

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2017

NEW ISSUE: BOOK-ENTRY ONLY

RATINGS: S&P - 2017A “ ”

S&P - 2017B “ ”

See “RATINGS” herein

IN THE OPINION OF BOND COUNSEL UNDER EXISTING LAW, AND ASSUMING COMPLIANCE WITH CERTAIN COVENANTS AND THE ACCURACY OF CERTAIN REPRESENTATIONS, INTEREST ON THE BONDS DESCRIBED HEREIN IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES AND IS NOT AN ITEM OF TAX PREFERENCE FOR PURPOSES OF THE FEDERAL ALTERNATIVE MINIMUM TAX IMPOSED ON INDIVIDUALS AND CORPORATIONS; HOWEVER, INTEREST ON THE BONDS WILL BE INCLUDED IN THE “ADJUSTED CURRENT EARNINGS” OF A CORPORATION (OTHER THAN AN S CORPORATION, REGULATED INVESTMENT COMPANY, REIT, REMIC, OR FASIT) FOR PURPOSES OF COMPUTING ITS ALTERNATIVE MINIMUM TAX LIABILITY. SEE “TAX MATTERS,” HEREIN.

§[PAR]*

AUSTIN CONVENTION ENTERPRISES, INC.

(a Non-Profit Public Facility Corporation acting on behalf of the City of Austin, Texas)

CONVENTION CENTER HOTEL FIRST TIER REVENUE REFUNDING BONDS, SERIES 2017A

and

§[PAR]*

AUSTIN CONVENTION ENTERPRISES, INC.

(a Non-Profit Public Facility Corporation acting on behalf of the City of Austin, Texas)

CONVENTION CENTER HOTEL SECOND TIER REVENUE REFUNDING BONDS, SERIES 2017B

Austin Convention Enterprises, Inc. (the “Issuer”), a Texas nonprofit public facility corporation acting on behalf of the City of Austin, Texas (the “City”), is issuing its Convention Center Hotel Revenue Refunding Bonds, consisting of two series: (i) §[PAR]* Convention Center Hotel First Tier Revenue Refunding Bonds, Series 2017A (the “Series 2017A Bonds”) and (ii) §[PAR]* Convention Center Hotel Second Tier Revenue Refunding Bonds, Series 2017B (the “Series 2017B Bonds”) together with the Series 2017A Bonds, the “Series 2017 Bonds”). The Series 2017 Bonds are being issued pursuant to the provisions of Subchapter C of Chapter 1508, Texas Government Code, Chapter 303, Texas Local Government Code, and Chapters 1207 and 1371, Texas Government Code, and an Indenture of Trust, effective as of the Closing Date for the Series 2017 Bonds (the “Indenture”) between the Issuer and U.S. Bank National Association, as trustee (the “Trustee”).

The proceeds of the Series 2017 Bonds, together with certain other funds, will be used to (i) fund a deposit to the escrow fund held by U.S. Bank National Association, as escrow agent (the “Escrow Agent”) under an Escrow Agreement effective as of the Closing Date for the Series 2017 Bonds (the “Escrow Agreement”) by and between the Escrow Agent and the Issuer, in an amount sufficient, together with investment earnings thereon, to pay debt service on the Series 2006A Bonds and Series 2006B Bonds through _____, 2017, and to pay the redemption price of certain of the Series 2006A Bonds and Series 2006B Bonds on _____, 2017, in order to redeem all of the Series 2006A Bonds and Series 2006B Bonds previously issued to, among other things, refinance the construction of a full-service, convention center headquarters hotel, parking garage and supporting facilities (the “Hotel”); (ii) fund separate reserve funds for the Series 2017A Bonds and the Series 2017B Bonds; (iii) fund certain reserves for the Hotel; and (iv) pay certain costs of issuance of the Series 2017 Bonds. See “PLAN OF FINANCE – Estimated Sources and Uses”.

The Hotel is managed by Hilton Management LLC (the “Hotel Manager”) as the “Hilton Austin” pursuant to a “Hotel Operating Agreement” and a “Room Block Commitment Agreement” each between the Issuer and the Hotel Manager as more fully described herein. The Hotel opened on December 27, 2003 and has been operated continuously since such date.

The Series 2017A Bonds will be registered and offered in denominations of \$5,000 and integral multiples thereof, and with respect to the Series 2017B Bonds, \$100,000 principal amounts and integral multiples of \$5,000 in excess of \$100,000. Interest on the Series 2017 Bonds will be payable on July 1, 2017 and on each January 1 and July 1 thereafter until maturity or prior redemption. The Series 2017A Bonds and Series 2017B Bonds are subject to optional, extraordinary, and mandatory sinking fund redemption as described herein and are payable by the Issuer from the Trust Estate (as such term is defined in the Indenture).

Payment of principal of and interest on the Series 2017B Bonds are fully subordinated in right and time to payments of principal, interest, and redemption premium, if any, on the Series 2017A Bonds.

When issued, the Series 2017A Bonds and Series 2017B Bonds will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Series 2017A Bonds and Series 2017B Bonds. The Series 2017A Bonds and Series 2017B Bonds will be issued in book-entry only form, and holders of the Series 2017A Bonds and 2017B Bonds will not receive physical delivery of bonds except as described herein. During any period in which ownership of any of the Series 2017A Bonds and Series 2017B Bonds is determined only by a book entry at DTC, the Trustee will make payments on such Series 2017A Bonds and 2017B Bonds to DTC or DTC’s nominee in accordance with arrangements between the Trustee and DTC.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS INTENDED AS A SUMMARY OF THE TERMS AND SECURITY FOR THE SERIES 2017 BONDS. SEE “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS” AND “RISK FACTORS” HEREIN FOR A DISCUSSION OF CERTAIN RISK FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE SERIES 2017 BONDS.

THE SERIES 2017 BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER. THE SERIES 2017 BONDS WILL NEVER CONSTITUTE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY, TRAVIS COUNTY, THE STATE OF TEXAS, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF TEXAS, WITHIN THE MEANING OF ANY CONSTITUTIONAL PROVISIONS OR STATUTORY LIMITATION WHATSOEVER, BUT THE SERIES 2017 BONDS WILL BE LIMITED OR SPECIAL OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR AS PROVIDED IN THE INDENTURE. NEITHER THE FAITH NOR CREDIT OF THE CITY, TRAVIS COUNTY, THE STATE OF TEXAS, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF TEXAS IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF THE SERIES 2017 BONDS OR THE INTEREST OR ANY PREMIUM THEREON OR OTHER COST INCIDENT THERETO. NEITHER THE MEMBERS OF THE GOVERNING BODY OF THE ISSUER NOR ANY PERSON EXECUTING THE SERIES 2017 BONDS WILL BE LIABLE PERSONALLY ON THE SERIES 2017 BONDS BY REASON OF THE ISSUANCE THEREOF. THE ISSUER HAS NO TAXING POWER.

SEE INSIDE FRONT PAGES FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS AND CUSIP NUMBERS

[THIS OFFICIAL STATEMENT IS FURNISHED TO THE INVESTORS OF THE SERIES 2017B BONDS ON THE EXPRESS UNDERSTANDING THAT IT IS SOLELY FOR THE PURPOSE OF CONSIDERATION BY THE PURCHASERS OF THE BONDS, WHO ARE “QUALIFIED INSTITUTIONAL BUYERS” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”)) AND IT IS NOT TO BE USED FOR ANY OTHER PURPOSE OR MADE AVAILABLE TO ANYONE NOT DIRECTLY CONCERNED WITH THE DECISION REGARDING SUCH PURCHASE BY THE BONDHOLDERS. THE INITIAL HOLDERS OF THE SERIES 2017B BONDS WILL BE REQUIRED TO EXECUTE AN INVESTMENT LETTER IN THE FORM SET FORTH IN APPENDIX H HERETO.]

The Series 2017 Bonds are offered for delivery when, as, and if issued and received by the initial purchasers thereof named below (collectively, the “Underwriters”) and are subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Winstead PC, Austin, Texas, Bond Counsel, as to the validity of the issuance of the Series 2017 Bonds under the Constitution and laws of the State of Texas. See “LEGAL MATTERS” herein. Certain legal matters will be passed upon the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Houston, Texas; and for the Hotel Manager by its counsel, Andrews Kurth Kenyon, LLP, Dallas, Texas. The Series 2017A Bonds and Series 2017B Bonds are expected to be available for delivery through the services of DTC on or about _____, 2017.

Citigroup

Piper Jaffray & Co.

Goldman, Sachs & Co.

*Preliminary, subject to change.

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This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time this Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

**STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, AND
CUSIP NUMBERS**

**[\$[PAR]*
AUSTIN CONVENTION ENTERPRISES, INC.
CONVENTION CENTER HOTEL FIRST TIER REVENUE REFUNDING BONDS,
SERIES 2017A**

\$ _____ **Serial Bonds***

Maturity (January 1)⁽¹⁾	Principal Amount	Interest Rate	Yield	CUSIP No.⁽²⁾
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2030				
2031				
2032				
2033				
2034				

\$ _____ **Term Bonds***

\$ _____ Term Bond maturing January 1, 20__⁽¹⁾ priced at _____% to yield _____%⁽³⁾; CUSIP No.

* Preliminary, subject to change.

¹ The Series 2017A Bonds are subject to redemption at the option of the Issuer, in whole or in part on any date, on or after January 1, 20__, from any legally available funds, at a Redemption Price equal to the principal amount of Series 2017A Bonds called for redemption, plus accrued interest with respect thereto the date fixed for redemption.

² CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein 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. Neither the Issuer, the Financial Advisor, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

³ Priced to January 1, 20__ par call date.

\$[PAR]*
AUSTIN CONVENTION ENTERPRISES, INC.
CONVENTION CENTER HOTEL SECOND TIER REVENUE REFUNDING BONDS,
SERIES 2017B

\$ _____ **Serial Bonds***

Maturity (January 1)⁽¹⁾	Principal Amount	Interest Rate	Yield	CUSIP No.⁽²⁾
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2030				
2031				
2032				
2033				
2034				

\$ _____ **Term Bonds***

\$ _____ Term Bond maturing January 1, 20__⁽¹⁾ priced at _____% to yield _____%⁽³⁾; CUSIP No. _____⁽²⁾

* Preliminary, subject to change.

¹ The Series 2017B Bonds are subject to redemption at the option of the Issuer, in whole or in part on any date, on or after January 1, 20__, from any legally available funds, at a Redemption Price equal to the principal amount of Series 2017B Bonds called for redemption, plus accrued interest with respect thereto the date fixed for redemption.

² CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein 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. Neither the City, the Financial Advisor, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

³ Priced to January 1, 20__ par call date.

NOTICE TO INVESTORS

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (the "Rule"), and in effect on the date of this Preliminary Official Statement, this document constitutes an "official statement" of the Issuer with respect to the Bonds that has been deemed "final" by the Issuer as of its date except for the omission of no more than the information permitted by Rule.

This document, when further supplemented by adding additional information specifying the interest rates and certain other information relating to the Bonds, shall constitute a "final official statement" of the Issuer with respect to the Bonds, as such term is defined in Rule.

No dealer, broker, salesman, or other person has been authorized to give any information or to make any representation, other than the information contained in this Official Statement, in connection with the offering of the Series 2017 Bonds, and, if given or made, such information or representation must not be relied upon as having been authorized by the City, the Issuer, the Hotel Manager, the Underwriters, or their respective consultants and attorneys.

This Official Statement is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, and engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Citigroup Global Markets Inc., 100 Citibank Drive, Building 2, San Antonio, Texas, 78245.

THE SERIES 2017 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION BY REASON OF CERTAIN EXEMPTIONS CONTAINED IN THE SECURITIES ACT OF 1933, AS AMENDED. IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE BONDS, THE SECURITY PLEDGED TO THE PAYMENT OF THE BONDS, THE ISSUER, THE HOTEL MANAGER, THE CITY, AND THE TERMS OF THE OFFERING OF THE BONDS, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY, NOR HAVE SUCH AUTHORITIES CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

[THE SERIES 2017B BONDS ARE BEING OFFERED ONLY TO INVESTORS THAT ARE "QUALIFIED INSTITUTIONAL BUYERS" WITHIN THE MEANING OF REGULATION D PROMULGATED UNDER THE SECURITIES ACT OF 1933 (THE "SECURITIES ACT") AND WHO HAVE SUFFICIENT KNOWLEDGE AND EXPERIENCE IN FINANCIAL AND BUSINESS MATTERS, INCLUDING PURCHASE AND OWNERSHIP OF TAX-EXEMPT MUNICIPAL OBLIGATIONS, TO BE ABLE TO EVALUATE THE ECONOMIC RISKS AND MERITS OF THE INVESTMENT REPRESENTED BY THE PURCHASE OF SUCH BONDS, AND ARE WILLING AND ABLE TO CONDUCT AN INDEPENDENT INVESTIGATION OF THE RISKS INVOLVED WITH OWNERSHIP OF SUCH BONDS, FAMILIARIZE THEMSELVES WITH THE AFFAIRS OF THE ISSUER AS WELL AS OTHER PARTIES TO THE TRANSACTION, AND EXECUTE AN "INVESTMENT LETTER" SUBSTANTIALLY IN THE FORM ATTACHED HERETO AS APPENDIX H IN CONNECTION WITH THE PURCHASE OF SUCH BONDS.]

The information in this Official Statement is subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Hotel Manager since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which any person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

All summaries herein of documents and agreements are qualified in their entirety by reference to such documents and agreements, and all summaries herein of the Series 2017 Bonds are qualified in their entirety by reference to the form thereof included in the Indenture and the provisions with respect thereto included in the aforementioned documents and agreements.

The information set forth herein includes information obtained from other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters. The information and expressions of opinions contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Hotel Manager since the date hereof.

This Official Statement is not to be construed as a contract with the purchaser of the Series 2017 Bonds. Statements contained in this Official Statement which involve estimates, forecasts, or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of fact.

THE SERIES 2017 BONDS WILL NEVER CONSTITUTE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY, TRAVIS COUNTY, THE STATE OF TEXAS, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF TEXAS, WITHIN THE MEANING OF ANY CONSTITUTIONAL PROVISIONS OR STATUTORY LIMITATION WHATSOEVER, BUT THE SERIES 2017 BONDS WILL BE SPECIAL OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR AS PROVIDED IN THE INDENTURE. NEITHER THE FAITH AND CREDIT OF THE CITY, TRAVIS COUNTY, THE STATE OF TEXAS, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF TEXAS IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF THE SERIES 2017 BONDS OR THE INTEREST OR ANY PREMIUM THEREON OR OTHER COST INCIDENT THERETO. WITHOUT LIMITING AND IN ADDITION TO THE FOREGOING, THE UNDERWRITERS UNDERSTAND THAT THE ISSUER IS AN ENTITY ENTIRELY SEPARATE AND APART FROM THE CITY, AND THAT NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE BONDS NOR IS AVAILABLE WITH RESPECT TO ANY PAYMENT OBLIGATIONS OF THE ISSUER DESCRIBED IN OR CONTEMPLATED BY THIS OFFICIAL STATEMENT. NEITHER THE MEMBERS OF THE GOVERNING BODY OF THE ISSUER, NOR ANY PERSON EXECUTING THE SERIES 2017 BONDS WILL BE LIABLE PERSONALLY ON THE SERIES 2017 BONDS BY REASON OF THE ISSUANCE THEREOF. THE ISSUER HAS NO TAXING POWER. NO OBLIGATION OR RESPONSIBILITY OF THE ISSUER ARISING UNDER OR CONCERNING THE CLOSING DOCUMENTS WILL EVER CONSTITUTE AN INDEBTEDNESS OR GENERAL OBLIGATION OR RESPONSIBILITY OF THE CITY. THE ISSUER CANNOT PLEDGE THE CREDIT OF THE CITY OR CAUSE THE CITY TO INCUR OR ASSUME ANY INDEBTEDNESS ON BEHALF OF THE ISSUER.

THIS OFFICIAL STATEMENT IS INTENDED TO REFLECT MATERIAL FACTS AND CIRCUMSTANCES AS THEY EXIST ON THE DATE OF THIS OFFICIAL STATEMENT OR ON SUCH OTHER DATE OR AT SUCH OTHER TIME AS IDENTIFIED HEREIN. NO ASSURANCE CAN BE GIVEN THAT SUCH INFORMATION WILL NOT BE MISLEADING AT A LATER DATE. CONSEQUENTLY, RELIANCE ON THIS OFFICIAL STATEMENT AT TIMES SUBSEQUENT TO THE ISSUANCE OF THE SERIES 2017 BONDS SHOULD NOT BE MADE ON THE ASSUMPTION THAT ANY SUCH FACTS OR CIRCUMSTANCES ARE UNCHANGED.

THE TRUSTEE ASSUMES NO RESPONSIBILITY FOR THIS OFFICIAL STATEMENT AND HAS NOT REVIEWED OR UNDERTAKEN TO VERIFY ANY INFORMATION CONTAINED HEREIN.

NEITHER THE HOTEL MANAGER, NOR ANY OF ITS AFFILIATES OR ITS OFFICERS, DIRECTORS, AGENTS, OR EMPLOYEES WILL IN ANY WAY BE DEEMED AN ISSUER OR UNDERWRITER OF THE SERIES 2017 BONDS AND WILL HAVE NO LIABILITY WHATSOEVER ARISING OUT OF OR RELATING TO ANY FINANCIAL STATEMENTS, PROSPECTUSES, OR OTHER FINANCIAL INFORMATION CONTAINED IN ANY DISCLOSURE DOCUMENT OR SIMILAR WRITTEN OR ORAL COMMUNICATION OTHER THAN THAT WHICH PERTAINS TO THE HOTEL

MANAGER, AND/OR ITS OPERATIONS, RESPECTIVELY. ALL TERMS USED IN THIS PARAGRAPH HAVE THE MEANING AS DEFINED IN THE SECURITIES ACT OF 1933, AS AMENDED.

THE FINANCIAL ADVISOR HAS BEEN EMPLOYED BY THE CITY TO ADVISE IT WITH RESPECT TO CERTAIN MATTERS RELATING TO THE PROPOSED STRUCTURE OF THE SERIES 2017 BONDS. THE FINANCIAL ADVISOR HAS NOT BEEN EMPLOYED AND ASSUMES NO DUTY OR OBLIGATION TO ADVISE ANY OTHER PARTY AS TO ANY ASPECT OF THE TRANSACTION, INCLUDING THE HOLDERS OF THE SERIES 2017 BONDS.

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.

ISSUER BOARD OF DIRECTORS AND OFFICERS

Name	Office	Occupation
Art Alfaro	Secretary and Treasurer	Treasurer – City of Austin
Greg Cannally	Vice President	Interim Chief Financial Officer – City of Austin
Elaine Hart	Member	Interim City Manager – City of Austin
Mark Tester	President	Director of the Austin Convention Center – City of Austin
Vacant		

ISSUER'S AND CITY'S CONSULTANTS AND ADVISORS

Bond Counsel

Winstead PC
Austin, Texas

Issuer Counsel

Winstead PC
Austin, Texas

Financial Advisor to the City

The PFM Group
Austin, Texas

Trustee

U.S. Bank National Association
Minneapolis, Minnesota

For additional information regarding the Series 2017 Bonds, contact the Underwriters at the following address:

Citigroup Global Markets Inc.
100 Citibank Drive, Building 2
San Antonio, Texas, 78245
Attn: Municipal Underwriting

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PRELIMINARY OFFICIAL STATEMENT

[\$[PAR]]*
AUSTIN CONVENTION ENTERPRISES, INC.
(a Non-Profit Public Facility Corporation acting on behalf of the City of Austin, Texas)
CONVENTION CENTER HOTEL FIRST TIER REVENUE REFUNDING BONDS,
SERIES 2017A

and

[\$[PAR]]*
AUSTIN CONVENTION ENTERPRISES, INC.
(a Non-Profit Public Facility Corporation acting on behalf of the City of Austin, Texas)
CONVENTION CENTER HOTEL SECOND TIER REVENUE REFUNDING BONDS,
SERIES 2017B

INTRODUCTION

Austin Convention Enterprises, Inc. (the “Issuer”) is issuing its \$[PAR]* Convention Center Hotel First Tier Revenue Refunding Bonds, Series 2017A (the “Series 2017A Bonds”); and \$[PAR]* Convention Center Hotel Second Tier Revenue Refunding Bonds, Series 2017B (the “Series 2017B Bonds”). This Official Statement contains certain information relating to the offering and sale by the Issuer of its Series 2017A Bonds and Series 2017B Bonds.

The Series 2017A Bonds and the Series 2017B Bonds are collectively referred to herein as the “Series 2017 Bonds.” “Bonds” as used herein means the Series 2017 Bonds, any Additional Bonds, and Refunding Bonds of the Issuer, authenticated and delivered under and pursuant to the Indenture or under any Supplemental Indenture. For definitions of certain capitalized terms used in this Official Statement and not herein defined, see APPENDIX B – Master Glossary of Terms.

General

In [2000], the City of Austin, Texas (the “City”) determined that construction of a convention center headquarters hotel on a site adjacent to the Austin Convention Center (the “Convention Center”) would result in economic benefits to the City, including improved coordination of event bookings at the Convention Center and the generation of additional tax revenues, employment opportunities, and economic activity related to the construction and operation of the hotel.

The City Council of the City authorized the creation of the Issuer to finance the construction, renovation, and improvement of the convention center hotel and garage. In June 2001, the Issuer issued bonds for such purpose. In December 2006, the Issuer issued refunding bonds for the purpose of refunding the bonds issued in 2001. See “INTRODUCTION – The Prior Bonds” below.

The Issuer

The Issuer, a nonprofit public facility corporation, has been duly established and created as a constituted authority and instrumentality of the City, organized to meet the requirements of the Internal Revenue Code of 1986, as amended, and Chapter 303, Local Government Code, as amended, and is authorized to act on behalf of the City to issue obligations to finance and refinance the costs of “public facilities” within the meaning of Subchapter C of Chapter 1508, Texas Government Code, and Chapter 303, Texas Local Government Code (the “Act”).

The Issuer is governed by a Board of Directors consisting of five members, each of whom is appointed by the City Council of the City. The Board of Directors of the Issuer consists of the persons named on page vii hereof.

