purchase price at the time the positions were established. The fair value of the options are categorized as hierarchy level 2, calculated using the Black/Scholes valuation method utilizing implied volatility based on the NYMEX closing settlement prices of the options as of the last day of the reporting period, including any necessary price analysis adjustments, risk free interest rate, time to maturity, and the NYMEX forward price of the underlier as of the last day of the reporting period.

Premiums paid for options are deferred until the contract is settled. As of September 30, 2016, $139 thousand in premiums was deferred. As of September 30, 2016, the fair value of Austin Energy's futures, options, swaps and congestion revenue rights, was an unrealized loss of $24.2 million, of which $26.1 million is reported as derivative instruments in liabilities and $1.9 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, 2016, PCRRs had a fair value of $570 thousand and CRRs had a fair value of $751 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, hierarchy level 2 market approach. The difference in the prices represents what the expected cost of congestion will be for that given point in time.

On September 30, 2016, Austin Energy had the following outstanding hedging derivative instruments (in thousands):

			Fair Value at September 30, 2016				
Type of Transaction		**Reference Index**	**Maturity Dates**	**Notional Volumes**	**Fair Value**	**Change in Fair Value**	**Premiums Deferred**
Long	OTC Call Options	Henry Hub	Oct 2016 - Dec 2019	13,715,000 (1)	$ 600	(4,274)	3,667
n/a	Congestion Rights	ICE (2)	Oct 2016- Jun 2018	21,784,913 (3)	1,321	(738)	--
			Derivative instruments (assets)		1,921	(5,012)	3,667
Short	OTC Call Options	Henry Hub	Oct 2016	(150,000) (1)	--	236	--
Short	OTC Put Options	Henry Hub	Oct 2016 - Dec 2019	(13,715,000) (1)	(10,339)	4,783	(3,528)
Long	OTC Swaps	Henry Hub	Oct 2016 - Sep 2020	13,382,500 (1)	(15,812)	20,581	--
			Derivative instruments (liabilities)		(26,151)	25,600	(3,528)
				Total	$ (24,230)	20,588	139

(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, 2016, the brokerages had credit ratings of A.

The over-the-counter agreements expose Austin Energy to credit risk; however, at September 30, 2016, 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, 2016, no collateral was required under these provisions.

The congestion revenue rights expose Austin Energy to custodial credit risk in the event of default or nonperformance by ERCOT. 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, 2016, the NYMEX price was $2.95 per MMBTU (one million British thermal unit, a measurement of heating value), the WAHA Hub price was $2.80 per MMBTU, Katy was $2.81 per MMBTU, and the HSC Hub price was $2.94 per MMBTU.

Investment Derivative Instruments

In fiscal year 2016 Austin Energy sold PCRRs and recorded a gain of $4 thousand. However, this gain was deferred under the accounting requirements for regulated operations. At September 30, 2016, $283 thousand remained deferred.

Risks

As of September 30, 2016, Austin Energy was not exposed to credit, interest, or foreign currency risk on its investment derivative instruments.

b -- Variable Rate Debt Management Program
Hedging Derivative Instruments

The intention of each of the City's swaps is to provide a cash flow hedge for its variable interest rate bonds by providing synthetic fixed rate bonds. As a means to lower its borrowing costs when compared against fixed rate bonds at the time of issuance, the City executed pay-fixed, receive-variable swaps in connection with its issuance of variable rate bonds.

9 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

As of September 30, 2016, the City has three outstanding swap transactions with initial and outstanding notional amounts totaling $602.1 million and $389.0 million, respectively. The fair values of the interest rate derivative transactions were estimated based on an independent pricing service. The valuations provided were derived from proprietary models based upon well-recognized principles and estimates about relevant future market conditions. The expected transaction cash flows are calculated using the zero-coupon discounting method which takes into consideration the prevailing benchmark interest rate environment, the specific terms and conditions of a given transaction, and assumes that the current forward rates implied by the benchmark yield curve are the market's best estimate of future spot interest rates. The income approach is then used to obtain the fair value of the transactions, where future amounts (the expected transaction cash flows) are converted to a single current amount, discounted using a rate of return that takes into account the relative risk of nonperformance associated with the cash flows. Where applicable under the income approach an option pricing model is applied such as the Black-Scholes-Merton model, the Black-Derman-Toy model, one of the short-rate models, or other market standard models consistent with accepted practices in the market for interest rate option products. The option models consider probabilities, volatilities, time, settlement prices, and other variables pertinent to the transactions. This valuation technique is applied consistently across all the transactions. Given the observability of inputs significant to the measurements, the fair values of the transactions are categorized as Level 2.

On September 30, 2016, 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	$ 113,890	(23,426)
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Pay 4.051%, receive 71% of LIBOR	8/17/2005	11/15/2025	181,925	(32,027)
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	93,155	(15,071)
					$ 388,970	(70,524)

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, 2016 (in thousands):

	Outstanding Notional	Fair Value and Classification		Change in fair value	
Item	Amount	Amount	Classification	Deferred Outflows	Deferred Inflows
Business-Type Activities:					
Hedging derivative instruments (cash flow hedges):					
WW2	$ 113,890	(23,426)	Non-current liability	(1,829)	--
AIR1	181,925	(32,027)	Non-current liability	2,202	--
HOT1	93,155	(15,071)	Non-current liability	(562)	--
	$ 388,970	(70,524)		(189)	--

9 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

Due to the continued low interest rate levels during fiscal year 2016, the City's interest rate swap hedging derivative instruments had negative fair values as of September 30, 2016. The fair value takes into consideration nonperformance risk, the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received.

Risks

Credit risk. As of September 30, 2016, the City was not exposed to credit risk on any of its outstanding swap agreements because each swap had a negative fair value. However, should interest rates change and the fair value of a swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value.

The counterparty credit ratings for the City's interest rate swap hedging derivative instruments at September 30, 2016, 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, LLC	A3	BBB+	A
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Morgan Keegan Financial Products (MKFP)	Baa2	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, 2016, are included in the table below (in thousands):

	Related Variable Rate	**Counterparty Swap Interest**			**Interest to**	**Net Interest**
Item	**Bonds**	**Pay**	**Receive**	**Net**	**Bondholders**	**Payments**
Business-Type Activities:						
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	$ (4,111)	246	(3,865)	(251)	(4,116)
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	(7,510)	486	(7,024)	(398)	(7,422)
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	(3,056)	244	(2,812)	(217)	(3,029)
		$ (14,677)	976	(13,701)	(866)	(14,567)

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, 2016, the City bears basis risk on the two remaining swaps. These swaps have basis risk since the City receives a percentage of LIBOR to offset the actual variable rate the City pays on the related bonds. The City is exposed to basis risk should the floating rate that it receives on a swap drop below the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is the risk of a permanent mismatch occurring between the interest rate paid on the City's underlying variable rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds. For example, a grandfathering of the elimination of federal tax-exemption on existing tax-exempt bonds, or a tax cut, would result in the yields required by investors on the City's bonds coming close to or being equal to taxable yields. This would result in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 71% of LIBOR on AIR1, and 67% of LIBOR on Swap HOT1 and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Nonperformance/Termination risk. The City or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased swap insurance on the Swap AIR1 to further reduce the possibility of termination risk.

