

Ratings: Moody's: "___"

S&P: "___"

Fitch: "___"

(See "OTHER RELEVANT INFORMATION – Ratings herein")

NEW ISSUES – Book-Entry-Only

In the opinion of Bond Counsel to the City, interest on the Obligations (as defined below) of each series will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein.

\$64,335,000*

**CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Public Improvement Bonds, Series 2018**

\$6,540,000*

**CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Certificates of Obligation, Series 2018**

\$20,985,000*

**CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Public Property Finance Contractual Obligations, Series 2018**

Dated Date: October 3, 2018

Due: As shown on the inside cover page

Interest on the \$64,335,000* City of Austin, Texas Public Improvement Bonds, Series 2018 (the "Bonds"), the \$6,540,000* City of Austin, Texas Certificates of Obligation, Series 2018 (the "Certificates") and the \$20,985,000* City of Austin, Texas Public Property Finance Contractual Obligations, Series 2018 (the "Contractual Obligations") will accrue from the dated date shown above, and in the case of the Bonds and Certificates will be payable March 1, 2019, and each September 1 and March 1 thereafter until maturity or redemption prior to maturity, and in the case of the Contractual Obligations will be payable May 1, 2019, and each November 1 and May 1 thereafter until maturity, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds, the Certificates, and the Contractual Obligations are collectively referred to in this document as the "Obligations". The initial Paying Agent/Registrar for the Obligations is U.S. Bank, National Association, Dallas, Texas. See "OBLIGATION INFORMATION-Paying Agent/Registrar" in this document. The Bonds, the Certificates, and the Contractual Obligations will be offered separately by the City of Austin, Texas (the "City"), and delivery of each issue is not contingent upon the delivery of the other issues. The City intends to utilize the book-entry-only system of The Depository Trust Company, New York, New York, ("DTC") but reserves the right on its behalf or on behalf of DTC to discontinue such system. The book-entry-only system will affect the method and timing of payment and the method of transfer of the Obligations. See "OBLIGATION INFORMATION – Book-Entry-Only System" in this document.

In each Ordinance, the City Council delegated to a "Pricing Officer" the authority to effect the sale of each series of the Obligations, subject to the terms of each Ordinance. The Bonds are direct obligations of the City, payable from a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinance authorizing the issuance of the Bonds. The Certificates are direct obligations of the City, payable from a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City and are additionally payable from and secured by a limited pledge of the surplus revenues (not to exceed \$1,000) of the City's solid waste disposal system, as provided in the ordinance authorizing the issuance of the Certificates. The Contractual Obligations are direct obligations of the City, payable from a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinance authorizing the issuance of the Contractual Obligations. See "OBLIGATION INFORMATION – Security" in this document.

Proceeds from the sale of the Bonds will be used to finance various capital improvements and to pay costs of issuing the Bonds. Proceeds from the sale of the Certificates will be used to finance various capital improvements and to pay costs of issuing the Certificates. Proceeds from the sale of the Contractual Obligations will be used to purchase certain equipment and other personal property for use by various City departments and to pay costs of issuing the Contractual Obligations. See "OBLIGATION INFORMATION – Authority and Purpose for Issuance" in this document.

See "MATURITY SCHEDULES" on next page

The Bonds and the Certificates are subject to optional redemption prior to their stated maturities as described in "OBLIGATION INFORMATION – Optional Redemption of the Bonds and the Certificates" in this document. Additionally, the Purchaser of the Bonds or the Certificates may select two or more consecutive maturities of a respective series of the Bonds or the Certificates to be grouped together to form one or more "Term Obligations" for such series, and such Term Obligations would be subject to mandatory sinking fund redemption as set forth in the final Official Statement (see "OBLIGATION INFORMATION – Mandatory Sinking Fund Redemption" in this document). The Contractual Obligations are **not** subject to redemption prior to their stated maturity. (See "OBLIGATION INFORMATION – No Redemption of the Contractual Obligations" in this document).

The Obligations are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of McCall, Parkhurst & Horton LLP, Bond Counsel. See "APPENDIX C – Forms of Bond Counsel's Opinions" in this document.

It is expected that the Obligations will be delivered through the facilities of DTC on or about October 3, 2018.

BIDS ON THE BONDS AND THE CERTIFICATES DUE WEDNESDAY, SEPTEMBER 12, BY 9:30 A.M. CDT

BIDS ON THE CONTRACTUAL OBLIGATIONS DUE WEDNESDAY, SEPTEMBER 12, BY 10:00 A.M. CDT

* Preliminary, subject to change.

MATURITY SCHEDULES

\$64,335,000*

CITY OF AUSTIN, TEXAS
Public Improvement Bonds, Series 2018
 Base CUSIP No. 052397 (1)

<u>Maturity</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>	<u>Maturity</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>
2019	36,850,000				2029	1,325,000			(2)
2020	2,135,000				2030	1,255,000			(2)
2021	1,875,000				2031	980,000			(2)
2022	1,965,000				2032	925,000			(2)
2023	2,080,000				2033	885,000			(2)
2024	2,175,000				2034	930,000			(2)
2025	2,195,000				2035	905,000			(2)
2026	2,305,000				2036	895,000			(2)
2027	1,525,000				2037	875,000			(2)
2028	1,395,000				2038	860,000			(2)

(Interest to accrue from the Dated Date)

\$6,540,000*

CITY OF AUSTIN, TEXAS
Certificates of Obligation, Series 2018
 Base CUSIP No. 052397 (1)

<u>Maturity</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>	<u>Maturity</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>
2019	225,000				2029	320,000			(2)
2020	210,000				2030	340,000			(2)
2021	215,000				2031	350,000			(2)
2022	225,000				2032	375,000			(2)
2023	240,000				2033	390,000			(2)
2024	250,000				2034	410,000			(2)
2025	265,000				2035	430,000			(2)
2026	275,000				2036	450,000			(2)
2027	290,000				2037	475,000			(2)
2028	305,000				2038	500,000			(2)

(Interest to accrue from the Dated Date)

\$20,985,000*

CITY OF AUSTIN, TEXAS
Public Property Finance Contractual Obligations, Series 2018
 Base CUSIP No. 052397 (1)

<u>Maturity</u> <u>(May 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>	<u>Maturity</u> <u>(November 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>
2019	1,120,000				2019	1,335,000			
2020	1,335,000				2020	1,395,000			
2021	1,400,000				2021	1,465,000			
2022	1,465,000				2022	1,540,000			
2023	1,540,000				2023	1,610,000			
2024	1,610,000				2024	1,705,000			
2025	1,705,000				2025	1,760,000			

(Interest to accrue from the Dated Date)

Concurrent Issues . . . The Obligations are being offered concurrently by the City under a common Official Statement. The Bonds, the Certificates, and the Contractual Obligations are separate and distinct securities offerings issued and sold independently except for this Official Statement, and while they share certain common attributes, each issue is separate from the others and should be reviewed and analyzed independently, including without limitation the type of obligation being offered, its terms for payment, the rights of the City to redeem the respective Obligations, the federal, state and local tax consequences of the purchase, ownership or disposition of the respective Obligations and other features.

Concurrent Issue of Taxable Bonds . . . The City anticipates the sale of its Public Improvement Bonds, Taxable Series 2018 in the aggregate principal amount of \$_____* (the "Taxable Bonds") concurrently with the sale of the Obligations pursuant to a separate official statement. The Taxable Bonds are expected to be delivered on October 3, 2018.

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Service, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. CUSIP numbers are provided for convenience of reference only. The City and the Financial Advisor take no responsibility for the accuracy of the CUSIP numbers.

- (2) Yield to first optional call date.

*Preliminary, subject to change.

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (the “Rule”), this document constitutes an Official Statement of the City with respect to the Obligations that has been “deemed final” by the City as of its date except for the omission of no more than the information permitted by the Rule.

The Obligations are offered by the City under a common Official Statement. The Bonds, the Certificates, and the Contractual Obligations are separate and distinct securities offerings being issued and sold independently, except for the common Official Statement. While the Obligations share certain common attributes, each issue is separate from the others and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the respective Obligations and other features.

No dealer, broker, salesman or other person has been authorized by the City or by the purchasers in the initial offering of all or any of the Obligations (collectively the “Purchasers”) to give any information or to make any representations, other than as contained in this document, and if given or made such other information or representations must not be relied upon as having been authorized by the City or the Purchasers. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Obligations, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is submitted in connection with the sale of securities referred to in this document and may not be reproduced or used for any other purpose. In no instance may this Official Statement be reproduced or used in part.

THE OBLIGATIONS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAVE THE ORDINANCES BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939 IN RELIANCE ON EXEMPTIONS CONTAINED IN SUCH ACTS.

The information set forth in this document has been furnished by the City and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Purchasers. The information and expressions of the opinions in this Official Statement are subject to change without notice and neither the delivery of this Official Statement nor any sale made under the Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the other matters described since the date of this Official Statement. CUSIP numbers have been assigned to each series of Obligations for the convenience of the owners of the Obligations.

This Official Statement includes descriptions and summaries of certain events, matters, and documents. The descriptions and summaries do not purport to be complete and all descriptions, summaries and references are qualified in their entirety by reference to this document in its entirety and to each document referred to in this document, copies of which may be obtained from the City or from PFM Financial Advisors LLC, the Financial Advisor to the City. Any statements made in this Official Statement or the Appendices involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

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

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

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE OBLIGATIONS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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CITY OF AUSTIN

Elected Officials

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

Appointed Officials

Spencer Cronk	City Manager
Elaine Hart, CPA.....	Deputy City Manager and Chief Financial Officer ⁽¹⁾
Greg Canally.....	Deputy Chief Financial Officer
Ed Van Eenoo.....	Deputy Chief Financial Officer
Anne Morgan	City Attorney

(1) Effective upon the adoption of the City’s fiscal year 2019 budget, Elaine Hart will serve as Deputy City Manager.

BOND COUNSEL

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

DISCLOSURE COUNSEL FOR THE CITY

Bracewell LLP
Austin, Texas

FINANCIAL ADVISOR

PFM Financial Advisors LLC
Austin, Texas

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Austin, Texas

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SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data on this page is subject in all respects to the more complete information and definitions contained or incorporated in this document. The offering of the Obligations to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

The Issuer	The City of Austin, Texas (the “City”), is a political subdivision located in Travis, Williamson and Hays Counties, operating as a home-rule city under the laws of the State of Texas and a charter approved by the voters in 1953, as amended. The City operates under the Council/Manager form of government where the mayor (elected at-large) and ten councilmembers (elected from ten single member districts) are elected for staggered four year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer. For further information about the City, see APPENDIX A – “GENERAL INFORMATION REGARDING THE CITY” in this document.
The Bonds	The Bonds are issued in the principal amount of \$_____ * pursuant to the general laws of the State of Texas, particularly Chapter 1331, Texas Government Code, Chapter 1371, Texas Government Code (“Chapter 1371”), elections held within the City (see “DEBT INFORMATION – Authorized General Obligation Bonds” in this document), an ordinance passed by the City Council of the City and a pricing certificate executed by a Pricing Officer evidencing the final terms of sale of the Bonds (see “OBLIGATION INFORMATION – Authority and Purpose for Issuance” in this document).
The Certificates	The Certificates are issued in the principal amount of \$_____ * pursuant to the general laws of the State of Texas, particularly Subchapter C, Chapter 271, Texas Local Government Code, Chapter 1371, an ordinance passed by the City Council of the City and a pricing certificate executed by a Pricing Officer evidencing the final terms of sale of the Certificates (see “OBLIGATION INFORMATION – Authority and Purpose for Issuance” in this document).
The Contractual Obligations	The Contractual Obligations are issued in the principal amount of \$_____ * pursuant to the general laws of the State of Texas, particularly Subchapter A, Chapter 271, Texas Local Government Code (the “Public Property Finance Act”), Chapter 1371, an ordinance passed by the City Council of the City and a pricing certificate executed by a Pricing Officer evidencing the final terms of sale of the Contractual Obligations (see “OBLIGATION INFORMATION – Authority and Purpose for Issuance” in this document).
Paying Agent/Registrar...	The initial Paying Agent/Registrar for each series of the Obligations is U.S. Bank, National Association, Dallas, Texas.
Security	Each series of the Obligations constitutes a direct obligation of the City, payable from a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City in an amount sufficient to provide for payment of principal of and interest on all ad valorem tax debt. The Certificates are additionally secured by and payable from a limited pledge of the surplus revenues (not to exceed \$1,000) of the City’s solid waste disposal system (see “OBLIGATION INFORMATION - Security” in this document).
Redemption of Obligations	The City reserves the right, at its option, to redeem the Bonds and the Certificates having stated maturities on and after September 1, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 20__, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see “OBLIGATION INFORMATION – Optional Redemption of the Bonds and the Certificates” in this document). The Contractual Obligations are not

* Preliminary, subject to change.

subject to redemption prior to their stated maturities. (see “OBLIGATION INFORMATION – No Redemption of the Contractual Obligations” in this document).

Additionally, the Purchaser of the Bonds or the Certificates may select two or more consecutive maturities of a respective series of the Bonds or the Certificates to be grouped together to form one or more “Term Obligations” for such series, and such Term Obligations would be subject to mandatory sinking fund redemption as set forth in the final Official Statement (see “OBLIGATION INFORMATION – Mandatory Sinking Fund Redemption” in this document).

Tax Matters..... In the opinion of Bond Counsel, the interest on each series of the Obligations will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption “TAX MATTERS” in this document.

Concurrent Issuance of Taxable Bonds Pursuant to a separate Official Statement, the City anticipates the sale of its Public Improvement Bonds, Taxable Series 2018 in the aggregate principal amount of \$7,000,000* (the “Taxable Bonds”) concurrently with the sale of the Obligations.

Payment Record The City has not defaulted since 1900 when all bonds were refunded at par with a voluntary reduction in interest rates.

Selected Financial Information

Fiscal Year Ended	Estimated City	Taxable Assessed	Per Capita Taxable Assessed	(000's) Net Funded Tax Debt (2)	Per Capita Net Funded Tax Debt	Ratio of Net Funded Tax Debt to Taxable Valuation	% of Total Tax Collections
9-30	Population (1)	Valuation (1)	Valuation				
2010	778,560	80,960,540,976	103,988	1,002,186	1,287.23	1.24%	99.22%
2011	805,662	77,619,349,384	96,342	1,049,751	1,302.97	1.35%	99.42%
2012	821,012	79,219,780,879	96,490	1,132,201	1,379.03	1.43%	99.27%
2013	841,649	83,294,536,493	98,966	1,198,730	1,424.26	1.44%	99.36%
2014	878,002	88,766,098,160	101,100	1,313,334	1,495.82	1.48%	100.01%
2015	899,119	98,652,179,430	109,721	1,409,384	1,567.52	1.43%	99.88%
2016	925,491	110,526,026,399	119,424	1,490,221	1,610.20	1.35%	100.18%
2017	937,065	125,371,654,656	133,792	1,526,997	1,629.55	1.22% (5)	99.84%
2018	958,418	139,425,088,186	145,474	1,249,543 (5)	1,380.95 (5)	0.90% (5)	99.50% (3)
2019	963,116	152,666,281,011 (4)	158,513	1,241,787 (5)	1,399.73 (5)	0.81% (5)	N/A

(1) Source: 2017 City of Austin Comprehensive Annual Financial Report (“CAFR”) – Table 18, through fiscal year ending 2017; City of Austin Department of Planning and Development based on full purpose area as of January 2018, for fiscal years ending 2018 and 2019.

(2) Excludes general obligation debt issued for enterprise funds and general fund departments, the debt service on which is currently paid from the revenue of the respective enterprises and each department’s operating budget, respectively. The City plans to continue to pay these obligations based on this practice; however, there is no guarantee that this practice will continue in future years. See “DEBT INFORMATION” and “TAX INFORMATION – Statements of Debt” and “Valuation and Funded Debt History – TABLE TWO” in this document.

(3) Estimated Collections as of June 30, 2018 based on the July 2017 Certified Tax Roll tax levy.

(4) Certified taxable value for the 2018 tax year provided by the Travis Central Appraisal District, Williamson Central Appraisal District, and Hays Central Appraisal District on July 15, 2018, July 17, 2018, and July 25, 2018, respectively.

(5) Includes the Obligations and Taxable Bonds (assuming an aggregate issuance of \$98,860,000* par amount). See “DEBT INFORMATION – Concurrent Issuance of Taxable Bonds” in this document.