* Preliminary, subject to change.

Among other things, the Issuer is authorized by the Act to issue bonds and use the proceeds derived from the sale of such bonds to finance the construction, expansion, or improvement of a “public facility,” which term includes facilities located within the City which have been found by the Board of Directors of the Issuer to be required, necessary, or suitable for the acquisition, construction, rehabilitation, and equipping of real, personal, or mixed use property devoted to public use, including the Hotel (as defined herein).

The Board of the Issuer met on December 13, 2016 to authorize the issuance of the Series 2017 Bonds and approve documents and actions related thereto (the “Resolution”). [The Issuer also met on _____, 2017 prior to execution of a bond purchase agreement related to the sale of the Series 2017 Bonds approving such agreement and the final terms and conditions relating to the issuance and delivery of the Series 2017 Bonds.]

On _____, 2017, the City Council of the City adopted resolutions approving the issuance of the Series 2017 Bonds by the Issuer. The Issuer has no employees, and does not intend to engage or employ anyone other than (i) the Asset Manager to assist it in the operations of the Hotel, (ii) a facilities consultant, (iii) Advisor to the Board, (iv) Insurance Consultant, and (v) a Hotel Consultant when required under the Indenture. The Hotel opened on December 27, 2003. See “INTRODUCTION – The Hotel” below.

The financial statements of the Issuer, as of December 31, 2015, and for the year then ended, included in the Official Statement, have been audited by RSM US LLP, independent auditors, as stated in their report appearing in APPENDIX G – Audited Financial Statements.

RSM US LLP, independent auditor to the Issuer, has not been engaged to perform and has not performed, since the date of the report included as APPENDIX G, any procedures on the financial statements addressed in that report. RSM US LLP also has not performed any procedures relating to the Official Statement. The Issuer has received a consent from RSM US LLP for the inclusion of its audit report in the Official Statement.

The Prior Bonds

In order to provide for financing of the costs of the Hotel, in June 2001, the Issuer issued its \$109,665,000 Austin Convention Enterprises, Inc. Convention Center Hotel First Tier Revenue Bonds, Series 2001A (the “Series 2001A Bonds”), its \$134,950,000 Convention Center Hotel Second Tier Revenue Bonds, Series 2001B Bonds (the “Series 2001B Bonds”), and its \$20,498,811 Convention Center Hotel Third Tier Revenue Bonds, Series 2001C Bonds (the “Series 2001C Bonds” and, together with Series 2001A Bonds and Series 2001B Bonds, the “Series 2001 Bonds”), in accordance with the provisions of the Act, the resolutions, ordinances, and the Indenture of Trust dated as of June 1, 2001 by and between the Issuer and U.S. Bank National Association. The proceeds of the Series 2001 Bonds were issued to: (a) finance the acquisition of a condominium interest recorded against certain real property adjacent to the City’s Convention Center and the construction of that portion of a building being constructed on such property for a full service 800 room hotel together with 600 parking spaces in an underground parking garage; (b) pay capitalized interest for the Series 2001A Bonds and Series 2001B Bonds during construction of the Hotel and for the six months immediately following the anticipated completion date; (c) fund separate debt service reserve funds for the First Tier Bonds and Series 2001B Bonds; (d) partially fund an operating reserve fund; (e) fund initial working capital for the Hotel; and (f) pay certain costs of issuing the Series 2001 Bonds, including, without limitation, the purchase of a surety bond.

In December 2006, the Issuer issued its \$165,000,000 Convention Center Hotel First Tier Revenue Refunding Bonds, Series 2006A (the “Series 2006A Bonds”) and its \$95,170,000 Convention Center Hotel Second Tier Revenue Refunding Bonds, Series 2006B (the “Series 2006B Bonds” together with the Series 2006A Bonds, the “Series 2006 Bonds”) in accordance with the provisions of the Act, the resolutions, ordinances, and the Amended and Restated Indenture of Trust (the “Amended Indenture”) dated as of December 7, 2006 by and between the Issuer and U.S. Bank National Association. The proceeds of the Series 2006 Bonds were used to: (a) fund a deposit to the escrow fund held by U.S. Bank National Association as escrow agent (the “2006 Escrow Agent”) under an Escrow Agreement effective as of the Closing Date for the Series 2006 Bonds by and between the 2006 Escrow Agent and the Issuer, in an amount sufficient, together with investment earnings thereon, to pay debt service on the Series 2001A Bonds and Series 2001B Bonds through January 1, 2011, and to pay the redemption price of certain of the Series 2001A Bonds and Series 2001B Bonds on January 1, 2011, in order to legally defease all of the Series 2001A Bonds and Series 2001B Bonds; (b) fund separate reserve funds for the Series 2006A Bonds and the

Series 2006B Bonds, including the purchase of a debt service reserve fund policy issued by the Bond Insurer to satisfy a portion of the required deposit to the First Tier Debt Service Reserve Fund; (c) fund certain reserves for the Hotel; and (d) pay certain costs of issuance.

In connection with the issuance of the Series 2006 Bonds, Hilton Management LLC fka Hilton Hotel Corporation (the “Hotel Manager” or “Hilton”) forgave a portion of the Series 2001C Bonds owned by the Hotel Manager in consideration for the amendment of certain terms to the Hotel Operating Agreement by and between the Hotel Manager and the Issuer, including the extension of the term of such Agreement for 15 years from the Closing Date for the Series 2006 Bonds. The remaining Series 2001C Bonds in the aggregate principal amount of \$21,755,000, which were held by FaulknerUSA, Inc., an affiliate of the Developer have been paid in full.

The Series 2017 Bonds

The Series 2017 Bonds will be issued by the Issuer pursuant to the laws of the State of Texas, particularly the Act, and Chapters 1207 and 1371, Texas Government Code, and an Indenture of Trust, effective as of the Closing Date for the Series 2017 Bonds (the “Indenture”), between the Issuer and U.S. Bank National Association, as trustee (the “Trustee”). Proceeds of the Series 2017 Bonds will be used as set forth in “PLAN OF FINANCE – Estimated Sources and Uses.”

Pursuant to the Indenture, the Issuer has covenanted to not take any action or omit to take any action with respect to the Series 2017 Bonds which would cause interest on the Series 2017 Bonds to lose its exclusion from gross income for federal income tax purposes under section 103 of the Code or from alternative minimum taxable income as defined in section 55(b)(2), except to the extent such interest is required to be included under section 56 of the Code in calculating corporate alternative minimum taxable income. The Issuer will comply with the procedures set forth in the Federal Tax Certificate and any similar certificates or instruments.

The proceeds of the Series 2017 Bonds, together with certain funds currently held by the Trustee under the Amended Indenture will be used to (a) fund a deposit to the escrow fund held by U.S. Bank National Association as escrow agent (the “Escrow Agent”) under an Escrow Agreement effective as of the Closing Date for the Series 2017 Bonds (the “Escrow Agreement”) by and between the Escrow Agent and the Issuer, in an amount sufficient, together with investment earnings thereon, to pay debt service on the Series 2006A Bonds and Series 2006B Bonds through ____, 2017, and to pay the redemption price of certain of the Series 2006A Bonds and Series 2006B Bonds on _____, 2017, in order to redeem all of the Series 2006A Bonds and Series 2006B Bonds previously issued to, among other things, refinance the construction of the Hotel, parking garage and supporting facilities; (b) fund separate reserve funds for the Series 2017A Bonds and the Series 2017B Bonds; (c) fund certain reserves for the Hotel; and (d) pay certain costs of issuance.

Security for the Series 2017 Bonds

The Series 2017 Bonds are limited obligations of the Issuer. The Series 2017A Bonds are payable by the Issuer solely from Total Net Revenues generated from the Hotel, and from certain amounts held by the Trustee under the Indenture. The Series 2017B Bonds are payable by the Issuer solely from Total Net Revenues generated from the Hotel after certain other deposits, including deposits to the First Tier Debt Service Account and certain other Funds as required by the Indenture, have been made, and from certain other amounts held by the Trustee under the Indenture.

[The Gross Operating Revenues from the Hotel are deposited into a lockbox fund (the “Lockbox Fund”) when received and then distributed to the Trustee on the tenth Business Day each month after payment of certain operating expenses pursuant to the Indenture and the Cash Management and Lockbox Agreement (the “Cash Management Agreement”) by and among Wells Fargo Bank, N.A. as depository bank (the “Depository Bank”), the Trustee, the Issuer and the Hotel Manager, as amended and supplemented from time to time. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Lockbox Fund.” The Lockbox Fund was established pursuant to the terms of the Cash Management Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Flow of Funds.”] [Confirm implementation of springing lockbox structure pursuant to Cash Management Agreement]

As additional security for payment of the Series 2017 Bonds, the Issuer will grant a lien on, and a security interest in, all of its interest in the Legal Hotel Unit in favor of the Trustee pursuant to a Deed of Trust and Assignment of Rents, Security Agreement and Fixture Filing dated as of June 1, 2001, as modified by the First Amendment to Deed of Trust and Assignment of Rents, Security Agreement and Fixture Filing dated August 1, 2003; and the Second Amendment to Deed of Trust and Assignment of Rents, Security Agreement and Fixture Filing dated December 7, 2006 and the Third Amendment to Deed of Trust and Assignment of Rents, Security Agreement and Fixture Filing effective as of the Closing Date for the Series 2017 Bonds (the “Deed of Trust”); and Security Agreement dated June 1, 2001, as amended (the “Security Agreement”) between the Issuer and the Trustee. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Deed of Trust” and “ – Security Agreement.”

Payment of the Series 2017B Bonds is fully subordinated in right and time to payments of principal, interest, redemption premium, if any, on the Series 2017A Bonds. The owners of the Series 2017B Bonds have no right to declare an Event of Default while any of the Series 2017A Bonds are Outstanding.

The Trustee

U.S. Bank National Association, will serve as trustee for the Series 2017 Bonds.

Escrow Agreement

[The Series 2006A Bonds and Series 2006B Bonds and interest due thereon are to be paid on the scheduled interest payment, call or maturity dates of each series of such obligations, as the case may be, from funds to be deposited with U.S. Bank National Association (the “Escrow Agent”), to the escrow fund (the “Escrow Fund”) created under an escrow agreement relating to the Series 2017 Bonds to be entered into by the Issuer and the Escrow Agent (the “Escrow Agreement”).

The Indenture authorizing the Series 2017 Bonds provides that from the proceeds of the sale of the Series 2017 Bonds to the Underwriters, the Issuer will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Series 2006A Bonds and Series 2006B Bonds. Such funds will be held by the Escrow Agent in the Escrow Fund. The Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Series 2006A Bonds and Series 2006B Bonds.

The Issuer has covenanted to make timely deposits into the Escrow Fund, from lawfully available funds, of additional funds in the amounts required to pay the principal of and interest on the Series 2006A Bonds and Series 2006B Bonds should, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payments.]

Citigroup Capital Markets Inc. (the “Verification Agent”) will verify at the time of delivery the Bonds to the Underwriters that the federal 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 Series 2006A Bonds and Series 2006B Bonds. Such maturing principal of and interest on the federal securities will not be available to pay the Series 2017 Bonds. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

THE SERIES 2017 BONDS

General

The Series 2017A Bonds will be issued in fully registered form in denominations of \$5,000 or integral multiples thereof. The Series 2017B Bonds will be issued in fully registered form in denominations of \$100,000 and integral multiples of \$5,000 in excess thereof. Interest due and payable on the Series 2017 Bonds on any Interest Payment Date will be paid to the person who is the Registered Owner as of the Record Date. Each Series 2017 Bond bears interest from the Closing Date if authenticated prior to July 1, 2017 or otherwise from the Interest Payment Date (as defined herein) that is, or immediately precedes the date on which such Series 2017 Bond is authenticated.

In no event will the interest rate borne by any Series of the Bonds exceed the maximum “net effective interest rate,” as defined and calculated in accordance with the terms of Chapter 1204, Texas Government Code.

The Series 2017A Bonds and Series 2017B Bonds will be dated the Business Day prior to the Closing Date and will bear interest from the date of closing of the Series 2017 Bonds at the interest rates as set forth on the inside front pages hereof payable on July 1, 2017, and each January 1 and July 1 thereafter until maturity or prior redemption (each an “Interest Payment Date”). If interest on the Series 2017A Bonds is in default, Series 2017A Bonds issued in exchange for the Series 2017A Bonds surrendered for transfer or exchange will bear interest from the Interest Payment Date to which interest has been paid. The Series 2017B Bonds will bear interest at the interest rates as set forth on the inside front pages hereof payable on July 1, 2017, and each January 1 and July 1 thereafter until maturity or prior redemption. If interest on the Series 2017B Bonds is in default, Series 2017B Bonds issued in exchange for Series 2017B Bonds surrendered for transfer or exchange will bear interest from the Interest Payment Date to which interest has been paid. Interest on the Series 2017A Bonds and Series 2017B Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

See APPENDIX C – Summary of Certain Provisions of the Bond Documents – Indenture for certain provisions contained in the Indenture, including without limitation certain covenants, the rights and duties of the Trustee, the rights and remedies of the Trustee acting at the direction of a majority of Bondholders, provisions relating to amendments of the Indenture, and procedures for defeasance of the Bonds.

Redemption Provisions

Optional Redemption

The Series 2017A Bonds are subject to redemption at the option of the Issuer, in whole or in part on any date, on or after January 1, 20__, from any legally available funds, at a Redemption Price equal to the principal amount of Series 2017A Bonds called for redemption, plus accrued interest with respect thereto the date fixed for redemption.

The Series 2017B Bonds are subject to redemption at the option of the Issuer, in whole or in part on any date, on or after January 1, 20__, from any legally available funds, at a Redemption Price equal to the principal amount of Series 2017B Bonds called for redemption, plus accrued interest with respect thereto to the date fixed for redemption.

Prior to giving any notice of an optional redemption as provided below under “– Notice of Redemption,” there must be paid to the Trustee for deposit into the appropriate Redemption Account an amount which, in addition to other moneys, if any, available therefor held by the Trustee, will be sufficient to redeem on the Redemption Date at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, all of the Bonds called for redemption.

Mandatory Redemption

The Series 2017A Bonds maturing on January 1, 20__ are subject to mandatory redemption, at a Redemption Price equal to the principal amount of the Series 2017A Bonds redeemed, together with accrued interest thereon to the Redemption Date pursuant to Sinking Fund Installments on January 1 in each of the years and principal amounts set forth in the tables below, except that the Sinking Fund Installments of Series 2017A Bonds will be reduced in chronological order by the principal amount of any Series 2017A Bonds redeemed pursuant to any other optional or mandatory redemption provision on or before the date on which any such Sinking Fund Installment is due:

Series 2017A Bonds maturing January 1, 20__

<u>Year</u>	<u>Sinking Fund Installment</u>
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*Final Maturity

The Series 2017B Bonds maturing on January 1, 20__ are subject to mandatory sinking fund redemption in part (the actual Series 2017B Bonds of such maturity or portions thereof to be redeemed to be selected by lot in such manner as may be designated by the Trustee) at a Redemption Price equal to the principal amount thereof as of the date of the Sinking Fund Installment, together with any accrued interest with respect thereto, without premium, on each January 1, in the amounts and as set forth below:

Series 2017B Bonds maturing January 1, 20__

<u>Year</u>	<u>Sinking Fund Installment</u>
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*Final Maturity

FAILURE TO REDEEM THE SERIES 2017B BONDS ON THE DATES DESCRIBED ABOVE OR TO PAY AT MATURITY ANY SERIES 2017B BONDS FOR ANY REASON WILL NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE INDENTURE WHILE ANY FIRST TIER BONDS ARE OUTSTANDING; PROVIDED THAT IF SUCH SERIES 2017B BONDS ARE NOT PAID UPON SUCH SCHEDULED REDEMPTION DATES OR ON THEIR SCHEDULED MATURITY DATE, SUCH SERIES 2017B BONDS CONTINUE TO ACCRUE INTEREST AT THE RATE APPLICABLE THERETO.

In lieu of depositing cash with the Trustee as a mandatory sinking fund payment, the Issuer has the option to tender to the Trustee for cancellation at least 60 days prior to a sinking fund redemption date any amount for any Series of Bonds purchased by the Issuer, which Bonds may be purchased by or upon the direction of the Issuer at public or private sale as, when, and at such prices not in excess of the par amount thereof, as the case may be, plus accrued interest thereto as the Issuer may in its discretion determine from moneys held by the Trustee which are available for such purpose. The par amount of any Bonds of any Series so purchased by or upon the direction of the Issuer and tendered to the Trustee in any 12-month period ending on November 1 in any calendar year will be credited toward and reduce the next mandatory sinking fund payments required to be made for such Series of Bonds in the order in which they are required to be made pursuant to the Indenture.

Extraordinary Mandatory Redemption

The Series 2017 Bonds will be subject to extraordinary mandatory redemption at the direction of the Issuer pursuant to the Indenture to repair or replace the Hotel, in whole or in part on the earliest date following the date for which notice of redemption can be given as provided in the Indenture, at a price equal to the principal amount of Bonds to be redeemed plus interest accrued or accreted thereon to the date fixed for redemption, without premium, from proceeds of insurance (including any title insurance), or condemnation awards not used to repair or replace the Hotel, provided that no Second Tier Bonds will be redeemed pursuant to this paragraph until no First Tier Bonds remain outstanding.

Notice of Redemption

The Trustee must give notice in the name of the Issuer, of the redemption of Bonds to Registered Owners of any registered Bond or portions of registered Bonds to be redeemed not less than thirty (30) days and no more than sixty (60) days before the Redemption Date and send such notice of redemption by first class mail to each such Registered Owner of a Bond to be redeemed to the Registered Owner's last address appearing upon the Register.

Such notice must specify the Series and maturities of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such Redemption Date will be payable, and, if less than all of the Bonds of any like Series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notices must also specify the respective portions of the principal amounts thereof to be redeemed. Such notice must further state that on such Redemption Date there will become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof, in the case of Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon will cease to accrue and be payable.

The Trustee will only give notice for an optional redemption of Bonds upon the prior payment to the Trustee of funds sufficient to pay the Redemption Price, plus interest accrued and unpaid to the Redemption Date on the Bonds to which such notice relates.

The failure to give notice to any Registered Owner of any Bond or portion thereof to be redeemed or any defects therein does not affect the validity of any proceedings for the redemption of any other Bond for which such notice has been duly given.

Payment of Redeemed Bonds

The Bonds or portions thereof so called for redemption become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued or accreted and unpaid to the Redemption Date, and upon presentation and surrender thereof at the office specified in such notice. If less than all of the principal of any Bond is called for redemption, the Issuer will execute and the Trustee or the Authenticating Agent will authenticate, upon the surrender of such Bond, without charge to the Registered Owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, Bonds of like Series and maturity in any Authorized Denomination. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of like Series and maturity to be redeemed, together with interest to the Redemption Date, is held by the Trustee so as to be available therefor on said date and if notice of redemption has been given as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturity so called for redemption ceases to accrue or accrete and become payable. If said moneys is not available on the Redemption Date, such Bonds or portions thereof continue to bear or accrete interest until paid at the same rate as they would have borne or accreted at had they not been called for redemption.

Selection of Bonds to be Redeemed

Bonds subject to optional redemption will be selected in such order of maturity and from such Series of Bonds as the Issuer may direct. If less than all of the Bonds of a single maturity within the same Series are to be redeemed, the Bonds of such Series to be redeemed will be selected by lot or other random method by the Trustee in such a manner as the Trustee may determine. In case of any partial redemption during the continuance of an Event of Default, such redemption will be applied on a pro rata basis to all Outstanding Bonds of the Series called for redemption, without differentiation by maturity or within a maturity.

Book-Entry Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee's name. The information in this section concerning

DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The County and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of each 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"). DTC has Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds 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 the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee, on payable dates 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 in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, 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 Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes not responsibility for the accuracy thereof.

NOTWITHSTANDING ANY PROVISION OF THE INDENTURE, THE TRUSTEE, SO LONG AS THE DTC BOOK-ENTRY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION, NOTICE OF PROPOSED AMENDMENT TO THE INDENTURE, OR OTHER NOTICES WITH RESPECT TO THE BONDS ONLY TO DTC. ANY FAILURE BY DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO NOTIFY THE BENEFICIAL OWNERS, OF ANY NOTICES AND THEIR CONTENTS OR EFFECT WILL NOT AFFECT THE VALIDITY OF THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON ANY SUCH NOTICE. REDEMPTION OF PORTIONS OF THE BONDS BY THE ISSUER WILL REDUCE THE OUTSTANDING PRINCIPAL AMOUNT OF SUCH BONDS HELD BY DTC. IN SUCH EVENT, DTC MAY IMPLEMENT, THROUGH ITS BOOK-ENTRY SYSTEM, A REDEMPTION OF SUCH BONDS HELD FOR THE ACCOUNT OF DTC PARTICIPANTS IN ACCORDANCE WITH ITS OWN RULES OR OTHER AGREEMENTS WITH DTC PARTICIPANTS, AND DIRECT PARTICIPANTS AND INDIRECT PARTICIPANTS MAY IMPLEMENT A REDEMPTION OF SUCH BONDS FROM THE BENEFICIAL OWNERS. ANY SUCH SELECTION OF THE BONDS TO BE REDEEMED WILL NOT BE GOVERNED BY THE INDENTURE AND WILL NOT BE CONDUCTED BY THE TRUSTEE. NEITHER THE ISSUER, THE TRUSTEE, NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM DIRECT OR INDIRECT PARTICIPANTS ACT AS NOMINEES, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT; THE PAYMENT BY DTC OR ANY

PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OR INTEREST; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO THE REGISTERED OWNERS OF THE BONDS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF PARTIAL REDEMPTION OF THE BONDS; OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC (OR ITS NOMINEE) AS THE REGISTERED OWNER OF THE SERIES 2017A BONDS AND THE SERIES 2017B BONDS. IF LESS THAN ALL OF THE BONDS ARE TO BE REDEEMED, THE CURRENT DTC PRACTICE IS TO DETERMINE BY LOT THE AMOUNT OF INTEREST OF EACH DTC PARTICIPANT IN EACH MATURITY TO BE REDEEMED.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Orders will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Issuer or the Underwriters.