Rollover risk. The City is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the City will be re-exposed to the risks being hedged by the hedging derivative instrument. The City is currently not exposed to rollover risk on its hedging derivative instruments.

Investment Derivative Instruments

At September 30, 2016, the City did not have any investment derivative instruments related to interest rate swaps.

c – Swap Payments and Associated Debt

As of September 30, 2016, 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
2017	$ 12,255	309	13,830	14,139
2018	12,600	324	13,371	13,695
2019	28,525	284	12,451	12,735
2020	31,935	220	11,315	11,535
2021	31,010	153	10,183	10,336
2022-2026	188,375	(203)	32,265	32,062
2027-2031	84,270	(384)	8,252	7,868
Total	$ 388,970	703	101,667	102,370

10 – DEFICITS IN FUND BALANCES AND NET POSITION

At September 30, 2016, 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	$ 23
Neighborhood Housing & Conservation	6,326
City Hall	21
Capital Projects Funds:	
Other funds	
General government projects	538
Public Works	218
Watershed Protection	718
City Hall, plaza, parking garage	7,032
Internal Service Funds	
Capital Projects Management	1,808
Nonmajor Enterprise	
Austin Resource Recovery	50,773
Transportation	25,616

11 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables, payables, and advances at September 30, 2016, are as follows (in thousands):

	Due From					
Due To	Nonmajor Governmental	Austin Energy	Austin Water Utility	Nonmajor Enterprise	Internal Service	Total
General	$ --	204	--	--	--	204
Nonmajor governmental	15,560	--	--	--	--	15,560
Austin Water Utility	--	261	--	--	--	261
Airport	--	157	--	--	--	157
Nonmajor enterprise	--	--	301	1,732	--	2,033
Internal Service	--	--	--	--	1,005	1,005
Total	$ 15,560	622	301	1,732	1,005	19,220

Interfund receivables (due from) and payables (due to) reflect short term loans between funds, mainly the result of short term deficits in pooled investments and cash ($18.3 million). Deficits in grant funds awaiting reimbursement from grantors ($9.7 million) was borrowed from the Fiscal Surety Fund.

	Advance To						
Advance From	Nonmajor Governmental	Austin Energy	Austin Water Utility	Airport	Nonmajor Enterprise	Internal Service	Total
General	$ --	861	--	--	--	--	861
Nonmajor governmental	7,882	238	--	51	370	42	8,583
Austin Water Utility	977	16,766	--	--	--	--	17,743
Airport	--	666	--	--	--	--	666
Nonmajor enterprise	657	--	2,405	--	--	--	3,062
Total	$ 9,516	18,531	2,405	51	370	42	30,915

11 – INTERFUND BALANCES AND TRANSFERS, continued

Advances to and advances from reflect borrowings that will not be liquidated within one year. Of the above amounts, $7.1 million is an interfund loan between capital projects funds, the CTM Fund and City Hall Fund, to cover long term deficit pooled investment and cash. A five-year plan to address the deficit will begin in 2017. The advance to Austin Water Utility from Austin Energy funded the Combined Utility System Revenue Bond Retirement Reserve Account. Austin Energy funded the entire reserve, which replaced an insurance policy previously held for combined lien reserve, on behalf of both enterprise funds.

	Transfers In						
Transfers Out	**General Fund**	**Nonmajor Governmental**	**Austin Energy**	**Airport**	**Nonmajor Enterprise**	**Internal Service**	**Total**
General Fund	$ --	25,380	13	--	853	--	26,246
Nonmajor governmental funds	--	36,565	820	5	76,771	--	114,161
Austin Energy	114,090	--	--	--	--	113	114,203
Austin Water Utility	42,805	793	--	--	266	--	43,864
Airport	--	--	10	--	--	432	442
Nonmajor enterprise funds	306	8,297	24	--	179	--	8,806
Internal service funds	--	20,095	--	--	109	590	20,794
Total	$ 157,201	91,130	867	5	78,178	1,135	328,516

Interfund transfers are authorized through City Council approval. Significant transfers include: Austin Energy and Austin Water Utility transfers to the General Fund ($156.9 million), which are comparable to a return on investment to owners; the transfer of tax collections from the Hotel-Motel Occupancy Tax ($63.3 million) and the Vehicle Rental Tax ($9 million) special revenue funds to the Convention Center; and the transfer of $18.1 million from the General Fund to capital projects funds for facility maintenance and upgrades to key information technology systems.

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 $76 million in 2016. 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, 2016, 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 2016, the Airport fund revenues included minimum concession guarantees of $20,856,591.

12 – SELECTED REVENUES, continued
a -- Major Enterprise Funds, continued

The following is a schedule by year of minimum future rentals on non-cancelable operating leases with remaining terms of up to 80 years for the Airport Fund as of September 30, 2016 (in thousands):

Fiscal Year Ended September 30	Airport Lease Receipts
2017	$ 22,933
2018	22,422
2019	22,216
2020	21,709
2021	21,698
2022-2026	109,283
2027-2031	20,510
2032-2036	10,755
2037-2041	7,977
Thereafter	3,571
Totals	$ 263,074

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
2017	$ 2,123
2018	1,773
2019	1,686
2020	1,627
2021	1,187
2022-2026	5,091
Totals	$ 13,487

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 $32.5 million as of September 30, 2016. The decrease in the pro-rata interest from 2015 is primarily due to a decrease in coal inventory and construction work in progress. 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.

13 – COMMITMENTS AND CONTINGENCIES, continued

b -- South Texas Project

Austin Energy is one of three participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are NRG South Texas LP and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2016, Austin Energy's investment in the STP was approximately $375.4 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, 2016, the trust's assets were in excess of the estimated liability by $31.5 million which is reported as part of deferred inflows of resources (in thousands):

Decommissioning trust assets	$ 210,545
Pro rata decommissioning liability	(179,017)
	$ 31,528

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.

d -- Purchased Power

Austin Energy has commitments totaling $6.5 billion to purchase energy and capacity through purchase power agreements. This amount includes provisions for wind power through 2041, landfill power through 2017, 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. At September 30 2016, the financial statements includes a $7.3 million short-term decommissioning liability related to Holly and a $400 thousand short-term environmental liability related to Fayette and Decker, classified as other liabilities. The amount is based on 2016 cost estimates to perform remediation and decommissioning. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

13 – COMMITMENTS AND CONTINGENCIES, continued
e -- Decommissioning and Environmental/Pollution Remediation Contingencies, continued

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, 2016. Austin Water Utility anticipates payment of these costs in 2017. The amount is based on 2016 cost estimates to perform remediation and decommissioning. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

f -- Arbitrage Rebate Payable

The City's arbitrage consultant has determined that the City has not earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. Therefore, the City will not be required to rebate any amounts to the federal government. There are no estimated payables at September 30, 2016.