* Preliminary, subject to change.

OFFICIAL STATEMENT

Relating to

\$64,335,000*

CITY OF AUSTIN, TEXAS

Public Improvement Bonds, Series 2018

\$6,540,000*

CITY OF AUSTIN, TEXAS

Certificates of Obligation, Series 2018

\$20,985,000*

CITY OF AUSTIN, TEXAS

Public Property Finance Contractual Obligations, Series 2018

INTRODUCTION

This Official Statement, which includes the cover page, the summary statement and the appendices, provides certain information regarding the issuance by the City of Austin, Texas (the “City”) of its \$64,335,000* Public Improvement Bonds, Series 2018 (the “Bonds”), its \$6,540,000* Certificates of Obligation, Series 2018 (the “Certificates”), and its \$20,985,000* Public Property Finance Contractual Obligations, Series 2018 (the “Contractual Obligations”). The Bonds, the Certificates, and the Contractual Obligations are collectively referred to herein as the “Obligations”. The Bonds, the Certificates, and the Contractual Obligations will be offered separately by the City, and delivery of each issue is not contingent upon the delivery of the other issues. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance authorizing the issuance of the Bonds (the “Bond Ordinance”), the ordinance authorizing the issuance of the Certificates (the “Certificate Ordinance”), and the ordinance authorizing the issuance of the Contractual Obligations (the “Contractual Obligation Ordinance”), except as otherwise indicated. The Bond Ordinance, the Certificate Ordinance, and the Contractual Obligation Ordinance are collectively referred to herein as the “Ordinances”. In each Ordinance, the City Council delegated to a “Pricing Officer” the authority to effect the sale of each series of the Obligations, subject to the terms of each Ordinance.

In addition to the sale of the Obligations, the City anticipates the sale of its Public Improvement Bonds, Taxable Series 2018 in the aggregate principal amount of \$7,000,000 * (the “Taxable Bonds”) concurrently with the sale of the Obligations, pursuant to a separate official statement. See “DEBT INFORMATION – Concurrent Issuance of Taxable Bonds” in this document.

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

There follows in this Official Statement descriptions of the Obligations and certain information regarding the City and its finances. All descriptions of documents contained in this Official Statement are only summaries and are qualified in their entirety by reference to each such document.

OBLIGATION INFORMATION

Authority and Purpose for Issuance

The capital improvements to be financed with the proceeds of the Bonds were authorized at elections held on various dates, and passed by a majority of the participating voters in the City (the “Elections”), see “DEBT INFORMATION- Authorized General Obligation Bonds” in this document. The City is authorized to issue the Bonds pursuant to Chapter 1331, Texas Government Code, Chapter 1371, Texas Government Code (“Chapter 1371”), the Elections, the Bond

* Preliminary, subject to change.

Ordinance, and a pricing certificate executed by a Pricing Officer evidencing the final terms of sale of the Bonds. Proceeds from the sale of the Bonds will be used to finance various capital improvements and to pay costs of issuing the Bonds.

The Certificates are being issued pursuant to the general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the “Certificate of Obligation Act”), Chapter 1371, the Certificate Ordinance, and a pricing certificate executed by a Pricing Officer evidencing the final terms of sale of the Certificates. Proceeds from the sale of the Certificates will be used to finance various capital improvements and to pay costs of issuing the Certificates.

The Contractual Obligations are being issued pursuant to the general laws of the State of Texas, particularly Subchapter A of Chapter 271, Texas Local Government Code (the “Public Property Finance Act”), Chapter 1371, the Contractual Obligation Ordinance, and a pricing certificate executed by a Pricing Officer evidencing the final terms of sale of the Contractual Obligations. Proceeds from the sale of the Contractual Obligations will be used to purchase certain equipment and other personal property for use by various City departments and to pay costs of issuing the Contractual Obligations.

As permitted by Chapter 1371, the City has, in each ordinance, delegated to certain authorized officials of the City (each a “Pricing Officer”) the authority to establish final terms of sale of the Obligations of each series, to be contained in separate pricing certificates (together, the “Pricing Certificates”) delivered at the time the official bid form for each of the respective Obligations is executed and delivered.

Sources and Uses of Funds

The proceeds of the Obligations will be applied substantially as follows:

	<u>The Bonds</u>	<u>The Certificates</u>	<u>The Contractual Obligations</u>	<u>Total</u>
Sources of Funds:				
Principal Amount				
Original Issue Premium				
Total				
Uses of Funds:				
Deposit to Project Fund				
Costs of Issuance				
Purchaser's Discount				
Total				

General

Each series of Obligations is expected to be dated as of October 3, 2018 (the “Dated Date”) and shall bear interest on the unpaid principal amounts from such date, at the per annum rates shown on the inside cover page of this document for each series of Obligations. Interest on the Obligations will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds and the Certificates will be payable on March 1, 2019, and on each September 1 and March 1 thereafter until maturity or prior redemption. Interest on the Contractual Obligations will be payable on May 1, 2019, and on each November 1 and May 1 thereafter until maturity. Principal is payable, upon presentation, at the Designated Payment/Transfer Office of the Paying Agent/Registrar (see “OBLIGATION INFORMATION – Paying Agent/Registrar” in this document). Interest is payable by the Paying Agent/Registrar to the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (defined below) and shall be paid by the Paying Agent/Registrar by check mailed by United States mail, first class postage prepaid, to the address of such person as it appears on the registration books of the Paying Agent/Registrar on or before each interest payment date or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The Obligations are issued only as fully registered obligations in denominations of \$5,000 or any integral multiple thereof within a maturity and a series.

Notwithstanding the foregoing, so long as records of ownership of the Obligations are maintained through the book-entry-only system described under “OBLIGATION INFORMATION – Book-Entry-Only System” in this document, all payments of principal of, redemption premium, if any, and interest on the Obligations will be made in accordance with the procedures described in “OBLIGATION INFORMATION – Book-Entry-Only System” in this document.

The record date for the interest payable on any interest payment date is the 15th day of the month next preceding each interest payment date, as specified in the Ordinances (the “Record Date”). In the event of a nonpayment of interest on a scheduled interest payment date, and for 30 days thereafter, a new record date for interest payment (the “Special Record Date”) will be established by the Paying Agent/Registrar, in accordance with the provisions of the Ordinances, if and when funds for the payment of interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest, which shall be at least 15 days after the Special Record Date, shall be sent at least 5 business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of Obligations appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of the notice.

Security

The Obligations constitute direct obligations of the City, payable from a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City in an amount sufficient to pay the principal of and interest on all ad valorem tax debt. The Certificates are additionally secured by and payable from a limited pledge of the surplus revenue (not to exceed \$1,000) of the City’s solid waste disposal system.

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. The City operates under a Home Rule Charter, referred to as the “Charter”, which also limits the City’s ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. See “TAX INFORMATION – Tax Rate Limitation” in this document.

Remedies

Each Ordinance establishes specific events of default with respect to the Obligations. If the City defaults in the payment of the principal of or interest on the Obligations when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the registered owners, including but not limited to, their prospect or ability to be repaid in accordance with each Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any registered owner to the City, each Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Obligations or each Ordinance and the City’s obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Obligations in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

The Ordinances do not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the City to perform in accordance with the terms of each Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the City’s sovereign immunity from a suit for money damages, registered owners may not be able to bring such a suit against the City for breach of the Obligations or covenants in the Ordinances. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in considering

municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

Chapter 1371, which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its debt, but in connection with the issuance of the Obligations, the City has not waived sovereign immunity pursuant to Chapter 1371.

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

Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Obligations. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or registered owners of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Obligations are qualified with respect to the customary rights of debtors relative to their creditors.

Defeasance of Obligations

Each of the Ordinances provides for the defeasance of each of the Obligations when the payment of the principal of the Obligations of a series, plus interest to the due date (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agency, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, to mature as to principal and interest in such amounts and at such times to ensure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Obligations; and thereafter the City will have no further responsibility with respect to amounts available to the paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Obligations, including any insufficiency caused by the failure of the paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. Each of the Ordinances provides that “Defeasance Securities” means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, and (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of approval of the proceedings authorizing the issuance of the refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent.

Book-Entry-Only System

The City has elected to utilize the book-entry-only system of The Depository Trust Company, New York, New York (“DTC”), as described under this heading. The City is obligated to timely pay the Paying Agent/Registrar the amount due under the Ordinances. See “OBLIGATION INFORMATION - Paying Agent/Registrar” in

this document. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owner of the Obligations are described in this document.

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 City believes this information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payment of debt service on the Obligations, or redemption or other notices to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Obligations), 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 document. The current rules applicable to DTC are on file with the United States 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 Obligations. The Obligations will be issued as fully-registered Obligations 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 Obligations, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Obligations 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 Obligations 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 Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Obligations may wish to take certain steps to augment the

transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Obligations unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

Paying Agent/Registrar

The initial Paying Agent/Registrar for each series of the Obligations is U.S. Bank, National Association. Interest on, and principal of, the Obligations will be payable, and transfer functions will be performed at, the corporate trust office designated to the City by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"). In the Ordinances, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times while the Obligations are outstanding. Any successor Paying Agent/Registrar shall be a commercial bank, trust company or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for any series of the Obligations, the City agrees to promptly cause a written notice to be sent to each registered owner of such series by United States mail, first class postage prepaid. This notice shall also give the address of the new Paying Agent/Registrar. The initial Designated Payment/Transfer Office of the Paying Agent/Registrar is its Dallas, Texas office.

Transfer, Exchange and Registration

In the event the book-entry-only system should be discontinued, the Obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar at the Designated Payment/Transfer Office 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. An Obligation may be assigned by the execution of an assignment form thereon or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Obligation will be delivered by the Paying Agent/Registrar, in lieu of the Obligations being transferred or exchanged, at the Designated Payment/Transfer Office, or sent by United States mail, first class postage prepaid, to the new registered owner or his

designee. New Obligations registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount and series as the Obligations surrendered for exchange or transfer. See “OBLIGATION INFORMATION - Book-Entry-Only System” in this document for a description of the system to be utilized initially in regard to ownership and transferability of the Obligations.

Limitation on Transfer of Bonds or Certificates Called for Redemption

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond or Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled principal of a Bond or Certificate.

Optional Redemption of the Bonds and the Certificates

The City reserves the right, at its option, to redeem the Bonds and the Certificates having stated maturities on and after September 1, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 20__, or any date thereafter, at the price of par, without premium, plus accrued interest to the date fixed for redemption. If less than all of the Bonds or less than all of the Certificates are to be redeemed, the City shall determine the respective maturities and amounts to be redeemed and, if less than all of a maturity and series is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds and the Certificates are in book-entry-only form) shall determine by lot or other customary random selection method the Bonds or the Certificates, or portions thereof, within such maturity and series to be redeemed.

No Redemption of the Contractual Obligations

The Contractual Obligations are **not** subject to redemption prior to their scheduled maturities.

Mandatory Sinking Fund Redemption

The Purchaser of the Bonds or the Certificates may select two or more consecutive maturities of a series of the Bonds or the Certificates to be grouped together to form one or more “Term Obligations” for such series, and such Term Obligations would be subject to mandatory sinking fund redemption as set forth in the final Official Statement.

Notice of Redemption

At least 30 days prior to a redemption date, the City shall cause a written notice of such redemption to be sent by United States mail, first class postage prepaid, to the registered owners of each Bond or Certificate to be redeemed at the address shown on the registration books maintained by the Paying Agent/Registrar and subject to the terms, conditions and provisions relating thereto contained in the respective Ordinances governing their issuance. Such notice shall state that the redemption is conditioned upon receipt of sufficient funds for the payment of the redemption price for the applicable Bonds or Certificates which are to be redeemed. If a Bond or a Certificate (or a portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon such redemption date such Bond or Certificate (or the portion of its principal sum to be redeemed) shall become due and payable, and interest on the Bond or Certificate shall cease to accrue from and after the redemption date of the Bond or Certificate, provided moneys for the payment of the redemption price and the interest on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar.

Redemption of the Bonds or the Certificates may be made conditional upon the occurrence of certain events. If a notice of redemption is given and sufficient funds are not received for the payment of the required redemption price for the Bonds or Certificates which are to be redeemed, the notice shall be of no force and effect, the City shall not redeem the Bonds or Certificates, and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, that the Bonds or Certificates shall not be redeemed.

TAX INFORMATION

Ad Valorem Tax Law

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District, Williamson Central Appraisal District and Hays Central Appraisal District (collectively, the “Appraisal Districts”). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal Districts are required under Title 1, Texas Tax Code (commonly known as the “Property Tax Code”) to appraise all property within the Appraisal Districts on the basis of 100% of the property’s market value and are prohibited from applying any assessment ratios. State law further limits the appraised value of a residence homestead for a tax year (the “Homestead 10% Increase Cap”) to an amount not to exceed the lesser of (1) the property’s market value in the most recent tax year in which the market value was determined by an Appraisal District or (2) the sum of (a) 10% of the property’s appraised value in the preceding tax year, plus (b) the property’s appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. State law requires the appraised value of a residence homestead to be based solely on the property’s value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. The value placed upon property within the Appraisal Districts is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of each Appraisal District. The Appraisal Districts are required to review the value of property within the Appraisal Districts at least every three (3) years.

Reference is made to the Property Tax Code for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution (“Article VIII”) and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant:

- (1) An exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision;
- (2) An exemption of up to 20% of the market value of residence homesteads; minimum exemption \$5,000.

The surviving spouse of an individual who qualifies for the exemption described under (2) above for the residence homestead of a person 65 years of age or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual’s spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

Once authorized, the exemption described under (1) above may be repealed, or decreased or increased in amount, (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

Section 1-b, Article VIII, and State law also authorize a county, city, town or junior college district to establish an ad valorem tax freeze on residence homesteads of persons who are disabled or 65 years of age or older. If the City Council does not take action to establish the tax freeze, voters within the City may submit a petition signed by five percent (5%) of the registered voters of the City requiring the City Council to call an election to determine by majority vote whether to establish the tax limitation.

If this tax freeze is established, the total amount of ad valorem taxes imposed by the City on a homestead that receives the residence homestead exemption for persons who are disabled or 65 years of age or older may not be increased, except to the extent the value of the homestead is increased by improvements other than repairs. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by the taxing unit may not be increased while it remains the residence homestead of that person’s

surviving spouse if the spouse is 55 years of age or older at the time of the person's death. In addition, the tax limitation applicable to a person's homestead may be transferred to the new homestead of such person if the person moves to a different residence within the taxing unit. Once established, the governing body of the taxing unit may not repeal or rescind the tax limitation.

State law and Article VIII, section 2 of the Texas Constitution, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000 depending upon the degree of disability or whether the exemption is applicable to a surviving spouse or children. Notwithstanding the foregoing, a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Effective January 1, 2018, a disabled veteran who has a disability rating of less than 100% is entitled to an exemption equal to the percentage of the veteran's disability rating for a residence homestead that was donated by a charitable organization to such veteran (i) at no cost to such veteran or (ii) at some cost to such veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50 percent of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made.

Following approval by the voters at a November 5, 2013 statewide election, the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. Effective January 1, 2018, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Section 1-j, Article VIII, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication.

Section 1-n, Article VIII, provides for an exemption from taxation for "goods-in-transit." "Goods-in-transit" are defined as (i) personal property acquired or imported into Texas and transported to another location in the State, (ii) stored under a contract for bailment in public warehouses not in any way owned or controlled by the owner of the stored goods, and (iii) transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. Pursuant to changes enacted during the 2011 Texas Legislative Special Session, all taxing units, including those that have previously taken official action to tax goods-in-transit, may not tax goods-in-transit in the 2012 tax year or thereafter, unless the governing body of the taxing unit holds a public hearing and takes action on or after October 1, 2011, to provide for the taxation of the goods-in-transit. After holding the public hearing, a taxing unit may take official action prior to January 1 of the first tax year in which the governing body proposes to tax goods-in-transit. After taking official action, the goods-in-transit remain subject to taxation by the taxing unit until the governing body rescinds or repeals its previous action to tax goods-in-transit. If, however, a taxing unit took official action prior to October 1, 2011 to tax goods-in-transit and pledged the taxes imposed on the goods-in-transit for the payment of a debt of the taxing unit, the tax officials of the

taxing unit may continue to impose the taxes on the goods-in-transit until the debt is discharged, if cessation of the imposition of the tax would impair the obligation of the contract by which the debt was created.