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued printed Bonds will be issued to the registered owners and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Orders and summarized under “Transfer, Exchange and Registration” below.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, printed certificates shall be delivered to the registered owner and thereafter the Bonds may be transferred and exchanged on the registration books of the Trustee only upon presentation and surrender to the Trustee 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 Trustee. See “Book-Entry-Only System” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

THE HOTEL AND CONVENTION CENTER

The Hotel

The Hotel is a single 31-story L-shaped tower, containing approximately [71,111] square feet of meeting and pre-function space, a coffee shop, a lobby bar, a three-meal restaurant, a dinner only restaurant, a health club and spa, an outdoor swimming pool, a business center, two executive levels, a multi-level parking garage and in-house support facilities. Opened on December 27, 2003, the Hotel is an 800 room full-service convention center hotel located in the City. Bounded by 4th, 5th, Red River, and Neches Streets in the City, the Hotel is directly north of and immediately adjacent to the City’s Convention Center and ten blocks from the State Capitol. The Hotel’s main entrance is designated by a circular driveway and porte-cochere in the middle of the western side of the building, facing Neches Street. Most of the Hotel’s public space is located on the first, second, fourth, and sixth floors. Two restaurants are situated on level one, and a coffee shop, the lobby lounge, the business center, and the front desk are located on level two. Recreational spaces are on the eighth floor and include an outdoor swimming pool, a health club, and a full service spa. The meeting spaces are concentrated on levels four and six. In terms of back-of-the-house areas, the front office, revenue manager, and reservations offices are situated on the second floor

and the banquet office is located on the fourth floor. Administrative, housekeeping, sales and catering, and human resources departments are situated on the third level and the engineering offices are housed on the fifth level. The guestrooms are on floors 10 through 26. [Seven] guest elevators serve hotel guests, in addition to two escalator banks which run from the first to second floors and from the second to fourth levels. The Hotel is part of a condominium regime. [Levels two and three constitute the condominium retail unit (the “Retail Unit”) and levels five, seven, eight, and nine constitute the condominium apartment unit and penthouse unit (the “Apartment and Penthouse Units”). The Retail Unit and the Apartment and Penthouse Units are privately owned units and are not part of the Hotel, nor do such units serve as security for the Series 2017 Bonds.] [Apartment and penthouse units may be combined pursuant to revised Master Declaration prior to release of the POS]

A subterranean parking garage is located on five basement levels underneath the Hotel, which accommodates parking for approximately 750 automobiles, 600 of which serve the Hotel. The parking spaces in excess of 600 are reserved for retail and non-hotel residential use. Entrance, exit, and pay booth operations are exiting at a single ramp located on Red River Street.

Since the issuance of the Series 2006 Bonds, the Hotel has undergone several renovation projects. In 2008, the rooms of the Hotel received approximately \$3,000,000 in soft renovations, including carpet and soft goods. In 2009, approximately \$2,500,000 was spent on partial replacement of room, restaurant and health club hard goods. In 2010 and 2011, approximately \$8,000,000 was spent to purchased unfinished space on the first floor and move the banquet kitchen from the 6th floor to the first floor space adjacent to the restaurant main kitchen. The 6th floor space, along with additional back-of-house space on the 4th floor were converted to meeting rooms with flexible break out space to accommodate hotel groups. This modification created approximately 10,000 square feet of additional, flexible meeting space and consolidated the kitchen facilities to a single, more efficient facility. In 2012, approximately \$500,000 was spend to complete a material renovation of the two-meal dining facility, Liberty Tavern, creating three-meal capacity and adding a full service sports bar area. In 2013 and 2014, approximately \$23,000,000 was spent to complete a full renovation of all guestrooms and suites, corridors and executive lounge. In 2016, a renovation of the 4th and 6th floor meeting rooms and ballrooms was completed at a cost of approximately \$6,800,000.

The Hotel also has ongoing renovation projects. In 2016, a renovation of the lobby area and all four restaurant facilities of the Hotel was substantially completed with an estimated project cost exceeding \$12,000,000. The restaurant renovation includes the conversion of: (1) Java Jive grab/go area to a full service Starbucks, (2) Loft Bar to a three-meal restaurant named Cannon & Belle, (3) Liberty Tavern to a lunch/dinner facility named Austin Taco Project serving casual fare and cocktails, and (4) Finn & Porter restaurant to The Reverberie, a special events space designed for group use. For 2017, plans have been approved for an approximately \$7,500,000 overhead walkway project to connect the Hotel to the Convention Center, and create an outdoor terrace venue by the 6th floor ballroom area that will be available for group rental.

The Convention Center

The Convention Center is located in downtown Austin at 500 East Cesar Chavez Street (formerly First Street) on the east side of the City’s central business district. The Convention Center occupies four blocks bounded by Trinity Street on the west, Red River Street on the east, Fourth Street on the north, and Cesar Chavez Street on the south. The construction of the Convention Center commenced in late 1989 and it opened for business in July 1992 and was expanded in 2002. In June 1992, the City acquired a ten story 1,100 car parking garage as part of the Convention Center located at 201 East Second Street, one block from the Convention Center. The total area of the Convention Center is 881,400 square feet, which includes over 246,097 square feet of exhibit halls, 54,730 square feet of meeting rooms, and two ballrooms with a total of 66,718 square feet, kitchen facilities, and support space. [Statistics to be confirmed]

OPERATIONS OF THE HOTEL

The Asset Manager

The Issuer hired CHMWarnick & Company (the “Asset Manager”) to assist the Issuer in overseeing the operation of the Hotel for the benefit of and on behalf of the Issuer, the Bondholders, and the Trustee. Among its

duties, the Asset Manager reviews and recommends approval or disapproval of the proposed Capital Budget and Operating Plan and Budget for each Operating Year and reviews all reports delivered by the Hotel Manager pursuant to the Hotel Operating Agreement.

The Hotel Manager

The Hotel was prepared for opening by the Hotel Manager pursuant to the Pre-Opening Services Agreement and is operated and managed by the Hotel Manager pursuant to an [Amended and Restated] Operating Agreement, as amended or supplemented from time to time (the “Hotel Operating Agreement”), and a Room Block Commitment Agreement (the “Room Block Commitment”), each by and between the Issuer and the Hotel Manager. The following information described under “OPERATION OF THE HOTEL – The Hotel Manager” has been provided by the Hotel Manager for use in the Official Statement in connection with the offering of the Series 2017 Bonds. No representation is made by the Issuer, the City, or the Underwriters as to the accuracy or completeness of the information set forth herein concerning the Hotel Manager or its affiliates or brands.

General

The Issuer has contracted with the Hotel Manager to manage and operate the Hotel under the Hilton name. See APPENDIX D – Summary of Certain Provisions of the Hotel Operating Agreement. The Hotel Manager’s ultimate parent entity is a New York Stock Exchange company (NYSE:HLT) and is primarily engaged, together with its subsidiaries, in the ownership, management, and franchising of hotels. The Hotel Manager is recognized internationally as a preeminent hospitality company. Hilton’s world headquarters are located at 9336 Civic Center Drive, Beverly Hills, California 90210.

Hilton Management LLC

[UPDATE] As of _____, 2016, the Hotel Manager’s hotel system included ____ properties, totaling approximately _____ rooms. The Hotel Manager has approximately _____ hotels and resorts which are owned and/or operated or franchised under the Hilton or Hilton Suites name. Flagship properties include The Waldorf Astoria, the Hilton Hawaiian Village and the Hilton Chicago & Towers, among others.

Number of Properties and Rooms

[UPDATE] The number of properties and rooms at _____, 2016 by brand and type are as follows:

<u>Brand</u>	<u>Properties</u>	<u>Rooms</u>	<u>Type</u>	<u>Properties</u>	<u>Rooms</u>
Hilton			Owned(1)		
Hilton Garden Inn			Leased		
Doubletree			Joint Venture		
Embassy Suites					
Homewood Suites by Hilton					
Hampton			Managed		
Scandic			Franchised		
Conrad					
Other					
Timeshare			Timeshare		
Total			Total		

⁽¹⁾ Includes majority owned and controlled hotels.

Hilton’s convention center hotels portfolio includes, but is not limited to the following (with all room numbers being approximate):

- Hilton Anaheim – 1,572 rooms
- Hilton Austin – 800 rooms
- Hilton Americas Houston – 1,203 rooms
- Hilton Omaha – 450 rooms
- Hilton Vancouver – 226 rooms

Design and Furnishing Services

The Hotel Manager, through its wholly owned subsidiary, Hilton Supply Management, provides design and furnishing services, and purchases and distributes furniture, furnishings, equipment, and supplies to the Hotel Manager’s hotels and to hotels owned and operated by others.

Marketing

The Hotel Manager’s hotel properties offer multiple product lines to a broad range of customers in many geographic markets. The Hotel Manager’s hotel portfolio includes full-service and limited-service hotels in urban, airport, resort, and suburban locations. The Hotel Manager’s metropolitan and airport properties primarily serve the convention and meeting market and the business traveler market (businesspersons traveling as individuals or in small groups). The Hotel Manager’s resort properties primarily serve the tour and leisure market (tourists traveling either as individuals or in groups) and the convention and meeting market.

Reservation Service/Hilton HHonors Program

All Hilton hotels are listed and participate in the Hotel Manager’s reservation service, which is operated by Hilton Reservations Worldwide LLC, an affiliate of the Hotel Manager. The Hotel Manager’s reservation service provides reservation referrals to all Hilton owned, operated, and franchised hotels.

All Hilton hotels participate in the same national (and certain international) marketing programs offered by the Hotel Manager, the Hilton HHonors Worldwide, LLC guest loyalty program (“HHonors”). Members of the HHonors program earn points based on their spending at most of the hotel properties operated and franchised by the Hotel Manager. HHonors accumulates and tracks points on the member’s behalf and fulfills the awards upon request. Points can be redeemed for hotel stays at participating properties, and for a variety of other awards such as airline tickets, cruises and car rentals.

Securities Disclosure

Under the terms of the Indenture, in the event the Issuer at any time or from time to time, sells or offers to sell, any securities (including any Bonds) issued by the Issuer, the Issuer is required under the Indenture to (i) clearly disclose to all purchasers and offerors that neither the Hotel Manager nor any of its affiliates or their respective officers, directors, agents, or employees will in any way be deemed an issuer or underwriter of said securities and that (ii) the Hotel Manager nor any of its affiliates or their respective officers, directors, agents, or employees will have no liability whatsoever arising out of or relating to any financial statements, prospectuses, or other financial information contained in any disclosure document or similar written or oral communication other than that which pertains to the Hotel Manager and/or its operation. The Hotel Manager is required to cooperate in providing adequate disclosure regarding it in such disclosure document and to certify that such information is true and correct in all material respects. All terms used in this paragraph have the meaning as defined in the Securities Act of 1933, as amended.

The Garage Operator

The Hotel Manager currently operates and manages the Garage. If the Hotel Manager hires a third party to operate and manage the Garage, the Issuer has the right to approve such third party manager.

The Hotel Operating Agreement

[UPDATE] The Issuer is required to manage and operate, or cause the Hotel Unit to be managed and operated, as a revenue-producing, full-service, first-class “upscale” convention hotel affiliated with a national hotel chain with experience in managing such hotels. Under the Hotel Operating Agreement, the Hotel Manager is required to cause the Hotel to be operated: (a) in a manner consistent with the requirements and limitations set forth in the Hotel Operating Agreement (including those relating to the applicable Operating Plan and Budget and the applicable Capital Budget) and the Condominium Documents; (b) in accordance with standards, policies, and programs which are prevailing in effect from time to time and applicable to the operation of Other Hilton Hotels, including standards and policies applicable to all phases of operation and programs such as purchasing programs, sales promotion programs, and quality improvement programs; (c) as a full service, first class, convention hotel in a manner reasonably expected to earn the Hotel at least an Upscale Rating, which is at least comparable to other first class convention Other Hilton Hotels, taking into account the character, size and location of the facility; and (d) to the extent consistent with (a), (b), and (c), in a manner reasonably calculated to: (i) protect and preserve the assets that comprise the Hotel; (ii) maximize over the Operating Term the financial return to the Issuer from the operation of the Hotel as a first class, convention center headquarters hotel, after taking into consideration the Room Block Commitment; and (iii) control Operating Expenses (collectively, the “Operating Standard”).

The Hotel Operating Agreement has a term of [15 years commencing on the Closing Date of the Series 2006 Bonds]. The Hotel Manager or the Issuer may terminate the Hotel Operating Agreement upon the occurrence of an Event of Default under the Hotel Operating Agreement by the other Party thereto, and the Issuer may terminate the Hotel Operating Agreement upon the occurrence of a Performance Termination Event and with appropriate notice as required by the Hotel Operating Agreement. The Hotel Operating Agreement contains additional provisions allowing termination of the Hotel Operating Agreement upon the occurrence of certain events. See APPENDIX D – Summary of Certain Provisions of the Hotel Operating Agreement. Also see “RISK FACTORS – Operation Risks – Reliance on Brand Name Recognition and Competent Management.” The Hotel Operating Agreement and the Hotel Manager’s rights thereunder are subordinate to the provisions of the Indenture and all other Bond Documents.

The Indenture requires the Issuer to include in the Hotel Operating Agreement and any other management agreement covering the Hotel provisions relating to the attainment of certain debt service coverage ratios and the need in some circumstances for the appointment of a Hotel Consultant to make written recommendations regarding the operation, management, marketing, improvement, condition or use of the Hotel. See APPENDIX D – Summary of Certain Provisions of the Hotel Operating Agreement.

The Issuer will cause to be in full force and effect at all times a management agreement with respect to the Hotel with terms and conditions similar to those of the initial Hotel Operating Agreement and which require the manager thereunder to maximize over the terms of the management agreement the financial return to the Issuer from the operation of the Hotel, after taking into consideration the Room Block Commitment. The Issuer will not amend, modify or otherwise alter such management agreements in any manner that could have a material adverse effect on the Bonds or the Hotel without the prior written consent of a majority of the Bondholders. The Issuer covenants that it will not disapprove of any rate schedules, prepared by the Hotel Manager, which meet certain requirements as specified in the Indenture. The Issuer must at all times maintain applicable licenses, permits, certificates, and other governmental approvals necessary to operate the Hotel Unit. The Issuer is required to equip the Hotel to facilitate its overall operation in a manner reasonably expected to qualify as a full-service, first-class, “upscale” convention center headquarters hotel, but solely from Gross Revenues available for such purpose.

The Room Block Commitment

A Room Block Commitment has been entered into between the Issuer and the Hotel Manager, pursuant to which the Hotel Manager will agree to reserve for use by potential clients of the Convention Center 600 guest rooms within the Hotel for 274 days each year. Calculation of days is as determined by the Room Block Commitment. Within 5 business days after receipt of a room block request from the Issuer, Convention Center representative or other designee of the Issuer, the Hotel Manager will provide a written offer to commit rooms in response to the request subject to certain conditions as described in the Room Block Commitment.

The Issuer and the Hotel Manager will, during the annual budgeting process under the Hotel Operating Agreement, agree upon a range of permitted room rates for the next calendar year. If the parties are unable to agree upon such range of permitted rates, the range of permitted room rates for the applicable Operating Year will be the permitted room rates for the preceding Operating Year adjusted by a percentage equal to 102% of the percentage increase or decrease in the average daily rate charged by the Competitive Set for guest rooms for the previous year.

Until no Series 2017 Bonds are Outstanding, any damages owed to the Hotel Manager by the Issuer under the Room Block Commitment will be satisfied solely out of (a) the amounts from time to time in the Cash Trap Fund and the Excess Proceeds Fund, (b) after satisfaction of all Series 2017 Bonds, and if the Issuer remains the owner of the Hotel, then out of the general assets of the Issuer, including the Issuer's interest in the Hotel and Gross Revenues, and (c) if the Issuer sells, transfers, or conveys the Hotel to a third party, the net sale proceeds (i.e., after payment of normal and ordinary closing costs, payment of all expenses required under the contract of sale and satisfaction of all Bonds, and all amounts owing under the Bond Documents) received by the Issuer upon the sale of the Hotel. So long as any unpaid damages are owed to the Hotel Manager, such damages will constitute an ongoing claim against the amounts specified.

History of Cash Flows

The following table sets forth a history of audited cash flows for the past ten calendar years. Investors should be aware that collection of revenue, or components thereof, may not continue at the levels shown below and the coverage factors in future years may not remain at the historic levels indicated.

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Fiscal Year Ending	2006	2007	2008	2009	2010
OPERATING HISTORY					
Occupancy Rate					
Average Daily Rate					
Revenue Per Available Room (RevPar)					
COMPUTATION OF TOTAL NET REVENUE					
Operating Revenue					
Operating Expenses					
Gross Operating Revenue					
Operating Expenses					
Gross Operating Profit					
Net Operating Income					
Administrative Expenses					
Total Net Revenue					
DEBT SERVICE COVERAGE RATIOS					
First Tier Revenue Bonds Aggregate Debt Service					
First Tier Revenue Debt Service Coverage Ratio					
Second Tier Revenue Bonds Aggregate Debt Service					
Second Tier Revenue Debt Service Coverage Ratio					
PRINCIPAL BALANCE					
First Tier Revenue Bonds					
Second Tier Revenue Bonds					
FUND BALANCES					
First Tier Debt Service Reserve Fund					
Second Tier Debt Service Reserve Fund					
Operating Reserve Fund					
Cash Trap Fund					
Total Fund Balance					

Fiscal Year Ending	2011	2012	2013	2014	2015
OPERATING HISTORY					
Occupancy Rate					
Average Daily Rate					
Revenue Per Available Room (RevPar)					
COMPUTATION OF TOTAL NET REVENUE					
Operating Revenue					
Operating Expenses					
Gross Operating Revenue					
Operating Expenses					
Gross Operating Profit					
Net Operating Income					
Administrative Expenses					
Total Net Revenue					
DEBT SERVICE COVERAGE RATIOS					
First Tier Revenue Bonds Aggregate Debt Service					
First Tier Revenue Debt Service Coverage Ratio					
Second Tier Revenue Bonds Aggregate Debt Service					
Second Tier Revenue Debt Service Coverage Ratio					
PRINCIPAL BALANCE					
First Tier Revenue Bonds					
Second Tier Revenue Bonds					
FUND BALANCES					
First Tier Debt Service Reserve Fund					
Second Tier Debt Service Reserve Fund					
Operating Reserve Fund					
Cash Trap Fund					
Total Fund Balance					

PLAN OF FINANCE

A portion of the proceeds of the Series 2017 Bonds, together with certain other funds held by the Trustee, will be used to currently refund all of the Series 2006 Bonds currently outstanding in the aggregate principal amount of \$ _____. All of the outstanding Series 2006 Bonds will be redeemed as of the Closing Date.

Estimated Sources and Uses

The table below sets forth the estimated sources and uses of funds of the Series 2017 Bonds.

<u>Sources of Funds</u>	<u>Series 2017A Bonds</u>	<u>Series 2017B Bonds</u>	<u>Transferred Funds</u>	<u>Total</u>
Bonds (Par Amount)				
Original Issue Premium				
Transfer from Series 2006 Debt Service Reserve Funds				
Transfer from Series 2006 Debt Service Funds				
Transfer of Series 2006 Operating Reserve Fund				
Transfer from Series 2006 Cash Trap Fund				
Transfer from other Funds held by Trustee				
Total Sources				
Uses of Funds				
Deposit to Escrow Agent				
First Tier Debt Service Reserve Fund				
Second Tier Debt Service Reserve Fund [Operating Reserve Fund]				
[Deposit to Taxes and Insurance]				
[Deposit to Renewal and Replacement Fund]				
Costs of Issuance, including legal fees and Underwriters' discount				
Total Uses				

(Remainder of Page Intentionally Left Blank)

Debt Service Schedule

The annual debt service schedule for the Series 2017 Bonds to maturity is set forth below:

Year 1/1	Series 2017A Bonds			Series 2017B Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2018						
2019						
2020						
2021						
2022						
2023						
2024						
2025						
2026						
2027						
2028						
2029						
2030						
2031						
2032						
2033						
2034						
Total						

Market Study Report

In connection with the issuance of the Series 2017 Bonds, HVS Consulting & Valuation, a division of TS Worldwide, LLC, Boulder, Colorado (the “Hotel Market Consultant”), prepared a Market Study Report (the “Hotel Market Study”), dated ___, 2017, which is presented in its entirety in APPENDIX A.

This portion of the Official Statement contains financial data taken from or based upon the information contained in the Hotel Market Study. Investors considering purchase of the Series 2017 Bonds are urged to carefully review the Hotel Market Study in its entirety. Although the Hotel Market Consultant believes the assumptions underlying the forecasts included in the Hotel Market Study are reasonable, investors are cautioned that there may be differences between the forecasted and actual results. There are a number of factors which may cause actual results to vary materially from forecasts. See “RISK FACTORS” and “FORWARD-LOOKING STATEMENT DISCLAIMER.”

The objective of the Hotel Market Study is to evaluate the supply and demand factors affecting the market for transient accommodations in the Austin area for the purpose of developing a forecast of income and expenses for the Hotel. The Hotel Market Study presents a forecast of income and expenses for the Hotel from January 1, 2017 through December 31, 2036 (the “Forecast Period”), including the assumptions upon which the forecasts are based. In the Hotel Market Study projections are made for twelve month periods ending December 31 (a “Projection Year”) within the Forecast Period.

Significant assumptions made in the Hotel Market Study include [(1) continued operation of the Hotel by the Hotel Manager or other competent management, (2) no new terrorist activity, and (3) no sharp rise or decline in the local or national economic condition.] The Hotel Market Study should be read in its entirety for an understanding of the forecasts and all of the underlying assumptions contained therein.

[UPDATE WITH ADDITIONAL MARKET STUDY INFORMATION]

The following table summarizes the Hotel Market Consultant’s forecast of the occupancy levels, average rates and net income for the Hotel during the Forecast Period. Since all forecasts are based on estimates and assumptions which are inherently subject to uncertainty and variations depending on future events, there are likely to be differences between the forecast and actual results and the differences may be material. See “FORWARD-LOOKING STATEMENT DISCLAIMER.”

