

PRELIMINARY OFFICIAL STATEMENT DATED MAY 15, 2019

Ratings: Moody's: "____"
 S&P: "____"
 Fitch: "____"

(See "OTHER RELEVANT INFORMATION – Ratings")

NEW ISSUE – Book-Entry-Only

Interest on the Bonds will be included in gross income for federal income tax purposes. See "TAX MATTERS" in this document.

CITY OF AUSTIN, TEXAS
 (Travis, Williamson and Hays Counties)
\$464,740,000*

Electric Utility System Revenue Bonds, Taxable Series 2019A

Dated: Date of Initial Delivery

Due: As shown on the inside cover page

The bonds offered in this document are the \$464,740,000* City of Austin, Texas Electric Utility System Revenue Bonds, Taxable Series 2019A (the "Bonds"). The Bonds represent the sixteenth series of "Parity Electric Utility Obligations" issued pursuant to City of Austin, Texas (the "City") Ordinance No. 010118-52A, passed on January 18, 2001, by the City Council (the "City Council") of the City governing the issuance of the City's Electric Utility System indebtedness (the "Master Ordinance") and are authorized and being issued in accordance with supplemental ordinances pertaining to the Bonds, including Ordinance No. [____], passed on May 9, 2019, by the City Council (the "Sixteenth Supplement"). The Sixteenth Supplement delegated to a designated "Pricing Officer" the authority to effect the sale of the Bonds, subject to the terms of the Sixteenth Supplement. See "INTRODUCTION" in this document. The Master Ordinance provides the terms for the issuance of Parity Electric Utility Obligations and the related covenants and security provisions. The City must comply with the covenants and security provisions relating to the Prior Subordinate Lien Obligations (defined in this document) while they remain outstanding. The Master Ordinance provides that no additional revenue obligations payable from the same sources and secured in the same manner as the Prior Subordinate Lien Obligations shall be issued. Commercial Paper Obligations (defined in this document) currently authorized, having a combined pledge of Net Revenues of the Electric Light and Power System and Water and Wastewater System (the "Combined Utility Systems"), may continue to be issued on a subordinate lien basis to the Parity Electric Utility Obligations. The Bonds are special obligations of the City, payable as to both principal and interest solely from, and together with the outstanding Parity Electric Utility Obligations and Prior Subordinate Lien Bonds, equally and ratably secured only by a lien on and pledge of the Net Revenues of the City's Electric Utility System as provided in the Master Ordinance and the Sixteenth Supplement. **The taxing powers of the City and the State of Texas are not pledged as security for the Bonds.** See "SECURITY FOR THE BONDS" in this document.

The definitive Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will accrue from the date of initial delivery and shall be payable on November 15, 2019 and each May 15 and November 15 thereafter until maturity or prior redemption. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). The City reserves the right to discontinue such book-entry system. See "DESCRIPTION OF THE BONDS" in this document. U.S. Bank National Association, will serve as the initial paying agent/registrar (the "Paying Agent/Registrar") for the Bonds.

MATURITY SCHEDULE

**See "Maturity Schedule" on the
 Inside Cover Page**

The City reserves the right, at its option, to redeem the Bonds prior to their scheduled maturity. (See "DESCRIPTION OF THE BONDS - Optional Redemption of the Bonds" in this document).

The Bonds are offered for delivery when, as, and if issued and subject, among other things, to the opinions of the Attorney General of the State of Texas and Norton Rose Fulbright US LLP, Bond Counsel for the City, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. The opinion of Bond Counsel will be printed on or attached to the Bonds (See APPENDIX E – "Form of Bond Counsel's Opinion" in this document). Certain legal matters will be passed upon for the City by McCall, Parkhurst & Horton L.L.P. as Disclosure Counsel for the City and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas.

It is expected that the Bonds will be delivered through the facilities of DTC on or about June __, 2019.

J.P. Morgan

HilltopSecurities

Loop Capital Markets

Piper Jaffray & Co.

*Preliminary, subject to change.

CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
\$464,740,000*
Electric Utility System Revenue Bonds, Taxable Series 2019A
Base CUSIP No. 052414 (1)

MATURITY SCHEDULE*

<u>Maturity Date</u> <u>(November 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix (1)</u>
		%	%	
2019	\$30,785,000			
2020	30,440,000			
2021	31,270,000			
2022	32,145,000			
2023	33,080,000			
2024	34,080,000			
2025	35,150,000			
2026	36,300,000			
2027	37,520,000			
2028	38,820,000			
2029	40,210,000			
2030	41,685,000			
2031	43,255,000			

(Interest to accrue from Date of Initial Delivery)

Optional Redemption of the Bonds

The City reserves the right, at its option, to redeem the Bonds maturing on or after November 15, 20__, in whole or in part in the principal amount of \$5,000 or any integral multiple thereof, on November 15, 20__, or any date thereafter pursuant to the terms stated in this document under “DESCRIPTION OF THE BONDS – Optional Redemption of the Bonds”.

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data in this document is provided by CUSIP Global Services (“CGS”), managed by S&P Global Market Intelligence on behalf of the American Bankers Association. Copyright© 2019 CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the services provided by CGS. CUSIP numbers are provided for convenience of reference only. None of the City, the Financial Advisor, or the Underwriters take any responsibility for the accuracy of such numbers.

*Preliminary, subject to change.

CITY OF AUSTIN

Elected Officials

	<u>Term Expires January</u>
Steve Adler	Mayor 2023
Natasha Harper-Madison	Councilmember Place 1 2023
Delia Garza, Mayor Pro Tem.....	Councilmember Place 2 2021
Sabino “Pio” Renteria	Councilmember Place 3 2023
Gregorio “Greg” Casar.....	Councilmember Place 4 2021
Ann Kitchen.....	Councilmember Place 5 2023
Jimmy Flanagan	Councilmember Place 6 2021
Leslie Pool	Councilmember Place 7 2021
Paige Ellis.....	Councilmember Place 8 2023
Kathryne B. Tovo.....	Councilmember Place 9 2023
Alison Alter	Councilmember Place 10 2021

Appointed Officials

Spencer Cronk	City Manager
Elaine Hart, CPA.....	Deputy City Manager/Chief Financial Officer
Greg Canally.....	Deputy Chief Financial Officer
Ed Van Eenoo	Deputy Chief Financial Officer
Anne Morgan.....	City Attorney
Jannette S. Goodall.....	City Clerk

BOND COUNSEL

Norton Rose Fulbright US LLP
Austin and Dallas, Texas

DISCLOSURE COUNSEL FOR THE CITY

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

FINANCIAL ADVISOR

PFM Financial Advisors LLC
Austin, Texas

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Austin, Texas

For additional information regarding the City, please contact:

Belinda Weaver
Interim Treasurer
City of Austin
919 Congress Ave, Suite 1250
Austin, TX 78701
(512) 974-7885
belinda.weaver@austintexas.gov

Dennis P. Waley
Managing Director
Public Financial Management, Inc.
221 West 6th Street, Suite 1900
Austin, TX 78701
(512) 614-5323
waleyd@pfm.com

SELECTED FINANCIAL INFORMATION

Combined Electric, Water and Wastewater Systems

The selected financial information below presents selected historical information related to the Electric Utility System and the Water and Wastewater System of the City, presented on a combined basis. The financial information for the fiscal years ended September 30, 2015 through September 30, 2018 is derived from the City’s audited financial statements. This information should be read in conjunction with the audited financial statements included in APPENDIX B – “AUDITED FINANCIAL STATEMENTS” in this document.

Operating Summary

	<u>12-Months Ended 12-31-2018 (2)</u>	(000's) Fiscal Year Ended September 30 (2)			
		<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
		Combined Gross Revenues	\$1,995,799	\$1,998,556	\$1,974,948
Combined Maintenance and Operating Expenses	1,371,214	1,334,151	1,252,196	1,207,225	1,186,590
Combined Net Revenues	<u>\$ 624,585</u>	<u>\$ 664,405</u>	<u>\$ 722,752</u>	<u>\$ 734,590</u>	<u>\$ 689,760</u>
Principal and Interest on Revenue Bonds (1)	\$ 74,212	\$ 80,433	\$ 60,298	\$ 33,867	\$ 33,112
Debt Service Coverage on Revenue Bonds (1)	8.42x	8.26x	11.99x	21.69x	20.83x

(1) Includes Prior First Lien Obligations, which were full paid and discharged on May 15, 2019, and Prior Subordinate Lien Obligations only, which are the obligations secured by a pledge of the Net Revenues of the Combined Utility Systems.

(2) See “OTHER RELEVANT INFORMATION – Independent Auditors” in this document.

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

Electric Utility System Only

The selected financial information below presents selected historical information related to the Electric Utility System of the City. The financial information for the fiscal years ended September 30, 2015 through September 30, 2018 is derived from the City's audited financial statements. This information should be read in conjunction with the audited financial statements included in APPENDIX B – "AUDITED FINANCIAL STATEMENTS" in this document.

Operating Summary

	(000's)				
	12-Months Ended 12-31-2018 (2)	Fiscal Year Ended September 30 (1)			
		<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Gross Revenues	\$1,432,962	\$1,417,232	\$1,373,020	\$1,378,749	\$1,359,097
Maintenance and Operating Expenses	<u>1,117,078</u>	<u>1,083,928</u>	<u>1,018,604</u>	<u>989,768</u>	<u>978,283</u>
Net Revenues	<u>\$315,804</u>	<u>\$333,304</u>	<u>\$354,416</u>	<u>\$388,981</u>	<u>\$380,814</u>
Principal and Interest on Prior First Lien/Prior Subordinate Lien Revenue Obligations (1)	9,128	12,604	12,651	19,742	10,746
Net Revenues available for Separate Lien Obligations	306,756	320,700	341,765	369,239	370,068
Principal and Interest on Parity Electric Utility Obligations	\$82,843	\$81,024	\$92,319	\$107,989	\$96,175
Debt Service Coverage (Parity Electric Utility Obligations)	3.70x	3.96x	3.70x	3.42x	3.85x

(1) The Prior First Lien Obligations, which were fully paid and discharged on May 15, 2019, and Prior Subordinate Lien Obligations are obligations secured by a pledge of the Net Revenues of the Combined Utility Systems.

(2) See "OTHER RELEVANT INFORMATION – Independent Auditors" in this document.

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

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

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

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

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

CUSIP numbers have been assigned to this issue by CGS, and neither the City, PFM Financial Advisors LLC, nor the Underwriters are responsible for the selection or correctness of CUSIP numbers.

None of the City, PFM Financial Advisors LLC., or the Underwriters make any representation regarding the information contained in this Official Statement regarding DTC or its book-entry-only system, as such information has been furnished by DTC. Neither the City nor PFM Financial Advisors LLC make any representations regarding the information concerning the Underwriters contained in this document in “OTHER RELEVANT INFORMATION – Underwriting.”

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

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

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

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

TABLE OF CONTENTS

SELECTED FINANCIAL INFORMATION	iii
Combined Electric, Water and Wastewater Systems	iii
Operating Summary	iii
Electric Utility System Only	iv
Operating Summary	iv
INTRODUCTION	1
PLAN OF FINANCING	2
SOURCES AND USES OF FUNDS	2
DEBT PAYABLE FROM SYSTEMS REVENUES	3
DEBT SERVICE REQUIREMENTS	4
SECURITY FOR THE BONDS	5
Pledges of Net Revenues	5
Rate Covenant Required By Prior First Lien Obligations and Prior Subordinate Lien Obligations	5
Rate Covenant Required by Master Ordinance	6
Reserve Fund for Prior First Lien Obligations and Prior Subordinate Lien Obligations	6
No Reserve Fund for Parity Electric Utility Obligations	7
Issuance of Additional Prior First Lien Obligations and Prior Subordinate Lien Obligations Precluded	7
Issuance of Parity Electric Utility Obligations	8
Short-Term Parity Electric Utility Obligations	8
Special Facilities Debt and Subordinated Debt	8
Credit Agreements	9
System Fund	9
DESCRIPTION OF THE BONDS	9
General	9
Optional Redemption of the Bonds	9
Notice of Redemption	10
Defeasance	10
Paying Agent/Registrar	10
Record Date for Interest Payment	11
Transfer, Exchange and Registration	11
Bondholders' Remedies	11
BOOK-ENTRY-ONLY SYSTEM	12
THE SYSTEMS	15
ELECTRIC UTILITY SYSTEM	15
Management	15
Service Area	15
Real Estate Taxes	15
Customer Base – Average Monthly Number of Customers	16
Physical Property	16
Generation Facilities– TABLE ONE	17
Fuel Supply	18
Fuel Type	18
DESCRIPTION OF PHYSICAL PROPERTY	18
Fayette Power Project	18
Austin Energy Gas Generation Facilities	19
South Texas Project	19
Nacogdoches Power, LLC	20
CUSTOMER RATES	20
Retail Service Rates	20
Power Supply Adjustment	21
Typical Residential Electric Bills of Large Texas Cities	21
CUSTOMER STATISTICS	22
Five Year Electric Customer Statistics – TABLE TWO	22
Electric Rates	23
Transmission Rates	23
GreenChoice® Energy Rider	23
Power and Energy Sales Contracts	23
Generation and Use Data – TABLE FOUR	24
Energy Risk Management	25

Power and Energy Purchase Contracts	25
Electric Transmission and Distribution System Statistics.....	27
ISO 9001 Registration.....	27
Conventional System Improvements.....	28
\$890,000,000 Five Year Capital Spending Plan.....	28
Austin Energy Smart Meter Installation Program.....	28
STRATEGIC PLANS, GOALS AND POLICIES.....	28
Strategic Plan.....	28
The 2027 Plan: Goals and Directives	29
Financial Policies	30
CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY	32
Rate Regulation.....	32
ERCOT Wholesale Market Design.....	32
Federal Rate Regulation.....	33
Environmental Regulation - General.....	33
Environmental Regulation Related to Air Emissions.....	33
Environmental Regulation Related to Water Discharges.....	34
Environmental Regulation Related to Hazardous Wastes and Remediation	34
Nuclear Regulation.....	34
Events Affecting the Nuclear Industry.....	35
THE WATER AND WASTEWATER SYSTEM.....	37
Management.....	37
WATER UTILITY.....	37
Service Area.....	37
Water Supply.....	37
Water Rights.....	38
Water Treatment Plants.....	39
Water Use Management Plans, Austin’s Integrated Water Resource Plan, and LCRA Water Management Plans	40
Water Storage and Pumping Facilities	41
Historical Water Pumpage - TABLE EIGHT	42
Projected Water Pumpage – TABLE NINE.....	42
Information Concerning Water Sales – TABLE TEN	43
Large Water Customers – TABLE ELEVEN	44
WASTEWATER SYSTEM.....	48
Service Area.....	48
Facilities	48
Lift Stations	49
Historical Wastewater Flows – TABLE TWELVE.....	49
Projected Wastewater Flows – TABLE THIRTEEN.....	49
COMBINED WATER AND WASTEWATER SYSTEM INFORMATION.....	50
Future Capital Improvements for Water and Wastewater System	50
Services Financed by Utility Districts.....	50
Water Reuse Facilities	51
Water and Wastewater Rates.....	51
Water Service Rates Effective as of November 1, 2016 – TABLE FOURTEEN.....	53
Wastewater Service Rates Effective as of November 1, 2016 – TABLE FIFTEEN	55
Wholesale and Outside City Rate Challenges	55
Water and Wastewater Capital Recovery Fees	56
Analysis of Water Bills - TABLE SIXTEEN A.....	57
Analysis of Wastewater Bills - TABLE SIXTEEN B	58
COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM OPERATIONS.....	59
OPERATING STATEMENT ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM.....	60
DISCUSSION OF OPERATING STATEMENT.....	62
Austin Energy Revenues.....	62
Water and Wastewater System Revenues.....	62
Austin Energy Expenses.....	62
Water and Wastewater System Expenses.....	62
The Electric Utility System and Water and Wastewater System – TABLE FIVE	63
LITIGATION.....	1
THE CITY.....	1
Administration	1