Freeport property is exempt from taxation by the City, and, on October 20, 2011, the City took action to tax goods-in-transit.

Personal property not used in the business of a taxpayer, such as automobiles or light trucks, has a limited exemption from ad valorem taxation unless the governing body of a political subdivision elects to tax this property.

The City grants various exemptions to the appraised value of the residence homesteads within the City, as described in footnote 2 to "TABLE ONE – Tax Valuation" in this document.

The City may create one or more tax increment financing districts ("TIF") within the City and freeze the taxable values of real property in the TIF at the value at the time of its creation. Other overlapping taxing units levying taxes in the TIF may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIF in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIF. Taxes levied by the City against the values of real property in the TIF in excess of the "frozen" value are not available for general city use but are restricted to paying or financing "project costs" within the TIF. The City may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to ten (10) years. The City has adopted criteria for granting tax abatements, which establish guidelines regarding the number of jobs to be created and the amount of new value to be added by the taxpayer in return for the abatement. The City has entered into several such abatement agreements in recent years.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grant public funds for economic development purposes; however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by the voters of the City. The City has entered into several such Chapter 380 agreements in recent years.

Tax Rate Limitation

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. The City operates under a Home Rule Charter, which also limits the City's ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes.

Administratively, pursuant to Title 1, Section 53.5 of the Texas Administrative Code, the Texas Attorney General prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.50 of such \$2.50 maximum tax rate, as calculated at the time of issuance at a 90% collection rate. The issuance of the Obligations will not exceed the above-described limits or violate the Texas Attorney General's administrative rule.

Tax Procedures

By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per \$100 taxable value for the upcoming fiscal year beginning October 1. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Furthermore, Section 26.05 provides the City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following

a notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

Section 140.010, Texas Local Government Code, provides that a municipality shall give notice of proposed property tax rates by publishing notice in a newspaper of general circulation, mailing notice to each property owner in the municipality by not later than September 1 or the 30th day after the first date that the municipality has received the certified appraisal roll from each applicable tax assessor-collector. In addition, the municipality shall post the notice on the internet website of the municipality not later than the later of September 1 or the 30th day after the first date that the municipality has received the certified appraisal roll from each applicable tax-assessor collector and continuing until the municipality adopts a tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

Tax Valuation – TABLE ONE

January 1, 2018 Certified Appraised Value (1)		\$189,300,110,578
Less Local Exemptions to Assessed Values: (2)		
Residential Homestead	\$5,615,597,065	
Residential Homestead over 65	3,204,300,939	
Homestead 10% Increase Cap	3,681,094,096	
Disabled Veterans	354,516,991	
Agricultural and Historical Exemptions	863,272,534	
Disability Exemption	195,633,634	
Other Exemptions	21,291,447,585	
Freeport Exemption	1,427,966,722	<u>\$ 36,633,829,567</u>
January 1, 2018 Net Taxable Assessed Valuation (1)		<u>\$152,666,281,011</u>

(1) Appraised value is subject to change pending additional exemption and appeals.

(2) Exemptions or adjustments to assessed valuation granted in 2017 include exemption of (a) 10% of the assessed valuation of a residence homestead; (b) exemptions of \$85,500 for homestead property of property owners who are over 65 years of age or disabled; (c) exemptions for residence homestead property exceeding a 10 percent increase in valuation from the previous year; (d) exemptions for property of disabled veterans or certain surviving dependents of disabled veterans; (e) certain adjustments to productive agricultural lands; (f) exemptions to the land designated as historically significant sites by certain public bodies; and (g) exemption of freeport property detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication of exported finished goods from Texas.

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Statement of Debt (Anticipated as of September 30, 2018)

The following table sets forth on a pro forma basis the amount of Public Improvement Bonds, Assumed Bonds, Contract Revenue Obligations, Certificates of Obligation and Contractual Obligations outstanding and certain debt ratios related thereto.

Public Improvement Bonds (1)	\$ 1,052,240,000	
Certificates of Obligation (1)	265,650,000	
Contractual Obligations	69,430,000	
Mueller Contract Revenue Obligations	44,995,000	
The Obligations* (2)	98,860,000*	
The Taxable Bonds* (2)	7,000,000*	
Assumed MUD Bonds (3)	6,905,563	
Total		\$ 1,545,080,063*
Less Self-Supporting Debt:		
Assumed MUDs (3)	\$ 6,905,063	
Mueller Contract Revenue Obligations	44,995,000	
Airport (4)	32,780	
Austin Energy (4)	163,175	
Austin Water (2) (4)	6,399,282	
City Hall (4)	6,886,432	
Code Compliance (4)	231,259	
Convention Center (4)	12,885,678	
Financial Services (2) (4)	20,331,420	
Fleet Management (2) (4)	2,484,653	
Golf (4)	185,221	
Solid Waste (4)	27,163,624	
Transportation (2) (4)	15,861,997	
Waller Creek (2) (4)	90,138,698	
Watershed Protection (2) (4)	33,385,841	
Total Self-Supporting		\$ 285,050,123
Less Interest and Sinking Fund Balance (5)		28,252,007
Less Self-Supporting General Fund Payments (6)		44,914
Net Debt		<u>\$1,248,733,019</u>
Ratio Total Debt to 2018 Net Taxable Assessed Valuation		1.01%
Ratio Net Debt to 2018 Net Taxable Assessed Valuation		0.82%

2018 Population (Estimate) – 958,418 (7)
Per Capita Net Taxable Assessed Valuation – \$158,512.87
Per Capita Net Debt Outstanding – \$1,296.56

*Preliminary, subject to change.

- (1) Excludes the Obligations and Taxable Bonds.
- (2) The Obligations and the Taxable Bonds are anticipated to be sold concurrently pursuant to separate official statements, and are expected to be delivered concurrently on October 3, 2018. See also “DEBT INFORMATION - Concurrent Issuance of Taxable Bonds” in this document.

[footnotes continued on following page]

- (3) Represents bonds of the Northwest Austin MUD#1 and River Place MUD annexed by the City.
- (4) Airport, Austin Energy, Austin Resource Recovery, Austin Water, Building Services, City Hall, Code Compliance, Convention Center, Financial Services, Fleet Management, Golf, One Texas Center, Transportation, Waller Creek, and Watershed Protection represent a portion of the City's Outstanding Public Improvement Bonds, Certificates of Obligation and/or Contractual Obligations. Debt service for these departments or offices is currently paid from revenue of the respective enterprises. The City plans to continue to pay these obligations from each respective enterprise; however, there is no guarantee that this practice will continue in future years. . Fleet Management and One Texas Center are internal service funds that generate revenue through charges to user departments.
- (5) Represents estimate of cash plus investments at cost on September 30, 2018.
- (6) Various general fund departments have issued debt that is supported by a transfer into the debt service fund from the issuing department. Each department currently budgets the required debt service which reduces the debt service tax requirement.
- (7) Source: City of Austin Department of Planning and Development based on full purpose area as of January 2018.

Valuation and Funded Debt History – TABLE TWO

Fiscal Year Ended 9-30	Estimated City Population (1)	Taxable Assessed Valuation (1)	Per Capita Taxable Assessed Valuation	(000's) Net Funded Tax Debt (2)	Per Capita Net Funded Tax Debt	Ratio of Net Funded Tax Debt to Taxable Valuation	% of Total Tax Collections
2010	778,560	80,960,540,976	103,988	1,002,186	1,287.23	1.24%	99.22%
2011	805,662	77,619,349,384	96,342	1,049,751	1,302.97	1.35%	99.42%
2012	821,012	79,219,780,879	96,490	1,132,201	1,379.03	1.43%	99.27%
2013	841,649	83,294,536,493	98,966	1,198,730	1,424.26	1.44%	99.36%
2014	878,002	88,766,098,160	101,100	1,313,334	1,495.82	1.48%	100.01%
2015	899,119	98,652,179,430	109,721	1,409,384	1,567.52	1.43%	99.88%
2016	925,491	110,526,026,399	119,424	1,490,221	1,610.20	1.35%	100.18%
2017	937,065	125,371,654,656	133,792	1,526,997	1,629.55 (5)	1.22%	99.84%
2018	958,418	139,425,088,186	145,474	1,249,543 (5)	1,380.95 (5)	0.90% (5)	99.50% (3)
2019	963,116	152,666,281,011 (4)	158,513	1,241,787 (5)	1,399.73 (5)	0.81% (5)	N/A

- (1) Source: 2017 City of Austin Comprehensive Annual Financial Report ("CAFR") – Table 18, through fiscal year ending 2017; City of Austin Department of Planning and Development based on full purpose area as of January 2017, for fiscal years ending 2018 and 2019.
- (2) Excludes general obligation debt issued for enterprise funds and general fund departments, the debt service on which currently is paid from revenue of the respective enterprises and each department's operating budget, respectively. The City plans to continue to pay these obligations based on this practice; however, there is no guarantee that this practice will continue in future years. See "DEBT INFORMATION" in this document.
- (3) Estimated Collections as of June 30, 2018 based on the July 2017 Certified Tax Roll tax levy.
- (4) Certified taxable value for the 2018 tax year provided by the Travis Central Appraisal District, Williamson Central Appraisal District, and Hays Central Appraisal District on July 15, 2018 July 17, 2018, and July 25, 2018, respectively.
- (5) Includes the Obligations and Taxable Bonds (assuming an aggregate issuance of \$98,860,000* par amount) See "DEBT INFORMATION – Concurrent Issuance of Taxable Bonds" in this Official Statement.

* Preliminary, subject to change.

Tax Rate, Levy and Collection History – TABLE THREE

Fiscal Year Ended <u>9-30</u>	Total Tax <u>Rate</u>	Distribution		<u>Tax Levy</u>	% Current <u>Collections</u>	% Total <u>Collections</u>
		General <u>Fund</u>	Interest and <u>Sinking Fund</u>			
2010	0.4209	0.2950	0.1259	340,762,917	98.97%	99.22%
2011	0.4571	0.3262	0.1309	354,798,046	99.13%	99.42%
2012	0.4811	0.3551	0.1260	381,126,366	99.27%	99.27%
2013	0.5029	0.3821	0.1208	418,888,224	99.36%	99.36%
2014	0.5027	0.3856	0.1171	446,227,175	99.27%	100.01%
2015	0.4809	0.3691	0.1118	474,418,331	99.30%	99.88%
2016	0.4589	0.3527	0.1062	507,203,935	99.58%	100.18%
2017	0.4418	0.3399	0.1019	553,891,970	99.56%	99.84%
2018	0.4448	0.3393	0.1055	617,275,588	99.24% (1)	99.50% (1)
2019 (2)	0.4385	0.3290	0.1095	669,441,642	N/A	N/A

(1) Estimated collections as of June 30, 2018 based on the July 2017 Certified Tax Roll tax levy.

(2) Preliminary, subject to change pending adoption of the tax rate, expected to occur on or about September 11, 2018.

Ten Largest Taxpayers – TABLE FOUR

<u>Name of Taxpayer</u>	<u>Nature of Property</u>	January 1, 2018 <u>Taxable Assessed Valuation</u>	% of Total Taxable <u>Assessed Valuation</u>
Samsung Semiconductor	Manufacturing	\$1,667,753,870	1.09%
Finley Company	Commercial	518,500,014	0.34%
Apple Inc.	Commercial	418,759,426	0.27%
St. David's Healthcare	Hospital/Medical	390,646,314	0.26%
CSHV-401 Congress LLC	Commercial	359,707,203	0.24%
Domain Retail Property Owner LP	Commercial	343,763,509	0.23%
BPP Alphabet MF Riata LP	Commercial	325,076,136	0.21%
HEB Grocery Company LP	Retail	310,937,405	0.20%
GW Block 23 Office LLC	Commercial	307,578,287	0.20%
Broadmoor Austin Associates	Commercial	<u>305,000,000</u>	0.20%
TOTAL		\$4,947,722,164	3.24%

Source: Travis Central Appraisal District and Williamson Central Appraisal District.

Property Tax Rate Distribution – TABLE FIVE

	Fiscal Year Ended September 30				
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019 (1)</u>
General Fund	\$.3691	\$.3527	\$.3399	\$0.3393	\$0.3290
Interest and Sinking Fund	<u>.1118</u>	<u>.1062</u>	<u>.1019</u>	<u>0.1055</u>	<u>0.1095</u>
Total Tax Rate	\$0.4809	\$0.4589	\$0.4418	\$0.4451	\$0.4385

(1) Preliminary, subject to change pending adoption of the tax rate, expected to occur on or about September 13, 2018.

Net Taxable Assessed Valuations, Tax Levies and Collections – TABLE SIX

Fiscal

Year

Ended	Valuation	Real Property		Personal Property		Net Taxable	Total	% Current	% Total
			% of		% of Total				
9-30	Date	Amount	Total	Amount	% of Total	Assessed Valuation	Tax Levy	Collections	Collections
2010	1-1-09	72,733,550,671	89.84%	8,226,990,305	10.16%	80,960,540,976	340,762,917	98.97%	99.22%
2011	1-1-10	70,501,655,045	90.83%	7,117,694,339	9.17%	77,619,349,384	354,798,046	99.13%	99.42%
2012	1-1-11	70,283,821,626	88.72%	8,935,959,253	11.28%	79,219,780,879	381,126,366	99.27%	99.27%
2013	1-1-12	73,663,555,699	88.44%	9,630,980,794	11.56%	83,294,536,493	418,888,224	99.36%	99.36%
2014	1-1-13	79,399,650,702	89.45%	9,366,447,458	10.55%	88,766,098,160	446,227,175	99.27%	100.01%
2015	1-1-14	88,868,446,944	90.08%	9,783,732,486	9.92%	98,652,179,430	474,418,331	99.30%	99.88%
2016	1-1-15	100,293,482,266	90.74%	10,232,544,133	9.26%	110,526,026,399	507,203,935	99.58%	100.18%
2017	1-1-16	115,889,987,304	91.87%	10,256,595,746	8.13%	126,146,583,050	553,891,970	99.56% (1)	99.84%
2018	1-1-17	128,972,794,157	92.50%	10,452,294,029	7.50%	139,425,088,186	617,275,588	99.24% (1)	99.50 % (1)
2019	1-1-18	142,227,189,693	93.16%	10,439,091,318	6.84%	152,666,281,011	669,441,642 (2)	N/A	N/A

(1) Estimated collections through June 30, 2018 based on the July 2017 Certified Tax Roll tax levy.

(2) Preliminary, subject to change pending adoption of the tax rate, expected to occur on or about September 11, 2018.

Revenue Debt (As of August 31, 2018)

In addition to the above, on a pro forma basis, the City had outstanding \$5,685,218 Combined Utility Systems Revenue Bonds payable from a first lien on the combined net revenue of the Electric System and the Water and Wastewater System and \$100,538,544 Combined Utility System Revenue Bonds payable from a subordinate lien on the combined net revenue of the Electric System and the Water and Wastewater System; \$1,097,125,000 Electric Utility Obligations payable from a separate lien on the net revenues of the Electric Utility System; \$2,198,510 Water and Wastewater Obligations payable from a separate lien on the net revenue of the Water and Wastewater System, and \$223,267,000 Combined Utility Systems Commercial Paper payable from a subordinate lien on the combined net revenue of the Electric System and the Water and Wastewater System.

The City additionally has outstanding \$789,189,000 Airport System Revenue Bonds payable from net revenues of the City's Airport System, \$142,510,000 Rental Car Special Facility Revenue Bonds payable from revenues derived from rental car facilities currently operating at the airport, \$98,345,000 Hotel Occupancy Tax Subordinate Lien Revenue Bonds payable from the City's 2% and 4.5% Hotel Occupancy Tax, \$9,640,000 Hotel Occupancy Tax Revenue Bonds payable from the City's 4.5% Hotel Occupancy Tax, and \$27,070,000 Town Lake Park Community Events Center Venue Bonds payable from revenues received from the Special Motor Vehicle Rental Tax and Venue generated revenue.