Projection Year	Occupancy Level	Average Rate	RevPAR ⁽¹⁾
2017			
2018			
2019			
2020			
2021			

(1) Revenue per available room.

Cash Flow Projections

The table set forth below summarizes the Total Net Revenue projections, the estimated annual Debt Service requirements for the Series 2017 Bonds, the projected Debt Service coverage for each series of the Series 2017 Bonds, and projected balances of certain funds held by the Trustee.

[INSERT CASH FLOW PROJECTIONS TABLE]

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS

Limited Obligations

The Series 2017 Bonds are limited obligations of the Issuer payable from the Trust Estate in accordance with the Indenture. The Series 2017A Bonds are payable from Total Net Revenues and money held by the Trustee in certain funds and accounts under the Indenture, including certain reserve funds. The Series 2017B Bonds are also payable from excess Total Net Revenues, after certain deposits, including deposits to the First Tier Debt Service Account and certain other Funds, required by the Indenture have been made and money held by the Trustee in certain funds and accounts under the Indenture, including certain reserve funds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Flow of Funds” below.

NEITHER THE STATE, THE CITY, NOR ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE IS OBLIGATED TO PAY THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS, OTHER THAN THE ISSUER SOLELY IN A ACCORDANCE WITH THE INDENTURE AND ANY APPLICABLE SUPPLEMENTAL INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, THE CITY, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR PREMIUM, IF ANY, OR THE INTEREST ON THE BONDS. THE OBLIGATIONS OF THE ISSUER TO THE BONDHOLDERS ARE LIMITED SOLELY TO THE ASSETS OF THE ISSUER AS DESCRIBED IN THE INDENTURE. THE ISSUER HAS NO TAXING POWER. NO OBLIGATION OR RESPONSIBILITY OF THE ISSUER ARISING UNDER OR CONCERNING THE CLOSING DOCUMENTS WILL EVER CONSTITUTE AN INDEBTEDNESS OR GENERAL OBLIGATION OR RESPONSIBILITY OF THE CITY. THE ISSUER CANNOT PLEDGE THE CREDIT OF THE CITY OR CAUSE THE CITY TO INCUR OR ASSUME ANY INDEBTEDNESS ON BEHALF OF THE ISSUER.

Subordination of Second Tier Bonds

Notwithstanding any other provision of the Indenture, and until no First Tier Bonds remain outstanding and unpaid, upon the occurrence and during the continuance of certain Events of Default pursuant to specific provisions

of the Indenture, no payment will be made with respect to the Second Tier Bonds other than from the amounts then on deposit in the Second Tier Debt Service Account or transferred thereto from amounts on deposit in the Second Tier Debt Service Reserve Fund to pay any scheduled payments of debt service, including mandatory or anticipated sinking fund payments, with respect to any Second Tier Bond. **Accordingly, nonpayment of such amounts will not constitute an Event of Default under the Indenture so long as any First Tier Bonds remain outstanding and unpaid, and Registered Owners of Second Tier Bonds will not have any rights to pursue any rights or remedies thereunder in such event.**

Trust Estate

Subject to the terms, provisions, and limitations set forth in the Indenture including, without limitation, the priority of payment of the Bonds as set forth therein, the Issuer will grant, convey, mortgage, create a security interest in, pledge, and assign all of the Issuer's right, title, and interest in and to the following (collectively, the "Trust Estate") to the Trustee as security for the payment of the Bonds.

(a) subject to the rights of the Issuer and the Hotel Manager to use such amounts in accordance with the terms of the Cash Management Agreement, the Hotel Operating Agreement and the Indenture, all amounts on deposit in or required from time to time to be deposited in or credited to the Funds to be held by the Trustee thereunder (except the Rebate Fund) and all amounts that constitute Gross Operating Revenues on deposit in or required from time to time to be deposited in or credited to the Lockbox Fund held by the Depository Bank under the Cash Management Agreement, all in accordance with the Indenture, the Cash Management Agreement, and the Hotel Operating Agreement, together with any investments and reinvestments made with such amounts and the proceeds thereof;

(b) subject to the rights of the Issuer and the Hotel Manager to use such amounts in accordance with the terms of the Hotel Operating Agreement, the Cash Management Agreement, and the Indenture, in and to the Hotel, the Transaction Documents, including all rents and revenues derived therefrom and all Gross Revenues, together with all rights, powers, privileges, options, and other benefits of the Issuer contained therein, and all rights, titles, interests, liens, privileges, claims, demands, and equities held by the Issuer existing and to exist in connection with or as security for the payment of the Debt Service on the Bonds when due and all amounts (other than amounts in, or required to be deposited in, the Rebate Fund) to be received from the Hotel; and

(c) any and all property (other than amounts in, or required to be deposited in, the Rebate Fund) of every kind or description now or hereafter owned by the Issuer, or which may now or hereafter be sold, transferred, conveyed, assigned, hypothecated, endorsed, deposited, pledged, mortgaged, granted, or delivered to, or deposited with, the Trustee by or on behalf of the Issuer or the City as additional security under the Indenture, or which pursuant to any of the provisions of the Bond Documents may come into the possession or control of the Trustee or the Depository Bank, or of a receiver lawfully appointed pursuant to the Indenture, as such additional security; and the Trustee is authorized to receive all such property as additional security for the payment of the Series 2017 Bonds, and to hold and apply all such property subject to the terms of the Indenture and the Cash Management Agreement.

In addition, the Issuer has granted to the Trustee a first and prior lien against the Legal Hotel Unit pursuant to the Deed of Trust. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Deed of Trust" below.

Lockbox Fund

[UPDATE in accordance with springing lockbox structure to be implemented in the Cash Management Agreement]

The Issuer, the Trustee, and the Hotel Manager have established and currently maintain one or more Lockbox Funds with the Depository Bank. In addition, the Hotel Manager may establish one or more segregated deposit accounts with the Depository Bank or other banks the balances of which will be transferred to the Lockbox Fund at the end of each Business Day. All Gross Operating Revenues as calculated on a cash basis (less a reasonable

petty cash amount to be held at the Hotel) will be deposited into the Lockbox Fund as soon as practical upon receipt (but not less often than once each Business Day). During each month the Hotel Manager will withdraw from the Lockbox Fund amounts sufficient to pay Operating Expenses. On the tenth Business Day of each month after payment or provision for payment of the Base Management Fee and Additional Management Fee then due and owing and Short-Term Indebtedness then due and owing, all of the Available Revenue held in the Lockbox Fund in excess of \$1 million will be transferred to the Trustee for deposit in the Available Revenue Fund. Amounts deposited in the Available Revenue Fund will then be applied as described in “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Flow of Funds – Available Revenues” below in this section.

If on the 25th day immediately preceding each Interest Payment Date there are not on deposit in the First Tier Debt Service Account and the Second Tier Debt Service Account amounts sufficient to pay the interest and principal to become due on the First Tier Bonds and Second Tier Bonds, respectively, on such Interest Payment Date, and sufficient amounts are not on deposit in the other Funds held by the Trustee which are available to make up such deficiency, then the Trustee will notify the Issuer and the Depository Bank of the deficiency, and, unless funds to cover such deficiency are transferred to the Trustee for deposit to the Available Revenue Fund within ten days after receipt of such notice, the Issuer will cause the Depository Bank to transfer the Lockbox Fund to the name and credit of the Trustee, as assignee of the Issuer.

The Lockbox Fund will remain in the name and to the credit of the Trustee until the amounts on deposit in such fund are sufficient to pay in full (or have been used to pay in full) all amounts in default and until all other Events of Default known to the Trustee have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate have been made therefor, whereupon the Lockbox Fund (except for the Available Revenues held in the Lockbox Fund which are required to make such payments or cure such defaults) will be returned to the name and credit of the Issuer. During any period that the Lockbox Fund is held in the name and to the credit of the Trustee, the Trustee will use and withdraw from time to time amounts in such fund, to make payments first on the First Tier Bonds and second on the Second Tier Bonds, as such payments become due.

During any period that the Lockbox Fund is held in the name and to the credit of the Trustee, the Issuer will not be entitled to use or withdraw any of the Gross Operating Revenues except for the payment of current or past due Operating Expenses; provided, however, that the Issuer will be entitled to withdraw any amounts in the Lockbox Fund which do not constitute Gross Operating Revenues. Notwithstanding the foregoing, (i) if the Hotel Manager has not been terminated under the Hotel Operating Agreement and an Event of Default (as defined in the Hotel Operating Agreement) by the Hotel Manager has not occurred and is continuing under the Hotel Operating Agreement, the Hotel Manager will be entitled to continue to receive certain funds, to the extent funds are available for such purpose, as provided in the Lockbox Agreement, the Hotel Operating Agreement, and the Indenture; and (ii) if an Event of Default (as defined in the Hotel Operating Agreement) by the Hotel Manager has occurred and is continuing under the Hotel Operating Agreement of which the Trustee has notice, but the Trustee has not received notice that the Hotel Manager has been terminated under the Hotel Operating Agreement, the Trustee is required to pay the Hotel Manager (x) the budgeted Operating Expenses then due and owing, Short Term Indebtedness then due and owing, items within the Capital Budget, and amounts needed to pay taxes and insurance with respect to the Hotel Unit, (y) and with the prior written consent of the Asset Manager and the Issuer, unbudgeted expenses and amounts reasonably determined by the Hotel Manager as being required to be made to protect life, health or property from imminent danger or to comply with Legal Requirements, provided that the Hotel Manager is required to supply a weekly accounting of such expenditures to the Trustee and the Issuer.

Assignment Agreements

Pursuant to the Assignment Agreement, as amended or supplemented from time to time, the Issuer assigned to the Trustee (i) all of the Issuer’s rights and interests in any and all contracts, instruments, and agreements, now existing or hereafter arising, in connection with the acquisition, operation, construction, use or occupancy of the Hotel, and the right to enforce performance, exercise such remedies conferred upon the Issuer by such documents for the purpose of securing performance by the Issuer under the Indenture; provided that, so long as no Event of Default has occurred and be continuing under the Indenture, the Issuer will have, and may exercise, all of its rights under such documents, as applicable, including the rights to receive performance under such documents and the rights to enforce such documents in accordance therewith and (ii) to the extent permitted under applicable law, all

licenses, permits, authorizations, consents, and approvals heretofore or hereafter issued by any and all governmental instrumentalities and authorities in connection with the operation, construction, use, or occupancy of the Hotel.

Pursuant to an Assignment and Subordination of Hotel Operating Agreements (“Hotel Assignment”) dated June 1, 2001, as amended or supplemented from time to time, the Issuer transferred, set over and assigned, to the Trustee all of its right, title and interest under the Hotel Operating Agreement and Room Block Commitment (collectively, the “Hotel Agreements”). So long as there is no Event of Default under the Indenture, or other documentation executed in connection therewith, the Issuer will have a license to perform under and receive performance of the Hotel Agreements. Upon any Event of Default under the Indenture, the Trustee will have the right at its option (i) to foreclose on the Hotel Assignments or (ii) with or without foreclosures, to exercise any right of the Issuer, to give any consent or notice, to take the Issuer in, under or pursuant to the Hotel Agreements and in order to do so, each grants the Trustee an irrevocable power of attorney, coupled with an interest, to use the Issuer’s name and to so act. In the Hotel Assignment, the Issuer and the Hotel Manager have agreed that the Hotel Agreements and any and all liens, rights (including the right to receive fees) and interests owed, claimed or held by the Hotel Manager in and to the Hotel or arising in connection with the Hotel Manager’s possession or operation of the Hotel will in all respects be subordinate and inferior to the liens, security interests or rights of the Trustee, its successors and assigns, and securing the payment and performance of the Indenture and all renewals, extensions, increases, amendments, modifications or replacements thereof. Notwithstanding the foregoing, the Hotel Manager is entitled to receive and retain the Base Management Fee and the Additional Management Fees in accordance with the terms and provisions of the Hotel Operating Agreement. In addition, and provided the Hotel Manager is not then in default under any Hotel Agreement, in the event that the Trustee either forecloses or takes control of the Legal Hotel Unit in the Trustee’s name, the Trustee may not terminate the Hotel Agreements then in effect unless a termination is then authorized or permitted under the applicable Hotel Agreement.

Limitations on Remedies Available to Owners

Pursuant to the Indenture, a majority of the Bondholders of the First Tier Bonds may direct the Trustee to pursue remedies available to it under the Indenture to the extent an Event of Default has occurred and is continuing thereunder. See “Events of Default and Remedies” in APPENDIX C – Summary of Certain Provisions of the Bond Documents – Indenture and “RISK FACTORS – Enforceability of Remedies and Bankruptcy of the Issuer.”

Debt Service Coverage

The Issuer has covenanted in the Indenture to include in the Hotel Operating Agreement, and any other subsequent Hotel Operating Agreement relating to the Hotel, the following:

(a) If the proposed Operating Plan and Budget will result in a Debt Service Coverage Ratio of less than the Debt Service Coverage Requirement, the Hotel Manager will include with its delivery of the applicable proposed Operating Plan and Budget a detailed explanation as to why the Hotel Manager has not budgeted to attain such ratios;

(b) The Issuer and the Trustee will have the right to object to any aspect of any proposed Operating Plan and Budget if the proposed Operating Plan and Budget will result in a Debt Service Coverage Ratio of less than the Debt Service Coverage Requirement;

(c) The Issuer will have the right to appoint and will appoint if requested a majority of the Bondholders, a Hotel Consultant under each of the following circumstances:

(i) If the proposed Operating Plan and Budget will not result in the Debt Service Coverage Requirement being met, the Issuer will thereafter have the right to hire a Hotel Consultant (within 30 days of receipt of such proposed Operating Plan and Budget) to make written recommendations as to the operation, management, marketing, improvement, condition, or use of the Hotel or any part thereof that the Hotel Consultant believes could result in satisfying such Debt Service Coverage Requirement or improving the total amount of Net Revenues available to pay Debt Service;

(ii) If the actual Debt Service Coverage Ratio for the First Tier Bonds and Second Tier Bonds for any four consecutive quarters is less than the Debt Service Coverage Ratio Requirement, then unless the Issuer has appointed a Hotel Consultant pursuant to (i) above within the preceding twelve months, the Issuer will thereafter have the right to hire a Hotel Consultant (within 30 days of receipt of the quarterly report from the Hotel Manager which reflects that such Debt Service Coverage Requirement was not met for the prior four consecutive quarters) to make written recommendations as to the operation, management, marketing, improvement, condition, or use of the Hotel or any part thereof that the Hotel Consultant believes could result in satisfying the Debt Service Coverage Requirement or improving the total amount of Net Revenues available to pay Debt Service; or

(iii) If the audited annual financial statement delivered to the Issuer pursuant to the Hotel Operating Agreement reflects that the Debt Service Coverage Requirement was not achieved, then unless the Issuer has appointed a Hotel Consultant pursuant to (i) above within the preceding twelve months, the Issuer will thereafter have the right to hire a Hotel Consultant (within 30 days of the Issuer's receipt of such audited annual financial statements) to make written recommendations as to the operation, management, marketing, improvement, condition, or use of the Hotel or any part thereof that the Hotel Consultant believes could result in satisfying the Debt Service Coverage Requirement or improving the total amount of Net Revenues available to pay Debt Service.

The Issuer will deliver the Hotel Consultant's reports and findings to the Hotel Manager, Trustee and Asset Manager within three Business Days of receipt thereof by the Issuer. The Hotel Manager and the Asset Manager will study and review such reports and any written recommendations made by the Hotel Consultant. The Hotel Manager will reasonably cooperate with the Hotel Consultant in order to assist the Hotel Consultant in creating such reports and findings, and the Hotel Manager must also, upon the request of the Issuer or the Trustee, meet with the Hotel Consultant to discuss the Hotel Consultant's reports, findings and written recommendations. Manager will act in good faith in reviewing and implementing all of the Hotel Consultant's written recommendations except those written recommendations which require an expenditure of funds greater than the amount available for such purpose under the Indenture, those written recommendations that compromise the Operating Standards, or those written recommendations which could, in the opinion of Bond Counsel, adversely affect the tax exempt status of the interest on the Bonds. In addition, if the Hotel Manager believes that it is not in the best interest of the Hotel to implement any of the Hotel Consultant's written recommendations, the Hotel Manager will not be required to follow such written recommendations if the Hotel Manager provides a written explanation to Issuer, Asset Manager and Trustee as to why the Hotel Manager is not implementing such written recommendations; *provided, however*, that if the Debt Service Coverage Ratio for the First Tier Bonds and Second Tier Bonds is less than 1.20:1.00 for the prior eight consecutive calendar quarters, the Hotel Manager will act in good faith in implementing such Hotel Consultant's written recommendations unless it receives a written waiver from the Asset Manager with respect to the implementation of any such written recommendations.

The Issuer also has covenanted and agreed to exercise the full discretion, power, and authority provided to it under the Hotel Operating Agreement, including but not limited to its rights and authority to review, comment, and grant or withhold approval of the proposed Operating Plan and Budgets and proposed Capital Budgets of the Hotel. The Issuer will consult with the Asset Manager when exercising such discretion, power, and authority.

The Issuer must include in the Hotel Operating Agreement and each other operating agreement covering the Hotel a covenant requiring the Hotel Manager to deliver to the Issuer within 150 days after the end of each Operating Year audited financial statements (including a calculation of the Debt Service Coverage Ratio) for the preceding Operating Year prepared by an independent accountant.

Deed of Trust

The Issuer has granted a Deed of Trust for the benefit of the Trustee in order to secure its obligation to pay Debt Service on the Series 2001 Bonds, and other amounts and obligations under the Indenture and will execute a modification of such deed of trust to secure the Series 2017 Bonds. See APPENDIX C – Summary of Certain Provisions of the Bond Documents – Deed of Trust for a summary of certain provisions contained in the Deed of Trust, including the rights of the Trustee on behalf of the Owners thereunder.

A deed of trust is the instrument generally used in the State of Texas for granting liens on real property. A deed of trust is similar to a mortgage with power of sale. The deed of trust trustee's authority is governed by law, the

express provisions of the deed of trust and the directions of the beneficiary, being the Trustee (on behalf of the Registered Owners) under the Deed of Trust. Under the Deed of Trust, the Trustee, as beneficiary, will have the option to foreclose judicially or nonjudicially.

Security Agreement

The Issuer has granted to the Trustee, subject to the exclusive right of the Hotel Manager in certain proprietary and other property belonging to the Hotel Manager and the rights of the Hotel Manager to certain funds in order to operate the Hotel, a first and prior security interest in the personal property portion of the Hotel, in any equipment or inventory located at the Hotel and in the account, documents, chattel paper, instruments, and general intangibles arising in any manner from the Issuer's ownership and preparations of the Hotel Unit. See APPENDIX C – Summary of Certain Provisions of the Bond Documents – Security Agreement.

Perfection of Security

Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Trust Estate granted by the Issuer under the Indenture and such pledge is, therefore, valid, effective, and perfected. Should Texas law be amended at any time while the Series 2017 Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Trust Estate granted by the Issuer under the Indenture is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve the Registered Owners of the Bonds a security interest in such pledge, the Issuer and the Trustee covenant to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur. The Indenture constitutes a "security agreement," as such term is defined in Chapter 1208, Texas Government Code.

Flow of Funds

As graphically depicted on page [27], pursuant to the Indenture, all Available Revenues will be deposited by the Trustee in the Available Revenue Fund on the tenth Business Day of each month and, except as otherwise provided in the provisions of the Indenture relating to Events of Default or as described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Lockbox Fund" in this section, will be applied for the following purposes in the priority in which listed (including curing any deficiencies in deposits, transfers, or payments required in prior months), the requirements of each Fund, deposit, transfer, or payment to be fully satisfied, leaving no deficiencies, prior to any deposit, transfer, or payment later in priority, unless as otherwise specifically provided below:

First, to the Rebate Fund, amounts which, when added to other amounts in the Rebate Fund, will equal the amount required to be on deposit therein pursuant to the Tax Certificates delivered in connection with the issuance of each Series of Bonds;

Second, to the Taxes and Insurance Fund, an amount which together with money otherwise transferred to such Fund will equal but not exceed the Taxes and Insurance Set Aside Amount for the current Operating Year;

Third, to the Administrative Fee Fund, an amount which together with money otherwise transferred to such Fund will equal but not exceed the amount budgeted by the Issuer to pay the Administrative Expenses for the current Operating Year;

Fourth, to the First Tier Debt Service Account of the Debt Service Fund, an amount which together with money otherwise transferred to such Account will equal but not exceed:

- (A) the interest to become due and payable on each Series of Outstanding First Tier Bonds on the next Interest Payment Date for such Series; plus
- (B) for transfers made on the first Business Days of the months of January through June, commencing with the month of Closing, one-half of the next Principal Installment to become due and payable within the next twelve months on each Series of Outstanding First Tier Bonds; and

- (C) for transfers made on the first Business Days of the months of July through December, commencing July 2017, all of the next Principal Installment to become due and payable within the next twelve months on each Series of Outstanding First Tier Bonds to the extent not funded with deposits required by the immediately preceding clause (B).

Fifth, to the Renewal and Replacement Fund, an amount which together with money otherwise transferred to such Fund will equal but not exceed the Renewal and Replacement Set Aside Amount accrued but not paid through the preceding month;

Sixth, if the First Tier Debt Service Reserve Fund contains less than the First Tier Reserve Fund Requirement, to the First Tier Debt Service Reserve Fund, an amount equal to the amount needed to attain the First Tier Reserve Fund Requirement;

Seventh, unless provision for such payments has been made as contemplated herein, to the Second Tier Debt Service Account of the Debt Service Fund an amount which together with money otherwise transferred to such Fund will equal but not exceed:

- (A) the interest to become due and payable on each Series of Outstanding Second Tier Bonds on the next Interest Payment Date for such Series; plus
- (B) for transfers made on the first Business Days of the months of January through June, commencing January 2017, one-half of the next Principal Installment to become due and payable within the next twelve months on each Series of Outstanding Second Tier Bonds; and
- (C) for transfers made on the first Business Days of the months of July through December, commencing July 2017, all of the next Principal Installment to become due and payable within the next twelve months on each Series of Outstanding Second Tier Bonds to the extent not funded with deposits required by the immediately preceding clause (B).