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 Agriculture. 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 2016 Capital Budget has substantial contractual commitments relating to its capital improvement plan.

The key projects in progress include improvements to and development of the electric system, water and wastewater systems, airport, transportation infrastructure, public recreation and culture activities, and urban growth management activities. Remaining commitments represent current unspent budget and future costs required to complete projects.

Project (in thousands)	Remaining Commitment
Governmental activities:	
General government	$ 52,656
Public safety	22,828
Transportation	74,847
Public health	7,881
Public recreation and culture	81,428
Urban growth management	27,801
Business-type activities:	
Electric	170,878
Water	159,484
Wastewater	141,037
Airport	347,238
Convention	47,545
Environmental and health services	1,818
Urban growth management	140,101
Total	$ 1,275,542

13 – COMMITMENTS AND CONTINGENCIES, continued

i -- Encumbrances

The City utilizes encumbrances to track commitments against budget in governmental funds. The amount of outstanding encumbrances at September 30, 2016, is as follows (in thousands):

	Encumbrances
General Fund	$ 16,373
Nonmajor governmental	
Special Revenue	22,900
Capital Projects	99,802
	$ 139,075

Significant encumbrances include reservations for the 2012 bond program ($32,198), Communications and Technology Management ($14,248), and the Library Automation System ($13,104).

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 2018. 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, 2016, is as follows (in thousands):

	Closure	Postclosure	Total
Total estimated costs	$ 21,103	9,899	31,002
% capacity used	100%	100%	100%
Cumulative liability accrued	21,103	9,899	31,002
Costs incurred	(18,399)	--	(18,399)
Closure and postclosure liability	$ 2,704	9,899	12,603

These amounts are based on the 2016 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 24% of City employees and 31% of retirees use the HMO option; approximately 71% of City employees and 68% of retirees use the PPO option; and approximately 5% of City employees and 0.17% 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.

13 – COMMITMENTS AND CONTINGENCIES, continued
k -- Risk Related Contingencies, continued

The City purchases stop-loss insurance for the City's PPO and HMO. This stop-loss insurance covers individual claims that exceed $500,000 per calendar year, up to a maximum of $5 million. In fiscal year 2016, sixteen claims exceeded the stop-loss limit of $500,000; during fiscal year 2015, fourteen claims exceeded the stop-loss limit of $500,000, and during fiscal year 2014, sixteen 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 $49.3 to $56.7 million. In accordance with GAAP, $49.3 million is recognized as claims payable in the financial statements with $24.5 million recognized as a current liability and $24.8 million recognized as long term. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

Changes in the balances of claims liability are as follows (in thousands):

	Employee Benefits		Liability Reserve		Workers' Compensation	
	2016	2015	2016	2015	2016	2015
Liability balances, beginning of year	$ 13,286	11,699	9,337	10,581	24,841	21,526
Claims and changes in estimates	17,904	15,136	3,929	4,640	4,651	7,124
Claim payments	(16,880)	(13,549)	(3,902)	(5,884)	(3,828)	(3,809)
Liability balances, end of year	$ 14,310	13,286	9,364	9,337	25,664	24,841

The Liability Reserve Fund claims liability balance at fiscal year-end includes liabilities of $3.3 million discounted at 3.19% in 2016 and $3.2 million discounted at 3.91% in 2015.

l -- Redevelopment of Robert Mueller Municipal Airport

In December 2004, City Council approved a master development agreement with Catellus Development Group (Catellus) to develop approximately 700 acres at the former site of the City's municipal airport into a mixed-use urban village near downtown Austin. Catellus is currently developing and marketing the property. The Mueller Local Government Corporation (MLGC), created by the City for this development, issues debt to fund infrastructure such as streets, drainage facilities, public parks, and greenways, which are supported by taxes generated from this development.

In September 2006, the MLGC issued debt in the amount of $12 million. Proceeds of the debt have been used to reimburse the developer for eligible infrastructure such as streets, drainage, and parks. Debt service payments are funded through an economic development grant from the City of Austin, and supported by sales tax proceeds from the development.

The MLGC has three additional debt issuances: October 2009 ($15,000,000), October 2012 ($16,735,000), and October 2014 ($15,845,000). Proceeds from the debt have been used to reimburse the developer for additional eligible infrastructure. Debt service payments are funded by property tax proceeds from the Mueller Tax Increment Reinvestment Zone.

The development contains over 1.33 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, 2016, approximately 1,529 single-family homes and 1,981 multi-family units were either complete or under construction. Catellus has also started the infrastructure for an additional 195 single-family homes.

13 – COMMITMENTS AND CONTINGENCIES, continued
m -- No-Commitment Special Assessment Debt

In November 2011, the City issued $15,500,000 of Special Assessment Revenue Bonds, Senior Series 2011 related to the Whisper Valley Public Improvement District. The bonds are special obligations of the City payable solely from the assessments levied against parcels within the Public Improvement District and other pledged funds held under the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. The City is acting as an agent for the property owners within the district in collecting the future assessments, forwarding collections to trustees, approving bond proceed disbursements, and initiating any future foreclosures. At September 30, 2016, annual future installments of $23,391,807 remain to be billed against the original levied assessments of $26,910,817. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2016 are $14,875,000 and $414,980, respectively.

In November 2011, the City issued $2,860,000 of Special Assessment Revenue Bonds, Senior Series 2011 related to the Indian Hills Public Improvement District. The bonds are special obligations of the City payable solely from the assessments levied against parcels within the Public Improvement District and other pledged funds held under the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. The City is acting as an agent for the property owners within the district in collecting the future assessments, forwarding collections to trustees, approving bond proceed disbursements, and initiating any future foreclosures. At September 30, 2016, annual future installments of $4,559,072 remain to be billed against the original levied assessments of $5,250,575. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2016 are $2,745,000 and $358, 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. At September 30, 2016, annual future installments of $23,500,825 remain to be billed against the original levied assessments of $27,039,350. The aggregate principal outstanding at September 30, 2016 is $11,960,000.

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, 2016, under capital lease obligations (in thousands):

Capital Assets	Austin Energy
Building and improvements	$ 1,405
Accumulated depreciation	(492)
Net capital assets	$ 913

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, 2016, was $21.3 million.