City Manager – Spencer Cronk	1
Chief Financial Officer / Deputy City Manager – Elaine Hart, CPA	2
Deputy Chief Financial Officer – Greg Canally	2
Services Provided by the City	2
Employees	2
Annexation Program	2
Recent Annexation	3
Future Annexation	4
Pension Plans	4
Other Post-Employment Benefits	6
Insurance	6
INVESTMENTS	6
Legal Investments.....	7
Investment Policies	8
Additional Provisions.....	9
Current Investments	9
TAX MATTERS.....	10
Payments of Stated Interest on the Bonds.....	10
Original Issue Discount.....	10
Premium	10
Medicare Contribution Tax.....	11
Disposition of Taxable Bonds and Market Discount.....	11
Legal Defeasance.....	11
Backup Withholding.....	11
Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations.....	12
Foreign Account Tax Compliance Act.....	12
Reporting of Interest Payments.....	12
CONTINUING DISCLOSURE OF INFORMATION.....	13
Annual Reports.....	13
Disclosure Event Notices.....	13
Availability of Information.....	14
Limitations and Amendments.....	14
Compliance with Prior Undertakings	14
OTHER RELEVANT INFORMATION.....	15
Ratings.....	15
Registration and Qualification of Bonds.....	15
Legal Investments and Eligibility to Secure Public Funds in Texas	15
Legal Opinions.....	15
Financial Advisor.....	16
Underwriting	16
Forward - Looking Statements.....	17
Independent Auditors.....	17
Miscellaneous Information.....	17

APPENDICES

GENERAL INFORMATION REGARDING THE CITY	APPENDIX A
AUDITED FINANCIAL STATEMENTS.....	APPENDIX B
SUMMARY OF CERTAIN MASTER ORDINANCE PROVISIONS	APPENDIX C
SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS.....	APPENDIX D
FORM OF BOND COUNSEL'S OPINION	APPENDIX E

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

OFFICIAL STATEMENT

Relating to
CITY OF AUSTIN, TEXAS
 (Travis, Williamson and Hays Counties)

\$464,740,000*
Electric Utility System Revenue Bonds, Taxable Series 2019A

INTRODUCTION

This Official Statement is being furnished in connection with the proposed issuance by the City of Austin, Texas (the “City”) of its \$464,740,000* City of Austin, Texas Electric Utility System Revenue Bonds, Taxable Series 2019A (the “Bonds”). The Bonds are to be issued pursuant to authority conferred by the laws of the State of Texas (the “State”), Ordinance No. 010118-53A, passed by the City Council on January 18, 2001 (the “Master Ordinance”) providing the terms for the issuance of Parity Electric Utility Obligations and the related covenant and security provisions, and Ordinance No. [____], passed by the City Council on May 9, 2019, pertaining to the Bonds (the “Sixteenth Supplement”). The Sixteenth Supplement delegated to a designated “Pricing Officer” the authority to effect the sale of the Bonds, subject to the terms of the Sixteenth Supplement. A summary of certain provisions of the Master Ordinance is attached to this document as APPENDIX C. So long as the Prior Subordinate Lien Obligations are outstanding, the City must comply with the covenants contained in the ordinances (collectively, the “Bond Ordinance”) authorizing their issuance. A summary of certain provisions of the Bond Ordinance is attached as APPENDIX D. **Capitalized terms not otherwise defined in this document have the meanings assigned in the Master Ordinance, the Sixteenth Supplement, or the Bond Ordinance, as applicable (see APPENDICES C and D).** All descriptions of documents contained in this document are only summaries and are qualified in their entirety by reference to each such document.

References to web site 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. References to web sites and the information or links contained therein are not incorporated into, and are not a part of, this document.

The Bonds represent the sixteenth encumbrance to be issued or incurred as Parity Electric Utility Obligations under the Master Ordinance. The City has issued certain Prior Subordinate Lien Obligations and Commercial Paper Obligations secured by a joint and several pledge of the Net revenues of the City’s Electric Light and Power System and Waterworks and Sewer System (the “Combined Utility Systems”). Water and Wastewater System and Electric Utility System. Pursuant to the Master Ordinance, no additional Prior Subordinate Lien Obligations may be issued. When the Prior Subordinate Lien Obligations and the Commercial Paper Obligations have been fully paid or discharged so that such obligations are no longer deemed to be outstanding under the terms of their respective ordinances and by law, all outstanding revenue obligations of Austin Electric shall be Parity Electric Utility Obligations, or obligations subordinate to the outstanding Parity Electric Utility Obligations, and shall be payable only from and secured only by a lien on, and pledge of, the Net Revenues of the Electric Utility System and the revenues deposited to the credit of the accounts and funds established and maintained as required by the Supplemental Ordinances providing for their issuance. The Master Ordinance governs the issuance of Parity Electric Utility Obligations and contains related covenants and security provisions. The City must also comply with the covenants and security provisions relating to the Prior Subordinate Lien Obligations while any such obligations remain outstanding.

On May 15, 2019, the last remaining maturity of the Prior First Lien Obligations was paid in full, and the terms of the ordinance governing the issuance of Prior First Lien Obligations are no longer effective. The City has also issued revenue obligations secured solely by the net revenues of the Water and Wastewater System pursuant to a separate master ordinance, the terms and provisions of which differ substantially from those of the Master Ordinance.

As noted under “DEBT PAYABLE FROM SYSTEMS REVENUES” in this document, \$90,967,962 of Prior Subordinate Lien Obligations (with maturities extending through May 15, 2025) is outstanding as May 15, 2019 and no assurances can be given as to when or if such obligations will be defeased or paid prior to their stated maturity so as to allow the Parity Electric Utility Obligations (including the Bonds) to be first lien obligations of the Net Revenues of the Electric Utility System.

*Preliminary, subject to change.

PLAN OF FINANCING

The Bonds are being issued to finance improvements and extensions to the Electric Utility System. See “DESCRIPTION OF PHYSICAL PROPERTY – Nacogdoches Power, LLC” in this document. Proceeds from the Bonds will also be used to pay costs of issuance.

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds for the Bonds are as follows.

Sources:

Par Amount of Bonds	\$
Total Sources of Funds	\$

Uses:

Acquisition Fund Deposit	\$
Underwriters' Discount	\$
Cost of Issuance	
Total Uses of Funds	\$

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

DRAFT

DEBT PAYABLE FROM SYSTEMS REVENUES

(Reflects principal outstanding as of May 16, 2019)

<u>Combined Utility Systems Obligations</u> (a)	
Prior Subordinate Lien Obligations	<u>\$ 90,967,962</u>
<u>Parity Electric Utility Obligations</u> (b)	\$1,530,250,000
<u>Water and Wastewater System Separate Lien Obligations</u> (c)	
Parity Water and Wastewater Obligations	\$2,134,405,000
<u>Commercial Paper</u> (d)	\$311,927,000
<u>General Obligation Bonds</u> (e)	\$5,209,939
<u>Assumed Municipal Utility District Obligations</u> (f)	\$4,509,832
TOTAL	<u>\$4,077,269,733</u>

See "SECURITY FOR THE BONDS" in this document.

(a) Prior First Lien Obligations issued by the City were fully paid and discharged on May 15, 2019.

(b) Includes the Bonds.

(c) The Water and Wastewater System Separate Lien Obligations are payable from the Net Revenues of the Water and Wastewater System only.

(d) The City has a tax-exempt commercial paper program in place for the Combined Utility Systems in an amount not to exceed \$400,000,000 and a taxable commercial paper program for the Combined Utility Systems in an amount not to exceed \$75,000,000. The obligations issued pursuant to each such program are referred to herein collectively as the "Commercial Paper Obligations." The Commercial Paper Obligations and the reimbursement obligations to the respective banks providing the direct-pay letter of credit supporting the Commercial Paper Obligations are payable from the Net Revenues of the Combined Utility Systems after providing for the payment of the Prior Subordinate Lien Obligations, the Parity Electric Utility Obligations and the Water and Wastewater System Separate Lien Obligations. The City's current financial policy provides that the proceeds of Commercial Paper Obligations issued for the Electric Utility System can only be utilized (i) to finance capital improvements required for normal business operation for Electric Utility System additions, extensions, and improvements or improvements to comply with local, state and federal mandates or regulations without prior voter authorization; however, this shall not apply to new nuclear or conventional coal generation, or (ii) for voter-authorized projects (although such voter authorization is not required by State law). See "SECURITY FOR THE BONDS – Issuance of Parity Electric Utility Obligations" in this document.

(e) Contractual Obligations and Public Improvement Bonds are secured by City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Electric Utility System and Water and Wastewater System. See "THE CITY – Recent Annexations."

(f) Such bonds are secured by City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Services Financed by Utility Districts."

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

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Parity Electric Utility System Obligations (a)							
	Prior Subordinate Lien Obligations (a)	The Taxable Series 2019A Bonds (b)		Existing Parity Electric Utility System Obligations (a)	Total Parity Electric Utility System Obligations (a) (b)	Separate Lien Water & Wastewater Obligations (a)	Assumed MUD Obligations (a) (c)	Total Debt Service Payable From Systems Revenues (a)
		Principal	Interest					
2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,522,500	\$ 881,915	\$ 2,404,415
2020	21,090,425	30,785,000	13,268,782	88,664,540	132,718,323	151,320,371	661,645	305,790,764
2021	14,963,350	30,440,000	13,614,113	86,834,126	130,888,239	168,823,159	669,724	315,344,472
2022	20,964,250	31,270,000	12,784,623	87,825,724	131,880,347	175,783,963	663,681	329,292,241
2023	19,950,225	32,145,000	11,907,687	83,497,840	127,550,527	178,316,263	666,568	326,483,583
2024	19,666,450	33,080,000	10,972,614	84,262,955	128,315,569	188,154,488	664,896	336,801,402
2025	15,834,863	34,080,000	9,975,534	84,059,974	128,115,508	188,016,989	668,673	332,636,032
2026	-	35,150,000	8,905,029	86,644,774	130,699,803	185,552,415	604,005	316,856,223
2027	-	36,300,000	7,757,442	97,768,898	141,826,340	184,542,055	-	326,368,395
2028	-	37,520,000	6,535,416	97,556,236	141,611,651	191,601,454	-	333,213,105
2029	-	38,820,000	5,233,494	84,646,544	128,700,038	174,983,025	-	303,683,063
2030	-	40,210,000	3,846,170	71,221,830	115,277,999	169,119,469	-	284,397,468
2031	-	41,685,000	2,367,596	71,117,481	115,170,077	130,966,837	-	246,136,913
2032	-	43,255,000	802,380	61,551,196	105,608,576	116,602,379	-	222,210,955
2033	-	-	-	61,268,118	61,268,118	116,632,740	-	177,900,858
2034	-	-	-	57,081,010	57,081,010	116,587,848	-	173,668,859
2035	-	-	-	56,912,786	56,912,786	116,402,303	-	173,315,089
2036	-	-	-	56,898,190	56,898,190	115,712,622	-	172,610,812
2037	-	-	-	56,654,368	56,654,368	113,621,910	-	170,276,277
2038	-	-	-	56,512,829	56,512,829	101,607,440	-	158,120,268
2039	-	-	-	55,270,106	55,270,106	91,542,658	-	146,812,764
2040	-	-	-	31,494,251	31,494,251	91,107,079	-	122,601,330
2041	-	-	-	31,343,035	31,343,035	78,996,802	-	110,339,837
2042	-	-	-	30,947,500	30,947,500	67,714,250	-	98,661,750
2043	-	-	-	28,333,875	28,333,875	54,594,125	-	82,928,000
2044	-	-	-	29,412,125	29,412,125	42,891,750	-	72,303,875
2045	-	-	-	29,038,625	29,038,625	18,632,250	-	47,670,875
2046	-	-	-	29,110,000	29,110,000	18,622,250	-	47,732,250
2047	-	-	-	-	-	7,103,250	-	7,103,250
Total	\$ 112,469,563	\$ 464,740,000	\$ 107,970,878	\$ 1,695,928,935	\$ 2,268,639,813	\$ 3,357,074,642	\$ 5,481,107	\$ 5,743,665,125

- (a) Debt service remaining in Fiscal Year 2019 as of May 16, 2019. Prior First Lien Obligations previously issued by the City were fully paid and discharged on May 15, 2019.
 (b) Representative debt service on the Taxable Series 2019A Bonds is preliminary and subject to change.
 (c) Assumed municipal utility district obligations are secured by City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.

SECURITY FOR THE BONDS

Pledges of Net Revenues

Prior Subordinate Lien Obligations. . . . The Net Revenues of the Combined Utility Systems have been pledged, jointly and severally, on a first lien basis to the payment and security of the Prior Subordinate Lien Obligations. As of May 15, 2019, the Prior First Lien Obligations were fully paid and discharged, and the lien securing the Prior Subordinate Lien Obligations ascended to a first lien pledge of the Net Revenues. In the ordinances authorizing the issuance of the Prior Subordinate Lien Obligations, the City retained the right to issue “Separate Lien Obligations”, which are defined as obligations payable solely from the Net Revenues of either the Electric Utility System or the Water and Wastewater System, but not both, and such payments for their retirement by the terms of the ordinance authorizing their issuance are secured solely by a lien on and pledge of the Net Revenues of the Electric Utility System or the Net Revenues of the Water and Wastewater System, but not both. The pledge of the Net Revenues of the Electric Utility System and the pledge of the Net Revenues of the Water and Wastewater System to the related Separate Lien Obligations are of equal dignity with the lien on and pledge of these Net Revenues of the Combined Utility Systems securing the payment of the Prior Subordinate Lien Obligations.

As of May 15, 2019, there is \$90,967,962 in aggregate principal amount of Prior Subordinate Lien Obligations outstanding, with the final maturity of the outstanding Prior Subordinate Lien Obligations occurring on May 15, 2025. As of May 15, 2019, the Prior First Lien Obligations were fully paid and discharged, and the lien securing the Prior Subordinate Lien Obligations ascended to a first lien pledge of the Net Revenues.