Eighth, if the Second Tier Debt Service Reserve Fund contains less than the Second Tier Debt Service Reserve Fund Requirement, to the Second Tier Debt Service Reserve Fund an amount equal to the amount needed to attain the Second Tier Debt Service Reserve Fund Requirement;

Ninth, if the Operating Reserve Fund contains less than the Operating Reserve Requirement, to the Operating Reserve Fund an amount equal to the amount needed to attain the Operating Reserve Requirement;

Tenth, to the Supplemental Renewal and Replacement Fund, an amount which together with money otherwise transferred to such Fund will equal but not exceed the Supplemental Renewal and Replacement Set Aside Amount accrued but not paid through the preceding month;

Eleventh, to the Subordinate Management Fee Fund, an amount such that the moneys on deposit therein equals an amount which together with moneys otherwise transferred to such Fund will equal but not exceed (A) any unpaid Deferred Subordinate Management Fee; plus (B) during the months of January through June, one-half (1/2) of the Subordinate Management Fee for the current Operating Year as and when such fee is due pursuant to the Indenture; and (C) during the months of July through December; all of the remaining Subordinate Management Fee for the current Operating Year as and when such Subordinate Management Fee is due pursuant to the Indenture;

Twelfth, to the Cash Trap Fund, all remaining Available Revenues, but only as required by Indenture;

Thirteenth, to the Issuer, amounts necessary for payments then due or transfers then required by any agreement or other instrument creating or evidencing any secured obligation meeting the requirements of the Indenture which is not a First Tier Bond, a Second Tier Bond, or a Short Term Indebtedness;

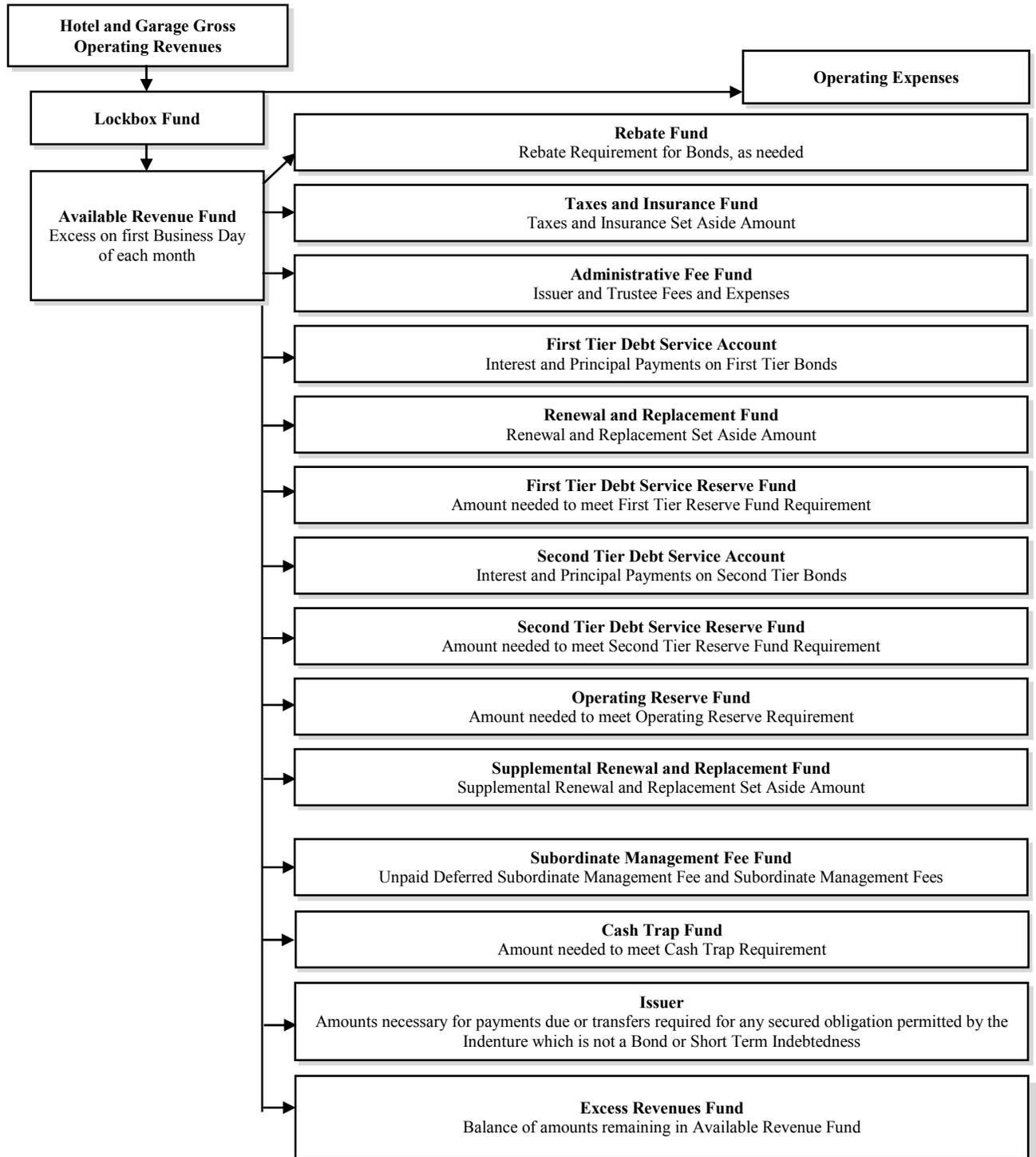
Fourteenth, to the Excess Revenues Fund, the balance, if any, of moneys remaining in the Available Revenue Fund after making the transfers required by clauses First through Thirteenth above; provided, that any

amounts transferred to the Excess Revenues Fund shall be distributed as described under the caption “Funds, Accounts, and Reserves Available for Debt Service on the Bonds – Excess Revenues Fund”.

Notwithstanding the foregoing, if on the 15th day immediately preceding each Interest Payment Date there are not on deposit in the First Tier Debt Service Account and the Second Tier Debt Service Account amounts sufficient to pay the interest and Principal Installments to become due on the First Tier Bonds and the Second Tier Bonds, respectively, on such Interest Payment Date, and sufficient amounts are not on deposit in the Funds referenced in provisions of the Indenture with respect to insufficiency of amounts on deposit in the First Tier Debt Service Account and provisions of the Indenture with respect to insufficiency of amounts on deposit in the Second Tier Debt Service Account, to make up either such deficiency, then the Trustee will notify the Depository Bank and the Issuer on the immediately succeeding Business Day of such shortfall and, unless funds to cover such deficiency are transferred to the Trustee for deposit to the Available Revenue Fund within ten days after receipt of such notice, the Issuer will cause the Depository Bank to transfer the Lockbox Fund to the name and credit of the Trustee, as assignee of the Issuer. The Lockbox Fund will remain in the name and to the credit of the Trustee until the amounts on deposit in said Fund are sufficient to pay in full (or have been used to pay in full) all amounts in default on the First Tier Bonds and the Second Tier Bonds, and until all other Events of Default known to the Trustee will have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate will have been made therefor, whereupon the Lockbox Fund (except for the Available Revenues held in the Lockbox Fund which are required to make such payments or cure such defaults) will be returned to the name and credit of the Issuer. During any period that the Lockbox Fund is held in the name and to the credit of the Trustee, the Trustee will use and withdraw from time to time amounts in said fund to make payments of Debt Service first on the First Tier Bonds and second on the Second Tier Bonds when due. During any period that the Lockbox Fund is held in the name and to the credit of the Trustee, the Issuer will not be entitled to use or withdraw any of the Gross Operating Revenues except for the payment of current or past due Operating Expenses; provided, however, that the Issuer will be entitled to withdraw any amounts in the Lockbox Fund which do not constitute Gross Operating Revenues and apply such amounts in the manner set forth in the Indenture for the application of such Gross Revenues. Notwithstanding the foregoing: (a) if the Hotel Manager has not been terminated under the Hotel Operating Agreement and an Event of Default (as defined in the Hotel Operating Agreement), is not then in existence, the Hotel Manager will be entitled to continue to receive the funds it would have otherwise been entitled to as if no Event of Default had occurred under the Indenture as provided in the Indenture, the Hotel Operating Agreement, the Cash Management Agreement, and Lockbox Agreement and (b) if an Event of Default (as defined in the Hotel Operating Agreement) by the Hotel Manager has occurred and is continuing under the Hotel Operating Agreement of which the Trustee has notice, but the Trustee has not received notice that the Hotel Manager has been terminated under the Hotel Operating Agreement, the Trustee will pay the Hotel Manager (x) the budgeted Operating Expenses (including but not limited to the Base Management Fee and Additional Management Fee) then due and owing, Short Term Indebtedness then due and owing, items within the Capital Budget, and amounts needed to pay Taxes and Insurance Costs with respect to the Hotel, and (y) with the prior written consent of the Asset Manager and the Issuer, unbudgeted expenses and amounts reasonably determined by the Hotel Manager as being required to be made to protect life, health, or property from imminent danger or to comply with Legal Requirements; provided, however, that the Hotel Manager will supply a weekly accounting of such expenditures paid during such week to the Trustee and the Issuer.

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FLOW OF FUNDS



Funds, Accounts, and Reserves Available for Debt Service on the Bonds

Amounts contained in the following funds and accounts held by the Trustee under the Indenture are available to pay debt service on the Bonds when due in the manner described below.

Debt Service Fund

The Trustee will pay from the appropriate Account of the Debt Service Fund:

(i) On or before each Interest Payment Date for any of the Bonds, the amount required for the interest payment on such date, and on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date. On or before any Redemption Date for Bonds to be redeemed, there will also be paid out of the appropriate Account of the Debt Service Fund, from available amounts deposited therein from time to time, the Redemption Price of and interest on the Bonds then to be redeemed;

(ii) Upon any purchase of any Bonds by the Issuer at public or private sale as permitted by the Indenture, or any redemption pursuant to any redemption provision, other than a mandatory or anticipated sinking fund redemption provision, of the Indenture or any Supplemental Indenture, of Bonds of any Series and maturity for which Sinking Fund Installments have been established, the principal amount of such Bonds so purchased or redeemed will be credited toward the next Sinking Fund Installment or Installments;

(iii) Amounts for the mandatory or anticipated sinking fund redemption of Bonds of the Series and maturity for which such Sinking Fund Installment was established in an amount not exceeding that necessary to complete the retirement of such Sinking Fund Installment as provided in the Indenture; and

(iv) At any time at the direction of the Issuer from any amount of Bonds purchased by the Issuer at public or private sale, amounts for the payment of any Principal Installments to pay the principal portion of Bonds of any Series and maturity for which such Sinking Fund Installments has been established.

Except as otherwise provided in the Indenture, amounts in the First Tier Debt Service Account and the Second Tier Debt Service Account of the Debt Service Fund must be applied only to the payment of Debt Service on the Bonds of the same designation; provided, however, that if any amounts remain on deposit in a Debt Service Account for Bonds of a Tier which are no longer outstanding, such amounts will be transferred to the Available Revenue Fund.

Shortfalls in First Tier Debt Service Account

Notwithstanding anything in the Indenture to the contrary except as provided in *Fourth* and *Ninth* below, if on the twelfth Business Day prior to any Interest Payment Date there are not sufficient money in the First Tier Debt Service Account on such date to pay principal of and interest on the First Tier Bonds to become due and owing on such Interest Payment Date (other than First Tier Bonds for which money have been already set aside and dedicated to the payment of such First Tier Bonds as permitted under the Indenture), money will be transferred to the First Tier Debt Service Account from the following sources and in the following order of priority in an amount which, together with the amount then on deposit in the First Tier Debt Service Account, will result in the First Tier Debt Service Account having the balance required to be on deposit therein in order to pay interest and principal to become due and payable on such Interest Payment Date:

First, from the Excess Revenues Fund (and to the extent there are amounts in the Bond Prepayment Account and the Corporation Account, first from the Corporation Account and thereafter from the Bond Prepayment Account);

Second, from the Cash Trap Fund;

Third, from the Subordinate Management Fee Fund;

Fourth, from the Operating Reserve Fund an amount which does not cause the amount then on deposit in the Operating Reserve Fund to be less than \$1 million;

Fifth, from the Second Tier Debt Service Account (to the extent such amounts are not attributable to transfers to such Account from the Second Tier Debt Service Reserve Fund);

Sixth, from the First Tier Debt Service Reserve Fund (but only at the end of the Business Day immediately preceding the Interest Payment Date);

Seventh, from the Supplemental Renewal and Replacement Fund; and

Eighth, from the Renewal and Replacement Fund (but only at the end of the Business Day immediately preceding the Interest Payment Date).

Shortfalls in Second Tier Debt Service Account

Notwithstanding anything in the Indenture to the contrary except as provided in *Fourth and Eighth* below, if on the eleventh Business Day immediately preceding any Interest Payment Date there are not sufficient money in the Second Tier Debt Service Account on such date to pay principal of and interest on the Second Tier Bonds to become due and owing on such Interest Payment Date (other than Second Tier Bonds for which money have been already set aside and dedicated to the payment of such Second Tier Bonds as permitted hereby), an Event of Default with respect to the Second Tier Bonds will not have occurred so long as any First Tier Bonds are Outstanding and money will not be transferred to the Second Tier Debt Service Account from any other Funds and Accounts held by the Trustee under the Indenture except from the following sources (subject to the application of such sources for the purposes set forth above under the caption “Funds, Accounts, and Reserves Available for Debt Service on the Bonds – Shortfalls in First Tier Debt Service Account”) in an amount which, together with the amount then on deposit in the Second Tier Debt Service Account, will result in the Second Tier Debt Service Account having the balance required to be on deposit therein in order to pay interest and principal to become due and payable on such Interest Payment Date:

First, from the Excess Revenues Fund (and to the extent there are amounts in the Bond Prepayment Account and the Corporation Account, first from the Corporation Account and thereafter from the Bond Prepayment Account);

Second, from the Cash Trap Fund;

Third, from the Subordinate Management Fee Fund;

Fourth, from the Operating Reserve Fund an amount which does not cause the amount then on deposit in the Operating Reserve Fund to be less than \$1 million;

Fifth, from the Second Tier Debt Service Reserve Fund (but only at the end of the Business Day immediately preceding the Interest Payment Date);

Sixth, from the Supplemental Renewal and Replacement Fund; and

Seventh, from the Renewal and Replacement Fund (but only at the end of the Business Day immediately preceding the Interest Payment Date).

First Tier Debt Service Reserve Fund

The Trustee will apply amounts from the First Tier Debt Service Reserve Fund to the extent necessary to make good the deficiency in the First Tier Debt Service Account in the order of priority set forth in “Funds, Accounts, and Reserves Available for Debt Service on the Bonds – Shortfalls in First Tier Debt Service Account.”

Subject to the provisions of the Indenture as to investment of funds and application of interest earnings, if on the last Business Day of any month the amount on deposit in the First Tier Debt Service Reserve Fund will exceed the First Tier Debt Service Reserve Fund Requirement, such excess will be applied to the reimbursement of each drawing on a Financial Guaranty and to the payment of interest or other amounts due with respect to a Financial Guaranty and any remaining money will be deposited in the First Tier Debt Service Account.

When the amount in the First Tier Debt Service Reserve Fund, together with the amounts in the First Tier Debt Service Account and all amounts in the Cash Trap Fund if no Second Tier Bonds are then Outstanding, is sufficient to fully pay all Outstanding First Tier Bonds in accordance with their terms (including principal or Redemption Price and interest), the amount on deposit in the First Tier Debt Service Reserve Fund, together with the amount on deposit in the First Tier Debt Service Account and, if applicable, all amounts in the Cash Trap Fund may, at the direction of the Issuer, be applied to pay the principal and Redemption Price of and interest on all Outstanding First Tier Bonds.

In the event of the refunding of one or more First Tier Bonds (or portions thereof), the Trustee will, upon the written direction of an Authorized Corporation Representative, withdraw from the First Tier Debt Service Reserve Fund any or all of the amounts on deposit therein with respect to the First Tier Bonds being refunded and deposit such amounts with itself as Trustee to be held for the payment of the principal or Redemption Price, if any, of, and interest on, the First Tier Bonds (or portions thereof) being refunded; provided that such withdrawal will not be made unless: (i) immediately thereafter the First Tier Bonds (or portions thereof) being refunded will be deemed to have been paid pursuant to the defeasance provisions of the Indenture; and (ii) the amount remaining in the First Tier Debt Service Reserve Fund after such withdrawal, taking into account any deposits to be made in the First Tier Debt Service Reserve Fund in connection with such refunding and the issuance of Refunding Bonds, will not be less than the First Tier Debt Service Reserve Fund Requirement.

Second Tier Debt Service Reserve Fund

The Trustee will apply amounts from the Second Tier Debt Service Reserve Fund to the extent necessary to make good the deficiency in the First Tier debt Service Account and Second Tier Debt Service Account in the manner described under the caption “Funds, Accounts, and Reserves Available for Debt Service on the Bonds – Shortfalls in Second Tier Debt Service Account” herein.

Subject to the provisions of the Indenture relating to the application of interest earnings, if on the last Business Day of any month the amount on deposit in the Second Tier Debt Service Reserve Fund will exceed the Second Tier Debt Service Reserve Fund Requirement (other than due to interest earnings on amounts in such Fund), such excess will be deposited in the Second Tier Debt Service Account and applied to the payment of the Debt Service of the Second Tier Bonds.

When the amount in the Second Tier Debt Service Reserve Fund, together with the amount in the Second Tier Debt Service Account, is sufficient to fully pay all Outstanding Second Tier Bonds in accordance with their terms (including principal or Redemption Price and interest) the amount on deposit in the Second Tier Debt Service Reserve Fund, together with the amount in the Second Tier Debt Service Account may, at the written direction of the Issuer, be applied to pay the principal and Redemption Price of and interest on all Outstanding Second Tier Bonds.

In the event of the refunding of all of the Second Tier Bonds, the Trustee will, upon the written direction of an Authorized Corporation Representative, withdraw from the Second Tier Debt Service Reserve Fund all of the amounts on deposit therein with respect to the Second Tier Bonds being refunded and deposit such amounts with itself as Trustee to be held for the payment of the principal or Redemption Price, if any, of, and interest on, the

Second Tier Bonds (or portions thereof) being refunded; provided that such withdrawal will not be made unless immediately thereafter the Second Tier Bonds being refunded will be deemed to have been paid pursuant to the Indenture.

Operating Reserve Fund

The Trustee will apply amounts from the Operating Reserve Fund to the extent necessary to make good the deficiency in the First Tier Debt Service Account in the manner described under the caption “Funds, Accounts, and Reserves Available for Debt Service on the Bonds – Shortfalls in First Tier Debt Service Account” herein.

The Trustee will apply amounts from the Operating Reserve Fund in excess of the amount required to be maintained therein pursuant to the Hotel Operating Agreement to the extent necessary to make good the deficiency in the Second Tier Debt Service Account in the manner described under the caption “Funds, Accounts, and Reserves Available for Debt Service on the Bonds – Shortfalls in Second Tier Debt Service Account” herein.

If the amount on deposit in the Operating Reserve Fund exceeds the Operating Reserve Requirement, amounts in excess of the Operating Reserve Requirement will be deposited into the Available Revenue Fund.

Unless the Hotel Operating Agreement has been terminated, the Operating Reserve Fund will be applied, pursuant to the Indenture and the Cash Management Agreement, to the payment of the Operating Expenses, Capital Expenses, other expenses, and items specifically provided for in the Hotel Operating Agreement and/or any other expenses which, if unbudgeted, must be approved in writing by the Hotel Manager, the Issuer, and the Asset Manager at any time during which such expenses exceed Gross Operating Revenue for such month plus the amount otherwise available in the Lockbox Fund, the Renewal and Replacement Fund, and the Supplemental Renewal and Replacement Fund to pay such Capital Expenses (to the extent amounts in such Funds are authorized to be used for such expenses), upon receipt by the Trustee of a request therefor of the Hotel Manager; provided, however, that if payment of such Operating Expense or Capital Expense would require the consent of the Issuer under the Hotel Operating Agreement or the Cash Management Agreement, such request will be conditioned upon written approval by the Issuer and the Asset Manager. In addition, the Trustee will apply amounts on deposit in the Operating Reserve Fund for repair or replacement of the Hotel in the event of casualty damage or for the payment of amounts reasonably determined by the Hotel Manager as are required to be made to protect life, health, or property from imminent danger or to comply with Legal Requirements.

Cash Trap Fund

The Trustee will apply amounts from the Cash Trap Fund to the extent necessary to make good the deficiency in the First Tier Debt Service Account to the extent amounts available therefor as provided under the caption “Funds, Accounts, and Reserves Available for Debt Service on the Bonds – Shortfalls in First Tier Debt Service Account” are insufficient to make good the deficiency.

The Trustee will apply amounts from the Cash Trap Fund to the extent necessary to make good the deficiency in the Second Tier Debt Service Account to the extent amounts available therefor as provided under the caption “Funds, Accounts, and Reserves Available for Debt Service on the Bonds – Shortfalls in Second Tier Debt Service Account” are insufficient to make good the deficiency.

All funds not otherwise distributed as required by clauses First through Eleventh under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Flow of Funds” will be transferred to and held in the Cash Trap Fund in an amount not to exceed \$5,000,000, but only in the event that one of the following: (i) an Event of Default has occurred or is occurring; (ii) there is a draw on the Second Tier Debt Service Reserve Account or the Operating Reserve Account; or (iii) the Debt Service Coverage Ratio falls below 1.50:1.00 at the end of the immediately preceding Operating Year.

The Trustee will use funds on deposit in the Cash Trap Fund to fund on a monthly basis any shortfall in any Fund or Account as provided in the Indenture. Upon cure of all Events of Default then continuing or replenishment of the Second Tier Debt Service Reserve Account or the Operating Reserve Account, amounts on deposit in the

Cash Trap Fund in excess of \$2,000,000 will be applied to the extent necessary to make good any deficiency in any Account or Fund set forth in clauses Ninth through Eleventh under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Flow of Funds” in such order of priority if amounts then on deposit in the Excess Revenues Fund are insufficient for such purposes. If an Event of Default has not occurred and is not then continuing and the amounts on deposit in the Funds and Accounts set forth in clauses First through Eighth under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Flow of Funds” are then equal to the amounts required to be on deposit therein, the Issuer may, by written request direct the Trustee, with respect to amounts in the Cash Trap Fund in excess of \$2,000,000, to pay any unpaid expenses or obligations incurred with respect to the Hotel Unit or any unpaid expenses or obligations owed by the Issuer to third parties which are not otherwise payable as Administrative Expenses, including without limitation any amounts the Issuer is obligated to pay under the Hotel Operating Agreement or any expenses or obligations which the Hotel Operating Agreement provides will be paid out of the Cash Trap Fund if amounts then on deposit in the Excess Revenues Fund are insufficient for such purposes.