Public Improvement District Debt (As of August 31, 2018)

The City previously authorized and issued special assessment revenue debt for public improvement districts located within the City's boundaries: Estancia Hill Country Public Improvement District (\$10,615,000 Special Assessment Revenue Bonds outstanding), Indian Hills Public Improvement District (\$2,650,000 Special Assessment Revenue Bonds outstanding), and Whisper Valley Public Improvement District (\$14,365,000 Special Assessment Revenue Bonds outstanding). The City is considering the issuance of additional special assessment revenue debt in fiscal year 2019 for the purposes of additional development within the existing public improvement districts described above. Any additional special assessment revenue debt would be secured by and payable from only the special assessments levied on properties within the respective public improvement district boundaries and would not represent an obligation of revenue or taxes.

Obligations Subject to Annual Appropriation

With respect to the redevelopment of the property formerly known as Robert Mueller Municipal Airport ("Mueller"), the City entered into a Master Development Agreement with Catellus Austin, LLC, effective as of December 2, 2004 (the "Development Agreement"), and in the Development Agreement, the City agreed to issue debt to finance certain "Public Finance Reimbursable Project Costs" either directly or through the auspices of a local government corporation created by the City. The City has entered into an economic development grant agreement (the "Grant Agreement") with Mueller Local Government Corporation ("MLGC"), a non-profit local government corporation created by the City to act on its

behalf with respect to the redevelopment of Mueller. MLGC was created in response to the provisions of the Development Agreement. Under the terms of the Grant Agreement, the City will make grant payments to MLGC from the General Fund, subject to annual appropriation by the City, in amounts sufficient to pay debt service on bonds issued by MLGC to fund Public Finance Reimbursable Project Costs and pay administrative costs associated with such bonds. It is anticipated that sales tax revenues generated by properties developed at Mueller will be sufficient to fund the grants throughout the term of the Grant Agreement. \$12,000,000 in Contract Revenue Bonds were issued in 2006 by MLGC to finance Public Finance Reimbursable Project Costs, and as of the date of this Official Statement, \$_____ in principal amount of these Contract Revenue Bonds is outstanding.

The City has also created a tax increment reinvestment zone for the Mueller project to include Reinvestment Zone Number Sixteen (the “Zone”) and neighboring areas for the promotion, development, encouragement and maintenance of employment, commerce, economic development and public facility development in the Zone which consists of approximately 700 acres. Currently, only the City participates in the Zone by contributing its tax increment revenues to the Zone, and it is not expected that any other taxing unit will participate in the Zone. The tax increment revenues of the City will be contributed by the City to the MLGC pursuant to the terms of a Tri-Party Agreement among the City, the MLGC and the Zone (the “Tri-Party Agreement”). In addition, the City has agreed to consider making payments to the MLGC under a grant agreement between the City and the MLGC, pursuant to which the City may make available to the MLGC grant funds in amounts sufficient to pay debt service on the Tax Increment Contract Revenue Bonds, should Pledged Revenues be insufficient to allow the MLGC to meet its debt service payment obligations. The grant payments are to be funded from available moneys in the City’s general fund, subject to annual appropriation. The City is under no obligation to make grant payments. The MLGC has issued three series of Tax Increment Contract Revenue Bonds, aggregating \$47,580,000 in principal amount, backed by tax increment revenues generated from taxation of real property within the boundaries of the Zone from taxing units participating in the Zone, and as of the date of this Official Statement, \$[] in principal amount of these Tax Increment Contract Revenue Bonds is outstanding.

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DEBT INFORMATION (a)

Debt Service Requirements

Fiscal Year Ending 09/30	Public Improvement Bonds	Certificates of Obligation	Contractual Obligations	Assumed MUDs (c)	Mueller Contract Rev Bonds	The Obligations and the Taxable Bonds	Grand Total Requirements	Less Self-Supporting Requirements (b)	Net Total Requirements	Percent Principal Pay out
2019	115,150,233	22,149,276	25,213,056	1,380,158	4,337,715	42,543,624	210,774,062	38,355,143	172,418,919	
2020	115,240,143	22,124,659	20,271,325	1,033,498	4,453,040	8,182,475	171,305,139	34,989,948	136,315,192	
2021	116,564,953	22,190,105	13,539,444	1,046,118	4,577,790	7,798,475	165,716,885	31,098,652	134,618,233	
2022	112,586,545	22,259,744	8,331,450	1,036,678	4,700,709	7,790,225	156,705,351	27,188,922	129,516,429	30.59%
2023	108,541,208	22,326,016	5,184,750	1,041,188	4,837,296	7,809,350	149,739,809	23,937,023	125,802,786	
2024	105,670,831	22,377,863	2,386,875	1,038,575	4,973,965	7,784,100	144,232,209	23,706,046	120,526,163	
2025	100,911,390	22,430,531	404,875	1,044,475	5,109,565	7,725,225	137,626,061	21,694,666	115,931,395	
2026	97,791,566	22,493,133		943,463	5,255,965	5,901,850	132,385,977	20,713,769	111,672,208	
2027	91,669,841	22,524,832			4,415,465	3,202,731	121,812,869	16,877,610	104,935,259	63.08%
2028	84,729,099	22,574,471			4,572,934	2,995,183	114,871,686	16,987,699	97,883,987	
2029	76,987,926	22,635,492			4,735,059	2,857,688	107,216,164	17,170,159	90,046,005	
2030	69,149,799	22,370,205			2,155,401	2,722,033	96,397,437	14,321,088	82,076,349	
2031	59,216,379	20,640,142			2,151,864	2,378,315	84,386,700	13,657,953	70,728,746	
2032	52,640,516	19,369,734			2,155,369	2,282,077	76,447,695	12,980,108	63,467,587	88.54%
2033	44,457,781	18,126,888				2,191,360	64,776,029	10,274,546	54,501,483	
2034	32,471,127	18,138,670				2,196,005	52,805,802	10,285,918	42,519,884	
2035	16,368,008	14,439,242				2,121,580	32,928,829	7,351,587	25,577,243	
2036	6,242,403	10,969,214				2,066,790	19,278,407	5,177,964	14,100,443	
2037	4,808,247	6,918,919				2,005,680	13,732,846	4,593,169	9,139,677	99.19%
2038		4,262,138				1,948,500	6,210,638	4,262,138	1,948,500	
2039		2,699,838					2,699,838	2,699,838		
2040		2,315,513					2,315,513	2,315,513		
2041		2,329,988					2,329,988	2,329,988		
2042										100.00%
Total	\$1,411,197,995	\$388,666,610	\$75,331,775	\$8,564,150	\$58,432,136	\$124,503,264	\$2,066,695,931	\$362,969,443	\$1,703,726,489	

(a) As of September 30, 2018. Includes the Obligations and the Taxable Bonds; interest calculated at an assumed rate of 3.00% for illustrative purposes.

(b) Includes principal and interest on all self-supporting debt (see "Statement of Debt" in this document).

(c) Includes NW Austin MUD #1 and River Place MUD

Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes (in 000's)

Expenditures of the various taxing bodies within the territory of the City are paid out of ad valorem taxes levied by these taxing bodies on properties within the City. These political taxing bodies are independent of the City and may incur borrowings to finance their expenditures. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the date stated above, and such entities may have programs requiring the issuance of substantial amounts of additional bonds the amount of which cannot be determined. The following table reflects the estimated share of overlapping funded debt of the major taxing bodies in the area.

<u>Taxing Jurisdiction</u>	<u>Total Debt Funded (1)</u>	<u>Estimated % Applicable</u>	<u>Overlapping Funded Debt</u>
City of Austin (2)	1,248,733,019	100.00%	\$1,248,733,019
Austin CCD	297,583,965	70.35%	209,350,319
Austin ISD	982,756,549	95.59%	939,416,985
Avery Ranch Road District # 1	7,755,000	99.39%	7,707,695
Del Valle ISD	197,289,999	72.76%	143,548,203
Eanes ISD	124,405,000	37.25%	46,340,863
Hays County	424,980,000	0.05%	212,490
Leander ISD	1,065,968,034	12.07%	128,662,342
Manor ISD	330,459,999	72.57%	239,814,821
Northtown MUD	20,470,000	28.44%	5,821,668
Northwoods Road District # 1	8,520,000	100.00%	8,520,000
Pearson Place Road District	5,315,000	100.00%	5,315,000
Pflugerville ISD	418,975,000	35.00%	146,641,250
Round Rock ISD	715,710,000	35.26%	252,359,346
Travis County	705,136,179	79.81%	562,769,184
Travis County ESD # 1	595,000	0.02%	119
Travis County ESD # 3	2,025,000	0.25%	5,063
Travis County ESD # 6	3,380,000	0.03%	1,014
Travis County ESD # 9	1,145,000	0.12%	1,374
Travis County Healthcare District dba Central Health	9,380,000	73.63%	6,906,494
Travis County MUD # 2	19,046,280	0.12%	22,856
Travis County MUD # 3	47,213,350	0.23%	108,591
Travis County MUD # 8	7,569,623	2.39%	180,914
Travis County WC&ID # 10	45,970,000	3.86%	1,774,442
Travis County WC&ID # 17 (Steiner Ranch)	68,519,998	0.01%	6,852
Wells Branch MUD	195,000	0.53%	1,034
Williamson County	<u>895,874,942</u>	<u>11.35%</u>	<u>101,681,806</u>
Total Direct and Overlapping Debt			<u>\$4,055,903,744</u>
Ratio of Direct and Overlapping Debt to Taxable Assessed Value (3)			2.66%
Per Capita Overlapping Funded Debt (4)			\$4,231.87

- (1) Source: Obtained from the Municipal Advisory Council of Texas on August 7, 2018; as of July 31, 2018.
- (2) As of July 31, 2018. Includes the Obligations and Taxable Bonds (assuming an aggregate issuance of \$98,860,000* par amount). See also "DEBT INFORMATION - Concurrent Issuance of Taxable Bonds" in this document.
- (3) Based on assessed valuation of \$152,666,281,011 provided by the Travis Central Appraisal District, Williamson Central Appraisal District, and Hays Central Appraisal District on June 15, 2018, June 17, 2018, and June 25, 2018, respectively.
- (4) Based on 2018 estimated population of 958,418.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimated the portion of the outstanding debt of those overlapping governments that is borne by the City's residents and businesses. This process recognized that, when considering the City's ability to issue and repay long-term debt, the entire debt borne by its residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

* Preliminary, subject to change.

Authorized General Obligation Bonds – TABLE SEVEN

<u>Purpose</u>	<u>Date</u>	<u>Amount</u>	<u>Amount</u>	<u>Currently</u>	<u>Unissued</u>
	<u>Authorized</u>	<u>Authorized</u>	<u>Previously</u>	<u>Being Issued*</u>	<u>Balance</u>
			<u>Issued</u>		
Brackenridge 2000	10-22-83	\$50,000,000	\$40,785,000		\$9,215,000
Park Improvements	09-08-84	9,975,000	9,648,000		327,000
Cultural Arts	01-19-85	20,285,000	14,890,000		5,395,000
Cultural Arts	11-07-06	31,500,000	27,500,000		4,000,000
Public Safety Facility	11-07-06	58,100,000	53,100,000		5,000,000
Mobility Transportation	11-06-12	143,299,000	113,520,000	\$12,170,000	17,609,000
Park Improvements	11-06-12	77,680,000	59,190,000	3,790,000	14,700,000
Public Safety Facility	11-06-12	31,079,000	28,065,000		3,014,000
HHS Facility	11-06-12	11,148,000	9,550,000	1,595,000	3,000
Cultural Arts	11-06-12	13,442,000	9,840,000		3,602,000
Affordable Housing	11-05-13	65,000,000	55,000,000	7,000,000 (1)	3,000,000
Mobility Transportation	11-08-16	<u>720,000,000</u>	43,000,000	<u>51,500,000</u>	<u>625,500,000</u>
		\$1,231,508,000	\$464,088,000	\$76,055,000	\$691,365,000

*Preliminary, subject to change.

(1) Includes the Taxable Bonds sold concurrently with the Obligations. Preliminary, subject to change.

The City may also incur non-voted debts payable from or secured by its collection of ad valorem taxes and other sources of revenue, including certificates of obligation, tax notes, public property finance contractual obligations and leases for various purposes.

Concurrent Issuance of Taxable Bonds

Pursuant to a separate Official Statement, the City anticipates the sale of its Public Improvement Bonds, Taxable Series 2018, in the aggregate principal amount of \$7,000,000* (the “Taxable Bonds”) concurrently with the sale of the Obligations.

Funded Debt Limitation

There is no direct debt limit on bonded indebtedness in the City Charter. State law authorizes the City to incur total bond indebtedness through the issuance of bonds payable from taxes in an amount not to exceed 10% of the total assessed valuation of property in the City. Revenue bonds, tax and revenue anticipation notes, and other obligations and contracts are not included in the bonded debt total to which the statutory limitation of 10% applies. See “TAX INFORMATION - Tax Rate Limitation” and “TAX INFORMATION - Statement of Debt.”

Short-Term Borrowing

Pursuant to Section 1431, Texas Government Code, the City has the authority to conduct short-term borrowings to provide for the payment of current expenses through the issuance of anticipation notes. Anticipation notes issued for this purpose must mature before the first anniversary of the date the Attorney General approves the anticipation notes.

2018 Bond Election

On August __, 2018, the City Council approved submitting to the voters of the City a general obligation bond election seeking authority to issue \$925,000,000* in bonds for a variety of public purposes. The election will be conducted on November 6, 2018.

FISCAL MANAGEMENT

The City engages in a formal, structured process for preparing both the annual operating budget of the City and a five-year capital improvements budget for the City. For additional information relating to the financial planning and budget policies and controls of the City, see APPENDIX A – “GENERAL INFORMATION REGARDING THE CITY – Financial Information” in this document.

INVESTMENTS

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

Legal Investments

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

- (1) obligations of the United States or its agencies and instrumentalities, including letters of credit;
- (2) direct obligations of the State of Texas or its agencies and instrumentalities;
- (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
- (4) other obligations, the principal and interest of which are guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or by explicit full faith and credit of the United States;
- (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent;
- (6) bonds issued, assumed or guaranteed by the State of Israel;
- (7) interest-bearing banking deposits that are guaranteed insured by the FDIC or the National Credit Union Share Insurance Fund ("NCUSIF") or their respective successors;
- (8) interest-bearing banking deposits other than those described by subdivision (7) if the funds invested in the banking deposits are invested through (a) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025; or (b) a depository institution with a main office or branch office in this state that the investing entity selects; (ii) the broker or depository institution selected as described above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (iv) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account (a) the depository institution selected as described above; (b) an entity described by Section 2257.041(d); or (c) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3);
- (9) certificates of deposit meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by a combination of cash and the FDIC or the NCUSIF, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for City deposits;
- (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas;
- (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency;
- (12) commercial paper with a stated maturity of 270 days or less that is rated not less than "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank;
- (13) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that comply with the United States Securities and Exchange Commission Rule 2a-7;
- (14) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, and either has a duration of one year or more and is

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

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

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

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

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

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

The City is specifically prohibited from investing in:

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

Investment Policies

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

adopted “Investment Strategy Statement” that specifically addresses each funds’ investment. Each Investment Strategy Statement must describe the investment objectives for the particular fund using the following priorities:

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

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

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

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

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

Additional Provisions

Under Texas law, the City is additionally required to:

- (1) annually review its adopted policies and strategies,
- (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council,
- (3) require a registered representative of business organizations offering to engage in an investment transaction with the City to (a) receive and review the City’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements;
- (4) perform an annual audit of the management controls on investments and adherence to the City’s investment policy; and
- (5) provide specific investment training for the Chief Financial Officer of the City, Treasurer and Investment Officers.

Current Investments – TABLE EIGHT

As of June 30, 2018, the City’s investable funds were invested in the following categories.

<u>Type of Investment</u>	<u>Percentage</u>
U. S. Treasuries	19%
U. S. Agencies	45%
Money Market Funds	2%
Local Government Investment Pools	34%

The dollar weighted average maturity for the combined City investment portfolios is 282 days. The City prices the portfolios weekly utilizing a market pricing service.