Parity Electric Utility Obligations. . . . The Bonds are “Separate Lien Obligations” under the terms of the Bond Ordinance, and represent the sixteenth issuance, or series, of Separate Lien Obligations of the City’s Electric Utility System. The Master Ordinance and the Sixteenth Supplement pledge the Net Revenues of the Electric Utility System to the payment of the “Parity Electric Utility Obligations” (which includes the Outstanding Parity Electric Utility Obligations, the Bonds and additional parity obligations issued or incurred subsequent to the issuance of the Bonds). The Parity Electric Utility Obligations, together with the Prior Subordinate Lien Obligations, are equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Electric Utility System.

In addition to the pledge of Net Revenues of the Electric System, the Parity Electric Utility Obligations are secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund, any special fund or funds created and maintained for the payment and security of the Parity Electric Utility Obligations pursuant to a Supplemental Ordinance and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Electric Utility Obligations pending expenditure in accordance with the terms of the Master Ordinance and any Supplemental Ordinance. The Sixteenth Supplement affirms that a Reserve Fund will be created and established only when the “Pledged Net Revenues” of the Electric Utility System for a Fiscal Year (the Net Revenues of the Electric Utility System in a Fiscal Year remaining after deducting the amounts, if any, expended to pay the annual debt service requirements for Prior Subordinate Lien Obligations in such Fiscal Year) are less than one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations due and payable in such Fiscal Year. When a Reserve Fund is required to be maintained, the amount to be accumulated is to be based on the amount of the shortfall of the Pledged Net Revenues below 150% of the annual Debt Service Requirements for the Parity Electric Utility Obligations and ranges from a maximum amount of 50% of the Maximum Debt Service Requirement when the Pledged Net Revenues for a Fiscal Year are less than 110% of the annual Debt Service Requirement for the Fiscal Year, to a minimum of 10% of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 150% of the annual Debt Service Requirement for that Fiscal Year, but greater than or equal to 140% of the annual Debt Service Requirement for that Fiscal Year. Currently, the Pledged Net Revenues are in excess of 150% of the Annual Debt Service Requirements, and therefore the City is not required, and currently does not intend, to fund a reserve fund for the Bonds (see “No Reserve Fund for Parity Electric Utility Obligations” below).

Rate Covenant Required By Prior Subordinate Lien Obligations

The City has agreed to establish rates and charges for the facilities and services of the Combined Utility Systems to provide Gross Revenues of the Combined Utility Systems in each Fiscal Year sufficient (i) to pay the Maintenance and Operating Expenses of the Combined Utility Systems, (ii) to fund the reserves required for Prior Subordinate Lien Obligations, Separate Lien Obligations and other obligations or evidences of indebtedness payable only from and secured solely by a

lien on and pledge of the Net Revenues of the Combined Utility Systems, and (iii) to produce Net Revenues of the Combined Utility Systems (after satisfaction of the amount required in (ii) above) equal to at least (a) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Separate Lien Obligations plus (b) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Prior Subordinate Lien Obligations and all other indebtedness, except Separate Lien Obligations, payable only from and secured solely by a lien on and pledge of the Net Revenues of either the Electric Light and Power System or the Waterworks and Sewer System, or both.

Rate Covenant Required by Master Ordinance

In the Master Ordinance, the City has agreed to fix, establish, maintain and collect such rates, charges and fees for electric power and energy and services furnished by the Electric Utility System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues of the Electric Utility System each Fiscal Year sufficient: (i) to pay all current Operating Expenses; (ii) to produce Net Revenues of the Electric Utility System, after (x) deducting amounts expended during the Fiscal Year from the Electric Utility System's Net Revenues for the payment of debt service requirements of the Prior Subordinate Lien Obligations and (y) taking into account ending fund balances in the Electric Fund to be carried forward in a Fiscal Year, equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Electric Utility Obligations; and (iii) to pay, after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Electric Utility System reasonably anticipated to be paid from Gross Revenues of the Electric Utility System.

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

Reserve Fund for Prior Subordinate Lien Obligations

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

The amount on deposit to the credit of the common Reserve Fund securing the Prior Subordinate Lien Obligations under the Bond Ordinance as of May 15, 2019 is \$_____ \$ and is funded with cash, taking into effect the amount of \$_____ which was contributed to the retirement of Prior First Lien Obligations maturing on May 15, 2019. The City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following such substitution, the cash and securities released from the Reserve Fund shall be

deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior Subordinate Lien Obligations in a manner that reduces the principal amount and “Maturity Amount” (in the case of Prior Subordinate Lien Obligations issued as capital appreciation bonds, the principal and interest on which is payable upon maturity) of outstanding Prior Subordinate Lien Obligations.

No Reserve Fund for Parity Electric Utility Obligations

The Master Ordinance does not provide for a reserve fund for the Parity Electric Utility Obligations. The Sixteenth Supplement, however, affirms that a reserve fund shall not be required to be established or maintained by the City for the payment of the Parity Electric Utility Obligations so long as the “Pledged Net Revenues” of the Electric Utility System for a Fiscal Year (the Net Revenues of the Electric Utility System in a Fiscal Year remaining after deducting the amounts, if any, expended to pay the annual debt service requirements for Prior Subordinate Lien Obligations in such Fiscal Year) equal or exceed one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations due and payable in such Fiscal Year. If for any Fiscal Year such Pledged Net Revenues do not exceed 150% of the Annual Debt Service Requirements of the Parity Electric Utility Obligations, the City shall be obligated to establish and maintain on the books of the City a separate fund or account designated as the “Electric Utility System Revenue Obligation Reserve Fund” (the “Electric Utility System Reserve Fund”). When an Electric Utility System Reserve Fund is required to be established, the Required Reserve Amount to be accumulated and maintained in such Fund shall be determined and redetermined as follows:

- (i) ten per cent (10%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 150% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 140% of the annual Debt Service Requirement for such Fiscal Year;
- (ii) twenty per cent (20%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 140% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 130% of the annual Debt Service Requirement for such Fiscal Year;
- (iii) thirty per cent (30%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 130% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 120% of the annual Debt Service Requirement for such Fiscal Year;
- (iv) forty per cent (40%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 120% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 110% of the annual Debt Service Requirement for such Fiscal Year; and
- (v) fifty per cent (50%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 110% of the annual Debt Service Requirement for such Fiscal Year.

When an Electric Utility Reserve Fund is required, the City may deposit cash to the Electric Utility Reserve Fund or acquire and deposit a surety bond to provide the Required Reserve Amount, or deposit a combination of such cash and a surety bond. In funding such Required Reserve Amount, or to increase the Required Reserve Amount pursuant to a Supplement, the Required Reserve Amount or increase in the Required Reserve Amount, as applicable, may be funded in up to twelve (12) substantially equal consecutive monthly deposits commencing not later than the month following the receipt of audited financial statements for the Electric Utility System for the preceding Fiscal Year. See “SELECTED FINANCIAL INFORMATION – Electric Utility System Only” in this document.

Issuance of Additional Prior Subordinate Lien Obligations Precluded

The Master Ordinance provides that no additional revenue obligations of the Combined Utility Systems will be issued on parity with the Prior Subordinate Lien Obligations. The Prior First Lien Obligations were paid in full on May 15, 2019 and

are no longer outstanding. The ordinance governing the issuance of Prior First Lien Obligations is no longer in effect.

Issuance of Parity Electric Utility Obligations

Under the Master Ordinance the City reserves and shall have the right and power to issue or incur Parity Electric Utility Obligations for any purpose authorized by law pursuant to the provisions of the Master Ordinance and any Supplement. The City may issue, incur, or otherwise become liable in respect of any Parity Electric Utility Obligations if a Designated Financial Officer shall certify in writing: (i) the City is in compliance with all covenants contained in the Master Ordinance and any Supplement, is not in default in the performance and observance of any of the terms, provisions and conditions in the Master Ordinance and any Supplement to the Master Ordinance, and the Funds and Accounts established for the payment and security of the Parity Electric Utility Obligations then Outstanding contain the amounts then required to be deposited in those Funds and Accounts, or the proceeds of sale of the Parity Electric Utility Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts, if any; and (ii) the Net Revenues of the Electric Utility System, for the last completed Fiscal Year preceding the date of the then proposed Parity Electric Utility Obligations, or for any twelve (12) consecutive calendar month period ending not more than ninety (90) days before the date of the then proposed Parity Electric Utility Obligations and after deducting amounts expended from the Electric Utility System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior Subordinate Lien Obligations, exceed one hundred ten percent (110%) of the maximum Annual Debt Service Requirement of the Parity Electric Utility Obligations to be Outstanding after giving effect to the Parity Electric Utility Obligations then being issued.

For purposes of clause (ii) in the preceding paragraph, if Parity Electric Utility Obligations are issued to refund less than all of the Parity Electric Utility Obligations then Outstanding, the required Designated Financial Officer's certificate described above shall give effect to the issuance of the proposed refunding Parity Electric Utility Obligations (and shall not give effect to the Parity Electric Utility Obligations being refunded following their cancellation or provision being made for their payment).

In making a determination of Net Revenues of the Electric Utility System, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Electric Utility System that became effective at least thirty (30) days before the last day of the period for which Net Revenues of the Electric Utility System are determined and, for purposes of satisfying the of the Electric Utility System Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Electric Utility System for the period of time covered by such certification based on such change in rates and charges being in effect for the entire period covered.

Prior to the end of the fiscal year ending September 30, 2019, the City intends to issue additional Parity Electric Utility Obligations, in one or more series, in an aggregate principal amount of approximately \$300,000,000, to refinance outstanding Commercial Paper Obligations (see footnote (c) to "DEBT PAYABLE FROM SYSTEMS REVENUES" in this document) and . The principal and interest due on the Commercial Paper Obligations are to be paid from funds deposited with U.S. Bank National Association, the issuing and paying agent for the refunded Commercial Paper Obligations, in such amounts sufficient to accomplish the discharge and final payment on the refunded Commercial Paper Obligations on their scheduled maturity dates.

Short-Term Parity Electric Utility Obligations

Pursuant to the Master Ordinance, the City may issue or incur additional Parity Electric Utility Obligations issued in the form of commercial paper. For the purposes of satisfying the Electric Utility System Net Revenues coverage test for additional Parity Electric Utility Obligations, the term "Outstanding Funded Debt" shall include Subordinated Debt that matures by its terms, or that is renewable at the option of the City to a date, more than one year after the date of its issuance by the City. The terms and conditions pertaining to the issuance of Parity Electric Utility Obligations in the form of commercial paper, including, without limitation, the security, liquidity and reserves necessary to support such commercial paper obligations, shall be contained in a Supplemental Ordinance relating to their issuance. The City has no present intention of issuing additional Parity Electric Utility Obligations in the form of commercial paper.

Special Facilities Debt and Subordinated Debt

The City may incur Special Facilities Debt and Subordinated Debt without limitation.

Credit Agreements

Payments to be made under a Credit Agreement may be treated as Parity Electric Utility Obligations if the City Council makes a finding in the Supplement authorizing and approving the Credit Agreement that Gross Revenues of the Electric Utility System will be sufficient to meet the obligations of the Electric Utility System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Electric Utility Obligations then Outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

Electric System Fund

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

FIRST: To the payment of Operating Expenses, as defined in the Master Ordinance or required by statute to be a first charge on and claim against the Gross Revenues.

SECOND: To the payment of the amounts required to be deposited to the credit of the common reserve fund established for the Prior Subordinate Lien Obligations.

THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable, and (ii) the special Funds and Accounts for the payment of the Parity Electric Utility Obligations.

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

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

DESCRIPTION OF THE BONDS

General

The Bonds will be dated the date of delivery. Interest on the Bonds will accrue from their dated date and will be payable on November 15, 2019 and each May 15 and November 15 thereafter until maturity or prior redemption. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will mature on November 15 in the years and in the principal amounts set forth on the inside cover page of this document. Principal of the Bonds is payable at maturity, subject only to prior redemption as described in this document.

Optional Redemption of the Bonds*

The City reserves the right at its option to redeem the Bonds maturing on or after November 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on November 15, 20__, or any date thereafter, at the par value plus accrued interest to the date fixed for redemption.

*Preliminary, subject to change.

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

Notice of Redemption

Not less than thirty (30) days before a redemption date for the Bonds, a notice of redemption shall be sent by United States mail, first-class postage prepaid, in the name of the City, to the registered owner of each Bond to be redeemed in whole or in part at the address of the bondholders appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the bondholder.

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

Defeasance

The City may defease and discharge its obligation to the Holders of any or all of the Bonds to pay the principal of, redemption premium, if any, and interest owing on the Bonds by depositing with the Paying Agent/Registrar, or other authorized escrow agent, in trust:

- (a) cash in an amount equal to the principal amount of, redemption premium, if any, and interest to become due on the Bonds to the date of maturity or prior redemption; or
- (b) Government Obligations, consisting of:
 - (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; or
 - (ii) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent; or
 - (iii) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of acquisition by the City are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent; or
 - (iv) such other obligations authorized by law to be acquired for defeasance and payment of outstanding indebtedness of the City.

Deposits of cash and Government Obligations to defease the Bonds shall be held in trust and are required to be affirmed by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to pay the principal of, redemption premium, if any, and interest on the Bonds being defeased.

Paying Agent/Registrar

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

Paying Agent/Registrar in accordance with the terms of the Sixteenth Supplement.

Interest on the Bonds shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (defined in this document), and such interest shall be paid:

- (i) by check sent by United States Mail, first-class postage prepaid, to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar; or
- (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner.

Principal of the Bonds will be paid to the registered owner at their stated maturity upon their presentation to the designated payment/transfer office of the Paying Agent/Registrar. If a date for making a payment on the Bonds, the taking of any action or the mailing of any notice by the Paying Agent/Registrar shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment, taking of action or mailing of a notice shall be the next day which is not a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and a payment, action or mailing on such date shall have the same force and effect as if made on the original date the payment was due or the action was required to be taken or the mailing was required to be made. As of the date of this document, the office of the Paying Agent/Registrar in Houston, Texas is its designated payment/transfer office.

Record Date for Interest Payment

The record date (“Record Date”) for the interest payable on any interest payment date for the Bonds means the close of business on the last business day of the month before each interest payment date. In the event of a non-payment of interest on the Bonds on one or more maturities on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment for such maturity or maturities (a “Special Record Date”) will be established by the Paying Agent/Registrar, if any, when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the “Special Payment Date”, which is fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days before the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner of a Bond of such maturity or maturities appearing on the books of the Paying Agent/Registrar at the close of business on the last business day before the date the notice is mailed.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, printed certificates will be delivered to the Holders and thereafter the Bonds may be transferred and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar, and such registration shall be at the expense of the City, except for any related tax or other governmental charge. A Bond may be assigned by execution of an assignment form on the Bonds or by other instruments of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds of like series and aggregate principal amount will be delivered by the Paying Agent/Registrar to the last assignee (the new registered owner) in exchange for such transferred and assigned Bonds not more than three (3) days after receipt of the Bonds to be transferred in proper form. Such new Bond or Bonds must be in the denomination of \$5,000 or any integral multiple thereof within a maturity.