Unless the Hotel Operating Agreement has been terminated, pursuant to the Hotel Operating Agreement and the Cash Management and Lockbox Agreement, the Trustee will apply money on deposit in the Cash Trap Fund as directed by a Request of the Hotel Manager: (i) to pay amounts reasonably determined by the Hotel Manager to be required to be made to protect life, health or property from imminent danger or to comply with Legal Requirements to the extent funds available in the Operating Reserve Fund and the Excess Revenues Fund are insufficient therefor; and (ii) at least three (3) Business Days after such Request to pay Operating Expenses, Capital Expenses within the Capital Budget, taxes, and cost of insurance, or any other expenses and items requested by the Hotel Manager with prior written notice to the Issuer and the Asset Manager, at any time during which such Operating Expenses, Capital Expenses, or other expenses and items exceed Gross Operating Revenues for such month plus the amount otherwise available in the Lockbox Fund, the Operating Reserve Fund, the Excess Revenues Fund, the Renewal and Replacement Fund, and the Supplemental Renewal and Replacement Fund (to the extent amounts in such Funds are authorized to be used for such expenses and items); provided, however, that if the payment of such Operating Expenses, Capital Expenses, or other expenses and items is not authorized under the Hotel Operating Agreement or requires the consent or approval of the Issuer under the Hotel Operating Agreement or the Cash Management Agreement, such request will be conditioned upon approval by the Issuer and the Asset Manager.

Amounts in excess of \$2,000,000 in the Cash Trap Fund (or all amounts in the Cash Trap Fund if no Second Tier Bonds are then Outstanding), together with amounts available for such purpose in the Funds and Accounts as set forth under the caption “ – First Tier Debt Service Reserve Fund”, may, at the direction of the Issuer, be applied to pay the principal and Redemption Price of and interest on all Outstanding First Tier Bonds in the manner provided therein.

Renewal and Replacement Fund

The Trustee will apply amounts from the Renewal and Replacement Fund to the extent necessary to make good the deficiency in the First Tier Debt Service Account in the manner described under the caption “Funds, Accounts, and Reserves Available for Debt Service on the Bonds – Shortfalls in First Tier Debt Service Account” herein.

Pursuant to the Cash Management Agreement, unless an Event of Default (as defined in the Hotel Operating Agreement) by the Hotel Manager has occurred and is continuing under the Hotel Operating Agreement or the Hotel Operating Agreement has been terminated, the Trustee will make disbursements directed by a request of the Hotel Manager of funds deposited in the Renewal and Replacement Fund for the purpose of paying for (i) FF&E and Capital Expenses included in the Capital Budget, (ii) if funds are insufficient in the Operating Reserve Fund, the Excess Revenues Fund or the Cash Trap Fund to make such payment, amounts reasonably determined by the Hotel Manager to be required to be made to protect life, health, or property from imminent danger or to comply with Legal Requirements, and (iii) FF&E and Capital Expenses not included in the Capital Budget with the prior written consent of the Asset Manager and the Issuer. If an Event of Default (as defined in the Hotel Operating Agreement) by the Hotel Manager has occurred and is continuing under the Hotel Operating Agreement the Trustee will make disbursements as directed by a request of the Hotel Manager (and consented to by the Issuer and the Asset Manager in writing) of funds deposited in the Renewal and Replacement Fund for the purpose, and in the manner described in

the immediately preceding sentence; provided that the Hotel Manager must provide a weekly report summarizing all amounts paid out of the Renewal and Replacement Fund during each week to the Trustee and the Issuer.

Supplemental Renewal and Replacement Fund

The Trustee will apply amounts from the Supplemental Renewal and Replacement Fund to the extent necessary to make good the deficiency in the First Tier Debt Service Account in the manner described under the caption “Funds, Accounts, and Reserves Available for Debt Service on the Bonds – Shortfalls in First Tier Debt Service Account” herein.

The Trustee will apply amounts from the Supplemental Renewal and Replacement Fund to the extent necessary to make good the deficiency in the Second Tier Debt Service Account in the manner described under the caption “Funds, Accounts, and Reserves Available for Debt Service on the Bonds – Shortfalls in Second Tier Debt Service Account” herein.

Pursuant to the Cash Management Agreement, unless an Event of Default (as defined in the Hotel Operating Agreement) by the Hotel Manager has occurred and is continuing under the Hotel Operating Agreement or the Hotel Operating Agreement has been terminated, the Trustee will make disbursements directed by a Request of the Hotel Manager of funds deposited in the Supplemental Renewal and Replacement Fund for the purpose of paying for: (i) if funds in the Renewal and Replacement Fund are insufficient to make such payment, FF&E and Capital Expenses included in the Capital Budget; (ii) if funds are insufficient in the Renewal and Replacement Fund, Operating Reserve Fund or the Cash Trap Fund to make such payment, amounts reasonably determined by the Hotel Manager to be required to be made to protect life, health, or property from imminent danger or to comply with Legal Requirements; and (iii) if funds are insufficient in the Renewal and Replacement Fund, FF&E and Capital Expenses with the prior written consent of the Issuer and the Asset Manager. If an Event of Default (as defined in the Hotel Operating Agreement) by the Hotel Manager has occurred and is continuing under the Hotel Operating Agreement the Trustee will make disbursements as directed by a request of the Hotel Manager (and consented to by the Issuer and the Asset Manager in writing) of funds deposited in the Supplemental Renewal and Replacement Fund for the purpose, and in the manner described in the immediately preceding sentence; provided that the Hotel Manager must provide a weekly report summarizing all amounts paid out of the Supplemental Renewal and Replacement Fund during each week to the Trustee and the Issuer.

Subordinate Management Fee Fund

The Trustee will apply amounts from the Subordinate Management Fee Fund to the extent necessary to make good the deficiency in the First Tier Debt Service Account to the extent amounts available therefor as provided under the caption “Funds, Accounts, and Reserves Available for Debt Service on the Bonds – Shortfalls in First Tier Debt Service Account” are insufficient to make good the deficiency.

The Trustee will apply amounts from the Subordinate Management Fee Fund to the extent necessary to make good the deficiency in the Second Tier Debt Service Account to the extent amounts available therefor as provided under the caption “Funds, Accounts, and Reserves Available for Debt Service on the Bonds – Shortfalls in Second Tier Debt Service Account” are insufficient to make good the deficiency.

The Subordinate Management Fee Fund must be applied to the payment of the portion of the Subordinate Management Fee which has accrued through the prior six months on the Business Day immediately following each Interest Payment Date and to the payment of the Deferred Subordinate Management Fee as and when funds are on deposit in the Subordinate Management Fee Fund upon receipt by the Trustee of a requisition therefor of the Hotel Manager, after making all transfers, payments, and deposits as described in the preceding two paragraphs.

Excess Revenues Fund

After making the deposits described in *First* through *Thirteenth* under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Flow of Funds”, all remaining moneys in the Available Revenue Fund will be deposited to the Excess Revenues Fund; provided, however, that the first amounts

transferred shall be transferred to the Corporation Account of the Excess Revenues Fund in an amount that shall not exceed \$[2,000,000] on an annual basis, and any amounts transferred to the Excess Revenues Fund in excess of \$[2,000,000] on an annual basis shall thereafter be deposited into the Bond Prepayment Account of the Excess Revenues Fund. The Issuer may elect, in its sole and absolute discretion, to direct the Trustee in writing to use amounts transferred to the Bond Prepayment Account of the Excess Revenues Fund to:

- (i) redeem (provided such Bonds are then subject to optional redemption) or purchase, at a purchase price not greater than the principal amount of the Bonds being purchased, together with accrued and unpaid interest, of all or a portion of the Bonds as designated by the Issuer; or
- (ii) transfer funds to the Supplemental Renewal and Replacement Fund to be used for FF&E and Capital Expenses.

The Trustee will apply amounts from the Excess Revenues Fund to the extent necessary to make good the deficiency in the First Tier Debt Service Account in the manner described under the caption “Funds, Accounts, and Reserves Available for Debt Service on the Bonds – Shortfalls in First Tier Debt Service Account” herein.

The Trustee will apply amounts from the Excess Proceeds Fund to the extent necessary to make good the deficiency in the Second Tier Debt Service Account in the manner described under the caption “Funds, Accounts, and Reserves Available for Debt Service on the Bonds – Shortfalls in Second Tier Debt Service Account” herein.

If on the twentieth Business Day of each June and December (i) the amounts on deposit in the First Tier Debt Service Account of the Debt Service Fund and the Second Tier Debt Service Account of the Debt Service Fund, are not then equal to the respective amounts required to be on deposit therein to make the respective debt service payments thereon; or (ii) there are unbudgeted expenditures reasonably determined by the Manager to be required to be made to protect life, health or property from imminent danger or to comply with Legal Requirements, then in each case, amounts on deposit in the Excess Revenues Fund shall be applied to the extent necessary to make good any deficiency in such Fund or Account (first, from the Corporation Account of the Excess Revenues Fund, and then from the Bond Prepayment Account of the Excess Revenues Fund) in the following order of priority:

First, from the First Tier Debt Service Account, an amount that will satisfy payment of debt service on the First Tier Bonds when due;

Second, from the Second Tier Debt Service Account, an amount that will satisfy payment of debt service on the Second Tier Bonds when due;

Third, from the Operating Reserve Fund;

Fourth, from the Cash Trap Fund; and

Fifth, from the Subordinate Management Fee Fund.

Other Funds and Accounts

Available Revenue Fund

The Available Revenue Fund has been established for the purpose of depositing and distributing Available Revenues in the manner described under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Flow of Funds.”

Taxes and Insurance Fund

Unless the Hotel Operating Agreement has been terminated, pursuant to the Cash Management Agreement, money in the Taxes and Insurance Fund will be paid out from time to time by the Trustee to pay Taxes (including

but not limited to personal property taxes) and Insurance Costs that become due and payable with respect to the ownership and operation of the Hotel Unit, as directed by a Request of the Hotel Manager, or if none, the Issuer.

Insurance and Condemnation Proceeds Fund

The proceeds of insurance with respect to the Project maintained or caused to be maintained by the Issuer against loss or damage by fire, lightning, and all other risks covered by the extended coverage insurance endorsement as required by the Indenture; the proceeds of any title insurance with respect to the Project obtained pursuant to the Indenture; the proceeds of any performance and payment bond or guaranty with respect to the Project; and the proceeds of any Taking with respect to the Project, will be deposited immediately upon receipt by the Trustee, as assignee of the Issuer, in the Insurance and Condemnation Proceeds Fund; provided, however, that if such amount is less than \$50,000 then subject to the Indenture, such amount will be distributed immediately to or at the direction of the Issuer which amount will be applied to the cost of the repair or replacement of the property damaged, destroyed, or taken. After deducting therefrom the reasonable charges and expenses of the Trustee in connection with the collection and disbursement of such money, money in the Insurance and Condemnation Proceeds Fund will be disbursed or applied by the Trustee in accordance with and subject to the Indenture.

If amounts deposited into the Insurance and Condemnation Proceeds Fund are not to be applied to repair or replace the property damaged, destroyed, or taken, the Trustee, upon request of the Issuer, will transfer all amounts in the Insurance and Condemnation Proceeds Fund allocable to the Hotel on account of such damage, destruction, or condemnation to the First Tier Debt Service Account in order to redeem the First Tier Bonds; and only to the extent of excess proceeds after all the Outstanding First Tier Bonds are redeemed, to redeem Second Tier Bonds.

After completion of the repairs or replacement of the property damaged, destroyed taken, and all costs associated therewith have been paid, any amounts remaining in the Insurance and Condemnation Proceeds Fund attributable to the Legal Hotel Unit will be applied to redeem a portion of the First Tier Bonds pursuant to the Indenture, provided, however, that if such excess amount is less than [\$20,000], the Issuer may direct the Trustee to deposit such amount in the Available Revenue Fund.

Notwithstanding the first paragraph of this subsection, the proceeds of business interruption insurance maintained pursuant to the Indenture will be deposited by the Trustee when and as received in a segregated account (the "Business Interruption Account") within the Insurance and Condemnation Proceeds Fund, which Account will be established by the Trustee upon receipt of notice that the carrier of such insurance will be paying claims thereon to the Trustee. The Trustee will hold the Business Interruption Account in trust under the Indenture separate and apart from any other Funds and Accounts. Amounts deposited in the Business Interruption Account will be immediately transferred as follows:

First, to the First Tier Debt Service Account, an amount for payment of debt service on the First Tier Bonds when due;

Second, to the Second Tier Debt Service Account, an amount for payment of debt service on the Second Tier Bonds when due;

Third, to the Lockbox Fund, an amount for payment of Operating Expenses (including the Base Management Fee and Additional Management Fee) when due;

Fourth, to the Taxes and Insurance Fund, an amount for payment of Taxes or Insurance Costs when due with respect to the ownership and operation of the Hotel;

Fifth, once insurance proceeds for any Claim are fully funded, to the Subordinate Management Fee Fund, an amount for payment of the Subordinate Management Fee when due;

Sixth, to the Lockbox Fund, the balance, if any, for application by the Trustee as provided in the Indenture.

Notwithstanding the foregoing, amounts required to be transferred pursuant to the priority set forth above, other than *First* through *Second*, will be reduced to the extent the insurance carrier has directly paid business interruption insurance proceeds to parties other than the Trustee, which reduction will be allocated in any manner deemed fair and appropriate by the Trustee in consultation with the Issuer. The Trustee will be entitled to rely on a certificate of the Issuer in making the transfers as described herein.

If proceeds of insurance relate to any loss or damage to any property not constituting the Project, such proceeds will be disbursed directly to the Persons legally entitled to such insurance proceeds.

Rebate Fund

Money must be deposited into the Rebate Fund pursuant to the Indenture and in the amount required pursuant to the Tax Certificate delivered in connection with the issuance of the Series 2017 Bonds and pursuant to any similar instrument or certificate delivered by the Issuer in connection with the issuance of any Additional Bonds. Money held in the Rebate Fund is not part of the Trust Estate and, except as otherwise provided in the Indenture, will be used solely for the purpose of paying amounts due to the United States of America with respect to the Bonds pursuant to the Code. Money on deposit in the Rebate Fund must be forwarded to the United States Treasury at the times and in the amounts set forth in the Tax Certificates. Annually, the Issuer will cause a rebate analyst to calculate the amount of rebate that would be due to the United States of America during the prior year, and the Issuer will direct the Trustee to deposit such amount into the Rebate Fund. If a rebate analyst determines that an amount is then owed to the United States of America that is less than the amount then on deposit in the Rebate Fund, the Issuer will direct the Trustee to transfer from the Rebate Fund and deposit into the Available Revenue Fund the amount of such excess. If money on deposit in the Rebate Fund is insufficient for the purpose thereof, the Issuer must direct the Trustee to transfer money in the amount of the insufficiency to the Rebate Fund from any amounts in any of the Funds and Accounts in excess of the amount necessary to be on deposit therein and otherwise from amounts then on deposit in the Funds and Accounts described in clauses *First* through *Fourteenth* under the caption “Funds, Accounts, and Reserves Available for Debt Service on the Bonds – Shortfalls in First Tier Debt Service Account” in such order of priority; provided that such transfer will not be made without the prior written consent of the Hotel Manager from amounts on deposit in the Taxes and Insurance Fund or the Renewal and Replacement Fund and provided further, that transfers may be made from amounts on deposit in the Operating Reserve Fund but only to the extent if such transfer would result in the remaining balance in the Operating Reserve Fund being not less than [\$4,000,000], or any Debt Service Account if such transfer would result in a shortfall in the amount on deposit therein to pay Debt Service on any Bonds then due. Upon receipt by the Issuer of an opinion of Bond Counsel or a certificate of a Rebate Analyst to the effect that the amount in the Rebate Fund is in excess of the amount required to be contained therein, such excess will be transferred to the Available Revenue Fund.

Administrative Fee Fund

There will be deposited in the Administrative Fee Fund, such amounts as are required to pay the Administrative Expenses related to the administration of the Bonds and the Hotel, including specifically, but without limitation, fees, and expenses of the Trustee, Asset Manager, and any Consultant, and the expenses of the Issuer. Upon the written requisition of an Authorized Corporation Representative, amounts deposited in the Administrative Fee Fund are to be withdrawn for payment for the Administrative Expenses then due and owing or to reimburse the Issuer for the payments of any Administrative Expenses previously paid by the Issuer; provided, however, that the Trustee may debit its annual fee only which is then due and owing directly against the amount on deposit in the Administrative Fee Fund without the need for such requisition.

Right of Access to Funds by the Hotel Manager and the Issuer

So long as the Hotel Operating Agreement has not expired or terminated, the Hotel Manager is entitled to submit Requests and receive funds as described in the Indenture for the purposes and in the manner described therein notwithstanding any Event of Default (as defined in the Indenture), the breach of any provision of the Indenture, or the occurrence of any event or condition which with the giving of notice, the passage of time or both would constitute an Event of Default.

If the Hotel Operating Agreement has expired or terminated and a new Hotel Operating Agreement has not been entered into, until a replacement Hotel Manager has entered into a Hotel Operating Agreement with the Issuer, the Issuer will be entitled to submit Requests and receive funds as described in the Indenture as if the Issuer were the Hotel Manager.

Investments; Use of Investment Earnings

All money in any of the funds established pursuant to the Indenture will be invested as directed in writing by the Issuer, or a designee of the Issuer solely in Investment Securities; provided, however, that investments of money on deposit in the First Tier Debt Service Reserve Fund and the Second Tier Debt Service Reserve Fund will be invested solely in Investment Securities described in clause (a) of the definition thereof as set forth in APPENDIX B – Master Glossary of Terms, which mature in two years and/or less or in Investment Securities described in clauses (d), (g) and (k) of the definition thereof as also set forth in APPENDIX B – Master Glossary of Terms. If the Trustee fails to receive such directions at least one Business Day before the day on which any amounts are required to be invested, the Trustee will invest such amounts in “First American Funds Government Obligations Fund” so long as such fund qualifies as an Investment Security described in clause (d) of the definition thereof as set forth in APPENDIX B – Master Glossary of Terms.

Money in any Funds and Accounts established pursuant to the Indenture will be invested in Investment Securities maturing, or the principal of and accrued interest on such Investment Securities will be available for withdrawal without penalty, not later than such times as will be necessary to provide moneys when needed for payment to be made from such Funds and Accounts.

Except as otherwise provided in this subsection or by Supplemental Indenture, interest earned or profits realized from investing any moneys deposited in the Funds and Accounts or any subaccount thereof will be transferred to the Available Revenue Fund and applied pursuant to the Indenture, except that interest and profits received from the Rebate Fund must be retained in such Fund;

The amount in the First Tier Debt Service Reserve Fund, the Second Tier Debt Service Reserve Fund and the Operating Reserve Fund must be valued at the date of deposit therein, and not less than every six months thereafter, at the lower of cost or market value thereof, including accrued interest thereon (and will retain the previously determined value until such value is required to be redetermined); provided, however, that Investment Securities described in clauses (g) and (k) of the definition thereof will be valued at an amount available to be withdrawn thereunder. The value of Investment Securities on deposit in other Funds and Accounts established pursuant to the Indenture will be computed by the Trustee not less often than annually.

Refunding Bonds

Subject to certain limitations imposed by the terms of the Hotel Operating Agreement, one or more Series of Refunding Bonds may be issued, authenticated and delivered to refund all Outstanding Bonds of one or more Series or all or any portion of the Outstanding Bond or Bonds of a maturity within one or more Series. Each Series of Refunding Bonds will be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding including providing amounts for the costs incidental to or connected with any such Bond and the making of any deposits into the First Tier Debt Service Reserve Fund, the Second Tier Debt Service Reserve Fund, and any of the funds and accounts required by the provisions of the Supplemental Indenture authorizing such Series of Refunding Bonds. Refunding Bonds of each Series will be executed, delivered and authenticated pursuant to the Indenture upon receipt by the Trustee of certain items required by the Indenture, including the following items; provided however, that if all of the Bonds Outstanding immediately prior to the issuance of the Refunding Bonds are no longer Outstanding immediately after such Refunding Bonds are issued, then only those items set forth in clause (a), (c), (d), (e) and (g)(2) will be required:

- (a) certain opinions and instruments as specified by the Indenture;
- (b) a certificate of either an Authorized Corporation Representative dated as of the date of issuance of such Series of Refunding Bonds stating that there exists no Event of Default under the Indenture or event which

would constitute an Event of Default under the Indenture upon notice and failure to cure as provided in the Indenture;

(c) if any Bonds or portions thereof to be refunded are to be called for redemption, a Letter of Instructions containing irrevocable instructions to the Trustee, satisfactory to it, requiring that due notice be given of the redemption of the Bonds or portions thereof to be refunded on a Redemption Date specified in such instructions;

(d) a Letter of Instructions containing irrevocable instruction to the Trustee, satisfactory to it, requiring that such other notice be given to the Registered Owners of the Bonds being refunded as may be required by the Indenture;

(e) evidence satisfactory to the Trustee that the deposit of money and/or Investment Securities required for a defeasance of the Bonds under the Indenture has been made;

(f) evidence satisfactory to the Trustee that no amendments or supplements will be made to the Indenture in connection with the issuance of the Refunding Bonds which would otherwise require the prior written consent of any of the Registered Owners under the Indenture or, if any such amendments or supplements requiring such consents are being made to the Indenture, that such prior written consents have been obtained;

(g) receipt by the Trustee of one of the following: (1) a Certificate of Reduction in Debt Service; (2) a Certificate of an Authorized Corporation Representative that all of the Bonds Outstanding immediately prior to the issuance of the Refunding Bonds will be redeemed and no longer Outstanding pursuant to the Indenture immediately after the issuance of the Refunding Bonds; (3) if such Refunding Bonds are First Tier Bonds, an Accountant's Certificate that (A) proceeds of such Refunding Bonds, together with any other amounts available under the Indenture for such purpose, are sufficient to redeem on such date fixed for redemption thereof and redeem all of the First Tier Bonds that were Outstanding immediately prior to the issuance of such Refunding Bonds; and (B) unless all of the Second Tier Bonds Outstanding immediately prior to the issuance of the Refunding Bonds are also being redeemed pursuant to the Indenture the Projected Additional Bonds Debt Service Coverage Ratio for the Second Tier Bonds, as applicable, taking into account the Refunding Bonds proposed to be issued and all Outstanding Bonds (other than the Bonds proposed to be refunded with proceeds of such Refunding Bonds), is not less than the Projected Additional Bonds Debt Service Coverage Ratio for the Second Tier Bonds immediately preceding the issuance of the Refunding Bonds, for each Fiscal Year succeeding the date of issuance of such Refunding Bonds; or (4) if such Refunding Bonds are Second Tier Bonds, an Accountant's Certificate that proceeds of such Refunding Bonds, together with any other amounts available under the Indenture for such purpose, are sufficient to redeem on such date fixed for the redemption thereof and redeem all of the Second Tier Bonds that were Outstanding immediately prior to the issuance of such Refunding Bonds; and

(h) such further opinions and instruments as are required by the provisions of the Indenture or by the provisions of any Supplemental Indenture.