Fiscal Year Ended September 30	Future Lease Payments
2017	$ 12,156
2018	9,977
2019	5,073
2020	3,407
2021	2,276
2022-2026	6,970
Totals	$ 39,859

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, 2016. 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, 2016, $71.8 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 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, 2016, $146.7 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	$ 133,834
Capital assets	216,202
Other noncurrent assets	13,344
Total assets	363,380
Deferred outflows of resources	34,997
LIABILITIES	
Other current liabilities	22,206
Other noncurrent liabilities	221,597
Total liabilities	243,803
Deferred inflows of resources	270
NET POSITION	
Net investment in capital assets	38,560
Restricted	24,907
Unrestricted	90,837
Total net position	$ 154,304

16 – SEGMENT INFORMATION – CONVENTION CENTER, continued

Condensed Statement of Revenues, Expenses, and Changes in Net Position

OPERATING REVENUES		
User fees and rentals	$	33,221
Total operating revenues		33,221
OPERATING EXPENSES		
Operating expenses before depreciation		48,401
Depreciation and amortization		9,112
Total operating expenses		57,513
Operating income (loss)		(24,292)
Nonoperating revenues (expenses)		(36,730)
Transfers		71,894
Change in net position		10,872
Total net position - beginning		143,432
Total net position - ending	$	154,304

Condensed Statement of Cash Flows

Net cash provided (used) by:		
Operating activities	$	(14,210)
Noncapital financing activities		71,553
Capital and related financing activities		(26,152)
Investing activities		271
Net increase (decrease) in cash and cash equivalents		31,462
Cash and cash equivalents, October 1		91,063
Cash and cash equivalents, September 30	$	122,525

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, 2015. The condensed financial statements of Waller Creek Local Government Corp. are presented for the year ended September 30, 2016 (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	$ 1,045	7,983	--	9,028
Capital assets	23,374	166,143	--	189,517
Noncurrent assets	2,005	73,727	--	75,732
Total assets	26,424	247,853	--	274,277
Deferred outflows of resources	--	17,860	--	17,860
LIABILITIES				
Current Liabilities	6,212	13,978	--	20,190
Bonds payable, net of discount and inclusive of premium	58,678	245,632	--	304,310
Noncurrent liabilities	7	--	--	7
Total liabilities	64,897	259,610	--	324,507
NET POSITION				
Net investment in capital assets	(35,305)	(65,435)	--	(100,740)
Restricted	--	21,427	--	21,427
Unrestricted (deficit)	(3,168)	50,111	--	46,943
Total net position	$ (38,473)	6,103	--	(32,370)

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	$ 17,507	81,058	--	98,565
Contributions	--	--	200	200
Total operating revenues	17,507	81,058	200	98,765
OPERATING EXPENSES				
Operating expenses before depreciation	13,142	43,604	200	56,946
Depreciation and amortization	1,293	8,915	--	10,208
Total operating expenses	14,435	52,519	200	67,154
Operating income (loss)	3,072	28,539	--	31,611
NONOPERATING REVENUES (EXPENSES)				
Nonoperating revenues (expenses)	(4,591)	(15,808)	--	(20,399)
Change in net position	(1,519)	12,731	--	11,212
Total net position - beginning	(36,954)	(6,628)	--	(43,582)
Total net position - ending	$ (38,473)	6,103	--	(32,370)

18 – SUBSEQUENT EVENTS

a -- General Obligation Bond Issue

In October 2016, the City issued $98,365,000 of Public Improvement and Refunding Bonds, Series 2016. The net proceeds of $51,810,000 (after issue costs, discounts, and premiums) from the non-refunding portion of the issue will be used as follows: streets and mobility ($22,380,000), parks and recreation ($13,625,000), and facility improvements ($15,805,000). The net proceeds of the refunding portion of $68,557,045 were used to refund $56,905,000 Public Improvement Bonds, Series 2008 and $6,755,000 Certificates of Obligation, Series 2008. These bonds will be amortized serially on September 1 of each year from 2017 to 2036. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2017. Total interest requirements for these bonds, at rates ranging from 2.0% to 5.0%, are $43,356,567.

In October 2016, the City issued $44,015,000 of Certificates of Obligation, Series 2016. The net proceeds of $53,550,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: watershed home buyouts (50,000,000), and the Central Library ($3,550,000). These certificates of obligation will be amortized serially on September 1 of each year from 2017 to 2036. Interest is payable on March 1 and September 1 of each year, commencing on March 1, 2017. Total interest requirements for these obligations, at rates ranging from 2.0% to 5.0%, are $25,209,767.

In October 2016, the City issued $22,555,000 of Public Property Finance Contractual Obligations, Series 2016. The net proceeds of $25,070,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: capital equipment ($16,470,000), and CTM network equipment ($8,600,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2017 to 2023. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2017. Total interest requirements for these obligations, at rates ranging from 2.0% to 5.0%, are $3,734,764.

In October 2016, the City issued $12,000,000 of Public Improvement Taxable Bonds, Series 2016. The net proceeds of $12,176,103 (after issue costs, discounts, and premiums) from the issuance were used for affordable housing ($10,000,000) and for Austin Film Studios ($2,000,000). Interest is payable March 1 and September 1 of each year from 2017 to 2036, commencing on March 1, 2017. Principal payments are due September 1 of each year from 2017 to 2036. Total interest requirements for this obligation, at rates ranging from 1.8% to 4.0% are $3,889,491.

In October 2016, the City issued $8,700,000 of Certificates of Obligation Bonds, Taxable Series 2016. The net proceeds of $8,827,815 (after issue costs, discounts, and premiums) from the issuance were used for the Seaholm Garage. Interest is payable March 1 and September 1 of each year from 2017 to 2036, commencing on March 1, 2017. Principal payments are due September 1 of each year from 2017 to 2036. Total interest requirements for this obligation, at rates ranging from 1.8% to 4.0% are $2,817,885.

18 – SUBSEQUENT EVENTS, continued
b – Water and Wastewater – System Revenue Bond Issue

In November 2016, the City issued $20,430,000 of Water and Wastewater System Revenue Bonds, Series, 2016A. This is a private placement structured through a memorandum with the Texas Water Development Board (TWDB). Project funds of $19,119,376 will be used as follows: improving and extending the Water/Wastewater system. The debt service requirements on the bonds are $24,155,813 with interest rates ranging from 0.5% to 2.1%. Interest payments are due May 15 and November 15 of each year from 2017 to 2036. Principal payments are due November 15 of each year from 2017 to 2036.

c – Convention Center – Town Lake Park Community Events Center Venue Project Refunding Bonds

In November 2016, the City issued 29,080,000 of Town Lake Park Community Events Center Venue Project Refunding Bonds, Series 2016. The bonds were issued via private placement bonds. Proceeds from the bonds were used to refund $28,920,000 of the City's Series 2005 Venue Project Refunding bonds. Interest is payable May 15 and November 15 of each year from 2017 to 2029, commencing on May 15, 2017. Principal payments are due November 15 of each year from 2017 to 2029. Total interest requirements at a rate of 1.875% are $3,945,923.

d – Airport – System Revenue Bond Issue

In February 2017, the City issued $185,300,000 of Airport System Revenue Bonds, Series 2017A. The net proceeds of $213,319,508 (after issue costs, discounts, and premiums) from the issuance are being used for parking garage project construction. Interest is payable May 15 and November 15 of each year from 2017 to 2046, commencing on May 15, 2017. Principal payments are due November 15 of each year from 2026 to 2046. Total interest requirements for these obligations, at a constant rate of 5.00%, are $199,610,319.