Bondholders’ Remedies

Neither the Master Ordinance nor the Sixteenth Supplement specify events of default with respect to the Bonds. If the City defaults in the payment of principal, interest or redemption price on the Bonds when due, or the City defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Master Ordinance or the Sixteenth Supplement, as applicable, the registered owners may seek a writ of mandamus to compel the City or City officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds, the Master Ordinance, or the Sixteenth Supplement, as applicable, and if the City’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the courts, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Neither

the Master Ordinance nor the Sixteenth Supplement provide for the appointment of a trustee to represent the interests of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Sixteenth Supplement, as applicable, 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.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the City’s sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or covenants contained in the Master Ordinance or the Sixteenth Supplement. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) that 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.

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 revenue, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce creditors’ rights 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 opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

For a more detailed explanation of the various covenants and agreements with the Holders of the Bonds, including provisions for amendments to the Master Ordinance and any supplemental ordinances thereto (including the Sixteenth Supplement), and defeasance of the Bonds, see APPENDIX C attached to this document.

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 obligation of the City is to timely pay the Paying Agent/Registrar the amount due under the Master Ordinance and the Sixteenth Supplement. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owner of the Bonds are described in this document.

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such 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 Bonds, 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 Bonds), or redemption or other notices, to the beneficial owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the 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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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 Bonds 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 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the 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 Bonds 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 Bonds 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, Bond 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, Bond certificates will be printed and delivered, and the Bonds will be subject to the transfer, exchange and registration provisions as set forth in the Sixteenth Supplement and summarized above in this document (see "DESCRIPTION OF THE BONDS – Transfer, Exchange and Registration" in this document).

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

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. Proceeds of the Bonds will be used to acquire a biomass power plant, which will become part of the Electric Utility System and will be available to meet Electric Utility System demand. For the fiscal year commencing October 1, 2018, the Electric Utility System had approximately 1,749 full-time regular employees and the Water and Wastewater Utility had approximately 1,201 full-time regular employees.

ELECTRIC UTILITY SYSTEM “AUSTIN ENERGY”

Management (as of March 31, 2019)

	<u>Years at City</u>	<u>Additional Years of Experience</u>	<u>Total</u>
General Manager			
Jacqueline Sargent, PE	4	26	30
Deputy General Managers			
Charles Dickerson, <i>Chief Operating Officer</i> ⁽¹⁾	9 months	28	28
Mark Dombroski, <i>Chief Financial and Risk Officer</i>	4	24	28
Kerry Overton, <i>Chief Customer and Compliance Officer</i>	18	11	29
Vice Presidents			
Gerardo Galvan, <i>Customer Care Services</i>	2	15	17
Elaine Veselka, <i>Customer Account Management</i>	10	12	22
Deborah Kimberly, <i>Customer Energy Solutions and Corp. Communication</i>	5	30	35
Dan Smith, PE, <i>Electric Service Delivery</i>	15	15	30
William Sweeney, <i>Power Production</i>	27	4	31

(1) Charles Dickerson joined Austin Energy in August 2018

Service Area

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

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

Real Estate Taxes

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

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

Customer Base – Average Monthly Number of Customers

<u>For Period ended September 30, 2018</u>	<u>Average Monthly Number of Customers</u>	<u>Percent</u>
Residential	433,411	89.33
Commercial	48,966	10.09
Industrial	112	0.02
Public Street & Highway	4	0.00
Governmental Authorities	<u>2,711</u>	<u>0.56</u>
Total Service Area Customers	<u>485,204</u>	<u>100.00</u>

Source: Austin Energy.

Physical Property

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

DRAFT

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

Generation Facilities – TABLE ONE

As of May 15, 2019, generation facilities wholly or partially owned by Austin Energy are as follows.

<u>Unit</u>	<u>Year Installed</u>	<u>Nameplate Rating (MW)</u>	<u>Fuel</u>
Fayette Power Project			
Unit No. 1	1979	285.0	Coal
Unit No. 2	1980	285.0	Coal
Decker Power Station			
Unit No. 1	1970	321.0	Gas
Unit No. 2	1977	405.0	Gas
Gas Turbines	1988	200.0	Gas
Sand Hill Energy Center			
Gas Turbines	2001	180.0	Gas
Gas Turbines	2010	90.0	Gas
Combined Cycle	2004	300.0	Gas
MEC CHP (Dell Children’s Hospital)	2006	4.6	Gas
South Texas Project Electric Generating Station			
Unit No. 1	1988	200.0	Nuclear
Unit No. 2	1989	<u>200.0</u>	Nuclear
Total Capacity owned by Austin Energy		<u>2,470.6</u>	
Purchased Power (1)(2):			
RES North America Whirlwind Energy LLC	2007	59.80	Wind
RES North America Hackberry Wind, LLC	2008	165.60	Wind
Exelon Whitetail Wind Energy, LLC	2012	92.30	Wind
Duke Energy Los Vientos IB, LLC	2012	201.60	Wind
Austin Solar, LLC (successor to Gemini Solar Development Co LLC)	2011	30.00	Solar
Duke Energy Los Vientos III, LLC	2015	200.00	Wind
TX Jumbo Road Wind, LLC	2015	300.00	Wind
Energy Developments, Inc.	2002-2003	7.80	Landfill Methane
Nacogdoches Power, LLC (3)	2012	100.00	Biomass
Duke Energy Los Vientos IV, LLC	2016	200.00	Wind
Southern Power Roserock Solar, LLC	2016	157.50	Solar
Southern Power East Pecos Solar, LLC	2017	118.50	Solar
Consolidated Edison CED Upton County Solar, LLC	2017	157.50	Solar
174 Power Global Midway Solar, LLC	2018 (1)	178.50	Solar
Avangrid Renewables Karankawa Wind, LLC	2019 (1)	206.64	Wind
Intersect Power IP Aragorn Solar, LLC	2020 (1)	<u>180.00</u>	Solar
Total Capacity from Purchased Power		<u>4,826.34</u>	
Total Capacity including Purchased Power		<u>7,296.94</u>	

(1) The City has also signed contracts to purchase electric energy to be provided in future years; contracts are signed and the facilities are expected to be operational in the corresponding fiscal year. See “CUSTOMER STATISTICS - Power and Energy Purchase Contracts” in this document.

(2) Purchased power portfolio is comprised of 100% renewable energy.

(3) See “DESCRIPTION OF PHYSICAL PROPERTY – Nacogdoches Power, LLC” in this document.

Source: Austin Energy.

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

Fuel Supply

The cost and availability of fuel are two of several factors that affect Austin Energy’s finances. Fuel mix percentages (based on generation as a percent of load) by fuel type are provided below.

Fuel Type	Percentage Net Load (*)				
	As of September 30				
	2014	2015	2016	2017	2018
Coal	27.6%	24.3%	23.1%	29.2%	29.4%
Natural Gas & Oil	13.1	16.1	16.5	13.2	18.7
Nuclear	23.1	26.0	24.6	24.2	25.2
Renewable Energy	22.0	23.2	29.7	35.9	37.5
NetMarketPurchases/(Sales)	<u>14.2</u>	<u>10.4</u>	<u>6.1</u>	<u>(2.5)</u>	<u>(10.8)</u>
Total	100.0	100.0	100.0	100.0	100.0

* Inputs to the categories above have been updated; “Purchased Power” in prior Official Statements included bilateral and market purchases. Purchase power agreements remain in the “Renewable Energy” category.
Source: Austin Energy.

Fuel Type

Coal . . . Coal supply and rail transportation are procured through a portfolio of contracts designed to minimize cost. Typically, several weeks of coal inventory are maintained to protect against disruptions. Coal inventories are managed within targeted ranges, and depending on the efficiency of railroad performance, train sets are either removed from or added to service to maintain desired inventory levels. Austin Energy’s coal inventory is targeted to be 40-70 days. Austin Energy’s coal inventory share was 44 days as of February 28, 2019.

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

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

DESCRIPTION OF PHYSICAL PROPERTY

Fayette Power Project

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

FPP installed scrubbers on Units 1 and 2 in 2011 to meet sulfur dioxide (SO2) permit levels and to help meet limits of air toxics in the federal Mercury and Air Toxics Standards (“MATS”) rules published in 2012. See “CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental Regulation Related to Air Emissions –

Mercury and Air Toxics Standards (“MATS”)” in this document. For additional information regarding FPP, see “STRATEGIC PLANS, GOALS AND POLICIES” in this document.

Austin Energy Gas Generation Facilities

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

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

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

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

South Texas Project

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

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

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

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

STP Units 1 and 2 each originally had a 40-year Nuclear Regulatory Commission (“NRC”) license that expired in 2027 and 2028, respectively. Under NRC regulations, the STP owners requested a 20-year license renewal. The STP license renewal for Units 1 and 2 is complete with the NRC approving the 20-year license extension on September 18, 2017.

On November 13, 2008, NRG South Texas LP, one of the STP partners, provided Austin Energy with notice of an updated proposal to add Units 3 and 4 at the STP site. The City had the right to participate in the ownership of the proposed new units, up to its existing 16 percent share of the STP. Austin Energy evaluated the City’s ownership option and provided City Council with an analysis on which to base a decision. The City Council elected to decline participation in this expansion as then proposed. Nuclear Innovation North America (“NINA”), operating as a subsidiary of NRG

Energy, Inc., became the lead applicant for the license and assumed responsibility for design, construction, and licensing prior to operation of STP 3 and 4 on January 24, 2011. The NRC issued the Combined License for Units 3 and 4 on February 12, 2016. A press release from NINA at the time of the license issuance stated “NINA plans to hold these licenses until market economics support construction.”

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

STP completed construction of an on-site Dry Cask Storage (“DCS”) system and NRC licensed Independent Spent Fuel Storage Installation (“ISFSI”). The DCS and ISFSI are necessary to store spent nuclear fuel on-site as the spent fuel pool for both STP Units 1 and 2 were nearing their full design limit. The DCS and ISFSI were successfully placed into operation in early 2019 with the off-loading of spent nuclear fuel from the Unit 1 spent fuel pool.

Nacogdoches Power, LLC

In August 2008, Austin Energy signed a 20-year contract (the “Nacogdoches Contract”) with Nacogdoches Power, LLC, a subsidiary of Southern Power Company, to purchase the output of a 115 MW biomass power plant fueled by wood waste such as forest residue, mill residue, waste pallets and municipal wood waste (the “Nacogdoches Biomass Facility”). The Nacogdoches Biomass Facility is located in Nacogdoches County, Texas, and commenced commercial operation in June 2012.

On April 18, 2019, Austin Energy announced that it reached an agreement to purchase Nacogdoches Power, LLC from Southern Power Company for \$460 million. The acquisition will be funded with proceeds of the Bonds (see “SOURCES AND USES OF FUNDS” in this document), and will enable Austin Energy to avoid approximately \$265 million in additional costs over the remaining term of the Nacogdoches Contract. The acquisition is subject to customary closing conditions, and is expected to close in June 2019. As soon as practicable following the acquisition, Austin Energy intends to cause Nacogdoches Power, LLC to transfer the Nacogdoches Biomass Facility to Austin Energy.

As a result of these transactions, the Nacogdoches Biomass Facility will become part of the Electric Utility System operated by Austin Energy. No immediate changes to the operation of the Nacogdoches Biomass Facility are expected. As is the case with respect to all elements of the electric generating capacity needs of Austin Energy, the long-term status of the operations of the Nacogdoches Biomass Facility will be addressed by Austin Energy in the normal course of future resource planning efforts.

CUSTOMER RATES

Retail Service Rates

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

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

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

- Power Supply Adjustment (“PSA”): recovers dollar-for-dollar fuel and power supply costs.
- Regulatory Charge: recovers dollar-for-dollar Austin Energy’s retail transmission expense and other regulatory expenses, such as ERCOT Administrative Fees. Congestion Revenue Rights are netted against the system regulatory costs. The Regulatory Charge was modified to provide for a system-wide recovery mechanism rather than a rate class approach.
- Customer Assistance Program (CAP): funds utility bill discounts for low income customers (more than 40,000

customers assisted as of September 2016).

- Service Area Streetlights (“SAL”): maintains and powers the streetlights and traffic signals in the City (outside-the-city customers are not assessed this fee). The SAL charge was also modified to reflect a system-wide recovery approach.
- Energy Efficiency Services (“EES”): funds energy efficiency programs, the least expensive offset to new generation. The EES Charge was also modified to reflect a system-wide recovery approach.

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

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

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

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

Power Supply Adjustment

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

Typical Residential Electric Bills of Large Texas Cities

<u>City</u>	<u>Electric Bill*</u>
Dallas/Fort Worth	\$95.09
AUSTIN	101.80
Houston	104.09
Corpus Christi	109.53
San Antonio	110.25
El Paso	121.81

* Average residential bill for 1,000 kWh during the period October 2017 – September 2018, including fuel costs. Dallas/Fort Worth, Houston, and Corpus Christi are served by competitive retail service providers (“REP”). Many REPs design their offerings around the 1,000 kWh standard, resulting in an atypically low rate at the 1,000 kWh level, compared to the 500 kWh or 2,000 kWh consumption levels.

Source: PUCT and powertochoose.org.

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

CUSTOMER STATISTICS

Five Year Electric Customer Statistics – TABLE TWO

TABLE TWO⁽¹⁾ shows service area billed customer sales for fiscal years 2014 through 2018. The revenue per year varies in large degree due to the price of fuel which is passed through to customers in the Power Supply adjustment clause as stated above. MWH sales variances are due to a combination of customer growth and weather.

	Fiscal Year Ended September 30				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>Revenue (000's)</u>					
Residential	\$ 486,759	\$ 465,608	\$ 453,555	460,644	490,443
Commercial	480,461	467,175	484,162	476,618	465,363
Industrial	200,107	185,034	181,909	176,698	178,676
Public Street & Highway	3,058	2,412	2,679	2,734	2,636
Sales to Government Authorities	<u>84,702</u>	<u>81,656</u>	<u>75,897</u>	<u>73,191</u>	<u>72,019</u>
Total	\$1,255,087	\$1,201,885	\$1,198,202	1,189,885	1,209,137
<u>MWH</u>					
Residential	4,314,699	4,320,492	4,258,275	4,360,743	4,608,438
Commercial	4,511,203	4,644,241	4,891,990	4,921,879	4,924,929
Industrial	2,850,111	2,795,815	2,817,055	2,820,344	2,968,235
Public Street & Highway	50,816	50,315	51,164	51,438	51,673
Sales to Government Authorities	<u>872,857</u>	<u>879,415</u>	<u>862,343</u>	<u>855,887</u>	<u>864,734</u>
Total	12,599,686	12,690,278	12,880,827	13,010,291	13,418,009
<u>Average Monthly Number of Customers</u>					
Residential	391,410	401,556	411,366	421,752	433,411
Commercial	45,407	46,253	47,352	48,285	48,966
Industrial	151	127	110	104	112
Public Street & Highway	5	6	7	6	4
Sales to Government Authorities	<u>2,430</u>	<u>2,501</u>	<u>2,508</u>	<u>2,554</u>	<u>2,711</u>
Total	439,403	450,443	461,343	472,701	485,204
<u>Average Monthly KWH per Customer</u>					
Residential	919	897	863	862	886
Commercial	8,279	8,367	8,609	8,495	8,382
Industrial	1,575,518	1,838,142	2,127,685	2,250,873	2,213,449
Public Street & Highway	846,926	653,436	609,091	695,102	1,076,528
Sales to Government Authorities	<u>29,932</u>	<u>29,303</u>	<u>28,655</u>	<u>27,931</u>	<u>26,584</u>
<u>Average Monthly Bill per Customer</u>					
Residential	\$ 103.63	\$ 96.63	\$ 91.88	\$ 91.02	\$ 94.30
Commercial	881.77	841.70	852.07	822.58	791.98
Industrial	110,617.30	121,652.57	137,393.42	141,020.30	133,240.82
Public Street & Highway	50,972.42	31,325.98	31,891.33	36,947.02	54,922.30
Sales to Government Authorities	<u>2,904.63</u>	<u>2,720.86</u>	<u>2,521.99</u>	<u>2,388.52</u>	<u>2,213.79</u>
<u>Average Revenues per KWH</u>					
Residential	\$0.11281	\$0.10777	\$0.10651	\$0.10563	\$0.10642
Commercial	0.10650	0.10059	0.09897	0.09684	0.09449
Industrial	0.07021	0.06618	0.06457	0.06265	0.06020
Public Street & Highway	0.06019	0.04794	0.05236	0.05315	0.05102
Sales to Government Authorities	<u>0.09704</u>	<u>0.09285</u>	<u>0.08801</u>	<u>0.08552</u>	<u>0.08328</u>

Source: Austin Energy.