Additional Bonds

Subject to any limitations imposed by the terms of the Hotel Operating Agreement, one or more Series of Additional Bonds may be issued, authenticated and delivered upon original issuance for the purpose of financing or refinancing (excluding Refunding Bonds, which will be issued solely in accordance with the "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Refunding Bonds" as described herein) the construction, installation, and equipping of additions, renovation, betterments, extensions, or improvements to the Hotel. Additional Bonds of a Series issued for such purposes must be issued in a principal amount not to exceed, together with other money available therefor, the Issuer's estimate of the reasonable costs of the project to be financed or refinanced with the proceeds of the sale of such Series of Additional Bonds, including providing amounts for the costs incidental to or connected with any such Bond and the making of any deposits into the applicable Reserve Fund and any of the funds and accounts required by the provisions of the Supplemental Indenture authorizing such Series of Additional Bonds, as set forth in the resolution of the Issuer authorizing the issuance of such Series of Additional Bonds.

Additional Bonds of each Series, which do not otherwise constitute Refunding Bonds under the Indenture, will be issued only upon receipt by the Trustee (in addition to the opinions and instruments required by the Indenture) of the following items:

(a) a certificate of an Authorized Corporation Representative dated as of the date of issuance of such Series of Additional Bonds stating that there exists no Event of Default under the Indenture or an event which would cause an Event of Default upon notice and failure to cure as provided under the Indenture;

(b) if such Additional Bonds constitute First Tier Bonds, an Accountant's Certificate that the Debt Service Coverage Ratio for the First Tier Bonds and the sum of both the First Tier Bonds and Second Tier Bonds during the Fiscal Year immediately preceding the date of issuance of such Additional Bonds was no less than 2.50:1.00 and 1.50:1.00, respectively, and the Projected Additional Bonds Debt Service Coverage Ratio for the First Tier Bonds and the sum of both the First Tier Bonds and Second Tier Bonds, in each case, taking into account the Additional Bonds proposed to be issued and all Outstanding Bonds, is not less than 2.50:1.00 and 1.50:1.00, respectively, for each Fiscal Year succeeding the date of issuance of such Additional Bonds;

(c) if such Additional Bonds constitute Second Tier Bonds an Accountant's Certificate to the effect that the Projected Additional Bonds Debt Service Coverage Ratio for the First Tier Bonds and the Second Tier Bonds is not less than 1.50:1.00 for each Fiscal Year following the date of issuance of such Additional Bonds; and

(d) such further opinions and instruments as are required by the provisions in the Indenture or by the provisions of any Supplemental Indenture.

Notwithstanding any provision of the Indenture to the contrary but subject to any limitations imposed by the terms of the Hotel Operating Agreement, the Issuer may (i) issue bonds or incur other obligations on a subordinate basis to the Bonds as set forth below under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Junior Lien Obligations", and (ii) issue Additional Bonds on a parity with either the First Tier Bonds or Second Tier Bonds, the proceeds of which are required or to pay amounts reasonably determined by the Issuer to be required to be made to protect life, health, or property from imminent danger or to comply with Legal Requirements.

Notwithstanding any provision of the Indenture to the contrary, the Issuer may incur or issue Short Term Indebtedness to fund any projected or actual Cash Flow Deficits secured by and payable from a pledge of and first lien on Gross Operating Revenues; provided, however, that the aggregate principal amount of Short Term Indebtedness that can be outstanding at any one time will not exceed \$[2,500,000]. Such Short Term Indebtedness will not be secured by a pledge of or lien on any other portion of the Trust Estate including, without limitation, the Hotel, and will not be entitled to any of the rights or benefits granted to the Registered Owners of the Bonds in the Indenture, including, without limitation, the right to declare an Event of Default under the Indenture and to exercise the remedies as set forth in the Indenture.

Junior Lien Obligations

The Issuer reserves the right to issue for any lawful purpose directly related to the Hotel, bonds, notes, or other obligations secured in whole or in part by liens on the Available Revenues that are junior and subordinate to the lien on Available Revenues securing payment of the Bonds and Short Term Indebtedness and to the other provisions of the Indenture, payable from any amounts available therefor as set forth in clause *Thirteenth* under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Flow of Funds." Any such subordinated obligation will be subject to the provisions of a subordination agreement delivered by the creditors thereon to the Trustee, containing the provisions substantially to the effect in the Indenture providing that such obligations are and will remain junior and subordinate to the First Tier Bonds, the Second Tier Bonds, and the Short Term Indebtedness.

Priority of Payment of Bonds

Payment of Debt Service on each Tier of Bonds and of each Series of Bonds within each Tier will be subject to (i) the priority of the deposits to be made in the applicable Debt Service Accounts in accordance with any provisions of the Indenture and (ii) the availability of amounts on deposit in a particular Fund or Account to pay such Debt Service as set forth in the Indenture.

Notwithstanding any other provisions of the Indenture, as long as any First Tier Bonds are Outstanding, no Event of Default will exist or may be declared to exist with respect to the Second Tier Bonds and the Trustee will not declare a default with respect to the Second Tier Bonds or otherwise enforce the provisions hereof relating to the Second Tier Bonds. The Registered Owners of the Second Tier Bonds, by acceptance of their Bonds, expressly agree to and acknowledge that so long as any First Tier Bonds are Outstanding, no payments will be due and payable on any Second Tier Bond if the Trustee does not rightfully hold sufficient funds in the Second Tier Debt Service Account or which are otherwise rightfully available for transfer to the Second Tier Debt Service Account to make such payment, (i) no Registered Owner of a Second Tier Bond will institute against, or join any other person in instituting against, the City or the Issuer any bankruptcy, reorganization, arrangement, insolvency or liquidation proceeding, or other proceeding under any bankruptcy or similar law, until the date on which no First Tier Bonds remain Outstanding and (ii) so long as any First Tier Bonds remain Outstanding, no default or Event of Default will exist or may be declared to exist with respect to the Second Tier Bonds.

Upon any distribution of all or any part of the Trust Estate to any Registered Owner, (i) in the event of any insolvency or bankruptcy case or proceeding, or any receivership, liquidation, reorganization, or other similar case or proceeding in connection therewith, relative to the Issuer, or its assets; (ii) in the event of any liquidation, dissolution, or other winding up of the Issuer, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy; (iii) in the event of any assignment for the benefit of creditors or any other marshalling of assets and liabilities of the Issuer; or (iv) in any manner inconsistent with the provisions of this subsection, then in any such event payment of Debt Service on the Bonds will be made in the order of priority as set forth in the Indenture. In addition, so long as any First Tier Bonds are then Outstanding, all rights and votes that the Registered Owners of Second Tier Bonds have upon the occurrence of any of the events set forth in clauses (i), (ii), or (iii) in this paragraph will be assigned to the Registered Owners of the First Tier Bonds.

If any payments are received by any of the Registered Owners on account of its Bonds contrary to the provisions of the Indenture, such payments will be held in trust by such Registered Owners for the Trustee's benefit and will be delivered to the Trustee in kind, to be applied to, or held as collateral for, the payment of the Bonds then entitled to be paid from such amounts.

RISK FACTORS

THE PURCHASE OF THE SERIES 2017 BONDS IS SUBJECT TO CERTAIN RISKS. EACH PROSPECTIVE INVESTOR IN THE SERIES 2017 BONDS IS ENCOURAGED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY, INCLUDING ALL APPENDICES HERETO. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE FACTORS DESCRIBED BELOW THAT, AMONG OTHERS, COULD AFFECT THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THE SERIES 2017 BONDS AND THAT COULD ALSO AFFECT THE MARKET PRICE OF THE SERIES 2017 BONDS TO AN EXTENT THAT CANNOT BE DETERMINED.

General

The foregoing is intended only as a summary of certain risk factors attendant to an investment in the Series 2017 Bonds. In order to allow potential investors to identify risk factors and make an informed investment decision, a potential investor should be thoroughly familiar with the entire Official Statement and the appendices hereto and should have accessed whatever additional financial and other information it has deemed necessary to make its decision to invest in the Series 2017 Bonds.

The Issuer has no appreciable assets other than its interest in the Hotel. The Issuer's ability to derive Available Revenues from the use and operation of the Hotel in amounts sufficient to pay Debt Service on the Series 2017 Bonds depends upon numerous factors most of which are not within the control of the Issuer. Further, additional and as-yet-unforeseeable considerations may develop in the future that may significantly affect the operation of the Hotel.

Although it is anticipated that the Hotel will generate sufficient Net Operating Revenues to enable the Issuer to pay the Debt Service when due on the Series 2017 Bonds, an investment in the Series 2017 Bonds involves an element of risk. Purchasers of the Series 2017 Bonds are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Series 2017 Bonds. Described below are certain factors that could affect completion of the Hotel, future use and operation of Hotel, and the ability of the Issuer to pay Debt Service on the Series 2017 Bonds.

Operations Risks

Special or Limited Obligations of the Issuer

The Series 2017 Bonds are limited obligations of the Issuer payable primarily from Total Net Revenues and money held in certain Funds and Accounts under the Indenture. Any factor that adversely affects the receipt of Total Net Revenues, therefore, creates a risk that Debt Service on the Bonds will not be paid when due. The principal source of Total Net Revenues will be revenues derived from room rentals, food sales to guests of the Hotel, and parking fees from the Hotel Unit Parking Spaces remaining after payment of Operating Expenses, Capital Expenses pursuant to an approved Capital Budget or to correct an emergency, Administrative Expenses, the Taxes and Insurance Set Aside Amount, and the Renewal and Replacement Set Aside Amount. The primary risk factor associated with the receipt of such revenues is the occupancy level of the Hotel Unit. Because Operating Expenses, Capital Expenses, Administrative Expenses, the Taxes and Insurance Set Aside Amount, and, with respect to the Series 2017B Bonds only, the Renewal and Replacement Set Aside Amount are paid or funded from Gross Operating Revenues of the Hotel before Debt Service on the Bonds, any factor that decreases occupancy or increases such amounts creates a risk that Debt Service on the Bonds will not be paid when due. Some of the factors that may adversely affect the receipt of Gross Operating Revenues of the Hotel are discussed below.

Risks Associated with the Hotel Industry

A number of factors, many of which may be beyond the control of the Issuer or the Hotel Manager, could have an adverse impact on the net revenues and value of the Hotel, including adverse changes in the national economy and levels of tourism, terrorist attacks, competition from other hotels, sales taxes, energy costs, governmental rules and policies (including environmental restrictions and changes in zoning and land use), potential environmental and other liabilities, interest rate levels, and tax laws affecting real estate. Levels of tourism are highly dependent upon gasoline and other fuel prices, airline fares, and the national economy. In addition, the revenues and value of the Hotel are dependent upon convention business in Austin. Because hotel rooms are rented for a relatively short period of time compared to most commercial properties, hotels are affected more quickly to adverse economic conditions and competition than do other commercial properties that are rented for longer periods of time.

Occupancy and Room Rate Risks

Revenue from the Hotel is largely generated from the rental of hotel rooms. The Issuer's ability to make Debt Service payments largely depends on the occupancy rates and average daily rates ("ADR's") at the Hotel Unit and the ability of the Issuer to maintain occupancy volume at a level that does not adversely affect the Hotel's cash flow. Key factors affecting the amount of revenues generated from the rental of hotel rooms include the hotel's brand name recognition, market support, and reservation systems. Occupancy and ADRs will also be affected by factors outside the control of the Issuer, such as general levels of tourism, convention business, and seasonality. Such fluctuations may adversely affect the amount and timing of Net Operating Revenues and, consequently, adversely affect the amount and timing of amounts available to pay Debt Service on the Series 2017 Bonds.

Reliance on Brand Name Recognition and Competent Management

The occupancy rates and room rates charged by the Hotel are dependent in part on national brand name recognition. This is particularly true in the case of a convention center headquarters hotel. Convention planners and in-house group planners in large part book their conventions and groups into hotels with national recognition. In addition, the Hotel Market Study bases its economic forecast on the assumption that Hilton, with its national brand name recognition, will competently manage the Hotel. If Hilton were to discontinue its services as the Hotel Manager or fail to renew the Hotel Operating Agreement in the future, this could adversely impact the occupancy rates and average room rates of the Hotel unless Hilton were replaced by a comparable operator with national brand name recognition. See “THE HOTEL – Hotel Operating Agreement” for a description of the conditions under which Hilton’s services as the Hotel Manager may be terminated prior to the expiration of the 15 year term of the Hotel Operating Agreement.

Limited Rights Under the Hotel Operating Agreement

[**Update based on Amendment**] Under the Hotel Operating Agreement, the Hotel Manager has the sole and exclusive right to manage and operate the Hotel for a [term of 15 years from the Closing Date for the Series 2006 Bonds]. The Issuer has limited rights under the Hotel Operating Agreement to control the operation of the Hotel by the Hotel Manager or to direct the Hotel Manager to make changes in the manner in which it is operating the Hotel. In addition to any termination right that the Issuer has pursuant to the Hotel Operating Agreement, subject to the terms of the Hotel Operating Agreement, the Issuer will have the right to terminate the Hotel Operating Agreement (with any consent required pursuant to the terms of the Indenture) in the event (each such event a “Performance Termination Event”): (a) with respect to any Operating Year during the Performance Test Period, the Series 2017A and B Performance Standard is not satisfied; or (b) with respect to any two (2) consecutive Operating Years during the Performance Test Period, the REVPAR Performance Standard is not satisfied; or (c) with respect to two (2) out of any three (3) consecutive Operating Years during the Performance Test Period, the Series 2017 Performance Standard and the REVPAR Performance Standard are not satisfied. However, the Hotel Manager has the right to eliminate a Performance Termination Event under (a) above, if, for the applicable Operating Year, the Hotel Manager loans the amount of the shortfall to the Trustee for deposit in the Lockbox Fund upon such terms as will be mutually agreed to by the Issuer and the Hotel Manager; provided however that prior to making such loan, there will be delivered to the Issuer and the Hotel Manager an Opinion of Bond Counsel to the effect that such loan will not cause the interest on the Bonds to be included in gross income of the holders thereof for federal income tax purposes; provided further however, this right may be exercised by the Hotel Manager not more often than once during any three consecutive Operating Years.

To the extent consistent with the Operating Standard, the Hotel Manager has agreed to operate and manage the Hotel in a manner reasonably calculated to: (i) protect and preserve the assets that comprise the Hotel and (ii) maximize over the Operating Term the financial return to the Issuer from the operation of the Hotel as a first class, convention center headquarters hotel, after taking into consideration the Room Block Commitment. In addition, the Issuer is entitled to withhold the approval of the annual Capital Budget and Operating Plan and Budget submitted by the Hotel Manager for the upcoming Operating Year under certain specified conditions as set forth in the Hotel Operating Agreement. The Indenture and the Hotel Operating Agreement permit the Issuer to employ a Hotel Consultant to make recommendations as to the operation of the Hotel Unit and the Hotel Unit Parking Spaces if the Debt Service Coverage Requirement is not met for the preceding Operating Year. Disagreements between the Hotel Manager and the Issuer regarding the proposed Capital Budget or Operating Plan and Budget, including, without limitation, recommendations of the Hotel Consultant with respect to such matters, will be resolved through a process of mediation and arbitration, if necessary. While any disagreement is being resolved, the prior Operating Year’s Capital Budget and Operating Plan and Budget will control as to the disputed issues, subject to certain permitted increases and limitations.

Expiration or Early Termination of or Failure to Renew Certain Hotel Operating Agreements

The Hotel Operating Agreement is for a stated [term of 15 years from the date of issuance of the Series 2006 Bonds], which is earlier than the final maturity date of the Bonds. In addition, the Hotel Operating Agreement may be terminated earlier upon the occurrence of certain events, including the bankruptcy of the Hotel Manager or the Issuer. The projected operating results for the Hotel are dependent in part upon the existence of the Hotel

Operating Agreement or an agreement entered into by the Issuer with substantially the same terms as the Hotel Operating Agreement. If the Hotel Operating Agreement expires, terminates, or is not renewed prior to the final maturity of the Bonds, no assurance can be given as to the nature of the terms contained in any new Hotel Operating Agreement, although the Indenture requires that any new management agreement be a “Qualified Management Agreement”, and further provides that each Hotel Operating Agreement executed after the expiration or termination of the initial Hotel Operating Agreement contain terms and conditions substantially similar to the initial Hotel Operating Agreement.

Change of Management

Upon the occurrence of certain events, the Hotel Operating Agreement may be terminated by either party. Under certain circumstances the Issuer may terminate the Hotel Operating Agreement upon the occurrence of a Performance Termination Event. See APPENDIX D – Summary of Certain Provisions of the Hotel Operating Agreement. In this event, it is the responsibility of the Issuer to find a replacement Hotel Manager who has the ability and the experience to manage the Hotel within the covenants and conditions of the Bond Documents and to arrange for new instruments and agreements governing the management of the Hotel. There can be no assurances given that such a Hotel Manager could be found, and if found, would be able to manage the Hotel as currently contemplated.

Single Purpose Asset

The Issuer has no appreciable assets other than its interest in the Hotel. Therefore, as a practical matter, owners of the Bonds must look to the Hotel to produce the revenues to pay the amounts due under the Indenture, and, in the event of insolvency of the Issuer, the only asset of the Issuer which can reasonably be anticipated to be available to produce revenues to pay the amounts due under the Indenture will be the Hotel. The Issuer believes that, based upon HVS’s projections, it will be able to earn sufficient revenues from the Hotel to meet its obligations under the Indenture.

Competition

The level of occupancy of the Hotel and the room rates charged by the Hotel are directly affected by competition from other hotels. As new supply enters the market, or existing hotels are renovated or improved, the Hotel’s market share and occupancy rates could be adversely impacted. The Hotel will not only be subject to competition from hotels in Austin and the surrounding area, but will also be affected by competition from other cities across the United States competing for national convention center business. As a convention center headquarters hotel, the Hotel will be competing to attract national convention attendees to the Hotel. As discussed in the Hotel Market Study several cities in Texas are also providing large hotels adjacent to convention centers to attract national conventions. See APPENDIX A – Market Study Report.

Marketing; Failure to Attract Guests

The Hotel Manager will market the Hotel Unit pursuant to the Hotel Operating Agreement. There can be no assurances that the Hotel Manager’s efforts will be successful in attracting guests in sufficient numbers who pay room rates sufficient to pay Debt Service on the Series 2017 Bonds.

Risk of Income-Producing Property

The timely payment of the Series 2017 Bonds is secured by income-producing properties and, therefore, is dependent upon occupancy rates and the successful operation of the Hotel, rather than upon the liquidation value of the Hotel. If the Net Operating Income from the Hotel is reduced (for example, if occupancy rates decline or operating expenses increase), the Issuer’s ability to make Debt Service payments may be impaired. Furthermore, the liquidation value of the Hotel may be adversely affected by risks generally incident to interests in real property, including changes in economic conditions or tourism; declines in real estate values; declines in rental or occupancy rates; increases in interest rates; and other operating expenses including energy costs; changes in governmental

rules, regulations, and fiscal policies, including environmental legislation; acts of God; “terrorist attacks” and other factors which are beyond the Issuer’s and the Hotel Manager’s control.

Pledge and Assignment of Future Revenues

Pursuant to and subject to the terms of the Indenture, the Issuer has assigned and pledged to the Trustee the Gross Revenues in order to make all payments due under the Indenture, all of which are pledged and assigned to the Trustee for the benefit of the Registered Owners of the Series 2017 Bonds under the Indenture and the Deed of Trust. Nevertheless, certain interests and claims of others may be on a parity with or prior to (i) the deposit of Gross Revenues with the Depository Bank pursuant to the Cash Management Agreement and (ii) the pledge and assignment of the Gross Revenues made in the Indenture, and certain statutes and other provisions may limit the Issuer’s right to make such pledges and assignments. Examples of such claims, interests and provisions are:

- (a) statutory liens;
- (b) applicable Texas laws may not recognize a security interest in future revenues derived from the Hotel;
- (c) rights arising in favor of the United States of America or any agency thereof on failure of the Trustee or the Issuer to comply with federal or state statutes regarding the assignment of certain claims;
- (d) constructive trusts, equitable liens, or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction;
- (e) federal bankruptcy laws as they affect amounts earned with respect to the Hotel within 90 days preceding and at all times after any effectual institution of bankruptcy proceedings by or against the Issuer;
- (f) as to those items in which a security interest, lien, or pledge can be perfected only by possession, including items converted to cash, the rights of third parties in such items not in the possession of the Trustee;
- (g) prohibitions against assignment contained in federal or state statutes;
- (h) the security interest of third party creditors in “proceeds” of property subject to a Permitted Encumbrance, which “proceeds” may be deemed to constitute revenues;
- (i) items not in possession of the Trustee, the records to which are located or moved outside the State of Texas, which are thereby not subject to or are removed from the operation of Texas law; and
- (j) the requirement that appropriate notices be filed in accordance with applicable Texas law as from time to time in effect.