Additionally in February 2017, the City issued $129,665,000 of Airport System Revenue Bonds, Series 2017B (AMT). The bonds are subject to the alternative minimum tax (AMT). The net proceeds of $146,104,969 (after issue costs, discounts, and premiums) from the issuance are being used for expansion and improvements to the terminal and apron. Interest is payable May 15 and November 15 of each year from 2017 to 2046, commencing on May 15, 2017. Principal payments are due November 15 of each year from 2026 to 2046. Total interest requirements for these obligations, a constant rate of 5.0% are $139,677,305.

e – Austin Energy – System Revenue Bond Issue

In February 2017, the City issued $101,570,000 of Electric Utility System Revenue Refunding Bonds, Series 2017. The net proceeds of $113,890,104 (after issue costs, premium and discounts) from the issuance are being used to refund $105,460,000 in series 2008A Revenue Refunding Bonds. Interest is payable May 15 and November 15 of each year from 2017 to 2038, commencing on May 15, 2017. Principal payments are due November 15 of each year from 2019 to 2038. Total interest requirements for this obligation, with rates ranging from 4.0% to 5.0% are $79,171,457.

REQUIRED SUPPLEMENTARY INFORMATION

(In thousands)

General Fund	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance (3) Positive (Negative)
REVENUES						
Taxes	$ 607,361	100	607,461	605,178	605,178	2,283
Franchise fees	36,678	(8)	36,670	38,462	38,462	(1,792)
Fines, forfeitures and penalties	15,027	--	15,027	16,826	16,826	(1,799)
Licenses, permits and inspections	47,470	(10)	47,460	41,748	41,748	5,712
Charges for services/goods	59,062	2,501	61,563	58,425	58,425	3,138
Interest and other	15,205	(10,030)	5,175	3,701	3,701	1,474
Total revenues	780,803	(7,447)	773,356	764,340	764,340	9,016
EXPENDITURES						
General government						
Municipal Court	20,844	362	21,206	21,449	21,449	243
Public safety						
Police	326,680	42,700	369,380	372,270	373,770	4,390
Fire	164,499	15,590	180,089	176,503	176,503	(3,586)
Emergency Medical Services	67,859	9,374	77,233	78,888	78,888	1,655
Transportation, planning, and sustainability						
Transportation, planning, and sustainability	814	486	1,300	1,300	1,300	--
Public health						
Health	72,333	2,023	74,356	74,608	74,768	412
Public recreation and culture						
Parks and Recreation	67,623	7,931	75,554	75,324	75,742	188
Austin Public Library	37,787	4,007	41,794	42,339	42,339	545
Urban growth management						
Neighborhood Planning and Zoning	34,411	6,736	41,147	41,148	41,148	1
Other urban growth management	32,406	308	32,714	34,017	34,017	1,303
General city responsibilities (4)	106,985	(102,491)	4,494	4,711	4,711	217
Total expenditures	932,241	(12,974)	919,267	922,557	924,635	5,368
Excess (deficiency) of revenues over expenditures	(151,438)	5,527	(145,911)	(158,217)	(160,295)	14,384
OTHER FINANCING SOURCES (USES)						
Transfers in	157,201	42,535	199,736	197,023	199,101	635
Transfers out	(26,246)	(54,566)	(80,812)	(73,038)	(79,426)	(1,386)
Total other financing sources (uses)	130,955	(12,031)	118,924	123,985	119,675	(751)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(20,483)	(6,504)	(26,987)	(34,232)	(40,620)	13,633
Special item - land sale	4,309	--	4,309	--	4,309	--
Fund balance at beginning of year	177,163	2,949	180,112	166,374	167,174	12,938
Fund balance at end of year	$ 160,989	(3,555)	157,434	132,142	130,863	26,571

(1) Includes adjustments to expenditures for current year encumbrances, payments against prior year encumbrances, compensated absences, and amounts budgeted as operating transfers.
(2) Includes adjustments to revenues/transfers required for adjusted budget basis presentation.
(3) Variance is actual-budget basis to final budget.
(4) Actual expenditures include employee training costs and amounts budgeted as fund-level expenditures or operating transfers. Actual-budget basis expenditures include employee training costs and amounts budgeted as fund-level expenditures.

BUDGET BASIS REPORTING

a -- General

The City of Austin prepares its annual operating budget based on the modified accrual basis. Encumbrances constitute the equivalent of expenditures for budgetary purposes. In order to provide a meaningful comparison of actual results to the budget, the Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual-Budget Basis for the General Fund presents the actual and actual-budget basis amounts in comparison with original and final budgets.

The General Fund, as reported in the financial statements is comprised of ten separately budgeted funds: the Budgetary General Fund, as budgeted by the City, plus the Budget Stabilization Reserve, Community Development Incentives, Economic Development, Economic Incentives Reserve, Emergency Reserve, Green Water Treatment Plant Land Sale Proceeds, 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 ($2,954,289) and interdepartmental charges ($1,292,136).

b -- Budget Amendments

The original revenue budget of the General Fund was not amended during fiscal year 2016. The original expenditure budget of the General Fund was amended during fiscal year 2016 to increase expenditures due to additional public safety support for the Spring Festival Season ($1.5 million), increase in childcare services for families in the Passage Program ($160 thousand), and to PARD to hire temporary and seasonal staff for the 2016 summer swim season ($418 thousand). These amounts were appropriated from the Budget Stabilization Reserve.

c -- Reconciliation of GAAP Basis and Budget Basis Amounts

The primary differences between GAAP-basis and budget-basis reporting for the General Fund are the reporting of encumbrances and the reporting of certain transfers. General Fund accrued payroll is recorded at the department level on a GAAP basis and as an expenditure in the general city responsibilities activity on the budget basis. Adjustments necessary to convert the excess revenues and other sources over expenditures and other uses on a GAAP basis to a budget basis for the activities comprising the General Fund are provided, as follows (in thousands):

	General Fund
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	$ (20,483)
Adjustments - increases (decreases) due to:	
Unbudgeted revenues	(603)
Net compensated absences accrual	(325)
Outstanding encumbrances established in current year	(15,772)
Payments against prior year encumbrances	9,151
Other	1,045
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	$ (26,987)

RETIREMENT PLANS-TREND INFORMATION

Changes in net pension liability for each pension plan for the measurement periods ended December 31, 2014 and 2015 are presented in the next three schedules:

Schedule of Changes in the City Employees' Net Pension Liability and Related Ratios (in thousands)