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

Electric Rates

The PSA, Regulatory Charge, and Community Benefit Charges are updated each year and the new rate is effective as of November 1. Austin Energy's approved rates schedules are contained in the City's annual continuing disclosure filing for the fiscal year ended September 30, 2018 for the City's outstanding Parity Electric Utility Obligations, which filing is available from the Municipal Securities Rulemaking Board (the "MSRB") on its Electronic Municipal Market Access ("EMMA") system website (see "CONTINUING DISCLOSURE OF INFORMATION – Availability of Information" in this document), and such rate schedules are incorporated into this document by reference.

Transmission Rates

The PUCT has exclusive jurisdiction over rates and terms and conditions for the provision of transmission services by the City. On February 14, 2019, the PUCT approved the City's most recent wholesale transmission rate of \$1.187214/kW. Transmission revenues totaled \$79 million in fiscal year 2018 and are expected to total approximately \$81 million in fiscal year 2019. Austin Energy will continue to manage and review the need for wholesale transmission rate increases as necessitated by its investment and cost to serve.

GreenChoice® Energy Rider

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

GreenChoice Sales (kWh) by Calendar Year

2007	577,636,840
2008	723,824,901
2009	764,895,830
2010	754,203,479
2011	698,703,263
2012	744,442,709
2013	863,956,193
2014	683,986,607
2015	637,575,158
2016	719,814,465
2017	708,313,000
2018	759,088,000

Power and Energy Sales Contracts

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

Generation and Use Data – TABLE FOUR

	Fiscal Year Ended September 30									
	2018		2017		2016		2015		2014	
	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		15,404,121,570		13,905,297,109		12,415,243,709		11,610,500,640		10,784,975,000
kWh Received from ERCOT		400,176,250		863,722,320		1,452,541,760		1,990,108,990		2,496,345,000
Less: kWh Delivered to ERCOT		<u>(1,858,211,190)</u>		<u>(1,218,787,411)</u>		<u>(501,325,385)</u>		<u>(215,343,640)</u>		<u>(134,287,000)</u>
Total kWh Delivered to Service Area		<u>13,946,086,630</u>		<u>13,550,232,018</u>		<u>13,366,460,084</u>		<u>13,385,265,990</u>		<u>13,147,033,000</u>
Service Area Energy Use:										
Residential	433,411	4,608,437,926	421,752	4,360,742,811	411,366	4,258,275,530	401,556	4,320,491,678	391,410	4,314,699,441
General Service (Less UT & ENW)	<u>50,758</u>	<u>8,370,161,391</u>	<u>49,907</u>	<u>8,182,982,288</u>	<u>48,951</u>	<u>8,180,335,482</u>	<u>47,814</u>	<u>7,930,288,974</u>	<u>46,886</u>	<u>7,847,048,954</u>
	<u>484,169</u>	<u>12,978,599,317</u>	<u>471,659</u>	<u>12,543,725,099</u>	<u>460,317</u>	<u>12,438,611,012</u>	<u>449,370</u>	<u>12,250,780,652</u>	<u>438,296</u>	<u>12,161,748,395</u>
Public Street Lighting	4	51,673,359	6	51,437,560	7	51,163,631	6	50,314,561	5	50,815,562
City Utility Departments (*)	309	264,127,365	327	288,204,138	309	268,278,325	349	265,271,198	352	265,731,532
Other City Departments (*)	<u>720</u>	<u>112,841,653</u>	<u>708</u>	<u>110,543,607</u>	<u>709</u>	<u>110,274,454</u>	<u>717</u>	<u>110,732,138</u>	<u>749</u>	<u>105,998,996</u>
	<u>1,033</u>	<u>428,642,377</u>	<u>1,041</u>	<u>450,185,305</u>	<u>1,025</u>	<u>429,716,410</u>	<u>1,072</u>	<u>426,317,897</u>	<u>1,106</u>	<u>422,546,090</u>
Total Service Area Sales	485,203	13,407,241,694	472,700	12,993,910,404	461,342	12,868,327,422	450,442	12,677,098,549	439,402	12,584,294,485
Sales to UT & ENW (Nightwatchman)	1	10,767,308	1	16,380,596	1	12,499,578	1	13,179,451	1	15,391,515
Loss and Unaccounted For		<u>528,077,628</u>		<u>539,941,018</u>		<u>485,633,084</u>		<u>694,987,990</u>		<u>547,347,000</u>
Total kWh Delivered to Service Area	<u>485,204</u>	<u>13,946,086,630</u>	<u>472,701</u>	<u>13,550,232,018</u>	<u>461,343</u>	<u>13,366,460,084</u>	<u>450,443</u>	<u>13,385,265,990</u>	<u>439,403</u>	<u>13,147,033,000</u>
System Peak Demand (kW)		2,878,000		2,654,000		2,755,000		2,735,000		2,578,000

Source: Austin Energy.

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

Energy Risk Management

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

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

Premiums paid for options are deferred until the contract is settled. As of September 30, 2018, \$96,075 in premiums were deferred. As of September 30, 2018, the fair value of Austin Energy's futures, options and swaps was an unrealized loss of \$7.7 million, of which \$7.8 million is reported as derivative instruments in liabilities and \$50,000,000 is reported as derivative instruments in assets. The fair values of these derivative instruments are deferred until future periods on the balance sheet using deferred outflows and deferred inflows.

Further explanation and historical information at last fiscal year end can be found in the footnotes to the financial statements for the fiscal year ended September 30, 2018. See APPENDIX B – “AUDITED FINANCIAL STATEMENTS – Note 9a – Energy Risk Management Program” in this document.

Power and Energy Purchase Contracts

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

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

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

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

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

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

In September 2013, Austin Energy entered into two 25-year Power Purchase Agreements with Duke Energy affiliates, Los Vientos Windpower III, LLC and Los Vientos Windpower IV, LLC, to purchase the output of 200 MW wind energy projects from each entity located in Starr County, Texas. Los Vientos III commenced commercial operation in April 2015 and Los Vientos IV commenced commercial operation in July 2016.

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

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

In May 2015, Austin Energy and a subsidiary of Power Fin Texas Solar Projects, LLC entered into a 25-year Power Purchase Agreement for the purchase up to 3.2 MW of solar generated renewable energy from a facility to be constructed in the Austin Energy service territory; this purchase will be considered a component of Austin Energy's local solar goal. Commercial operation began in the first quarter of 2018.

In October 2015, Austin Energy entered into three separate transactions for the purchase and sale of energy from three solar projects in west Texas: (1) a 15-year Power Purchase Agreement with East Pecos Solar, LLC, a subsidiary of Southern Company who purchased the project from the original developer, First Solar Development, LLC, for up to 118.5 MW of capacity from a facility constructed in east Pecos County, commercial operation of which began in April 2017; (2) a 25-year Power Purchase Agreement with Midway Solar LLC, a subsidiary of DE Shaw, who purchased the asset from 174 Power Gloval, a subsidiary of Hanwha Q Cells for up to 178.5 MW of capacity from a facility under construction in east Pecos County; commercial operation began in December 2018; and (3) a 25-year Power Purchase Agreement with CED Upton County Solar LLC, a subsidiary of Consolidated Edison Development, for up to 157.5 MW of capacity from a facility to be constructed in Upton County; commercial operation under this project began in August of 2017.

In June 2017 Austin Energy signed a 15 year Power Purchase Agreement with Karankawa Wind LLC, a subsidiary of Avangrid Renewables, LLC, for the sale and purchase of up to 206.6 MW of wind energy form a facility under construction in San Patricio and Bee Counties Texas. Commercial operation is expected by the end of 2019.

In December 2017 Austin Energy entered into a Power Purchase Agreement with IP Aragorn, LLC, an Intersect Power subsidiary, for the sale and purchase of solar power generated from a planned 180 MW project in Culberson County, Texas. Commercial operations are expected to commence in the fourth quarter of 2020.

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

Electric Transmission and Distribution System Statistics

The transmission and distribution plant statistics of Austin Energy as of October 1, 2018 are as follows:

	<u>Number of Substations</u>	<u>Miles of Lines</u>	<u>Kilovolts</u>
Transmission	13	624	345/138/69
Distribution	61	11,651	35/12.5/7.2
Overhead Primary		2,379	
Overhead Secondary		2,537	
Underground Primary		3,394	
Underground Secondary		3,341	

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

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

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

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

ISO 9001 Registration

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

- The Electric Service Delivery (“ESD”) business unit – responsible for the construction, maintenance and operation of the City’s Electric Utility System - became the first of any utility in the nation to earn ISO-9001:2000 registration. Auditors from the National Standards Authority of Ireland (“NSAI”), the worldwide entity that certifies ISO quality management program, issued the registration on January 3, 2008. The certification followed a rigorous four-day review in December 2007 of the ESD Quality Management System by NSAI auditors. In June 2012, ESD Quality Management System was re-registered under the ISO- 9001:2008 standard. More recently, in June 2017, Austin Energy’s ESD Quality Management System was recommended for upgraded certification under the ISO-9001: 2015 standard, by NSAI. At this time, the ESD business unit actively maintains this certification.
- In June 2010, Austin Energy’s Customer Care Services (“CCS”) business unit was also registered as an ISO 9001:2008 organization. CCS is responsible for receiving customer requests, responding to customer requests, billing customers, processing customer payments, and managing customer accounts. In June 2013, Austin Energy’s CCS Quality Management System was re-registered under the ISO-9001: 2008 standard. In February 2017, Austin Energy’s CCS Quality Management System was upgraded to certification under the ISO-9001:2015 standard. At the same time, Austin 311, received initial certification under the ISO–9001:2015 standard – the first distinction of this kind for a

311 Contact Center in the United States. In February 2019, both the CCS Quality Management System, and Austin 311's Quality Management System were recertified to ISO-9001:2015, and combined into a single registration.

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

Conventional System Improvements

In September 2018, the 2019-2023 Capital Improvements Spending Plan (the "Capital Plan") was approved by the City Council in the amount of \$1.31 billion. Austin Energy's five-year spending plan provides continued funding for distribution and street lighting additions including line extensions for new service, system modifications for increased load, and relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for transmission, generation and other general additions. Funding for the total Capital Plan is expected to be provided from current revenues and the issuance of commercial paper which from time to time will be refinanced with long-term debt. In December 2018, the 2019-2023 Capital Improvements Spending Plan was amended by the City Council to add an additional \$20 million related to the construction of Austin Energy's new headquarters. The estimated \$150 million headquarters is slated to be spent in FY2019 and FY2021.

\$1,310,000,000 Five Year Capital Spending Plan

<u>\$ in Millions</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>Total</u>
Distribution	\$ 81	\$ 93	\$ 94	\$ 95	\$ 91	\$ 454
Distribution Substation	13	19	13	5	8	58
Transmission	<u>54</u>	<u>60</u>	<u>102</u>	<u>81</u>	<u>48</u>	<u>345</u>
Electric Service Delivery	148	172	209	181	147	857
Power Production	76	69	45	26	24	240
Customer Service Billing & Metering	4	2	1	1	1	9
Facilities, Technology & Support Services	<u>64</u>	<u>12</u>	<u>119</u>	<u>5</u>	<u>4</u>	<u>204</u>
Total	<u>\$ 292</u>	<u>\$ 255</u>	<u>\$ 374</u>	<u>\$ 213</u>	<u>\$ 176</u>	<u>\$ 1,310</u>

Austin Energy Smart Meter Installation Program

Austin Energy maintains an Advanced Metering Infrastructure ("AMI") program. A component of the AMI program is the installation of AMI meters, which send and receive commands related to acquiring consumptive and diagnostic data, including daily meter reads via radio signals. Austin Energy has approximately 495,000 AMI meters: 430,000 2-way communicating residential meters and 65,000 2-way communicating commercial and industrial meters. As of 2015, Austin Energy has deployed a full 2-way AMI system. Continued improvements in AMI technology utilized at Austin Energy have provided demonstrable enhancements to customer service and reliability while reducing operating costs.

STRATEGIC PLANS, GOALS AND POLICIES

Strategic Plan

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

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 2027 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 Austin Energy'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. The City Council then approved an updated Resource, Generation and Climate Protection Plan in December 2014, addressing resource options through 2025.

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 2027 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 (Summary)

On August 17, 2017, the City Council approved Resolution No. 20170817-061, adopting the Working Group recommendations and providing additional direction. The recommendations and the City 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 reducing emissions as quickly as possible.

Affordability – Affordability is an overarching goal. The affordability goal 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. The affordability goal approved by City Council is composed of two metrics: (1) maintain system average rates at or below 2% annual compound growth rate that began October 2012; and (2) 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.

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 2027 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.
- The City reaffirmed its previous goal, established in 2014, to begin the retirement of Austin Energy's portion of the 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 through 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.
- 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, 2018, Austin Energy's operating cash balance was \$454 million and Days Cash on Hand ("DCOH") was 224 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 ("CAFR").
- 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 CAFR.
- 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 the City 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 monies collected for the purpose of decommissioning the STP. An external investment manager may be hired to administer the trust investments. As of December 31, 2018, market value of the investments in the trust was \$223.5 million.

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

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Rate Regulation

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

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

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

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

ERCOT Wholesale Market Design

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

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

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

Federal Rate Regulation

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

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

Environmental Regulation - General

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

Environmental Regulation Related to Air Emissions

Clean Power Plan

In October 2015, the 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. Twenty-seven states and numerous industry groups filed a combined 39 lawsuits from a total of 157 petitioners asking the D.C. Circuit to review the rule. Briefings were completed in April 2016 and oral arguments were conducted in September 2016. The Supreme Court stayed the CPP rule on February 9, 2016, pending review in the D.C. Circuit Court. The D.C. Circuit has yet to issue a ruling; however, in 2018, the USEPA proposed revising the rule; that proposal is not yet final. Austin Energy's fleet is less carbon intense than the state-wide fleet as a whole because of investments already made in zero-and-low-carbon generation sources. Austin Energy is well-positioned to comply with this rule, if it goes into effect.