**GENERAL FUND REVENUES AND EXPENDITURES AND CHANGES IN FUND
BALANCE – TABLE NINE**
(in 000's)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>Revenues:</u>					
Taxes (1)	\$498,605	\$537,138	\$572,640	\$607,361	\$646,918
Franchise Fees	35,040	37,407	37,842	36,678	36,057
Fines, Forfeitures and Penalties	16,971	17,130	17,305	15,027	13,117
Licenses, Permits and Inspections	28,669	33,719	39,006	47,470	61,076
Charges for Services	49,579	57,974	58,297	59,062	59,362
Interest and Other	<u>6,027</u>	<u>9,335</u>	<u>11,831</u>	<u>15,205</u>	<u>15,754</u>
Total Revenues	\$634,891	\$692,703	\$736,921	\$780,803	\$832,284
<u>Expenditures:</u>					
Administration	\$ 13,926	\$ 14,610	\$ 19,246	\$20,844	\$22,386
Urban Growth Management	44,934	57,325	63,072*	66,817	70,491
Public Safety	473,980	493,668	543,709*	559,038	585,250
Public Health	48,232	54,196	61,247*	72,333	80,487
Public Recreation and Culture	81,893	89,492	98,242*	105,410	112,278
Transportation, Planning and Sustainability (3)	9	(6)	4	814	421
Nondepartmental Expenditures	<u>87,126</u>	<u>97,951</u>	<u>93,349*</u>	<u>106,985</u>	<u>104,259</u>
Total Expenditures	\$750,100	\$807,236	\$878,869	\$932,241	\$976,022
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(\$115,209)	(\$114,533)	(\$141,948)	(\$151,438)	(\$143,738)
<u>Other Financing Sources (Uses):</u>					
Transfers from Other Funds	145,764	162,622	153,936	157,201	166,688
Transfers to Other Funds	<u>(13,626)</u>	<u>(27,515)</u>	<u>(30,304)</u>	<u>(26,246)</u>	<u>(12,125)</u>
Net Other Financing Sources	\$132,138	\$135,107	\$123,632	\$130,955	\$154,563
Excess (Deficiency) of Total Revenues and Other Services Over Expenditures and Other Uses	\$ 16,929	\$ 20,574	(\$18,316)	(\$20,483)	\$10,825
Special Item – Land Sale (See FY15 CAFR Note 1)	<u>-</u>	<u>15,830</u>	<u>11,983</u>	<u>4,309</u>	<u>-</u>
Fund Balances at Beginning of Year	<u>130,163</u>	<u>147,092</u>	<u>183,496</u>	<u>177,163</u>	<u>160,989</u>
Fund Balances at End of Year (2)	<u>\$147,092</u>	<u>\$183,496</u>	<u>\$177,163</u>	<u>\$160,989</u>	<u>\$171,814</u>

(1) Consists of property, sales and mixed drinks tax.

(2) As of September 30, 2017, the emergency reserve maintains a balance of six percent of total General Fund requirements, or \$___ million, and the budget stabilization reserve reports a balance of \$___ million.

(3) Reported with Urban Growth Management prior to 2012.

*Numbers vary from the FY15 posting due to a reclassification of expenses between these line items.

CERTAIN GENERAL FUND RECEIPTS OTHER THAN AD VALOREM TAXES

Municipal Sales Tax– TABLE TEN

At an election held on September 30, 1967, the citizens of Austin voted a 1% retail sales and use tax to become effective on January 1, 1968. This tax provides an additional revenue source to the General Fund of the City. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts of the State of Texas, who currently remits the proceeds of the tax to the City monthly. Revenue from this source has been:

<u>Fiscal Year Ended 9-30</u>	<u>Per Capita Sales and Use Tax</u>	<u>(in 000's) Sales and Use Tax</u>	<u>% of Ad Valorem Tax Levy</u>
2010	\$ 185.87	\$ 144,710	42.47%
2011	187.58	151,125	42.59%
2012	199.99	164,193	43.08%
2013	209.35	176,198	42.06%
2014	215.79	189,464	42.46%
2015	222.86	200,382	43.01%
2016	230.58	213,400	41.92%
2017	233.48	218,790	39.50%
2018 (1)	235.94	226,132	36.63%
2019 (2)	245.19	236,150	35.28%

(1) 2018 figures from approved budget.

(2) Estimate used in FY 2019 Proposed Budget.

Transfers from Utility Funds – TABLE ELEVEN

The City owns and operates a Water and Wastewater System and an Electric Light and Power System, the financial operations of which are accounted for in the Utility Funds. Transfers from the Utility Funds to the General Fund have historically provided a significant percentage of the receipts for operation of the General Fund. The following sets forth the amount of such transfers.

<u>Fiscal Year Ended 9-30</u>	<u>(in 000's) Transfers</u>	<u>% of General Fund Requirements</u>
2010	\$ 129,967	21.5%
2011	134,263	20.8%
2012	136,919	19.8%
2013	139,548	17.8%
2014	142,909	18.1%
2015	143,755	16.9%
2016	145,793	16.1%
2017	150,877	15.6%
2018 (1)	154,914	15.1%
2019 (2)	157,586	15.3%

(1) 2018 figures from the approved budget.

(2) Estimate used in FY 2019 Proposed Budget.

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THE CITY

Administration

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

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

City Manager – Spencer Cronk

Mr. Spencer Cronk joined the City as City Manager on February 1, 2018. Before joining the City of Austin, Mr. Cronk was Minneapolis City Coordinator (City Administrator). He directed the management of Minneapolis city government by assisting the Mayor and City Council in defining City policy and establishing priorities, mobilizing department heads and staff to implement the Mayor and Council's priorities, and working to strengthen the management and administrative systems of the City. Mr. Cronk previously served as Commissioner of the Minnesota Department of Administration, a role he was appointed to by Governor Mark Dayton in 2011. As Commissioner, Mr. Cronk led the state's real property, purchasing, fleet, demographic analysis and risk management divisions responsible for more than \$2 billion in State purchasing and the historic renovation of the Minnesota State Capitol. Additionally, Mr. Cronk also served as chair of the Minnesota Public Data Governance Advisory Committee, and as a member of the Environmental Quality Board and the Minnesota Indian Affairs Council. Before joining the State of Minnesota, Mr. Cronk served as executive director of organizational development and senior advisor for the Department of Small Business Services for the City of New York, under former Mayor Michael Bloomberg. His accomplishments there included the design and implementation of a comprehensive performance-management system and the development of a program for integrating new employees, which was used citywide as a best practice template for the City of New York's 300,000 employees. Mr. Cronk has served a number of community organizations and agencies, including as an Advisory Council member for Northern Spark, a member of the Minnesota Advisory Board of the Trust for Public Land, and a member of the Itasca Project Task Force on Socioeconomic Disparities in the Twin Cities. He was a recipient of the Minneapolis/St. Paul Business Journal's "40 Under 40" Award in 2013. Mr. Cronk received his bachelor's degree with honors from the University of Wisconsin-Madison. He is a graduate of Harvard University's Senior Executives in State and Local Government Program and was a Public Affairs Fellow with the Coro New York Leadership Center.

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

Ms. Elaine Hart received her B.B.A. in Accounting from The University of Texas at Arlington. Effective upon the adoption of the City's fiscal year 2019 budget, Ms. Hart will become Deputy City Manager. Her career with the City spans more than 20 years, including over 10 years in public power. Ms. Hart served as Interim Chief Financial Officer for two months before being appointed to the position of Chief Financial Officer in April 2012. Prior to her appointment as Chief Financial Officer, she served as Senior Vice President of Finance and Corporate Services for Austin Energy, the municipally-owned electric utility. During her tenure at the City (service not continuous), she has also served in other financial capacities, including the City's Chief Financial Officer in the late 1980s, Assistant Finance Director, City Controller and Deputy City Auditor. Ms. Hart also has private sector auditing, accounting and consulting experience.

Deputy Chief Financial Officer – Greg Canally

Mr. Greg Canally is the Deputy Chief Financial Officer for the City of Austin over the Treasury Office, Purchasing Office & Capital Contract Office, and worked as the Finance lead on economic development, transportation initiatives, facility master planning, and a variety of information technology issues for the City. Mr. Canally has been with the City of Austin for 17 years, entirely in the Finance Department. From 2004 through 2008, he was the City's Budget Officer. He is a past

member of Government Finance Officers Association's Committee on Economic Development and Capital Planning. Prior to his work in municipal government, Mr. Canally worked as a project manager/economist for HDR Engineering, working with all levels of government to implement Water Planning solutions in Texas. Mr. Canally holds a Bachelor of Science in Economics from Villanova University and a Master of Science in Economics from the University of Texas at Austin.

Services Provided by the City

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

Employees

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

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

Annexation Program

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

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

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

Some of the areas which may be considered for annexation will include developed areas for which water, sewer, and drainage services are being provided by utility districts created for such purposes. Existing utility districts, as well as new districts that may be created from time to time, may issue bonds for their own improvements. Such bonds are generally

payable from the receipts of ad valorem taxes imposed by the district and, in some cases, are further payable from any net revenues derived from the operation of its water and sanitary sewer systems. State law generally requires that if a city is annexing a district, the district must be annexed in its entirety. Upon annexation by a city, a district is dissolved and the city assumes the district's outstanding bonds and other obligations and levies and collects ad valorem taxes on taxable property within the corporate limits of the city sufficient to pay the principal of and interest on such assumed bonds.

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

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

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

Annexations – TABLE TWELVE

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

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

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

Recent Annexation

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

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

In 2015 the City annexed eleven areas for full purposes and one area for limited purposes. These areas included an estimated total population of approximately 3,912 persons, mainly within the Lost Creek subdivision. Approved

development plans for the remaining areas include an additional 1,944 single-family homes. The taxable assessed value for these areas at the time of annexation was approximately \$25.4 million.

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

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

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

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

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

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

Future Annexation

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

Pension Plans

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

The following describes the contributions in place as of October 1, 2017. Municipal employees contribute 8.0% and the City contributes 18.0% of payroll. The Firefighters (who are not members of the Social Security System) contribute 18.7% of payroll, and the City contributes 22.05%. The Police Officers contribute 13.0% and the City contributes 21.313% of payroll.

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

The City’s net pension liability was measured as of December 31, 2016 for all three systems. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date for the COAERS plan. For the Fire and Police systems, the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 using the final 2016 assumptions and then was rolled forward to the plan’s year ending December 31, 2016.

The COAERS, as of December 31, 2016, had a net pension liability of \$1.29 billion with a plan fiduciary net position as a percentage of the total pension liability of 64.0%. The Police Officers plan, as of December 31, 2016, had a net pension liability of \$420.2 million with a plan fiduciary net position as a percentage of the total pension liability of 62.02%. The Fire Fighters plan, as of December 31, 2016 had a net pension liability of \$148.1 million with a plan fiduciary net position as a percentage of the total pension liability of 84.9%.

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

The Fire Fighters’ fund had no significant changes of assumptions during the measurement period but did have a change in benefit term that affected the total pension liability. Effective January 1, 2017 a cost-of-living adjustment increase of 1.50% went into effect.

The Police Officers’ fund had no changes to benefit terms during the measurement period but did have several changes in assumptions that affected the measurement of the total pension liability. Changes to assumptions included:

- The investment return assumption has been decreased from 7.80% to 7.70%,
- The core inflation rate assumption has been decreased from 3.25% to 3.00% per year,
- The general wage inflation rate assumption has been decreased from 3.50% to 3.25% per year,
- The assumed rates of salary increase have been amended at most service points,
- The payroll growth assumption has been increased from 3.50% to 4.00% per year.

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

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability. As of December 31, 2016, the amortization period of the unfunded actuarial accrued liability for the COAERS was 31 years, for the Police Officers’ Fund was 27.3 years and the Firefighters’ Fund was 16.17 years.

As of December 31, 2016, the actuarial accrued liability for the COAERS was \$3,591,376,306 and the funded ratio was 67.5%. The actuarial accrued liability for the Police Officers’ Fund was \$1,106,505,413 and the funded ratio was 66.2%. The actuarial accrued liability for the Firefighters’ Fund was \$981,771,267 and the funded ratio was 88.3%.

Although the COAERS funding period had been infinite since December 31, 2002, investment losses in 2008 of 25.9% led to a significant decrease in the actuarial funded ratio and a significant increase to the unfunded actuarial accrued liability. In 2005, a Supplemental Funding Plan (“SFP”) was approved that increased the City’s annual contribution rate to a maximum of 12%, but even this additional funding was not sufficient to restore the long-term financial health of the COAERS. In FY 2011, City Council approved an amendment to the SFP that increased the City contribution rate to a maximum rate of 18% of pay to be contributed by 2013. The City contributed an additional 6% in FY 2011, an additional 8% in FY 2012 and an additional 10% in FY 2013 pursuant to the terms of the SFP, which brought the City’s contribution rate to the maximum of 18%. In addition, a new benefit tier for new employees hired on or after January 1, 2012, was

approved by the COAERS Board of Trustees, the City Council and the Texas Legislature. The new benefit tier increases the age and service criteria necessary to reach retirement eligibility. It also decreases the pension multiplier, which is used to determine the final pension amount paid to future retirees. These two actions are expected to substantially improve the long-term financial health of the COAERS over time.

On May 25 2018, the COAERS Board of Trustees received a GASB Statement No. 68 report of the COAERS for the plan's fiscal year ended December 31, 2017. The report stated that as of December 31, 2017, COAERS had a net pension liability of \$1.147 billion with a plan fiduciary net position as a percentage of the total pension liability of 69.79%. Additionally, the actuarial accrued liability for the COAERS was \$3,797,823,303 and the funded ratio was 68.3%.

On July [], 2018, the Police Officers' Fund Board received an actuarial valuation report of the Police Officers' Fund for the plan's fiscal year ended December 31, 2017. The report stated that as of December 31, 2017, the Police Officers' Fund had a net pension liability of \$[] million with a plan fiduciary net position as a percentage of the total pension liability of []%. Additionally, the actuarial accrued liability for the Police Officers' Fund was \$[] and the funded ratio was []%.

On July [], 2018, the Firefighters' Fund Board received an actuarial valuation report of the Firefighters' Fund for the plan's fiscal year ended December 31, 2017. The report stated that as of December 31, 2017, the Firefighter's Fund had a net pension liability of \$[] million with a plan fiduciary net position as a percentage of the total pension liability of []%. Additionally, the actuarial accrued liability for the Firefighters' Fund was \$[] and the funded ratio was []%.

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

Other Post-Employment Benefits (“OPEB”)

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

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

The City recognizes the cost of providing these benefits to active employees as an expense and corresponding revenue in the Employee Benefits Fund; no separate plan report is available. The City pays actual claims for medical and 100% of the retiree's life insurance premium. Group dental and vision coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental and vision premium. The estimated pay-as-you-go cost of providing medical and life benefits was \$43.1 million for 4,834 retirees in 2017 and \$39.3 million for 4,644 retirees in 2016. As of September 30, 2017, the net OPEB obligation is \$1.011 billion.

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

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to third party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately \$[] million for claims and damages at the end of fiscal year 2017. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Employee Benefits Fund.

ENTERPRISE FUNDS

Statement of Revenues, Expenses and Changes in Fund Net Position

The Enterprise Funds account for the activities of the City that render services on a user charge basis to the general public. Set forth on pages B-32 and B-33 of APPENDIX B in this document is a summary of the revenues, expenses, transfers and net position of the City's enterprise funds for the year ended September 30, 2017.

THE SYSTEMS

The City owns and operates an Electric Utility System (also referred to in this document as "Austin Energy") and a Water and Wastewater System (also referred to in this document as the "Water and Wastewater Utility" or "Austin Water") which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and wastewater services. The City owns all the facilities of the Water and Wastewater System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet Electric Utility System demand. For fiscal year 2017-18, the Electric Utility System had approximately 1,749 full-time regular employees and the Water and Wastewater System had approximately 1,185 full-time regular employees.

STRATEGIC PLANS, GOALS AND POLICIES

Strategic Plan

In December 2003, the City Council approved a strategic plan for Austin Energy. The plan identified three strategies to position Austin Energy for continued success. Austin Energy operates under the approved 2003 strategic plan but new initiatives are underway, including the Technology Roadmap Project, the Facilities Master Plan, and the New Generation Plan. Elements of the Strategic Plan were updated for Fiscal Years 2017-2021 and did not include revisions to the generation plan.

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

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

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

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

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

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

- The Austin City Council adopted the Austin Climate Protection Plan in 2007 to build a more sustainable community. Austin Energy developed the Resource, Generation and Climate Protection Plan to meet these objectives. The first plan, approved by City Council in 2010 and further refined in 2010 by adding affordability metrics, addressed resource plan options through 2020.