	2014	2015
Beginning total pension liability (a)	$ 2,909,918	3,094,056
Changes for the year:		
Service cost	89,235	93,506
Interest	222,710	236,844
Differences between expected and actual experience	33,911	13,414
Assumption changes	--	123,493
Benefit payments including refunds	(161,718)	(169,517)
Net change in total pension liability	184,138	297,740
Ending total pension liability (b)	$ 3,094,056	3,391,796
Beginning total plan fiduciary net position (c)	$ 2,130,624	2,209,800
Changes for the year:		
Employer contributions	93,331	100,485
Employee contributions	50,490	54,066
Pension plan net investment income (loss)	99,704	(47,608)
Benefits payments and refunds	(161,718)	(169,517)
Pension plan administrative expense	(2,631)	(2,422)
Net change in plan fiduciary net position	79,176	(64,996)
Ending total plan fiduciary net position (d)	$ 2,209,800	2,144,804
Beginning net pension liability (a-c)	$ 779,294	884,256
Ending net pension liability (b-d)	$ 884,256	1,246,992
Plan fiduciary net position as a percentage of the total pension liability (d/b)	71.42%	63.24%
Covered payroll (1)	$ 514,787	546,058
City's net pension liability as a percentage of covered payroll (1)	171.77%	228.36%

(1) "Covered-employee payroll" for 2014 was restated to "covered payroll" to conform with the requirements of GASB Statement No. 82.

RETIREMENT PLANS-TREND INFORMATION, continued

Notes to Changes in the City Employees' Net Pension Liability and Related Ratios

The City Employees' fund had no significant changes of benefit terms, and no other significant factors that affected measurement of the total pension liability during the period ending December 31, 2015; however, significant changes to assumptions were made as the result of an experience study of the five years ending December 31, 2015, including:

- Decreasing the inflation assumption from 3.25% to 2.75%,
- Reducing the investment rate of return assumption from 7.75% to 7.5%,
- Decreasing the salary increase assumption from 4.5% to 4.0%,
- Increasing new entrant pay from 3.75% to 4.0%,
- Reducing the assumed retirement rates at most ages to better reflect the emerging trend of members retiring at later ages,
- Lowering termination rates and using a select table based on a three year select period for withdrawal rates, and
- Using the RP-2014 blue collar mortality table for males and females project from 2014 to 2026 using mortality improvement scale BB with a 62% weighting of males and a 38% weighting of females. Previously the RP-2000 white collar mortality tables were used.

RETIREMENT PLANS-TREND INFORMATION, continued

Schedule of Changes in the Police Officers' Net Pension Liability and Related Ratios (in thousands)

	2014	2015
Beginning total pension liability (a)	$ 909,000	971,623
Changes for the year:		
Service cost	30,254	32,138
Interest	72,443	76,999
Benefit changes	(11,015)	(4,080)
Differences between expected and actual experience	--	(6,318)
Assumption changes	14,137	3,904
Contribution buy back	2,207	4,648
Benefit payments including refunds	(45,403)	(50,005)
Net change in total pension liability	62,623	57,286
Ending total pension liability (b)	$ 971,623	1,028,909
Beginning total plan fiduciary net position (c)	$ 595,110	638,019
Changes for the year:		
Employer contributions	32,400	33,239
Employee contributions	19,458	20,061
Contribution buy back	2,207	4,648
Pension plan net investment income (loss)	35,574	(322)
Benefits payments and refunds	(45,403)	(50,005)
Pension plan administrative expense	(1,327)	(1,466)
Net change in plan fiduciary net position	42,909	6,155
Ending total plan fiduciary net position (d)	$ 638,019	644,174
Beginning net pension liability (a-c)	$ 313,890	333,604
Ending net pension liability (b-d)	$ 333,604	384,735
Plan fiduciary net position as a percentage of the total pension liability (d/b)	65.67%	62.61%
Covered payroll (1)	$ 149,686	152,696
City's net pension liability as a percentage of covered payroll (1)	222.87%	251.96%

(1) "Covered-employee payroll" for 2014 was restated to "covered payroll" to conform with the requirements of GASB Statement No. 82.

Notes to Changes in the Police Officers' Net Pension Liability and Related Ratios

The Police Officers' fund had no significant changes of benefit terms, and no other significant factors that affected measurement of the total pension liability during the period ending December 31, 2015. The investment return assumption was decreased from 7.90% to 7.80%, resulting in a decrease of 0.20% in the last two years.

RETIREMENT PLANS-TREND INFORMATION, continued

Schedule of Changes in the Fire Fighters' Net Pension Liability and Related Ratios (in thousands)

	2014	2015
Beginning total pension liability (a)	$ 806,282	861,468
Changes for the year:		
Service cost	25,319	23,309
Interest	62,977	66,405
Differences between expected and actual experience	--	7,193
Assumption changes	4,883	--
Benefit payments including refunds	(37,993)	(44,757)
Net change in total pension liability	55,186	52,150
Ending total pension liability (b)	$ 861,468	913,618
Beginning total plan fiduciary net position (c)	$ 752,622	789,433
Changes for the year:		
Employer contributions	18,670	19,222
Employee contributions	14,660	15,547
Pension plan net investment income	42,005	6,328
Benefits payments and refunds	(37,993)	(44,757)
Pension plan administrative expense	(531)	(562)
Net change in plan fiduciary net position	36,811	(4,222)
Ending total plan fiduciary net position (d)	$ 789,433	785,211
Beginning net pension liability (a-c)	$ 53,660	72,035
Ending net pension liability (b-d)	$ 72,035	128,407
Plan fiduciary net position as a percentage of the total pension liability (d/b)	91.64%	85.95%
Covered payroll (1)	$ 84,589	83,979
City's net pension liability as a percentage of covered payroll (1)	85.16%	152.90%

(1) "Covered-employee payroll" for 2014 was restated to "covered payroll" to conform with the requirements of GASB Statement No. 82.

Notes to Changes in the Fire Fighters' Net Pension Liability and Related Ratios

There were no assumption or benefit changes or any other significant factors that affected measurement of the total pension liability for the Fire Fighter's Fund during the year ended December 31, 2015.

RETIREMENT PLANS-TREND INFORMATION, continued

Information pertaining to City contributions to the retirement systems for the fiscal year ending September 30, 2016, is shown in the following two tables (in thousands). An actuarially determined contribution was calculated for the City Employees' fund but was not calculated for the other two funds.

Schedule of Actuarially Determined City Contributions to the City Employees' Fund
(in thousands)

Fiscal Year Ended September 30	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll (1)	Actual Contribution as a % of Covered Payroll
	$	$	$	$	
2015	96,554	97,655	(1,101)	540,110	18.08%
2016	109,725	102,609	7,116	566,227	18.12%

(1) "Covered-employee payroll" for 2015 was restated to "covered payroll" to conform with the requirements of GASB Statement No. 82.