Litigation Relating to the Issuer

In the normal course of business, the Issuer with respect to its ownership of the Hotel is a defendant or third party defendant in various immaterial suits. All cases pending are all vigorously contested by the Issuer and are not expected to have any material impact on the financial condition of the Issuer.

Enforceability of Remedies and Bankruptcy of the Issuer

The practical realization of value from the Hotel upon any default will depend upon the exercise of various remedies specified by the security documents securing the Series 2017 Bonds. These and other remedies may, in many respects, require judicial actions, which are often subject to discretion and delay. Under existing law (including particularly federal bankruptcy law), the remedies specified by such documents may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in the security documents. In addition, federal bankruptcy law permits the adoption of a reorganization plan even

though the plan has not been accepted by the owners of a majority in aggregate principal amount of the Series 2017 Bonds, if such owners are provided with the benefit of their original lien or the “indubitable equivalent” thereof. If a bankruptcy court concludes that the owners of the Series 2017 Bonds have “adequate protection”, it may (1) substitute other security subject to the lien of the owners of the Series 2017 Bonds and (2) subordinate the lien of the owners of the Series 2017 Bonds (a) to claims by persons supplying goods and services to the Issuer after bankruptcy and (b) to the administrative expenses of the bankruptcy proceeding. In the event of bankruptcy of the Issuer, the amount realized by the owners of the Series 2017 Bonds might depend on a federal bankruptcy court’s interpretation of “indubitable equivalent” and “adequate protection” under the then existing circumstances. A bankruptcy court may also have the power to invalidate certain provisions of the security documents which make bankruptcy and related proceedings by the Issuer an event of default thereunder. The various legal opinions to be delivered concurrently with the delivery of the Series 2017 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings, and decisions affecting remedies and by bankruptcy, reorganization, or other laws affecting the enforcement of creditors’ rights generally.

Liquidation of Security May Not Be Sufficient in the Event of a Default

In the event of a default by the Issuer under the Indenture, the Trustee and/or the Issuer must look solely to the Hotel and Available Revenues to pay and satisfy the Series 2017 Bonds in accordance with their terms. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS.” In the event the Available Revenues from the Hotel are insufficient to pay the amounts due on the Series 2017 Bonds, then once the other security for the Series 2017 Bonds has been exhausted, the owners of the Series 2017 Bonds will have no person or entity to pursue for any deficiency which may exist. The practical use of the Hotel is limited to its use as a hotel and garage. If it were necessary to foreclose the lien created under the Hotel Deed of Trust, net proceeds received may be less than the principal amount of the Series 2017 Bonds outstanding.

Insurance Proceeds May Not Be Sufficient in the Event of Damage or Destruction

The owners of the Series 2017 Bonds must look primarily to Available Revenues to pay and satisfy the Bonds in accordance with their terms. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS.” The Indenture requires that in the event of damage to, destruction of, condemnation of, or a title defect relating to the Hotel, if the conditions set forth in the Indenture for such application have been met, the Issuer will apply the proceeds of insurance or condemnation award, together with other amounts available therefor, to repair or replace the property damaged, destroyed, or taken, as applicable, and apply any proceeds not used for repair or replacement to the payment of any reimbursement obligations then due and owing and then to the redemption of the Series 2017 Bonds. In addition, in the event the damage to, destruction of, condemnation of, or a title defect relating to the Hotel, in which there are not sufficient proceeds to repair or replace the Hotel, then the proceeds will be applied to redeem the Series 2017 Bonds in accordance with the provisions set forth under the caption “THE SERIES 2017 BONDS – Redemption Provisions – Extraordinary Mandatory Redemption” herein.

Insurance

The Issuer is obligated to obtain or cause to be obtained insurance providing coverage in the amount required by the Hotel Operating Agreement and the Indenture. An unanticipated volume of claims under these insurance policies, however, could cause the payment of unforeseen amounts as deductibles and increased premiums, thereby adversely affecting the Issuer’s finances. Changes in the insurance market may cause the costs of obtaining insurance coverage in the amount required by the Hotel Operating Agreement to increase to levels not projected in the operating budget of the Hotel, thereby adversely affecting the Issuer’s finances.

Reliance Upon Austin Convention Center

[Update with Market Study Information] According to the Hotel Market Study, the ability of the Austin Convention Center to attract citywide and large conventions will have a direct impact on the success of the Hotel. See “HOTEL – Market Study Report.” However, there can be no assurance the Convention Center will be successful in attracting larger or more frequent conventions and the City has made no representations, warranties, or covenants regarding attracting conventions or the impact that it may have on the occupancy of the Hotel. The Convention Center’s operations may be affected by casualty losses at the Convention Center or trends in the

convention industry, which are further affected by political and economic events beyond the control of the Issuer. Finally, although the Austin Convention Center Department has indicated its need for substantial rooms available to users of its facilities, it is not obligated in any way to provide any particular room usage for the benefit of the Hotel. For a more complete description of the market conditions affecting the Convention Center, see APPENDIX A – Market Study Report.

Normal Risks Attending Investment in Real Estate

There are many diverse risks attending any investment in real estate, not within the Hotel Manager's or the Issuer's control, which may have a substantial bearing on the profitability and financial feasibility of the Hotel. Such risks include, without limitation, possible adverse use of adjoining land, fire or other casualty, condemnation, increased taxes (although the City has received a letter from the Travis Central Appraisal District concluding that the Hotel Legal Unit is exempt from ad valorem taxes under applicable provisions of Texas law), changes in demand for such facilities, decline in the neighborhood and general economic conditions, and changing governmental regulations. Repayment of the Series 2017 Bonds will be dependent primarily on the cash flow derived from, and the market or liquidation value of, the Legal Hotel Unit. Commercial real estate lending can be affected significantly by supply and demand in the market for the type of property securing a loan and, therefore, may be subject to adverse economic conditions. Market values may vary as a result of economic events, seasonality, or governmental regulations outside the control of the Issuer, which factors may impact the future cash flow of the Hotel.

Actual Results May Differ From Forecasts

The financial forecast contained herein is based upon assumptions made by the Market Study. There will usually be differences between forecasted and actual results, since events and circumstances frequently do not occur as expected, and those differences may be material. In particular, any substantial decrease in occupancy or average daily rates will reduce revenues available for Debt Service on the Series 2017 Bonds. See "FORWARD-LOOKING STATEMENT DISCLAIMER."

Additional Debt

The Indenture provides that the Issuer may issue Additional Bonds, including Refunding Bonds, secured by Available Revenues and the Hotel on a parity with the Series 2017 Bonds as described herein under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Additional Bonds." The Issuer is not obligated to issue Additional Bonds, however, and has no present intent of issuing Additional Bonds.

Environmental Risks

The Issuer, as owner of the Hotel, has potential liability for hazardous substance under most state and federal environmental statutes, laws, and regulations. In addition to liability for release of hazardous substances at the Hotel due to its own actions, the Issuer, as owner, could be held liable for releases of hazardous substances by previous owners/lessees of the Hotel. No assurance can be given that environmental conditions do not now or will not in the future exist at the Hotel which could become the subject of enforcement actions by governmental agencies.

Loss of Tax Exemption

As discussed under the heading "TAX MATTERS" herein, the interest on the Series 2017 Bonds could become includable in gross income for purposes of federal income taxation, retroactive to the date of delivery of the Series 2017 Bonds, as a result of acts or omissions of the Issuer or the Hotel Manager in violation of certain covenants in the Indenture and the Hotel Operating Agreement or as a result in changes in federal tax law.

Pending Tax Legislation

The opinions expressed by Bond Counsel as to compliance with the provisions of the Tax Code described under "TAX MATTERS" are based upon existing law as of the delivery date of the Series 2017 Bonds. No opinion

is expressed as of any subsequent date nor is any opinion expressed with respect to any pending or proposed legislation.

TAX MATTERS

Opinion

On the date of initial delivery of the Series 2017 Bonds, Winstead PC, Bond Counsel, will render its opinion that, under existing law, and assuming compliance with certain covenants and the accuracy of certain representations, discussed below, interest on the Bonds is excludable from gross income for federal income tax purposes and is not subject to the alternative minimum tax on individuals and corporations; however, interest on the Series 2017 Bonds will be included in the “adjusted current earnings” of a corporation (other than an S corporation, regulated investment company, Real Estate Investment Trust, Real Estate Mortgage Investment Conduit, or Financial Asset Securitization Investment Trust) for purposes of computing its alternative minimum tax liability. Corporate purchasers of the Series 2017 Bonds should consult their tax advisors regarding the computation of alternative minimum tax. See APPENDIX E—Form of Bond Counsel Opinion.

The Code establishes certain requirements that must be met at and subsequent to the issuance of the Series 2017 Bonds in order for interest on the Series 2017 Bonds to be and remain excludable from federal gross income. Included among these continuing requirements are certain restrictions and prohibitions on the use of bond proceeds, restrictions on the investment of proceeds and other amounts, and rebate to the United States of certain earnings from investments. Failure to comply with these continuing requirements may cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of their issuance. The Issuer has covenanted to comply with certain procedures, and has made certain representations and certifications, designed to assure compliance with these Code requirements. In rendering its opinion, Bond Counsel will rely on these covenants, and on representations and certifications of the Issuer relating to matters solely within its knowledge (which Bond Counsel has not independently verified), and will assume continuing compliance by the Issuer.

Prospective purchasers of the Series 2017 Bonds should be aware that ownership of, accrual or receipt of interest on, or disposition of the Series 2017 Bonds may have collateral federal income tax consequences for certain taxpayers, including financial institutions, certain subchapter S corporations, United States branches of foreign corporations, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, taxpayers eligible for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. The foregoing is not intended as an exhaustive list of potential tax consequences. Prospective purchasers of the Series 2017 Bonds should consult their tax advisors regarding any potential collateral tax consequences. Bond Counsel expresses no opinion regarding any such collateral tax consequences.

The statutes, regulations, published rulings, and court decisions on which Bond Counsel has based its opinion are subject to change by Congress, as well as to subsequent judicial and administrative interpretation by courts and the Internal Revenue Service (the “Service”). No assurance can be given that such law or its interpretation will not change in a manner that would adversely affect the tax treatment of receipt or accrual of interest on, or the acquisition, ownership, market value, or disposition of, the Bonds. No ruling concerning the tax treatment of the Series 2017 Bonds has been sought from the Service with respect to matters addressed in the opinion of Bond Counsel, and the opinion of Bond Counsel is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on governmental obligations. No assurance can be given regarding whether or not the Service will commence an audit of the Series 2017 Bonds. If an audit is commenced of the Bonds, under current procedures, the Service is likely to treat the Issuer as the “taxpayer”, and owners of the Series 2017 Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Series 2017 Bonds, the Issuer may have different or conflicting interests from those of the Owners. Public awareness of any future audit of the Series 2017 Bonds could adversely affect the value and liquidity of the Series 2017 Bonds during the pendency of the audit, regardless of its ultimate outcome.

The opinions set forth above are based on existing law and Bond Counsel’s knowledge of relevant facts on the date of issuance of the Series 2017 Bonds. Such opinions are an expression of professional judgment and are not

a guarantee of result. Except as stated above, Bond Counsel expresses no opinion regarding any other federal, state, or local tax consequences under current law or proposed legislation resulting from the receipt or accrual of interest on, or the acquisition, ownership, or disposition of, the Series 2017 Bonds. Further, Bond Counsel assumes no obligation to update or supplement its opinions to reflect any facts or circumstances that may come to its attention, or any changes in law that may occur after the issuance date of the Series 2017 Bonds. In addition, Bond Counsel has not undertaken to advise in the future whether any events occurring after the issuance date of the Series 2017 Bonds may affect the tax-exempt status of interest on the Series 2017 Bonds.

Original Issue Discount

Certain of the Series 2017 Bonds (the “Discount Bonds”) may be offered and sold to the public at an “original issue discount” (“OID”). OID is the excess of the stated redemption price at maturity (the principal amount) over the “issue price” of such Series 2017 Bonds. The issue price of Discount Bonds is the initial offering price to the public (other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) at which a substantial amount of Discount Bonds of the same maturity are sold pursuant to that offering.

For federal income tax purposes, OID accrues to the owner of a Discount Bond over such Discount Bond’s period to maturity based on the constant interest rate method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). Bond Counsel is of the opinion that the portion of OID that accrues during the ownership period of a Discount Bond (i) is interest excludable from the owner’s gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as is other interest on the Bonds, and (ii) is added to the owner’s tax basis for purposes of determining gain or loss on the maturity, redemption, sale, or other disposition of that Discount Bond. OID may be treated as continuing to accrue even if payment of the Discount Bonds becomes doubtful in the event that the Issuer encounters financial difficulties, and it is treated as interest earned by cash-basis owners (with possible tax consequences under the corporate alternative minimum tax as discussed above), even though no cash corresponding to the accrual is received in the year of accrual. A purchaser of a Discount Bond at its issue price in the initial public offering who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of such Discount Bond.

The federal income tax consequences of the acquisition, ownership, redemption, sale, or other disposition of Discount Bonds not purchased in the initial offering at the initial offering price may be determined according to rules different from those described above. Owners of such Discount Bonds should consult their tax advisors regarding the federal, state, and local income tax treatment and consequences of acquisition, ownership, redemption, sale, or other disposition of such Discount Bonds.

Original Issue Premium

Certain maturities of the Series 2017 Bonds (the “Premium Bonds”) may be offered and sold to the public at prices greater than their stated redemption prices (the principal amount) payable at maturity (“Bond Premium”), which, for federal income tax purposes, is amortized over the period to maturity of the Premium Bond based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, an amortization period and yield determined on the basis of the earliest call date resulting in the lowest yield on that Premium Bond), compounded semiannually. No portion of that Bond Premium is deductible by the Premium Bond owner.

For purposes of determining a Premium Bond owner’s gain or loss on sale, redemption (including redemption at maturity), or other disposition of a Premium Bond, the owner’s tax basis in the Premium Bond is reduced by the amount of Bond Premium that accrues during the ownership period. As a result, an owner of a Premium Bond may realize taxable gain for federal income tax purposes upon the sale or other disposition of such Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond at its issue price in the initial offering who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to the earliest call date resulting in the lowest yield on that Premium Bond) will realize no gain or loss upon retirement of that Premium Bond. Owners of Premium Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the amount of Bond Premium

properly accruable in any tax year (or portion thereof), and with respect to other federal, state, and local tax consequences of owning and disposing of Premium Bonds.

RATINGS

S&P Global Ratings (“S&P”) has assigned a rating of “___” to the Series 2017A Bonds The Series 2017B Bonds have received a rating of “___” from S&P.

The ratings reflect only the views of S&P. Any explanation of the significance of the ratings assigned to such Bonds may be obtained only from S&P. The Issuer furnished to such rating agency certain information and materials, some of which may not have been included in this Official Statement, relating to such Bonds and the Issuer. Generally, rating agencies base their ratings upon such information and materials and investigation, studies and assumptions by the rating agencies. There can be no assurance that a rating when assigned will continue for any given period of time or that it will not be lowered or withdrawn entirely by a rating agency if in its judgment circumstances so warrant. Any such downward change in or withdrawal of a rating may have an adverse effect on the marketability or market price of such Bonds. The Issuer will undertake no responsibility to notify the owners of such Bonds of any such revisions or withdrawals of ratings.

The Issuer expects to furnish to such rating agency information and materials that it may request. However, the Issuer assumes no obligation to furnish requested information and materials, and may issue bonds for which a rating is not requested. Failure to furnish requested information and materials, or the issuance of bonds for which a rating is not requested, may result in the suspension or withdrawal of a rating agency’s rating.

There is no assurance that such ratings will continue for any period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of any of the ratings may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE

The Issuer has covenanted for the benefit of the holders of the Series 2017 Bonds, pursuant to a Continuing Disclosure Agreement a form of which is attached as APPENDIX F (the “Disclosure Undertaking”) to be executed and delivered by the Issuer, at the closing, to provide or cause to be provided, among other things (i) each year, certain financial information and operating data relating to the Hotel (the “Annual Report”) by not later than 180 days after the first day of the fiscal year of the Issuer, commencing with the Annual Report for the fiscal year ending after December 31, 2016; provided, however, that if the audited financial statements of the Hotel are not available by such date, they will be provided when and if available, and unaudited financial statements will be included in the Annual Report, (ii) operations reports when prepared by the Asset Manager; unaudited quarterly reports (which will include income and cash flow statements and balance sheets) to be provided within 45 days of the end of each quarter; and (iii) timely notices of the occurrence of certain enumerated events, if material.

FORWARD-LOOKING STATEMENT DISCLAIMER

The statements contained in this Official Statement, including, but not limited to information under the headings “OPERATION OF THE HOTEL” and “PLAN OF FINANCE” and in any other information provided by the parties to the transaction described herein that are not purely historical are forward-looking statements, including statements regarding the Issuer’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Issuer as of the date hereof, and neither the Issuer nor the other parties to the transaction described herein assumes any obligation to update any such forward-looking statements. The Issuer’s actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherent 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, 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 of future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Issuer and the other parties to the transaction described herein. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

VERIFICATION OF ARITHMETICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by the Underwriters on behalf of the Issuer relating to (a) computation of the sufficiency of the anticipated receipts from the federal securities, together with the initial cash deposit, if any, to pay, when due, the principal, interest and early redemption premium requirements, if any, of the Series 2006A Bonds and the Series 2006B Bonds, and (b) computation of the yields on federal securities and the Series 2017 Bonds were verified by Citigroup Capital Markets Inc. Such computations were completed using certain assumptions and information provided by Underwriters on behalf of the Issuer. Citigroup Capital Markets Inc. has restricted its procedures to recalculating the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

The report will be relied upon by Bond Counsel in rendering its opinions with respect to the excludability from federal income taxation of interest on the Series 2017 Bonds and with respect to the defeasance of the Series 2006A Bonds and the Series 2006B Bonds.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase all of the Series 2017A and Series 2017B Bonds from the Issuer at an aggregate underwriters' discount of \$_____ from the initial offering prices set forth on the inside front pages hereof. The Underwriters are obligated to purchase all of the Series 2017A Bonds and Series 2017B Bonds, if any are purchased, such obligations being subject to certain terms and conditions set forth in a Purchase Agreement between the Underwriters and the Issuer; the approval of certain legal matters by counsel; and certain other conditions. The initial offering prices for the Series 2017A Bonds and Series 2017B Bonds may be changed from time to time by the Underwriters.

The Underwriters and their respective affiliates are full services financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed and may in the future perform, various investment banking services for the District 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 may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer.

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 require, long and/or short positions in such assets, securities and instruments.

Citigroup Global Markets Inc. has entered into a retail distribution agreement with UBS Financial Services Inc. ("UBSFS"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal

securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for their selling efforts with respect to the Series 2017 Bonds.

Piper Jaffray & Co. has entered into a distribution agreement ("Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase Series 2017 Bonds from Piper Jaffray & Co. at the original issue price less a negotiated portion of the selling concession applicable to any Series 2017 Bonds that CS&Co. sells.

LEGAL MATTERS

Certain legal matters incident to the authorization, issuance, placement, and delivery of the Series 2017 Bonds by the Issuer are subject to the approving opinions of the Attorney General of the State of Texas and Winstead PC, Austin, Texas, Bond Counsel. The form of the opinion of Bond Counsel with respect to the Series 2017 Bonds is attached hereto as APPENDIX E and will be available at the time of delivery of the Series 2017 Bonds. Other than the descriptions of legal documents set forth herein under the captions "THE SERIES 2017 BONDS (except for descriptions under the caption 'Book-Entry Only System')," "SECURITY FOR AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS (except descriptions under the caption 'Debt Service Reserve Insurance Policy')," "TAX MATTERS," APPENDIX B– Master Glossary of Terms, and APPENDIX C – Summary of Certain Provisions of the Bond Documents, which have been reviewed by Bond Counsel and Bond Counsel's legal opinion in APPENDIX E – Form of Bond Counsel Opinion, Bond Counsel has not reviewed nor undertakes any responsibility for any of the information contained in this Official Statement. Certain legal matters will be passed upon for the Issuer by its special counsel, Winstead PC, Austin, Texas, and for the Underwriters by their special counsel, Orrick, Herrington & Sutcliffe LLP, Houston, Texas; and pertaining to the Hotel Manager by Andrews Kurth Kenyon LLP, Dallas, Texas. As special counsel to the Underwriters, Orrick, Herrington & Sutcliffe LLP undertakes no responsibility for any of the information contained in this Official Statement or for any due diligence with respect to the Hotel or the Series 2017 Bonds. The fees of such counsel and a portion of the fee of Bond Counsel, are contingent upon the issuance and delivery of the Series 2017 Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Series 2017 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that 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 out of the transaction.

LITIGATION

There is no known pending or, to the knowledge of the Hotel Manager, the City, and the Issuer, threatened litigation against the Hotel Manager, the City, or the Issuer, respectively, which in any way questions or materially affects the validity of the Series 2017 Bonds or any proceedings or transactions relating to the authorization, sale, or delivery of the Series 2017 Bonds or which may materially affect the operation and management of the Hotel.

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MISCELLANEOUS INFORMATION

The financial data and other information contained herein concerning the Convention Center 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 herein will be realized. All of the summaries of the statutes, documents, and ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects. This Official Statement, and the execution and delivery of this Official Statement, were authorized by the Issuer.

Austin Convention Enterprises, Inc.

By: _____,
_____, President

APPENDIX A – MARKET STUDY REPORT

APPENDIX B – MASTER GLOSSARY OF TERMS

APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE BOND DOCUMENTS

APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE HOTEL OPERATING AGREEMENT

APPENDIX E – FORM OF BOND COUNSEL OPINION

APPENDIX F – FORM OF CONTINUING DISCLOSURE AGREEMENT

APPENDIX G – AUDITED FINANCIAL STATEMENTS OF THE ISSUER (FISCAL YEAR 2015)

APPENDIX H – INVESTOR LETTER

APPENDIX I – SPECIMEN DEBT SERVICE RESERVE POLICY