Mercury and Air Toxics Standards (MATS)

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

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

Cross-State Air Pollution Rule and Clean Air Interstate Rule

Austin Energy's large facilities have been complying with the Cross-State Air Pollution Rule ("CSAPR") since 2015. On September 7, 2016, USEPA finalized an update to the CSAPR rule. The final rule lowered the State's Phase II ozone season budgets by approximately an additional 10%. Austin Energy NOx emissions exceeded allocations in 2018 and are expected to do so in 2019, resulting in the need to purchase excess allowances on the market.

Environmental Regulation Related to Water Discharges

Cooling water intake structures

Section 316(b) of the Clean Water Act establishes requirements to minimize the impact of cooling water intake structures on aquatic organisms. The USEPA promulgated revised standards in 2014 that require cooling water intake structures to be designed to limit organism impingement and entrainment. All major power plants with once-through cooling will be required to complete studies over the next four years assessing impacts to aquatic organisms and appropriate mitigation measures, and plants with potential impacts could be required to upgrade intake structures to meet the new criteria. The rule applies to Decker Creek Power Station and FPP. However, both facilities were built on reservoirs specifically made for cooling, which the rule effectively exempts from some of the major requirements. Overall risk associated with this rule is believed to be low at this time.

Effluent Limit Guideline (ELG) regulations

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

Environmental Regulation Related to Hazardous Wastes and Remediation

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

Nuclear Regulation

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

STP is protected by provisions of the Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities even though the statutory protections for many non-commercial reactors are different. The Price-Anderson Act expires on December 31, 2025. As of _____, 20__, the limit of liability under the Price-Anderson Act for licensees of nuclear power plants remains at \$14.1 billion per unit per incident, and the maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is \$137.609 million per unit, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at \$20.496 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 \$450 million (as of _____, 20__) 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.

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 \$59.6 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. A small portion of the primary nuclear property damage insurance is provided by European Mutual Association for Nuclear Insurance ("EMANI") which is also subject to retrospective assessment of up to \$1.864 million, which is six times the current calendar year premium.

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 December 31, 2018 was \$223,526,978. For Fiscal Year 2019, 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 2012, 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. 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.

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

THE WATER AND WASTEWATER SYSTEM

Management

<u>Name</u>	<u>Title</u>	<u>Length of Service with City*</u>
Greg Meszaros	Director	11 Years
David Anders	Assistant Director, Financial Services	31 Years
Chris Chen, P.E.	Assistant Director, Engineering Services	6 Years
Rick Coronado, P.E.	Assistant Director, Operations	24 Years
Kevin Critendon, P.E.	Assistant Director, Water Resources Management	8 Years
Daryl Slusher	Assistant Director, Environmental Affairs and Conservation	23 Years**

*As of February 28, 2019.

**Length of service not continuous.

WATER SYSTEM

Service Area

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

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

Water Supply

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

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

The combined storage capacity of the six lakes is around 3,300,000 acre-feet of water, or more than a trillion gallons. Approximately 800,000 acre-feet of this capacity is reserved for flood control. Of the six dams on the Colorado River,

two form major impounding reservoirs for the control of flood water; however, Mansfield Dam is the only designated flood control structure. The combined storage capacity of Lakes Travis and Buchanan, the two major water supply storage reservoirs upstream of the City and managed by LCRA, is approximately 2 million acre-feet.

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

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

1987 – 3,399,000 Acre-Feet	1997 – 3,013,512 Acre-Feet	2007 – 2,156,000 Acre-Feet	2017 – 739,900 Acre-Feet
1988 – 834,000 Acre-Feet	1998 – 1,313,831 Acre-Feet	2008 – 623,200 Acre-Feet	2018 – 277,600 Acre-Feet
1989 – 667,900 Acre-Feet	1999 – 803,240 Acre-Feet	2009 – 584,800 Acre-Feet	
1990 – 692,300 Acre-Feet	2000 – 627,370 Acre-Feet	2010 – 798,500 Acre-Feet	
1991 – 829,700 Acre-Feet	2001 – 1,371,435 Acre-Feet	2011 – 670,000 Acre-Feet	
1992 – 5,419,000 Acre-Feet	2002 – 1,674,985 Acre-Feet	2012 – 212,800 Acre-Feet	
1993 – 978,000 Acre-Feet	2003 – 1,017,294 Acre-Feet	2013 – 210,600 Acre-Feet	
1994 – 708,200 Acre-Feet	2004 – 928,065 Acre-Feet	2014 – 219,200 Acre-Feet	
1995 – 896,700 Acre-Feet	2005 – 1,077,031 Acre-Feet	2015 – 201,700 Acre-Feet	
1996 – 758,300 Acre-Feet	2006 – 553,200 Acre-Feet	2016 – 1,478,341 Acre-Feet	

* Data from 1987 to 2018 is referenced from USGS Water-Year Summary Statistics.

Using the last thirty-two years from 1987-2018, the average flow was 1,133,900 acre-feet per year. (As a result of drought conditions, the flows in water years 2012 through 2015 were lower, in accordance with TCEQ approval, due to LCRA cutting off most Highland Lakes interruptible stored water releases for agricultural irrigation operations. Water year 2018 also experienced dry conditions and LCRA implemented a partial curtailment for downstream agricultural releases towards the latter part of the year). The gauging station referenced above is located on the Colorado River downstream of Longhorn Dam and downstream of the City’s intakes.

Water Rights

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

The City’s independent water rights have been adjudicated before the TCEQ in accordance with the Water Rights Adjudication Act, Texas Water Code, Section 11.301, et seq. The City’s rights, as determined by the TCEQ, are set forth in the Final Determination of all claims of Water Rights in the Lower Colorado River Segment of the Colorado River Basin issued by the TCEQ on July 29, 1985. Both the City and LCRA appealed the Final Determination, seeking additional rights and contesting the rights awarded to each other, in a proceeding styled *In Re: The Exceptions of the Lower Colorado River Authority and the City of Austin to the Adjudication of Water Rights in the Lower Colorado River Segment of the Colorado River Basin*, Cause No. 115,414-A-1 in the District Court of Bell County, Texas, 264th Judicial District (“Cause No. 115,414-A-1”). The City and LCRA entered into a Comprehensive Water Settlement Agreement (the “Settlement Agreement”) in settlement of Cause No. 115,414-A-1 on December 10, 1987. The Settlement Agreement generally improves the independent water rights of both the City and LCRA. Such rights for the City include: the rights to maintain Tom Miller Dam and Lake Austin, Longhorn Dam and Lady Bird Lake, and Decker Dam and Lake Walter E. Long; the right to divert and use 272,403 run of the river acre-feet of water per year from Lake Austin and Lady Bird Lake for municipal purposes; the right to divert and circulate an unlimited amount of water per year from Lady Bird Lake for industrial purposes so long as consumptive use does not exceed 24,000 acre-feet per year; the right to divert and circulate water from Lake Walter E. Long for industrial (cooling) purposes so long as consumptive use does not exceed 16,156 acre-feet per year; and the right to divert and use water through Tom Miller Dam for the generation of hydroelectric power. LCRA’s independent water rights, as determined by the TCEQ, include the rights to maintain Lakes Travis and Buchanan and to divert and use water therefrom. Pursuant to the Settlement Agreement and the final judgment in Cause No. 115,414-A-1, certain other pending water-related disputes between the City and LCRA were settled. LCRA was granted an option to acquire up to a 50% undivided interest in the City’s proposed Berl L. Handcox, Sr. Water Treatment Plant known as “Handcox WTP”

(formerly Water Treatment Plant No. 4 or WTP No. 4) discussed under “Water Treatment Plants” below). The District Court issued a final judgment consistent with the Settlement Agreement. Certificates of Adjudication have been issued by the TCEQ.

Pursuant to previous agreements between the City and LCRA, LCRA has agreed to supply the City additional water from storage in Lakes Travis and Buchanan, and other sources. The City also has leased Tom Miller Dam, and the City’s right to divert and use water for the generation of hydroelectric power through Tom Miller Dam, to LCRA. The Settlement Agreement provided for the City to receive water from Lake Travis for Handcox WTP, and for additional water for municipal and other purposes of use downstream of Lake Travis.

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

Under the terms of the First Amendment, the Water and Wastewater System will begin annual payments to LCRA for raw water diverted in excess of 150,000 acre-feet once the Water and Wastewater System’s average annual diversions for two consecutive years exceed 201,000 acre-feet, which is unlikely to occur prior to 2040 . The First Amendment also has numerous other provisions that benefit the City. Also, a legal issue regarding the building of Handcox WTP (formerly WTP No. 4) was settled. LCRA’s option to acquire up to 50% of the Handcox WTP lapsed on January 1, 2000. All sections of the 1987 Settlement Agreement related to Handcox WTP were deleted as part of the First Amendment. The First Amendment provides for mutual release of the City and LCRA from any claims or causes of action relating to the delayed construction of Handcox WTP.

Water Treatment Plants

Austin Water has three water treatment plants (Davis, Ullrich, and Handcox WTP), which have a combined rated capacity of 335 million gallons per day (“mgd”). These water treatment plants have a combined clear well storage capacity of 45 million gallons on site.

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

The City receives its water supply from the Colorado River through the three water treatment plants. The Davis Water Treatment Plant and the Ullrich Water Treatment Plant both draw water from Lake Austin. Handcox WTP draws water from Lake Travis.

The Davis Water Treatment Plant, located at Mount Bonnell Road and West 35th Street, has a rated capacity of 118 mgd. The plant is of conventional design, with rapid mix basins, flocculation basins, sedimentation basins, gravity filters, clearwell storage, raw water, system chlorine disinfection, and finished water pumping stations. The plant was constructed in 1954 and expanded in 1963, 1975 and 1986. The Ullrich Water Treatment Plant, located on a site south of Red Bud Trail and Forest View Drive, has a rated capacity of 167 mgd. The existing plant facilities consist of an intake and raw water pumping station, raw water transmission main, seven upflow-solids contact clarifiers, eighteen filters, chlorine disinfection, clearwell reservoirs, high service and medium service pumping stations, and sludge handling facilities. A 67 mgd upgrade to the Ullrich Plant was completed in 2006. This expansion increased the rated capacity of the plant from 100 mgd to 167 mgd.

Handcox WTP began delivering potable water in November 2014. Located in northwest Austin, Handcox WTP draws its water from Lake Travis. The construction of Handcox WTP added an initial capacity of 50 mgd with expansion

capability up to 300 mgd with future phases to meet projected needs. Funding for the construction of Handcox WTP came from a combination of cash transferred from the operating fund and Commercial Paper Obligations.

Water Use Management Plans, Austin's Integrated Water Resource Plan, and LCRA Water Management Plans

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

For the majority of time from September 2011 through May 2016 the City was in Stage 2 watering restrictions, which resulted in lower than forecasted Gross Revenues in fiscal years 2012 through 2014. Among other measures, Stage 2 watering restrictions limit lawn watering to no more than one day per week. In accordance with the DCP, Stage 2 implementation was triggered in response to the combined storage of water supply in Lakes Travis and Buchanan dropping to 900,000 acre-feet in late summer 2011. Water use restrictions achieved their intended effect, as water use has declined significantly during their imposition; however, water use declined more than forecasted by the Water and Wastewater Utility for fiscal years 2012 through 2014. Significant rainfall in 2015 increased the combined storage of Lakes Travis and Buchanan to 2.04 million acre feet as of May 2016. After extensive outreach and community input, the City implemented a modified conservation stage on May 18, 2016. Under the new conservation stage restrictions, customers are permitted to water their landscapes twice-per-week with hose end sprinklers and once-per-week with automatic irrigation systems. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates" in this document.

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

Additionally, in November 2018, the City Council adopted the Water Forward Plan (the "Water Forward Plan"), the City's 100-year integrated water resource plan. This plan is the City's water resource roadmap to ensure a diversified, sustainable, and resilient water future. The Water Forward Plan's strategies include increased water conservation, use alternative water sources (for example, use of rainwater harvesting, greywater reuse, and air conditioner condensate reuse, among other strategies), increased reclaimed water reuse, aquifer storage and recovery and others.

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

Travis and Buchanan is consistent with the City's firm water interests and with LCRA's lake permit duties and firm customer agreements. In early 2019 LCRA submitted to TCEQ for review and approval a 2018 update to the LCRA WMP.

Water Storage and Pumping Facilities

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

<u>North System</u>	<u>Total Storage Capacity (Millions of Gallons)</u>	<u>Firm Pumping Capacity (Gallons per Minute)</u>
Anderson Mill (1)	3	7,600
Anderson Mill NWC	1.5	7,600
Avery Ranch (1)	3	n/a
Capital of Texas (1)	0.5	n/a
East Austin	12	37,800
Forest Ridge	3	8,000
Four Points (1) (Elevated)	1	n/a
Four Points (Ground)	7	7,800
Guildford Cove	0.275	1,000
Howard Lane 1	10	50,000
Howard Lane 2	10	See above
Jollyville	11	49,800
Lookout Lane	0.3	800
Martin Hill (1)	34	n/a
North Austin	10	39,800
Pond Springs (1)	3	n/a
Spicewood Springs	10	58,000
Suntree (1) (Elevated)	0.5	n/a
Tanglebriar (1)	0.2	n/a
<u>South System</u>		
Allen Road	n/a	Lost Creek – 2,000 Barclay – 3,000
Barclay Road	0.5	3,000
Center Street	8	31,400
Davis Lane 1	10	39,500
Davis Lane 2	10	See above
LaCrosse (1)	3	n/a
Leuthan Lane	3	SWB – 6,950 SWC - 2,700
Lost Creek 1	0.500	890
Lost Creek 2	0.750	See above
Mt. Larson	0.1	100
Never Bend Cove	0.06	1,599
Pilot Knob	10	15,800
Slaughter Lane	6	SWB - 15,000 SWC - 5,400
Thomas Springs (1) (Elevated)	1.25	n/a
Westlake Drive	0.01	500

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

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

Historical Water Pumpage - TABLE EIGHT

The following table summarizes historical demand and maximum day water pumpage from fiscal years 2009 through 2018.

<u>Fiscal Year</u>	<u>Total Pumpage (Millions of Gallons)</u>	<u>Percent Change</u>	<u>Maximum Day Pumpage (Millions of Gallons)</u>
2009	53,331	0.5%	240
2010	43,827	(17.8)%	190
2011	52,824	20.5%	231
2012	47,094	(10.8)%	203
2013	45,902	(2.5)%	183
2014	43,239	(5.8)%	184
2015	43,481	0.6%	207
2016	44,661	2.7%	198
2017	47,371	6.1%	204
2018	48,518	2.4%	203

Source: Austin Water.