- In April 2014, City Council passed Resolution No. 20140410-024 which recognized the need to further accelerate the reduction of greenhouse gas emissions and set a goal of reaching net zero community-wide greenhouse gas emissions by 2050 or earlier if feasible. Council then approved an updated Resource, Generation and Climate Protection Plan in December 2014, addressing resource options through 2025 (2025 Plan).

In November 2016, the City of Austin's Electric Utility Commission formed a Working Group to make recommendations on the most recent update to the Plan, which addresses resource plan options through 2027. In addition to reaffirming the affordability goals approved in 2010, the Working Group made recommendations in the areas of Generation, Local Solar, Energy Efficiency and Demand Response, Electric Vehicles and Process.

The 2027 Plan: Goals and Directives

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

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

Affordability – Affordability is an overarching goal. The affordability goal¹ is an average 2% per year limit on rate increases system-wide and for rates to be in the lower 50th percentile statewide. The affordability goal acknowledges that Austin Energy must be financially sound, that the cost of electric service must be affordable for all classes of customers—with particular emphasis on low-income and underserved customers—and that rates must be competitive to ensure the retention and attraction of businesses for a strong local economy.

Resource and Technology Objectives – The following goals are inclusive of the goals in the 2025 Plan. Where a study or modeling effort is indicated such items will be reported to the Electric Utility and Resource Management Commissions as well as the Austin Energy Utility Oversight Committee no later than September 30, 2019 unless a different date is indicated.

Renewable Energy

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

Decker Creek Power Station and Fayette Power Project

- Target ceasing operations and beginning retirement of Decker Steam units, assuming ERCOT approval, with Steam Unit 1 ceasing operations after summer peak of 2020 and Steam Unit 2 ceasing operations after summer peak of 2021.
- We reaffirm the previous goal, established in 2014, to begin the retirement of Austin Energy's portion of the Fayette Power Project (FPP), beginning by the end of 2022.

Local Solar

- Achieve 110 MW of local solar by the end of 2020, including at least 70 MW of customer-sited solar. Achieve 200 MW by the end of 2025, with at least 100 MW to be customer sited.
- Commit to a local solar budget of \$7.5 million per FY 2018 and FY 2019 followed by \$5 million per year for FY 2020 thru FY 2027.

Energy Efficiency and Demand Response

- Achieve 800 MWs of energy efficiency and demand response by 2020 and an incremental 100 MW of demand response to achieve a total of at least 900 MW of Demand Side Management (DSM) by 2025.

¹ The affordability goal approved by City Council is composed of two metrics: a) Maintain system average rates at or below 2% annual compound growth rate that began October 2012; and b) Maintain an average annual system rate in the lower 50% of all Texas utilities serving residential, commercial and industrial customers as measured by published data from the Energy Information Administration Form 861.

- Budget at least 2.5% gross revenues to DSM (recovered in the Community Benefit Charge and base rates) – Austin Energy will work with stakeholders to make future goals ‘budget-based,’ rather than MW-based, as has been done in the past.

Emerging Technology and Energy Storage

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

Electric Vehicles

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

Financial Policies

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

- Current revenue, which does not include the beginning balance, will be sufficient to support current expenditures (defined as “structural balance”). However, if projected revenue in future years is not sufficient to support projected requirements, the ending balance may be budgeted to achieve structural balance.
- Net Revenues generated by Austin Energy shall be used for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies, and other Austin Energy requirements. Once these obligations have been met, any remaining net revenues will be deposited into Austin Energy’s reserve funds in the following order until each reserve reaches its minimum funding level: Working Capital, Contingency Reserve, Power Supply Stabilization Reserve, and then Capital Reserve. The sum of the four reserves shall be the cash equivalent of no less than 150 days of operating and maintenance expense.
- Austin Energy shall maintain operating cash equivalent (also known as Working Capital) of 60 days of budgeted operations and maintenance expense, less power supply costs, plus the amount of additional monies required to bring the sum of all Austin Energy’s reserves to no less than 150 days of operating and maintenance expense. As of September 30, 2017, Austin Energy’s operating cash balance was \$399 million and Days Cash on Hand (DCOH) was 205 days.
- Austin Energy shall maintain a minimum quick ratio of 1.50 (current assets less inventory divided by current liabilities). The source of this information shall be the Comprehensive Annual Financial Report.
- Austin Energy shall maintain either bond insurance policies or surety bonds issued by highly rated (“AAA”) bond insurance companies or a funded debt service reserve or a combination of both for its existing revenue bond issues, in accordance with the Combined Utility Systems Revenue Bond Covenant.
- Debt Service coverage of a minimum of 2.0x shall be targeted for the Electric Utility Bonds. All short-term debt, including commercial paper, and non-revenue obligations will be included at 1.0x coverage.
- The Contingency Reserve shall be created and established for unanticipated or unforeseen events that reduce revenue or increase obligations, such as costs related to a natural disaster, extended unplanned plant outages, insurance deductibles, or unexpected costs created by Federal or State legislation. The Contingency Reserve may be used to fund unanticipated power supply expenses only after the Power Supply Stabilization Reserve has been fully depleted. The Contingency Reserve shall maintain an operating cash equivalent of 60 days of budgeted operations and maintenance expense, less power supply costs. In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted funding level within two (2) fiscal years.

- The Capital Reserve shall be created and established for providing extensions, additions, replacements and improvements to the Electric Utility System. The Capital Reserve shall maintain a minimum cash equivalent of 50% of the previous year's electric utility depreciation expense.
- The Power Supply Stabilization Reserve shall be created and established for mitigating power supply cost volatility which causes frequent variation in the Power Supply Adjustment. The Power Supply Stabilization Reserve shall maintain a cash equivalent of 90 days of net power supply costs. Net power supply costs shall be defined as costs eligible for inclusion in the Power Supply Adjustment. The Power Supply Stabilization Reserve shall be funded using net revenues after meeting other obligations and consistent with the flow of funds schedule.
- The General Fund Transfer shall not exceed 12% of Austin Energy's three-year average operating revenues, calculated using the current fiscal year estimate and the previous two fiscal years' actual revenues less power supply costs and on-site energy resource revenue from the City's Comprehensive Annual Financial Report.
- Electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to support (1) the full cost (direct and indirect) of operations including depreciation, (2) debt service, (3) General Fund transfer, (4) equity funding of capital investments, (5) requisite deposits of all reserve accounts, (6) sufficient annual debt service requirements of the Parity Electric Utility Obligations and other bond covenant requirements, if applicable, and (7) any other current obligations. In addition, Austin Energy may recommend to Council in the budget directing excess net revenues for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies and other Austin Energy requirements such as working capital. In addition to these requirements, electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to ensure a minimum debt service coverage of 2.0x on electric utility revenue bonds. A rate adequacy review shall be completed every five years, at a minimum, through performing a cost of service study.
- A decommissioning trust shall be established external to the City to hold the proceeds for moneys collected for the purpose of decommissioning the STP. An external investment manager may be hired to administer the trust investments. As of September 30, 2017, trust market value was approximately \$214 million.
- A Non-Nuclear Plant Decommissioning Fund shall be established to fund plant retirement. The amount set aside will be based on a decommissioning study of the plant site. Funding will be set aside over a minimum of four years prior to the expected plant closure.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Rate Regulation

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

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

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

wholesale buyers and sellers. Austin Energy is a member of ERCOT, and Austin Energy staff is active in the ERCOT stakeholder process.

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

Regulatory Policy

The PUCT has opened Docket 47199 “Project to Assess Price-Formation Rules in ERCOT’s Energy-Only Market” to study the implications of adding Real-Time Co-optimization in the ERCOT wholesale market, with the goal of increasing the efficiency and reliable operation of the Real-Time Market. The PUCT is in the process of gathering feedback from market participants and ERCOT and the Independent Market Monitor on a cost benefit analysis for implementing the system. Real-time Co-optimization is the process of procuring energy and ancillary services simultaneously in the Real – Time Market. The PUCT, under this same docket is also looking at marginal line losses that encourages dispatch closer to generation load by pricing transmission losses according to their marginal loss factor. This is still in its discussion phase. We expect that there will be legislation introduced on price formation for the 86th legislative session, but there are no details known or whether it will be a priority. At this time the impact of these proposed rules is unknown, as they are all in the early phases of development.

ERCOT Wholesale Market Design

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

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

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

Federal Rate Regulation

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

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

Environmental Regulation - General

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

Environmental Regulation Related to Air Emissions

Clean Power Plan

In October 2015, the United States Environmental Protection Agency (“USEPA”) finalized the Clean Power Plan (“CPP”) requiring CO2 emissions reductions from the electricity sector in most states, and directed each state to develop its own plan to achieve those reductions. The Supreme Court stayed the CPP rule on February 9, 2016, pending review in the D.C. Circuit Court. The D.C. Circuit has yet to issue a ruling; however, in June 2017, the USEPA began the process of revising the rule and is expected to release a proposed revision in Fall 2018. Austin Energy’s fleet is less carbon intense than the state-wide fleet as a whole because of investments already made in zero-and-low-carbon generation sources. Austin Energy is well-positioned to comply with this rule.

Mercury and Air Toxics Standards (MATS)

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

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

Revisions to the federal ozone National Ambient Air Quality Standard

In November 2014, the USEPA finalized a new lower national ambient air quality standard (“NAAQS”) for ground-level ozone at 70 ppb. The USEPA released their final designations in Spring 2018 and designated Travis County, where Austin Energy is located, be designated in attainment of this new standard; therefore, there are no foreseeable direct impacts to Austin Energy from this rule.

Regional Haze

In July 2016, the Fifth Circuit Court of Appeals issued a stay of the USEPA’s federal regional haze plan for Texas, the latest example of a federal court halting implementation of a major USEPA regulation (Texas v. EPA, 2016 BL 228327,

5th Cir., No. 16-60118, July 15, 2016). This stay halts the January 2016 promulgated rule that would have imposed a regional haze federal implementation plan on Texas and Oklahoma.

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

Environmental Regulation Related to Hazardous Wastes and Remediation

In January 2015, the USEPA promulgated a rule that sets new requirements for the storage of Coal Combustion Residuals (“CCRs”) and potentially reclassifies those CCRs as a hazardous waste when stored in a landfill. FPP, like all coal burning plants, generates CCRs such as fly ash, bottom ash and gypsum. FPP currently recycles the majority of its CCR for beneficial use, such as for road base or as cement substitutes, with the remaining fractions stored onsite in a landfill for possible future use (recycle rates depend on market demand for the product). Coal ash at FPP is “dry-handled” so there are no active surface impoundments for wet ash slurry. The final rule did not designate CCRs as hazardous and largely minimizes any requirements on existing CCR storage units currently at FPP. USEPA issued a final rule in July 2018 revising the 2015 rule to provide more flexibility for operators. Groundwater is actively monitored at the site per the CCR rule requirements and Austin Energy does not anticipate any significant new operating costs associated with this rule at this time.

Environmental - Other

Austin Energy began decommissioning the Holly Street Power Plant in 2011. This project includes the removal of the main power plant and adjacent support structures and the cleanup of historical contamination and site closure approval by the State. This project is expected to be completed by end of 2019.

Nuclear Regulation

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

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

A Master Worker Nuclear Liability policy, with a maximum limit of \$300 million for the nuclear industry as a whole, provides protection from nuclear-related claims of workers employed in the nuclear industry after January 1, 1988 who do not use the workers’ compensation system as sole remedy and bring suit against another party. The limit increased to \$375 million effective January 1, 2010 and subsequently further increased to \$450 million effective January 1, 2017.

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

The owners of STP currently maintain \$2.75 billion of nuclear property insurance, which is above the legally required amount of \$1.06 billion for such losses (\$2.75 billion is the maximum amount available for purchase from Nuclear Electric Insurance Limited (“NEIL”). Nuclear property insurance consists of \$1.5 billion in primary property damage insurance and \$1.25 billion of excess property damage insurance, both subject to a retrospective assessment being paid by all members of NEIL. In the event that property losses as a result of an accident at any nuclear plant insured by NEIL exceed the accumulated fund available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for accidental outage insurance, primary and excess property damage insurance is \$61.54 million during any one policy year with insurance premiums being prorated per member share. This number changes annually and is calculated as 10 times the current premium for each policy, however in 2018, a separate policy for a 10% quota share of the property coverage was procured by STP with a maximum retrospective premium of 6 times the current premium for that specific policy.

The NRC regulations set forth minimum amounts required to demonstrate reasonable financial assurance of funds for decommissioning of nuclear reactors. Beginning in 1990, each holder of an operating license is required to submit to the NRC a bi-annual report indicating how reasonable assurance would be provided. The City provides the required report on its share of STP to the NRC which is based on the minimum amount for decommissioning, excluding waste disposal, as required by the NRC regulations of \$105 million per unit (January 1986 dollars). This minimum is required to be adjusted annually in accordance with the adjustment factor formula set forth in the regulations. The 2016 report provided by the City based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City established an external irrevocable trust for decommissioning with JPMorgan Chase Bank, N.A. and as of October 2016, transferred the trust to Wilmington Trust, National Association. The City has been collecting for its share of anticipated decommissioning activities, which may begin as early as 2047, through its rates since Fiscal Year 1989. The decommissioning trust market value on September 30, 2017 was \$213,923,125. For Fiscal Year 2018, Austin Energy estimates that it will continue to collect approximately \$5 million for decommissioning expense. In 2018 dollars, the minimum amount for decommissioning the City’s share of STP is \$397 million. See “INVESTMENTS – Legal Investments” in this document.

Events Affecting the Nuclear Industry

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

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

The second NRC order applies only to U.S. boiling-water (“BWR”) reactors that have “Mark I” or “Mark II” containment designs. Mark I reactors must improve installed venting systems that help prevent core damage in the event of an accident; Mark II reactors must install these venting systems. The ISG for this order provides more detailed technical information on the vents, as well as how vent designs and operating procedures should avoid, where possible, relying on plant personnel

taking actions under hazardous conditions. The second ISG is available in ADAMS under accession number ML12229A475. Since the STP units are Pressurized Water Reactor's and not BWR's, no changes are required.

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in the main text of the Official Statement within the tables numbered one through twelve and in APPENDIX B. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation. The City will update and provide this financial information and operating data as of the end of each fiscal year within six months after the end of each fiscal year, beginning with the fiscal year ending in 2018 and audited financial statements within 12 months of each fiscal year beginning with the fiscal year ending in 2018. If audited financial statements are not available within 12 months after any such fiscal year end, the City will provide unaudited financial statements within such 12 month period and audited financial statements for such fiscal year when and if the audit report on such statements becomes available. The City will provide the updated information to the MSRB through its Electronic Municipal Market Access ("EMMA") information system.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 (the "Rule"), promulgated by the United States Securities and Exchange Commission (the "SEC").

The City's current fiscal year is October 1 to September 30. Accordingly, it must provide updated financial information and operating data by March 31 of each year and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available as described above) by September 30 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

Disclosure Event Notices

The City shall notify the MSRB, in a timely manner not in excess of 10 Business Days after the occurrence of the event, of any of the following events with respect to the Obligations: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) Obligation calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations, if material; (11) rating

changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material. (Neither the Obligations nor the Ordinances make any provision for debt service reserves or liquidity enhancement.) The City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data by the time required by the Ordinances.

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

Availability of Information

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

Multiple rating changes occurred with respect to certain obligations of the City between 2013 and 2016, and the City did not file event notices with respect to certain of such rating changes. Subsequently, notices of such rating changes that occurred in 2015 and 2016 were filed. The City has filed event notices with respect to the current ratings of certain of its outstanding obligations. Also, the City inadvertently omitted several tables from the annual financial information and operating data filing for the March 31, 2013 continuing disclosure report relating to certain obligations of the City. The City filed the omitted information on May 14, 2014. With respect to the City's continuing disclosure reports regarding its outstanding Airport System Revenue Bonds, the City determined that (i) a table regarding detailed Airport revenues was inadvertently omitted from such reports that were filed in 2013, however, the total of such Airport revenues was included in such annual filings and such table was included in subsequent annual continuing disclosure reports, and (ii) a table had transposed years in the presentation of data in such report that was filed in 2015, and the City filed corrected information for such table on May 8, 2015. On April 25, 2016, the City filed updated financial information and operating data to reflect audited financial information as well as updated information in the "Comparative Analysis of Electric Utility System and Water and Wastewater System Operations," "Operating Statement Electric Utility System and Water and Wastewater System" and "The Electric Utility System and Water and Wastewater System (Plant Cost and Equity in Utility Systems)" tables previously filed. On June 30, 2017, the City filed updated financial information and operating data to reflect Fiscal Year 2016 information on the first page of the "Water Service Rates" table. The City has implemented procedures to ensure timely filing of all future financial information and event notices and will continue to provide updates to the financial information and operating data as changes occur.