Notes to Schedule of Actuarially Determined City Contributions to the City Employees' Fund

Valuation Date:	December 31 of each calendar year occurring during the fiscal year.
Notes	Members and employers contribute based on statutorily fixed or negotiated rates. A funding period is solved for through open group projections. A new set of assumptions was adopted for the December 31, 2015 actuarial valuation and will be reflected for the Actuarially Determined Contribution (ADC) determined for the 2016 plan year. The 2016 assumptions apply to the portion of the employer's ADC contributed during the period January 1, 2016 to September 30, 2016.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal (all years)
Asset Valuation Method	20% of market plus 80% of expected actuarial value (all years)
Inflation	2.75% for 2016 and 3.25% for 2015
Salary Increases	4.00% to 6.25% for 2016 and 4.50% to 6.00% for 2015
Investment Rate of Return	7.50% for 2016 and 7.75% for 2015
Retirement Age	2016 - Experience-based table of rates that are gender specific. Updated for December 31, 2015 valuation pursuant to an experience study for the 5-year period ending December 31, 2015. 2015 - For previous valuation updated on December 31, 2012 valuation pursuant to an experience study of the 5-year period ending December 31, 2011.
Mortality	For 2016 RP-2014 Mortality Table with Blue Collar adjustment. Generational mortality improvements in accordance with Scale BB are projected from the year 2014. For 2015 RP-2000 Mortality Table with White Collar adjustment and multipliers of 110% for males and 120% for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.
Other Information:	There were no benefit changes during the periods displayed.

RETIREMENT PLANS-TREND INFORMATION, continued

Schedule of Statutorily Required City Contributions to the Police Officers' Fund and the Fire Fighters' Fund (in thousands)

Fiscal Year Ended September 30	Statutorily Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll (1)	Actual Contribution as a % of Covered Payroll (2)
Police Officers	**$**	**$**		**$**	
2015	32,942	32,942	--	152,229	21.64%
2016	33,141	33,141	--	155,476	21.32%
Fire Fighters					
2015	18,327	18,327	--	83,118	22.05%
2016	19,145	19,145	--	86,826	22.05%

(1) "Covered-employee payroll" for 2015 was restated to "covered payroll" to conform with the requirements of GASB Statement No. 82.

(2) Statutorily required contribution for Police Officers decreased from 21.63% in 2015 to 21.313% in 2016

Supplementary information for each plan as well as information on where to obtain plan financial statements can be found in Note 7.

OTHER POSTEMPLOYMENT BENEFITS-TREND INFORMATION

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 Note 8.

APPENDIX C

COPY OF MASTER ORDINANCE

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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.

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APPENDIX D

SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS

Definitions. The following definitions are provided:

City-shall mean the City of Austin, Texas, located in the Counties of Travis and Williamson.

Electric Light and Power System-shall mean all facilities and plants currently owned, operated and maintained by the City, wholly or partially in participation with others, for the generation, transmission, supply and distribution of electrical energy and power, together with all future extensions, improvements, replacements and additions thereto, and all replacements thereof; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Electric Light and Power System" shall not include facilities of any kind (including any electric power generating and transmission facilities) which are declared not to be a part of the Electric Light and Power System and which are acquired or constructed by the City, or in participation with others, with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments not pledged to the payment of the Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

Fiscal Year-shall mean the twelve month period used by the City in connection with the operation of the Systems which may be any twelve consecutive month period established by the City.

Government Obligations-shall mean direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book-entry form.

Gross Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants and proceeds derived from the sale or other disposition of all or part of the City's participating interest in the South Texas Project and revenues, sources or payment from facilities acquired or constructed with "Special Facilities Bonds") of the respective system, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established by the City for the payment and security of the Prior Lien Bonds or the Subordinate Lien Bonds or Separate Lien Obligations.

Maintenance and Operating Expenses-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all current expenses of operating and maintaining the respective system, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Prior Lien Bonds or the Subordinate Lien Bonds shall be deducted in determining "Net Revenues." Depreciation shall never be considered as an expense of Maintenance and Operation. Maintenance and Operating Expenses shall include payments under contracts for the purchase of power and energy, water supply or other materials, goods or services for the Systems to the extent authorized by law and the provisions of such contract.

Net Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, Gross Revenues of the respective system after deducting the system's Maintenance and Operating Expenses.

Outstanding-shall mean with respect to Bonds, as of the date of determination, all Bonds theretofore issued and delivered under this Ordinance, except:(i) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation; (ii) those Bonds for which payment has been duly provided by the City in accordance with the provisions of Section 27 hereof; and(iii) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 30 hereof.

Prior Lien Bonds-shall mean the outstanding revenue bonds of those issues or series identified as follows: (i) City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B," dated February 1, 1990, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992," dated March 1, 1992, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A," dated May 15, 1992, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993," dated January 15, 1993, (v) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A," dated June 1, 1993, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994," dated September 1, 1994, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1995," dated June 1, 1995, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A," dated August 1, 1996, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B," dated August 1, 1996, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997," dated August 1, 1997, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998," dated July 1, 1996, and (xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A," dated August 1, 1997.

Subordinate Lien Bonds-shall mean the outstanding revenue bonds of those series designated (i) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994," dated March 1, 1994, (ii) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998," dated August 1, 1998, (iii) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998," dated October 1, 1998 and (iv) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A," dated October 1, 1998.

Required Reserve-shall mean the amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 15 hereof.

Separate Lien Obligations-shall mean (a) those obligations hereafter (i) issued or incurred by the City payable solely from the Net Revenues of either the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, (ii) incurred pursuant to express charter or statutory authority heretofore or hereafter adopted or enacted and (iii) which by the terms of the ordinance authorizing their issuance or the incurring of the obligation provide for payments to be made by the City for the retirement or payment thereof to be secured solely by a lien on and pledge of the Net Revenues of the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, of equal dignity with the lien on and pledge of said Net Revenues securing the payment of the Subordinate Lien Bonds and (b) those contractual obligations of the City heretofore incurred payable solely from and secured by a lien on and pledge of the Net Revenues of the Water and Sewer System and securing the payment of certain outstanding contract revenue bonds more specifically identified in Exhibit B.

South Texas Project-shall mean the City's ownership interest in two nuclear steam electric generating units and related land and facilities, as more particularly defined in the South Texas Project Participation Agreement effective as of December 1, 1973, as amended.

Systems-shall mean collectively the Electric Light and Power System and the Waterworks and Sewer System.

Waterworks and Sewer System-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.