Projected Water Pumpage - TABLE NINE

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

<u>Fiscal Year</u>	<u>Total Pumpage (Millions of Gallons)</u>	<u>Maximum Day Pumpage (Millions of Gallons)</u>
2018	46,491	212
2019	46,987	208
2020	48,556	209
2021	48,884	211
2022	49,252	212

Source: Austin Water.

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

Information Concerning Water Sales - TABLE TEN

	Fiscal Year Ended September 30									
	2014		2015		2016		2017		2018	
	Average # of Customers	Thousand Gallons	Average # of Customers	Thousand Gallons	Average # of Customers	Thousand Gallons	Average # of Customers	Thousand Gallons	Average # of Customers	Thousand Gallons
Thousand Gallons Pumped		43,239,355		43,480,893		44,687,336		47,312,289		48,520,957
Less: Sales to Other Water Utilities (1)		<u>2,574,163</u>		<u>2,296,977</u>		<u>2,646,438</u>		<u>2,665,026</u>		<u>2,621,961</u>
Thousand Gallons to System		<u>40,665,192</u>		<u>41,183,916</u>		<u>42,040,898</u>		<u>44,647,263</u>		<u>45,898,996</u>
Water Sales:										
Retail (2)	216,348	35,523,917	220,946	35,043,691	224,956	34,461,887	228,332	37,902,093	232,324	38,143,134
City Departments	<u>549</u>	<u>589,856</u>	<u>560</u>	<u>602,121</u>	<u>610</u>	<u>562,262</u>	<u>619</u>	<u>601,601</u>	<u>621</u>	<u>678,923</u>
Total Sales to Ultimate Consumer	<u>216,897</u>	<u>36,113,773</u>	<u>221,506</u>	<u>35,645,812</u>	<u>225,566</u>	<u>35,024,149</u>	<u>228,951</u>	<u>38,503,694</u>	<u>232,945</u>	<u>38,822,057</u>
Used by Water Utility		52,023		52,483		58,291		54,528		41,248
Other Unmetered Usage		1,271,237		1,278,338		1,313,808		1,390,981		1,412,287
Loss and Unaccounted For		<u>3,228,159</u>		<u>4,207,283</u>		<u>5,644,650</u>		4,698,060		<u>5,139,404</u>
Thousand Gallons to System		<u>40,665,192</u>		<u>41,183,916</u>		<u>42,040,898</u>		<u>44,647,263</u>		<u>45,414,996</u>
Maximum Daily Consumption		183,990		206,966		197,568		203,834		195,902
Average Daily Consumption		105,994		103,953		103,207		112,791		113,545

(1) Includes sales to all wholesale customers.

(2) Includes residential, multifamily, commercial, and industrial customers.

Source: Austin Water.

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

Large Water Customers - TABLE ELEVEN

Water and Wastewater Utility
 Large Water Customers (1)
 Five Year Comparative Data (2014-2018)

Fiscal Year Ended September 30
 (Gallons and Dollars in Thousands)

	2014		2015		2016		2017		2018	
	Gallons	Revenue								
Samsung	1,547,938	\$8,382	1,558,196	\$10,010	1,975,811	\$12,601	2,184,016	\$14,627	2,317,298	\$13,913
Travis County WCID #10	753,777	\$3,183	708,235	\$3,374	774,588	\$2,569	822,205	\$2,125	839,323	\$2,775
The University of Texas (2)	827,424	\$5,022	746,252	\$5,517	805,549	\$6,046	804,756	\$6,296	777,696	\$5,158
NXP (formerly Freescale, Inc.) (3)	689,059	\$3,544	708,784	\$4,164	676,043	\$4,235	529,506	\$4,164	610,488	\$3,770
Wells Branch MUD	423,443	\$1,641	420,508	\$1,937	464,228	\$1,452	480,115	\$1,231	483,764	\$1,520
North Austin MUD #1	299,028	\$1,232	391,524	\$1,796	394,365	\$1,306	425,839	\$1,170	416,336	\$1,347
Austin Independent School District (4)	351,478	\$2,397	313,672	\$2,461	318,036	\$2,615	340,342	\$2,795	343,591	\$2,119
Cypress (formerly Spansion)	329,313	\$1,801	299,686	\$1,868	304,672	\$1,996	319,139	\$2,123	329,873	\$2,483
Northtown MUD	276,343	\$1,081	267,479	\$1,193	287,294	\$891	290,888	\$695	296,842	\$916
Texas Facilities Commission (4)	<u>210,128</u>	<u>\$1,345</u>	<u>207,324</u>	<u>\$1,495</u>	<u>224,909</u>	<u>\$1,642</u>	<u>229,063</u>	<u>\$1,695</u>	<u>193,194</u>	<u>\$1,343</u>
Total:	<u>5,707,931</u>	<u>\$29,629</u>	<u>5,621,660</u>	<u>\$33,814</u>	<u>6,225,496</u>	<u>\$35,353</u>	<u>6,425,869</u>	<u>\$36,921</u>	<u>6,608,405</u>	<u>\$35,344</u>

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

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

WASTEWATER SYSTEM

Service Area

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

Facilities

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

The Walnut Creek Wastewater Treatment Plant is permitted to discharge an average flow of 75 mgd. A 15 mgd upgrade to this plant (which resulted in the plant's current capacity of 75 mgd) was completed in 2004.

The South Austin Regional Wastewater Treatment Plant began operation in April 1986. The plant is now permitted to discharge at a rate of 75 mgd after a 25 mgd upgrade was completed in August 2006.

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

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

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

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

Lift Stations

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

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

Source: Austin Water.

Historical Wastewater Flows – TABLE TWELVE

The following table summarizes the historical influent wastewater flows to the City's wastewater treatment facilities from fiscal years 2009 through 2018

<u>Fiscal Year</u>	<u>Total Wastewater Flow (Millions of Gallons)</u>	<u>Percent Change</u>
2009	32,177	0.5%
2010	37,254	15.8%
2011	32,946	(11.6)%
2012	37,756	14.6%
2013	34,813	(7.8)%
2014	37,298	7.1%
2015	40,711	9.2%
2016	41,676	2.4%
2017	37,804	(9.3)%
2018	35,996	(4.8)%

Source: Austin Water.

Projected Wastewater Flows – TABLE THIRTEEN

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

<u>Fiscal Year</u>	<u>Total Wastewater Flow (Millions of Gallons)</u>	<u>Percent Change</u>
2019	42,047	16.81%
2020	42,947	2.14%
2021	43,640	1.61%
2022	44,431	1.81%
2023	45,234	1.81%

Source: Austin Water.

COMBINED WATER AND WASTEWATER SYSTEM INFORMATION

Future Capital Improvements for Water and Wastewater System

Based on the proposed FY 2020-2024 capital spending plan, it is anticipated that the Water and Wastewater System will require approximately \$978 million for system improvements for such period. Such improvements will include treatment facilities, reservoir, pump station and lift station improvements, and major transmission distribution and collection improvements. It is anticipated that such improvements will be financed as follows: (1) the issuance of \$438 million additional Parity Water/Wastewater Obligations (including refunding of commercial paper issued to provide interim financing for such improvements); (2) the application of \$366 million of anticipated transfers from current Water and Wastewater System revenues and amounts on hand; and (3) estimated \$174 million in low-interest loan assistance from the Texas Water Development Board (“TWDB”).

The City submitted applications to the TWDB in fiscal year 2016 for the purposes of obtaining low-interest rate loans for the following projects (1) development and implementation of a Advanced Metering Infrastructure (“AMI”) also known as the smart meter system for Austin Water and (2) multiple capital improvement projects associated with reclaimed water systems. The low-interest loans being sought from the TWDB would come from the State Water Implementation Fund for Texas (“SWIFT”) program that was established by the Texas Legislature in 2013. Funding to the City under the SWIFT program was approved by the TWDB in 2016, and loan closings to-date are \$65,605,000 for projects associated with reclaimed water systems and \$3,000,000 for AMI, as Parity Water/Wastewater Obligations issued by the City. Anticipated future loan closings through TWDB multi-year commitments for AMI over the next five years will total an additional \$77,195,000 in loan proceeds.

Additionally, the City applied to TWDB for up to \$120,830,000 from the state revolving fund program for water and wastewater infrastructure projects in Spring 2019.

Services Financed by Utility Districts

On August 19, 1981, the City Council enacted an ordinance establishing the basic requirements for the City’s consent to the creation of a district (e.g., a MUD, WCID or fresh water supply district) created under State law for the purpose of supplying water and/or wastewater service to land within the extraterritorial jurisdiction or the city limits of the City. That ordinance has been modified, over time, by the City’s enactment of its Land Development Code, which contains provisions relating to the City’s consent to the creation of districts. On February 2, 1984, the City Council adopted a resolution that established City policy with regard to the creation of MUDs.

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

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

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

The City has annexed multiple MUDs since December 1997. At the time of annexation, these MUDs are converted to retail customers and the City assumes their outstanding utility system debt, if any.

In February 2011, the City Council approved a resolution that superseded the existing resolution with regard to the policy and general criteria under which the City Council will consider requests to create MUDs. The policy states that the City

Council shall consider the following criteria: adherence to the comprehensive plan; extension of public infrastructure with MUD or developer financing; affordable housing; environmental improvement; public transportation facilities; open space; green building; development standards; amenities; school and public safety sites; City provision of water and wastewater services; and financial viability.

The City's MUD policy provides for consideration of extraordinary public benefits, superior development, and enhancement of other City interests when negotiating a consent agreement. Ten new MUDs were subsequently created; during the 2011 and 2013 legislative sessions, conditioned upon the City entered into a consent agreement with each existing MUD at that time. Each MUD's enabling legislation also allows continuation of the district as a "limited district" (to operate and maintain certain assets such as parks or enforce deed restrictions) after full-purpose annexation by the City if the district and the City enter into a strategic partnership agreement. If the City did not consent to the creation of the district or enter into such agreements as are required by the terms of the City's consent ordinance, the MUDs would have been dissolved.

Following staff and board and commission review, in March 2012, the City Council conducted public hearings and approved ordinances consenting to the creation of the nine MUDs. Subsequently, the City Council conducted public hearings regarding a strategic partnership agreement with each of the MUDs and executed Strategic Partnership Agreements with each of the nine MUDs.

In 2015 and 2017, the City annexed two additional MUDs and assumed their outstanding utility system debt.

Water Reuse Facilities

The City has implemented a water reclamation initiative to develop facilities and processes to make treated wastewater effluent available for irrigation, manufacturing, toilet flushing, and cooling uses. The water reuse facilities operated as part of the Water and Wastewater System include three pump stations, two pressure zones with a boosted area, three water storage facilities with 4.0 MG in storage, and 63.4 miles of mains. Additionally, a 4.0 MG water storage tank with associated pump station is nearing completion. An additional 9.0 miles of mains are in design or under construction. The water reuse facilities presently serve a total of 133 metered customers.

Customer demand is highly dependent on weather conditions. In calendar year 2018, customers used 1.41 billion gallons of reclaimed water. Efforts to promote the use of reclaimed water focus on existing large-volume commercial and industrial potable water users that can convert a portion of their use of treated potable water to reclaimed water. The water reuse facilities extend from the eastern edge of the City, where the water originates at the wastewater treatment plants, to the center of the City, where most of the reclaimed water customers are located.

Water and Wastewater Rates

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

In fiscal year 2014, the Water and Wastewater Utility implemented a fixed revenue goal of 20%, new volumetric rates and block intervals. A revenue stability reserve fund (the "Water Revenue Stability Reserve Fund") was established to help cover costs during extreme weather or economic events. The Water Revenue Stability Reserve Fund is an account within the Water Fund that is funded by a volumetric surcharge applied both to retail and wholesale monthly bills, which became effective in February 2013. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Service Rates Effective as of November 1, 2018– TABLE SEVEN" in this document. The Revenue Stability Reserve Fund exists separate and distinct from the Reserve Fund established by the Master Ordinance. See "SECURITY FOR THE BONDS – Reserve Fund for Parity Water/Wastewater Obligations" in this document. The target funding level for the Water Revenue Stability Reserve Fund is 120 days of the budgeted water operating requirements of the Water and Wastewater Utility, which includes operations and maintenance, and other operating transfers, but excludes debt service and other transfers. In the event that any portion of the Revenue Stability Reserve Fund is used, the balance will be replenished to the target level within 5 years. Upon creation of the Revenue Stability Reserve Fund, the goal to reach the

target funding level of 120 days of budgeted water operating requirements will be no later than 5 years. If the fund is drawn down prior to reaching the 120 day target during the first 5-year development period, the reserve fund surcharge shall not be lower than it was during the year in which the draw down occurred until such time as the fund reaches its 120 days of operating costs. Moneys in the Revenue Stability Reserve Fund are Gross Revenues of the Water and Wastewater Utility under the Master Ordinance. The Water Revenue Stability Reserve Fund cannot be used for purposes other than for Water and Wastewater Utility purposes, is primarily intended to pay Water Operating Expenses or Water debt service on Parity Water/Wastewater Obligations, and may only be used to offset current year shortfalls in Water Gross Revenues that exceed 10% of budgeted levels. The City Council must approve any use of funds in the Water Revenue Stability Reserve Fund, no more than 50% of the balance would be used in any one year, and, if used, the Water Revenue Stability Reserve Fund balance would be replenished to the 120-day level within a five-year period.

As of September 30, 2018, the balance of the Water Revenue Stability Fund was \$45.1 million and fully funded. The balance of the Revenue Stability Reserve Fund is forecasted to be \$46.4 million by September 30, 2019. No assurance can be given that these forecasted balances will remain at the 120-day goal; however, the volumetric surcharge for the Revenue Stability Reserve Fund has been reduced to a level to maintain the 120 days of Operating Expenses funding goal. As of the date of this document, the Water and Wastewater Utility has not drawn any moneys from the Revenue Stability Reserve Fund. Notwithstanding the foregoing policy restrictions of the City currently in effect with respect to the use of moneys within the Revenue Stability Reserve Fund, the provisions of the Master Ordinance regarding the use of moneys on deposit in the System Fund (including the Revenue Stability Reserve Fund therein) govern and control. See “SECURITY FOR THE BONDS – System Fund” in this document.

As the financial position of the Water and Wastewater Utility continues to improve, the Water and Wastewater Utility implemented a 4.8% combined rate reduction for the fiscal year ending September 30, 2018. Additionally, in its efforts to maintain level debt service costs, the Water and Wastewater Utility defeased a portion of outstanding Parity Water/Wastewater Obligations in fiscal year 2018 and fiscal year 2019; the defeasances, which were funded with Capital Recovery Fee collections and operating funds, have allowed the Water and Wastewater Utility to realize approximately \$___ million in net present value savings. As a result of continued debt management efforts, the Water and Wastewater Utility implemented a zero-percent rate increase for FY 2018-2019 for the first time in several years.