TAX MATTERS

Opinion

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

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

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

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

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Obligations or the facilities financed or refinanced with the proceeds of the Obligations. Bond Counsel's opinion represents its legal judgment based

upon its review of Existing Law and the representations of the City that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Obligations, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the holders of the Obligations may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount Opinion

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the

health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

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

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

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

State, Local and Foreign Taxes Collateral Federal Income Tax Consequences

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

Information Reporting and Backup Withholding

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

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Obligations under Federal or state law and could affect the market price or marketability of the Obligations. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Obligations should consult their own tax advisors regarding the foregoing matters.

OTHER RELEVANT INFORMATION

Ratings

The Obligations received ratings of "____" by S&P Global Ratings, a S&P Global Ratings Financial Services LLC business ("S&P"), "____" by Fitch Ratings, Inc. ("Fitch") and "____" by Moody's Investors Service, Inc. ("Moody's"). The presently outstanding ad valorem tax-supported debt of the City is rated "AAA" by S&P, "AAA" by Fitch and "Aaa" by Moody's. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings

reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of one or all such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or by any one of them, may have an adverse effect on the market price of the Obligations. Except as provided under “CONTINUING DISCLOSURE OF INFORMATION – Disclosure Event Notices” in this document, the City will undertake no responsibility to notify the owners of the Obligations of any such revisions or withdrawal of ratings.

Litigation

A number of claims against the City, as well as certain other matters of litigation, are pending with respect to various matters arising in the normal course of the City’s operations. The City Attorney and the City Management are of the opinion that resolution of the claims pending (including the matter described below) will not have a material effect on the City’s financial condition.

Electric Utility System Litigation

On May 3, 2017, Data Foundry, Inc., filed a lawsuit against the City (Cause No. D-1-GN-17-000937 in the 419th Judicial District Court of Travis County, Texas), alleging that the ERCOT nodal market design disqualifies the City’s electric generation assets from being considered as used and useful for the purpose of establishing rates for electric service to the City’s retail customers. The lawsuit seeks declaratory relief that the City’s current retail electric rates are unlawful due to the inclusion of costs and return related to generation assets, and seeks a permanent injunction against the City’s establishing electric rates that include costs and return related to generation assets and operations. The City filed a motion to dismiss the case under Rule 91(a) of the Texas Rules of Civil Procedure. The case was dismissed by the trial court on November 27, 2017 on the basis that the plaintiff lacked standing to bring a lawsuit challenging the City’s rates. Data Foundry has appealed the trial court’s decision, which is now pending before the 14th Court of Appeals in Houston (Cause No. 14-18-00071-CV).

Registration and Qualification

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Obligations are (i) negotiable instruments, (ii) investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Obligations are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the PFIA, the Obligations may have to be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Obligations for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Obligations for such purposes. The City has made no

review of laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

Legal Matters

The delivery of each series of the Obligations is subject to the approval of the Attorney General of Texas to the effect that such Obligations are valid and legally binding obligations of the City payable from sources and in the manner described in this document and in the respective Ordinances and the approving legal opinions of Bond Counsel. The forms of Bond Counsel's opinions are attached hereto in Appendix C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent upon the sale and delivery of the Obligations. The legal opinions of Bond Counsel will accompany the Obligations deposited with DTC or will be printed on the definitive Obligations in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will also be passed upon for the City by Bracewell LLP, Disclosure Counsel for the City. The legal fee of such firm is contingent upon the sale and delivery of the Obligations.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Obligations in the Official Statement to verify that such descriptions conform to the provisions of the respective Ordinances. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent upon the sale and delivery of the respective Obligations.

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

Financial Advisor

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

Independent Auditors

The financial data listed as fiscal year 2018 has been derived from the unaudited internal records of the City. The City's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor the forward-looking financial information, nor have they expressed any opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited financial information. The unaudited information is preliminary and is subject to change as a result of the audit and may differ from the audited financial statements when they are released.

The financial statements of the City included in APPENDIX B to this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, to the extent and for the period indicated in their report.

Initial Purchaser of the Bonds

After requesting competitive bids for the Bonds, the City accepted the bid of _____ (the "Initial Purchaser of the Bonds") to purchase the Bonds at the interest rates shown on the (inside) cover page of the Official Statement at a price of _____(%) of par plus a cash premium of \$ _____. The Initial Purchaser of the Bonds can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser of the Bonds. The City has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser of the Bonds.

Initial Purchaser of the Certificates

After requesting competitive bids for the Certificates, the City accepted the bid of _____ (the "Initial Purchaser of the Certificates") to purchase the Certificates at the interest rates shown on the (inside) cover page of the Official Statement at a price of _____(%) of par plus a cash premium of \$ _____. The Initial Purchaser of the Certificates can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Initial Purchaser of the Certificates. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser of the Certificates.

Initial Purchaser of the Contractual Obligations

After requesting competitive bids for the Contractual Obligations, the City accepted the bid of _____ (the "Initial Purchaser of the Contractual Obligations ") to purchase the Contractual Obligations at the interest rates shown on the (inside) cover page of the Official Statement at a price of _____(%) of par plus a cash premium of \$ _____. The Initial Purchaser of the Contractual Obligations can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Initial Purchaser of the Contractual Obligations. The City has no control over the price at which the Contractual Obligations are subsequently sold and the initial yield at which the Contractual Obligations will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser of the Contractual Obligations.

Certification of Official Statement and No Litigation

At the time of payment for and initial delivery of the Obligations, the respective Purchaser of each series of the Obligations will be furnished a certificate, executed by proper officials of the City, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Obligations and the acceptance of the best bids therefor, and on the date of initial delivery of the Obligations, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; (d) except as may be otherwise described in the Official Statement, there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City appearing in the Official Statement; and (e) no litigation of any nature has been filed or is pending, as of the date hereof, to restrain or enjoin the issuance or delivery of the respective Obligations or which would affect the provisions made for their payment or security or in any manner question the validity of the Obligations.

Forward - Looking Statements

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

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

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

Authenticity of Financial Data and Other Information

The financial data and other information contained in this document have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates will be realized. All of the summaries of the statutes, documents and resolutions contained in this document are made subject to all of the provisions of such statutes, documents and resolutions. 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.

Approval of the Official Statement

This Official Statement, and the execution and delivery of this Official Statement, was approved and authorized by each of the Ordinances adopted by the City Council on August 23, 2018.

Mayor
City of Austin, Texas

ATTEST:

City Clerk
City of Austin, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

GENERAL INFORMATION

The City of Austin (the “City”), chartered in 1839, has a Council-Manager form of government under its home rule charter. A change in governance affecting City Council size, composition, and term duration was approved by the voters with the passage of Propositions 1 – 3 on November 6, 2012. Under the new governance, the Mayor remains elected at-large and ten Councilmembers are elected by geographic district, with all serving four-year staggered terms subject to a maximum of two consecutive terms. The voters also approved moving elections from May to November in even-numbered years, the first of which was held in November 2014. Currently half of the Councilmembers are serving a two-year term, expiring in 2019, with remaining Councilmembers serving terms that expire in 2021. The City Manager, appointed by the City Council, is responsible to the City Council for the management of all City employees and administration of all City affairs.

The City, which is the capital of Texas, is the fourth largest city in the state—behind Houston, Dallas, and San Antonio—and the eleventh largest in the nation, with, according to the City’s estimates, a September 2017 population of 946,080. Over the past ten years, Austin’s population has increased by approximately 26.8%, or 199,975 residents. Geographically, the City consists of approximately 325 square miles. The current estimated median household income for residents of the City is \$56,849 according to Nielsen SiteReports. The City’s per capita income is estimated to be \$53,908.

The City offers several broad-ranged educational opportunities for those individuals with a desire to learn. Austin is a highly educated city, with 48% of adults twenty-five years or older holding a bachelor’s or advanced degree, compared to 28% for Texas and 30% for the U.S. as a whole. Higher education is a significant aspect of life in the Austin area, which is host to six universities, a robust community college system, and numerous other institutions of higher learning. The University of Texas at Austin (UT), the sixth largest public university in the nation, is known as a world-class center of education and research and was ranked 18th among public universities in the 2016 U.S. News and World Report survey of undergraduate programs.

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

Major Initiatives

The City’s vision has a long-term vision of Austin being the most livable community in the country. The City has a highly dedicated and exceptional workforce to support City Council’s policies and initiatives. City staff is committed to creating a work environment that fosters creative thinking and innovation throughout the organization, thereby better positioning the workforce to more effectively respond to new challenges as well as new opportunities. In 2017, Forbes recognized the City of Austin as the 9th overall best employer in the United States in its list of *America’s Best Employers*. The list ranks both the public and private sectors. The City was the highest ranked governmental employer in this survey.

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

- Grow as a compact, connected city
- Integrate nature into the city
- Provide paths to prosperity for all
- Develop as an affordable and healthy community
- Sustainably manage water, energy, and other environmental resources
- Think creatively and work together

The plan’s success is monitored annually with performance metrics and will be formally assessed at least every five years.

During the development of both the annual and capital improvement budgets, Imagine Austin, is a consideration in how resources are allocated.

CodeNext – One initiative that resulted from Imagine Austin is CodeNEXT, a major revision of the City’s land development code which determines how land can be used throughout the City. A draft of the revised code was published in January 2017; the public subsequently learned about the draft and provided feedback through a variety of mechanisms. As of August 2018, the final adoption of the CodeNEXT has been postponed indefinitely pending further review and deliberation by City Council.

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

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

Mobility – In November 2016, voters approved the City’s \$720 million general obligation bond proposition to fund transportation and mobility improvements. Approximately two-thirds of the funding will be devoted to corridor improvement projects with the remainder earmarked for regional and local improvements including bicycle and pedestrian facilities and safety. The capital spending plan for 2018 includes \$60.4 million for mobility projects including improvements to the FM620/RM2222 intersection, design for corridor improvements, safety improvements at several intersections, and infrastructure improvements for the Safe Routes to Schools program. Progress continues on several joint interchange projects along Interstate 35 with the Texas Department of Transportation, one of the City’s regional partners. In addition to projects, the City is updating its transportation plan to expand the vision of the Imagine Austin plan into actionable mobility-related goals to guide future transportation investments.

Economic Opportunity and Affordability – Affordability is a prime consideration as the City makes decisions that impact the citizens who live here and the businesses that operate here. Whether setting taxes or utility rates, taking actions that provide affordable housing, or providing services and programs to the underprivileged members of the community, affordability is always part of the discussion. For 2018 there were no base rate increases for five of the City’s seven rate assessing enterprise departments. Notably, for the first time in more than a decade, Austin Water customers will experience no rate increase.

Housing affordability is increasingly an issue in a region where housing costs have been rising at a brisk pace and the impact is felt the most by those in the service, music, and creative areas. Since 2006, the median sales price of a home increased almost 63% gradually pricing more and more families out of the home buying market. In April 2017, the City Council passed the Strategic Housing Blueprint which calls for an additional 60,000 affordable housing units to be created by both public and private development in Austin by 2027. The 2018 budget included more than \$20 million for housing development, home repair services, and permanent supportive housing in Neighborhood Housing and Community Development. Notable projects include a 50-unit permanent supportive housing facility, a 125-unit affordable apartment complex, and \$3 million to renovate an independent living facility for seniors and people with disabilities.

Safety – In addition to the traffic safety enhancements previously mentioned, in 2018 funding was provided for additional positions in Austin Code for enforcement. In addition, all of the public safety departments received additional funding for either positions or enhancements. Watershed Protection is continuing to buyout properties in sections of town that have a high risk of flooding.

Health – Funding was provided for adding staff to the aquatics program to comply with new Texas legal requirements for pool safety, for a new joint-use recreation and community center to be developed in the Montopolis neighborhood of east Austin, and for the operation of a new sobriety center. Fleet Services is in the first phases of installing charging stations for the City’s growing fleet of electric vehicles. In addition, several departments received awards for their sustainability efforts:

- Watershed Protection Department was awarded the prestigious MS4 award in November 2017 for having the best, large city Municipal Separate Storm Sewer System.
- The City ranked fifth in the nation among local government purchasers of energy produced by renewable sources per the U.S. EPA. In 2017, Austin Energy purchased an additional 200 megawatts(MW) of wind power and the output of a 150-megawatt solar power plant bringing total wind and solar power under contract to 1,300 MW and 792 MW respectively. AvevCity of Austin
- In April 2017, the U.S. EPA awarded Austin Energy its 11th ENERGY STAR Partner of the Year Energy Efficiency Program Delivery Award for 2017 for the utility's Home Performance with ENERGY STAR® program which will allow Austin Energy to save 1,535 megawatt hours of electricity annually.

Cultural and Learning Opportunities – The City's world class new central library opened in October 2017. The new library overlooks Shoal Creek and Lady Bird Lake and is a main attraction in the redeveloped Seaholm district. Among other things, this "library for the future" features flexible and blended spaces, state-of-the-art technology, sustainable features, and community gathering places.

Government that Works – In 2016, the City established a new Equity Office to build and sustain a culture of equity across the City, help the City remain engaged with residents, meet community needs effectively, and minimize unintended consequences and biases in its decision making. Additionally, Austin 3-1-1 achieved ISO standard certification, becoming the first 3-1-1 center in the nation to be ISO 9001:2015 certified. ISO, the International Organization for Standardization, is a world-renowned and recognized international body that standardizes how businesses and organizations manage information and processes based on quality management principles.

2018 Bond Election

On August __, 2018, the City Council approved submitting to the voters of the City a general obligation bond election seeking authority to issue \$_____ in bonds for a variety of public purposes. The election will be conducted on November 6, 2018.

FINANCIAL INFORMATION

Financial Policies

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

Accounting System

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with the revenue being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprise and internal service funds are maintained on an accrual basis.

Article VII, Section 15 of the City's Home Rule Charter requires an annual audit of all accounts of the City by an independent certified public accountant. This charter requirement has been complied with and the accountant's report is included in APPENDIX B – "AUDITED FINANCIAL STATEMENTS" in this document.

Internal Controls

City management is responsible for establishing, implementing, and maintaining a framework of internal controls designed to ensure that City assets are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. The system of internal control is designed

to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management.

Operating Budget

The City's Home Rule Charter and State law require the City Manager to prepare and submit to the City Council a balanced budget consisting of an estimate of the revenues and expenditures in the budget period and the undesignated General Fund balance available for re-appropriation. The City is barred by Texas law and the City's Charter from deficit budgeting. The City's approach of balancing the budget by not relying on one-time solutions, while at the same time making key investments in the community, the infrastructure, the economy, the sustainability and its employees, is providing what the City believes is a 21st century "best-managed" model for cities all around the country. A key City financial policy requires annual preparation of a five-year financial forecast projecting revenues and expenditures for all operating funds. This forecast is used as a tool to develop the following year's operating budget. As directed by the financial policies, the City's budgeting approach emphasizes fiscal responsibility by limiting spending in a given year to projected revenue collections.

The annual operating budget is proposed by the City Manager and approved by the City Council after public discussion. The budget process in the City normally commences with all department heads submitting to the Chief Financial Officer of the City a detailed estimate of the appropriations required for their respective departments during the next fiscal year. The Chief Financial Officer of the City, in turn, forwards these estimates to the City Manager, who submits them to the Mayor and City Council for their consideration and approval. The annual operating budget is approved by the City Council in September of each calendar year, prior to the commencement of the upcoming fiscal year of the City.

Throughout the year, primary responsibility for fiscal analysis of budget to actual expense or revenue and overall program fiscal standing rests with the department operating the program. The City Manager is authorized to transfer appropriation balances within a fund and department of the City. The City Council must approve amendments to the budget and transfers of appropriations from one fund and department to another. As demonstrated by the statements and schedules included in the City's 2016 Comprehensive Annual Financial Report ("CAFR"), the City continues to meet its responsibility for sound financial management.

Budgetary Information

2018–2019 Budget

The proposed 2018-2019 operating budget was prepared in accordance with guidelines provided by the City Council. The proposed budget included a total tax rate of \$0.4385 per \$100 assessed valuation. A tax rate of \$0.4385 per \$100 assessed valuation would generate revenue for the proposed budget as set forth below. The following is a summary of the proposed 2018-2019 General Fund Budget.