Pledge. (a) Electric Light and Power System. Subject only to the prior lien on and pledge of the Net Revenues of the

Electric Light and Power System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Electric Light and Power System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations, if issued or incurred, and the pledge of the Net Revenues of the Electric Light and Power System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations, if issued, shall constitute a lien on the Net Revenues of the Electric Light and Power System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

(b) Waterworks and Sewer System. Subject only to the prior lien on and pledge of the Net Revenues of the Waterworks and Sewer System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Waterworks and Sewer System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations now outstanding and hereafter issued or incurred, and the pledge of the Net Revenues of the Waterworks and Sewer System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations now outstanding and hereafter issued, shall constitute a lien on the Net Revenues of the Waterworks and Sewer System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

Rates and Charges. For the benefit of the Holders and in addition to all provisions and covenants in the laws of the State of Texas and in this Ordinance, the City hereby expressly stipulates and agrees, while any of the Subordinate Lien Bonds are outstanding, to establish and maintain rates and charges for facilities and services afforded by the Electric Light and Power System and the Waterworks and Sewer System to provide Gross Revenues in each Fiscal Year from each System sufficient:

(1) To pay the respective Maintenance and Operating Expenses thereof,

(2) To provide amounts required to establish, maintain or restore, as the case may be, a required balance in any reserve or contingency fund created for the payment and security of Separate Lien Obligations,

(3) To produce combined Net Revenues of the Systems sufficient to pay the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Prior Lien Bonds, the Subordinate Lien Bonds, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems, and

(4) To produce combined Net Revenues of the Systems (after satisfaction of the amounts required to be paid in 2 and 3 above) equal to at least the sum of (i) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior Lien Bonds and Separate Lien Obligations and (ii) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Subordinate Lien Bonds and all other indebtedness (except Prior Lien Bonds and Separate Lien Obligations) payable only from and secured solely by lien on and pledge of the Net Revenues of the Systems, either or both.

Electric Light and Power System Fund. The City hereby covenants and agrees that the Gross Revenues of the Electric Light and Power System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Electric Light and Power System Fund" (herein called the "Electric Fund") and such revenues of the Electric Light and Power System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Electric Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Electric Light and Power System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in the special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Electric Light and Power System.

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

Water and Sewer System Fund. The City hereby covenants and agrees that Gross Revenues of the Waterworks and Sewer System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Water and Sewer System Fund" (herein called the "Water and Sewer Fund") and such revenues of the Waterworks and Sewer System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Water and Sewer Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Waterworks and Sewer System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Waterworks and Sewer System.

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

Reserve Fund. (a) In connection with the issuance of the Prior Lien Bonds and Subordinate Lien Bonds, the City agrees and covenants to keep and maintain with its depository bank a separate and special fund known as the "Combined Pledge Revenue Bond Common Reserve Fund" (the "Reserve Fund") for the purpose of accumulating and maintaining funds as a reserve for the payment of the Prior Lien Bonds and Subordinate Lien Bonds in an amount (the "Required Reserve") equal to the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds, as determined on (i) the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing the Financial Commitment for the Reserve Fund falls below the minimum requirement noted below, whichever date is the last to occur. All funds deposited in the Reserve Fund (excluding earnings and income derived or received from deposits or investments which, subject to the limitations hereinafter specified, may be withdrawn and transferred from the Reserve Fund) shall be used solely for the payment of the principal of and interest on the Prior Lien Bonds and the Subordinate Lien Bonds on a pro rata basis, when (whether at maturity, upon mandatory redemption prior to maturity or any interest payment date) and to the extent other funds available for such purpose are insufficient, and, in addition, may be used to retire the last of the Prior Lien Bonds or Subordinate Lien Bonds outstanding.

The total amount required to be accumulated and maintained in the Reserve Fund is $106,790,325.15 (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 Reserve Fund is fully funded at the Required Reserve 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

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Proposed Form of Opinion of Bond Counsel

An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.

CITY OF AUSTIN, TEXAS
WATER AND WASTEWATER SYSTEM
REVENUE REFUNDING BONDS, SERIES 2017
$311,100,000

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-eighth supplemental ordinance to the Master Ordinance of the City authorizing the issuance of the Bonds (the "Twenty-Eighth 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,

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APPENDIX F

SUMMARY OF REFUNDED BONDS (1)

	Maturity Type	Maturity Date		Interest Rate	Par Amount	Call Date	Call Price
Water & Wastewater System Revenue Refunding Bonds, Series 2009	Serial	11/15/2020		5.000%	$ 8,830,000	11/15/2019	(1)
	Serial	11/15/2021		5.000%	9,280,000	11/15/2019	(1)
	Serial	11/15/2022		4.500%	4,730,000	11/15/2019	(1)
	Serial	11/15/2023		5.000%	6,225,000	11/15/2019	(1)
	Serial	11/15/2024		5.000%	8,250,000	11/15/2019	(1)
	Serial	11/15/2025		5.000%	11,280,000	11/15/2019	(1)
	Serial	11/15/2026		5.000%	11,855,000	11/15/2019	(1)
	Serial	11/15/2027		5.000%	12,465,000	11/15/2019	(1)
	Serial	11/15/2028		5.125%	11,745,000	11/15/2019	(1)
	Serial	11/15/2029		5.125%	13,800,000	11/15/2019	(1)
Total					$ 98,460,000		
Water & Wastewater System Revenue Refunding Bonds, Series 2009A	Serial	11/15/2020		5.000%	$ 5,020,000	11/15/2019	(1)
	Serial	11/15/2021		4.750%	5,270,000	11/15/2019	(1)
	Serial	11/15/2022		4.000%	5,505,000	11/15/2019	(1)
	Serial	11/15/2023		4.125%	5,730,000	11/15/2019	(1)
	Serial	11/15/2024		4.125%	5,975,000	11/15/2019	(1)
	Serial	11/15/2025		5.000%	6,255,000	11/15/2019	(1)
	Serial	11/15/2026		5.000%	6,575,000	11/15/2019	(1)
	Serial	11/15/2027		5.000%	6,910,000	11/15/2019	(1)
	Serial	11/15/2028		5.000%	7,265,000	11/15/2019	(1)
	Serial	11/15/2029		5.000%	7,635,000	11/15/2019	(1)
	Term 2034	11/15/2030		5.000%	1,485,000	11/15/2019	(1)
	Term 2034	11/15/2031		5.000%	1,555,000	11/15/2019	(1)
	Term 2034	11/15/2032		5.000%	1,635,000	11/15/2019	(1)
	Term 2034	11/15/2033		5.000%	1,720,000	11/15/2019	(1)
	Term 2034	11/15/2034	(2)	5.000%	1,805,000	11/15/2019	(1)
	Term 2039	11/15/2035		5.000%	11,000,000	11/15/2019	(1)
	Term 2039	11/15/2036		5.000%	11,500,000	11/15/2019	(1)
	Term 2039	11/15/2037		5.000%	12,000,000	11/15/2019	(1)
	Term 2039	11/15/2038		5.000%	12,500,000	11/15/2019	(1)
	Term 2039	11/15/2039	(2)	5.000%	13,000,000	11/15/2019	(1)
Total					$ 130,340,000		
Aggregate Total					**$ 228,800,000**		

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

(2) Principal amount of the Term 2034 Bond is $8,200,000 and principal amount of the Term 2039 Bond is $60,000,000.

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CITY OF AUSTIN, TEXAS (TRAVIS, WILLIAMSON AND HAYS COUNTIES) • WATER AND WASTEWATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2017

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