Beginning Balance, October 1, 2018 (Budget Basis)

Summary of Budgeted General Fund Resources

Revenue:		
General Property Taxes	\$482,573	
City Sales Tax	236,150	
Other Taxes	13,520	
Gross Receipts/Franchise Fees	35,310	
Miscellaneous	102,592	
Total Revenue		\$870,145
Transfers In:		
Electric Revenue	\$110,000	
Water Revenue	47,586	
Total Transfers In		157,586
Total General Fund Resources		<u>\$1,027,731</u>

Summary of Budgeted General Fund Requirements

Departmental Appropriations:		
Administrative Services	\$ 27,577	
Urban Growth Management	16,792	
Public Safety	716,477	
Public Health and Human Services	79,325	
Public Recreation and Culture	144,031	
Total Departmental Appropriations		\$ 984,202
Transfers Out		35,228
Other Requirements		8,301
Total General Fund Requirements		<u>\$1,027,731</u>
Use of Beginning Balance		0
Ending Balance		<u>\$ 0</u>
<u>Budgeted Reserve Requirements</u>		
Emergency Reserve		\$61,631
Contingency Reserve		5,000
Property Tax Reserve		4,500
Budget Stabilization Reserve Fund		61,632
Total Budgeted Reserve Requirements		<u>\$132,763</u>

The structurally balanced fiscal year 2018 Approved Budget totals \$3.9 billion and includes \$1.03 billion for the General Fund, providing for the continuation of high-quality public safety, health, library, parks, water, energy, infrastructure, development, and other services to the citizens of Austin. The 2018 budget was approved with an increase to the property tax rate of more than 0.33 cents, from 44.18 to 44.51 cents per \$100 of taxable value.

In FY 2015-16, General Fund financial policies regarding reserves were revised to combine the Emergency Reserve Fund with the General Fund Contingency Reserve Fund and establish a 12% target for the sum of all General Fund reserves. Beginning in FY 2016, the Emergency Reserve shall maintain a balance of 6% of total General Fund requirements. Previously, the policy set the Emergency Reserve amount at \$40 million and set the Contingency Reserve at 1% of departmental expenditures. Reserve usage and replenishment requirements did not change.

The Budget Stabilization Reserve Fund and the Emergency Reserve Fund are budgeted to end FY 2016-17 at \$69.7 million and \$58.2 million, respectively. In total, the combined budgeted ending balances of the two reserves equal \$116.3 million, or 12.0% of total spending requirements in the General Fund.

The City's largest enterprise department, Austin Energy, is the eighth largest municipal-owned electric utility in the United States in terms of customers served. Austin Energy serves more than 455,000 customers within a service territory of approximately 437 square miles in the Greater Austin area. The approved budget for fiscal year 2017 is \$1.28 billion in

annual revenues, including transfers. The utility has a diverse generation mix that includes nuclear, coal, natural gas, and an increasing portfolio of renewable energy sources such as solar and wind.

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

The final budget which was adopted by the City Council after the date of this Official Statement reflects a total tax rate of \$0.4451 and changes to General Fund Resources and General Fund Requirements to the proposed General Fund Budget reflected above.

Long-Term Financial Planning

The City annually prepares a five-year financial forecast projecting revenues and expenditures for all operating funds. This forecast is used as a tool to develop the subsequent year's operating budget. In addition, the City annually prepares a five-year Capital Improvement Project (CIP) Plan that outlines all capital projects in progress, those that will be implemented in the five-year horizon, and related funding sources. A second plan covering a 10-year planning horizon, the Long-Range CIP Strategic Plan, was initially completed in 2014 and continues to be updated annually. The Long-Range CIP Strategic Plan seeks to improve the transparency of the City's long-term infrastructure plans and further align the City's CIP investments with the Imagine Austin Comprehensive Plan as the City strives to strike a balance between ongoing capital needs necessary to maintain services for a growing community and strategic investments that support community priorities. Finally, City departments prepare a number of other long- and mid-range service plans that provide input into decisions made in the planning and budgeting process; these plans range from annexation to clean energy and climate protection to strategic mobility planning.

On November 5, 2013, voters approved \$65 million in general obligation debt for affordable rental and ownership housing as well as preservation of existing affordable housing stock. The City is implementing projects authorized by this election as well projects authorized in the November 2012 election, when Austin voters approved a \$307 million general obligation bond program that includes transportation and mobility projects, as well as projects for open space and watershed protection, parks and recreation, public safety, health and human services, and library, museum and cultural arts facilities.

On November 8, 2016, voters approved the issuance of general obligation debt in an amount up to \$720 million to finance transportation and mobility projects, being overseen by the Council-appointed Bond Oversight Committee, which is charged with ensuring efficiency, equity, timeliness, and accountability in the implementation of the program.

The Capital Improvement Plan and Capital Budget

The Capital Improvement Plan is a five-year list of capital improvements and a corresponding spending plan for financing these improvements. It is developed through public input and department prioritization of needs. The process includes neighborhood meetings, department requests, assessment of requested projects by the City's Budget Office, input from the Planning Commission's CIP Subcommittee and other Boards and Commissions, and citizen input from public hearings. Each fiscal year, the Planning Commission reviews the Capital Improvement Plan and submits a recommendation to the City Manager detailing specific projects to be included in the Capital Budget for the next fiscal year.

The City Manager considers the Planning Commission's recommended plan to propose a Capital Budget to the City Council. The Capital Budget contains requested appropriations for new projects, additional appropriations for previously approved projects and any requests to revise prior year appropriations. Unlike the Operating Budget, which authorizes expenditures for only one fiscal year, Capital Budget appropriations are multi-year, lasting until the project is complete or until changed by the City Council.

The City Council reviews the Capital Budget, holds public hearings to gather final citizen input and establishes the amount of revenue and general obligation debt to sell to fund capital improvements.

2018-2019 Capital Budget

The 2018-2019 five-year Capital Improvement Program (CIP) plan estimates city-wide capital spending in 2018-2019 of \$1.0 billion.

The first year of the five-year plan was used to determine the new appropriations required for inclusion in the 2018-2019 Proposed Capital Budget. The proposed city-wide total appropriation is \$1.3 billion. Appropriation by department is listed below.

Summary of 2018-2019 Proposed Capital Budget (millions):

Austin Energy	476.8
Austin Resource Recovery	15.9
Austin Transportation	121.7
Austin Water	23.2
Aviation	458.1
Building Services	16.4
Communications and Technology Management	20.1
Financial Services	6.4
Fire	16.7
Fleet	26.0
Parks and Recreation	18.2
Planning and Zoning	1.0
Public Works	11.6
Watershed Protection	53.1
TOTAL PROPOSED NEW APPROPRIATIONS	\$1,265.2

ADDITIONAL INFORMATION

Ten Largest Employers (As of September 30, 2017)

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
State Government	Government	38,353
The University of Texas at Austin	Education	23,131
City of Austin	Government	13,825
Federal Government	Government	12,700
HEB Grocery	Grocery/Retail	12,198
Dell Computer Corporation	Computers	12,000
Austin Independent School District	Education	11,447
Seton Healthcare Network	Healthcare	10,270
St. David's Healthcare Partnership	Healthcare	8,598
Samsung Austin Semiconductor	Manufacturer	6,074

Source: 2017 Comprehensive Annual Financial Report

Demographic and Economic Statistics - Last Ten Years

<u>Year</u>	<u>City of Austin Population (1)</u>	<u>Area of Incorporation (Square Miles) (1)</u>	<u>Population MSA (2)</u>	<u>Income (MSA) (thousands of dollars) (2)</u>	<u>Median Household Income MSA (3)</u>	<u>Per Capita Personal Income MSA (3)</u>	<u>Unemployment Rate (MSA) (4)</u>
2008	746,105	298	1,633,870	65,153,669	46,340	39,877	4.3%
2009	770,296	302	1,682,338	64,290,898	47,520	38,215	6.9%
2010	778,560	306	1,727,743	69,124,528	48,460	40,009	7.0%
2011	805,662	308	1,781,409	76,507,673	46,689	42,948	6.6%
2012	821,012	319	1,835,298	84,319,550	46,818	45,943	5.7%
2013	841,649	321	1,884,439	87,138,010	46,436	46,241	5.1%
2014	878,002	321	1,943,465	95,231,402	49,227	49,001	4.2%
2015	899,919	323	2,000,860	102,072,207	52,519	51,014	3.4%
2016	925,491	326	2,056,405	106,040,064	56,163	55,065	3.2%
2017	946,080	325	2,007,799 (6)	112,009,610 (5)	56,849(6)	53,908 (5)	2.9%
2008-2017 Change	26.80%	9.03%	27.17%	71.92%	22.68%	35.19%	

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

- (1) Source: City Demographer, City of Austin, Neighborhood Planning and Zoning Department based on full purpose area as of September 30.
- (2) Source: Bureau of Economic Analysis for all years except 2017 which will not be available until later in 2018.
- (3) Source: Claritas, a Nielson Company.
- (4) Source: Bureau of Labor Statistics; United States Department of Labor as of September 30.
- (5) Data not available for 2017. Figures are estimated.
- (6) Source: Nielsen SiteReports.

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

<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>
1-1-13	\$13.126	1-1-14	\$15.123	1-1-15	\$15.260	1-1-16	\$16.138	1-1-17	\$17.697	1-1-18	\$[]
2-1-13	18.079	2-1-14	19.112	2-1-15	21.092	2-1-16	21.884	2-1-17	21.866	2-1-18	[]
3-1-13	13.324	3-1-14	13.782	3-1-15	14.677	3-1-16	15.667	3-1-17	16.597	3-1-18	[]
4-1-13	12.727	4-1-14	13.803	4-1-15	14.345	4-1-16	15.528	4-1-17	17.370	4-1-18	[]
5-1-13	15.962	5-1-14	17.750	5-1-15	19.404	5-1-16	19.258	5-1-17	18.790	5-1-18	[]
6-1-13	12.869	6-1-14	15.581	6-1-15	15.958	6-1-16	17.070	6-1-17	16.838	6-1-18	[]
7-1-13	14.699	7-1-14	14.723	7-1-15	16.180	7-1-16	16.836	7-1-17	18.059	7-1-18	[]
8-1-13	16.088	8-1-14	16.970	8-1-15	19.483	8-1-16	21.467	8-1-17	[]	8-1-18	[]
9-1-13	14.119	9-1-14	15.385	9-1-15	16.429	9-1-16	16.352	9-1-17	[]		
10-1-13	14.644	10-1-14	15.309	10-1-15	16.514	10-1-16	17.106	10-1-17	[]		
11-1-13	16.187	11-1-14	17.734	11-1-15	18.952	11-1-16	19.059	11-1-17	[]		
12-1-13	14.192	12-1-14	15.735	12-1-15	16.269	12-1-16	17.033	12-1-17	[]		
	\$176.02		\$191.01		\$204.56		\$213.40		\$[]		\$[]

(1) Sales taxes are not pledged to the payment of the Obligations.

(2) Collections for 10-1-11 reflect an increase of \$1,162,541 in future period and audit collection adjustments from the prior year. Sales taxes are not pledged to the payment of the Obligations or Taxable Bonds.

Source: City of Austin, Budget Office

Utility Connections

Year	Utility Connections		
	Electric (1)	Water (1)	Gas (1)
2007	388,620	200,956	188,101
2008	397,100	207,979	198,718
2009	407,926	209,976	208,232
2010	413,870	210,885	204,823
2011	417,865	212,752	213,365
2012	422,375	214,928	217,170
2013	430,582	217,070	216,688
2014	439,403	217,036	223,500
2015	450,479	223,164	228,700
2016	461,345	227,432	223,158
2017	472,701	231,014	

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

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

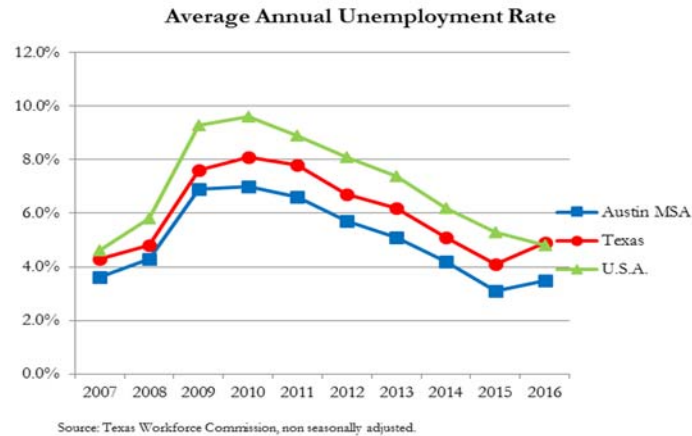
Employment by Industry in the Austin Metropolitan Area (1)

	2013		2014		2015		2016		2017	
		% of total		% of total		% of total		% of total		% of total
Mining, Logging, and Construction	47,400	5.20%	52,900	5.60%	56,800	5.80%	60,300	5.90%		
Manufacturing	58,200	6.40%	56,200	5.90%	54,900	5.60%	56,300	5.50%		
Trade, Transportation, and Utilities	161,400	17.80%	165,900	17.50%	173,800	17.60%	176,800	17.40%		
Information	24,900	2.70%	26,700	2.80%	28,000	2.80%	28,900	2.80%		
Financial Activities	50,700	5.60%	53,000	5.60%	55,400	5.60%	57,700	5.70%		
Professional and Business Services	144,600	15.90%	154,900	16.40%	165,000	16.70%	171,100	16.80%		
Education and Health Services	104,400	11.50%	109,100	11.50%	114,300	11.60%	118,600	11.60%		
Leisure and Hospitality	101,600	11.20%	108,600	11.50%	118,100	12.00%	123,200	12.10%		
Other Services	41,200	4.50%	42,400	4.50%	42,500	4.30%	44,700	4.40%		
Government	172,900	19.10%	175,700	18.60%	177,800	18.00%	181,200	17.80%		
Total nonfarm employment	907,300	100.00%	945,400	100.00%	986,600	100.00%	1,018,800	100.00%		

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

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

Average Annual Unemployment Rate



	<u>Austin MSA</u>	<u>Texas</u>	<u>U.S.A.</u>
2008	4.3%	4.8%	5.8%
2009	6.9%	7.6%	9.3%
2010	7.0%	8.1%	9.6%
2011	6.6%	7.8%	8.9%
2012	5.7%	6.7%	8.1%
2013	5.1%	6.2%	7.4%
2014	4.2%	5.1%	6.2%
2015	3.4%	4.5%	5.3%
2016	3.5%	4.9%	4.8%
2017	[REDACTED]%	[REDACTED]%	[REDACTED]%
2018 ⁽¹⁾	[REDACTED]%	[REDACTED]%	[REDACTED]%

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

Source: Texas Labor Market Review, Texas Workforce Commission.

(1) As of [REDACTED], 2018.

Housing Units

Rental rates in the City averaged \$1.41 per square foot, with an occupancy rate of 93.3% as of June 2017, per Capitol Market Research.

Residential Sales Data

<u>Year</u>	<u>Number of Sales</u>	<u>Total Volume (\$)</u>	<u>Average Price (\$)</u>
2009	20,407	4,830,082,305	236,700
2010	19,547	4,819,525,215	246,600
2011	21,034	5,281,953,406	251,100
2012	25,198	6,706,091,541	266,100
2013	29,970	8,601,985,078	287,000
2014	30,150	9,269,541,100	307,400
2015	31,560	10,462,239,995	331,500
2016	32,955	11,450,827,153	347,500
2017	16,888	6,234,521,201	365,700
2018 (1)	17,330	6,672,060,890	400,773

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

(1) As of [REDACTED] 2018

City-Wide Austin Office Occupancy Rate

<u>Year</u>	<u>Occupancy Rate</u>
2009	77.7%
2010	80.0%
2011	82.7%
2012	86.8%
2013	89.2%
2014	90.9%
2015	90.9%
2016	91.8%
2017	89.5%
2018 (1)	88.8%

(1) As of June 2018.

Source: Cushman & Wakefield.

DRAFT

APPENDIX B

AUDITED FINANCIAL STATEMENTS

DRAFT

APPENDIX C

FORMS OF BOND COUNSEL'S OPINIONS

DRAFT