While projected Gross Revenues have declined since the imposition of the water use restrictions in September 2011, there has not been an unanticipated increase in debt service on Parity Water/Wastewater Obligations or in Operating Expenses of the Water and Wastewater System since fiscal year 2012, when the water use restrictions were imposed. The Water and Wastewater Utility prepares a five-year financial forecast each year as part of the City’s forecast and budget development process, which includes a City Council-approved policy to forecast Gross Revenues and Operating Expenses that will provide for at least 1.5 times debt service coverage for the Parity Water/Wastewater Obligations by Net Revenues of the Water and Wastewater System. The proposed budget prepared by the Water and Wastewater Utility in July 2018 projects debt service coverage levels in fiscal year 2019 of 1.72 times debt service coverage, increasing to 1.81 times debt service coverage by fiscal year 2021; the forecasted coverage levels assume that rate increases will be implemented at various times during the forecast period. No assurance can be given that these debt service coverage levels will be achieved.

Any increase in the rates, charges or fees for water and wastewater services furnished by the Water and Wastewater System must be approved by the City Council. As a result of the Water and Wastewater Utility’s annual budgeting process for the 2020 fiscal year, a zero-percent rate increase is being proposed. If any rate increase is approved by City Council as part of the fiscal year 2020 approved budget the rates would not take effect prior to November 1, 2019. No assurance can be given that the City Council will approve any rate increase, or that the City Council will approve rate increases in the amounts proposed by the Water and Wastewater Utility; however, the City is committed to complying with the agreements and covenants of the City in the Prior Lien Ordinance and the Master Ordinance with respect to establishing, maintaining and collecting rates, charges and fees for water and wastewater services furnished by the Water and Wastewater System. See “DESCRIPTION OF THE BONDS – Bondholders’ Remedies,” “SECURITY FOR THE BONDS – Rate Covenant Required by Prior Lien Ordinance” and “– Rate Covenant Required by Master Ordinance” in this document. See also, Section 4 of “APPENDIX C – COPY OF MASTER ORDINANCE” and “Rates and Charges” in “APPENDIX D – SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS” in this document.

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

Water Service Rates Effective as of November 1, 2018 – TABLE FOURTEEN

Monthly Customer Charges

<u>Customer Account Charge</u>	Meter <u>Size</u>	Retail Equivalent Meter Charge <u>per Month (1)</u>	Multifamily Charge <u>per Month (2)</u>	Commercial Charge <u>per Month (2)</u>
Retail Customer Account Charge(\$/Month)	5/8	\$7.25	\$12.50	\$8.75
	3/4	10.60	21.00	15.00
	1	13.60	33.00	23.00
	1½	15.50	42.00	29.00
	2	25.40	83.00	58.00
	3	75.10	292.00	204.00
	4	124.80	500.00	350.00
	6	253.80	1,042.00	729.00
	8	482.20	2,000.00	1,400.00
	10	760.20	3,167.00	2,217.00
	12	998.40	4,167.00	2,917.00
Volumetric Surcharge				
		Retail per <u>1,000 Gals. (3)</u>	Wholesale per <u>1,000 Gals. (3)</u>	
Water Revenue Stability Reserve Fund Surcharge		\$0.05	\$0.10	
Community Benefit Charge				
		\$0.15 (4)		
Residential Monthly Tiered Minimum Charge				
		Min. Charge <u>per Month (5)</u>		
0 – 2,000 Gallons		\$ 1.25		
2,001 – 6,000 Gallons		3.55		
6,001 – 11,000 Gallons		9.25		
11,001 – 20,000 Gallons		29.75		
20,001 – Over Gallons		29.75		
Large Volume Fixed Minimum Charge				
		Min. Charge <u>per Month (2)</u>		
Cypress (formerly Spansion)		\$ 22,800		
NXP – Ed Bluestein (formerly Freescale)		29,250		
NXP – W. William Cannon (formerly Freescale)		21,400		
Samsung		121,100		
Skorpios (formerly Novati)		4,250		
University of Texas		16,350		

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

Source: Austin Water.

Volume Unit Charge (1)

	Charge per 1,000 Gals.
Single-Family Residential (2)	
0 – 2,000 Gallons	\$ 2.89
2,001 – 6,000 Gallons	4.81
6,001 – 11,000 Gallons	8.34
11,001 – 20,000 Gallons	12.70
20,001 – Over Gallons	14.21
Multifamily (3)	
Off Peak	4.53
Peak	5.00
Commercial (3)	
Off Peak	5.27
Peak	5.66
Large Volume (3)	
Cypress (formerly Spansion)	
Off Peak	5.00
Peak	5.52
NXP – Ed Bluestein (formerly Freescale)	
Off Peak	4.67
Peak	5.16
NXP – W. William Cannon (formerly Freescale)	
Off Peak	4.73
Peak	5.23
Samsung	
Off Peak	4.69
Peak	5.18
Skorpios (formerly Novati)	
Off Peak	4.96
Peak	5.48
University of Texas	
Off Peak	5.27
Peak	5.66

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

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

Wastewater Service Rates Effective as of November 1, 2018 – TABLE FIFTEEN

Customer Account Charge

Customer Account Charge (\$/month)	<u>Retail Customers</u>	<u>Wholesale Customers</u>
	\$10.30	\$10.30

Volume Unit Charge (1)

	<u>Unit Cost per 1,000 Gallons (2)</u>
Retail	
Single-Family	
0 - 2,000 Gallons	\$ 4.85
2,001 - Over Gallons	9.94
Multifamily	8.93
Commercial	8.95
Large Volume:	
Cypress (formerly Spansion)	7.90
NXP – Ed Bluestein (formerly Freescale)	8.52
NXP – W. William Cannon (formerly Freescale)	8.66
Samsung	7.75
Skorpios (formerly Novati)	7.74
University of Texas	8.95

(1) Wholesale unit charges vary between \$3.80 and \$5.71 per 1,000 gallons.

(2) Applied to average water consumption during December, January and February billing periods, or actual water consumption, whichever is lower.

Source: Austin Water.

The combined water and wastewater minimum charge and volumetric service rates effective as of November 1, 2018 reflect an 8.0% rate reduction over the rates charged in the prior year.

Wholesale and Outside City Rate Challenges

The City Council has original jurisdiction over Water and Wastewater rates. State law, however, does allow water districts and any customers outside city boundaries to appeal the City’s water and wastewater rates to the PUCT.

On April 12, 2013, four of the Water and Wastewater Utility’s wholesale water customers submitted a water rate petition challenging the City’s wholesale water rates to the TCEQ. In their petition, the four wholesale customers (North Austin MUD, Northtown MUD, Travis County WCID #10 (Westlake), and Wells Branch MUD) alleged that the City’s wholesale rates were not just or reasonable. The petition alleged the new rates disproportionately increased the monthly fixed charges; collected for costs unrelated to water service; discouraged conservation; and unfairly burdened commercial and large volume customers. The petition also asked the TCEQ to set interim rates while the appeal was pending.

The TCEQ reviewed the petition and recommended referral to the State Office of Administrative Hearings. The hearing concluded in February 2015 and the City received a final ruling from the PUCT in November 2015, which found in favor of the petitioners. The City filed a Motion for Rehearing with the PUCT, which was denied in February 2016. Subsequently, the City filed an appeal in Travis County District Court in March 2016. A hearing in the Travis County District Court was held in May 2017. In the final letter decision, the District Court Judge affirmed the PUCT final order.

The four wholesale water customers represented \$6.3 million, or 2.1%, of the approximate \$294.7 million annual water revenue for fiscal year 2018. The final ruling in favor of the petitioners does not have a significant revenue impact to the Water and Wastewater Utility.

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

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

On April 15, 2019, Austin Water filed an application to the PUCT for authority to change water and wastewater rates for the four wholesale water petitioners. The City can make no prediction as to whether any additional wholesale water or outside City customers will petition or challenge the City's water rates.

Water and Wastewater Capital Recovery Fees

On September 3, 1982, the City Council adopted an ordinance under which all new non-industrial and non-commercial customers of the Water and Wastewater System must pay a Capital Recovery Fee at the time that the customer's new tap is purchased. The fee has been revised a number of times since that date and is currently applied to all connections added to the Water and Wastewater System unless expressly waived by the City Council. In 1989, the City Council appointed an Impact Fee Advisory Committee and reauthorized the Capital Recovery Fee in compliance with procedures and methodology established by State law. The total Water and Wastewater Capital Recovery Fee was implemented August 5, 1999 and recently revised effective October 1, 2018. The revised fees are shown below, and under the terms of the Master Ordinance, such fees do not constitute Gross Revenues. There are a number of express exemptions from payment of these fees. The City's policy is to use Capital Recovery Fee receipts to either service debt, defease debt or finance growth-related capital improvement projects, thus reducing the amount required to be debt financed and saving the Water and Wastewater System the related financing costs. The fees listed below are based on one service unit (5/8" meter).

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

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

Fees for lots that were platted on or after January 1, 2014 and before October 1, 2018.

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
All Areas	\$5,400	\$2,200	\$7,600

Fees for lots that were platted on or after October 1, 2018.

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
All Areas	\$4,700	\$2,500	\$7,200

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

Analysis of Water Bills - TABLE SIXTEEN A

Fiscal Year Ended September 30

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Average Monthly Bill Per Customer - Water					
Residential (1)	\$ 38.97	\$ 43.16	\$ 46.60	\$ 50.41	\$ 49.83
Multifamily (1)	701.04	820.44	946.79	882.93	766.84
Commercial (1)	324.91	343.17	369.49	400.44	359.50
Large Volume	228,692.44	260,155.12	306,025.68	335,060.66	317,821.74
City Departments	641.05	683.60	653.55	660.28	653.60
Average Monthly Bill – Above Customers	\$ 85.65	\$ 94.84	\$ 104.61	\$ 109.90	\$ 101.95
Sales to Other Water Utilities (2)	\$ 53,960.56	\$ 42,146.05	\$ 44,412.60	\$ 47,174.74	\$ 47,910.10
Average Monthly Bill – All Customers	\$ 89.87	\$ 98.26	\$ 107.95	\$ 113.39	\$ 105.44
<u>Average Monthly Use in 1,000 Gallons – Water</u>					
Residential (1)	6.10	5.77	5.78	5.86	5.84
Multifamily (1)	127.52	128.84	135.75	124.12	127.55
Commercial (1)	48.99	45.45	47.27	50.64	49.77
Large Volume	42,919.67	42,053.37	48,701.32	51,286.38	51,997.13
City Departments	89.81	89.16	82.47	81.16	91.59
Average Monthly Use – Above Customers	13.89	13.33	13.86	14.01	13.96
Sales to Other Water Utilities (2)	12,651.94	10,588.02	12,092.58	13,046.12	12,930.25
Average Monthly Use – All Customers	14.88	14.19	14.77	14.98	14.90
<u>Average Revenue Per 1,000 Gallons – Water</u>					
Residential (1)	\$ 6.39	\$ 7.48	\$ 8.07	\$ 8.60	\$ 8.54
Multifamily (1)	5.50	6.37	6.97	7.11	6.01
Commercial (1)	6.63	7.55	7.82	7.91	7.22
Large Volume	5.33	6.19	6.28	6.53	6.11
City Departments	7.14	7.67	7.92	8.14	7.14
Average Revenue – Above Customers	\$ 6.17	\$ 7.11	\$ 7.55	\$ 7.84	\$ 7.30
Sales to Other Water Utilities (2)	\$ 4.27	\$ 3.98	\$ 3.67	\$ 3.62	\$ 3.71
Average Revenue – All Customers	\$ 6.04	\$ 6.92	\$ 7.31	\$ 7.57	\$ 7.08

(1) Inside and Outside City-limit customers combined.

(2) Includes all Wholesale customers.

Source: Austin Water.

Analysis of Wastewater Bills - TABLE SIXTEEN B

	Fiscal Year Ended September 30				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Average Monthly Bill Per Customer – Wastewater					
Residential (1)	\$ 37.90	\$ 36.35	\$ 38.63	\$ 40.02	\$ 38.41
Multifamily (1)	1,096.47	1,172.57	1,237.57	1,209.90	1,175.46
Commercial (1)	383.79	395.74	411.21	457.33	431.66
Large Volume	231,555.45	224,832.98	273,628.93	299,070.91	330,416.09
City Departments	397.24	450.32	361.80	522.17	446.47
Average Monthly Bill – Above Customers	\$ 89.91	\$ 89.62	\$ 96.03	\$ 100.28	\$ 96.14
Sales to Other Utilities (2)	\$ 58,764.29	\$ 55,611.39	\$ 47,413.06	\$ 49,785.58	\$ 52,040.32
Average Monthly Bill – All Customers	\$ 92.78	\$ 92.27	\$ 98.48	\$ 102.81	\$ 98.74
Average Monthly Use in 1,000 Gallons – Wastewater					
Residential (1)	4.15	3.88	3.87	3.84	3.79
Multifamily (1)	126.49	132.58	133.96	126.89	126.62
Commercial (1)	43.85	43.79	43.52	47.06	45.77
Large Volume	30,354.38	29,135.26	33,944.97	35,456.50	40,110.14
City Departments	45.43	47.91	36.50	51.26	47.40
Average Monthly Use – Above Customers	10.25	9.97	10.17	10.25	10.12
Sales to Other Utilities (2)	10,691.69	10,020.74	9,749.92	10,391.34	10,174.46
Average Monthly Use – All Customers	10.78	10.45	10.68	10.78	10.62
Average Revenue Per 1,000 Gallons – Wastewater					
Residential (1)	\$ 9.13	\$ 9.36	\$ 9.97	\$ 10.43	\$ 10.14
Multifamily (1)	8.67	8.84	9.24	9.53	9.28
Commercial (1)	8.75	9.04	9.45	9.72	9.43
Large Volume	7.63	7.72	8.06	8.43	8.24
City Departments	8.74	9.40	9.91	10.19	9.42
Average Revenue – Above Customers	\$ 8.77	\$ 8.99	\$ 9.44	\$ 9.79	\$ 9.50
Sales to Other Utilities (2)	\$ 5.50	\$ 5.55	\$ 4.86	\$ 4.79	\$ 5.11
Average Revenue – All Customers	\$ 8.61	\$ 8.83	\$ 9.22	\$ 9.54	\$ 9.29

(1) Inside and Outside City-limit customers combined.

(2) Includes all Wholesale customers.

Source: Austin Water.

**COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM
AND WATER AND WASTEWATER SYSTEM OPERATIONS
OCTOBER 1, 2014 TO SEPTEMBER 30, 2018**
(in thousands rounded)

	Fiscal Year Ended September 30				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
INCOME					
Revenue	\$1,998,556	\$1,974,948	\$1,941,815	\$ 1,876,350	\$ 1,848,012
Operating Expense	<u>(1,334,151)</u>	<u>(1,252,196)</u>	<u>(1,207,225)</u>	<u>(1,186,590)</u>	<u>(1,246,865)</u>
Balance Available for Debt Service	664,405	722,752	734,590	689,760	601,147
Depreciation and Amortization Expense	<u>(290,323)</u>	<u>(284,451)</u>	<u>(272,769)</u>	<u>(264,896)</u>	<u>(255,892)</u>
Earnings Before Interest Expense	374,082	438,301	461,821	424,864	345,255
Interest Incurred on Debt	(148,659)	(163,851)	(168,956)	(160,881)	(169,567)
Other	<u>(13,061)</u>	<u>(12,505)</u>	<u>(748)</u>	<u>(4,802)</u>	<u>(10,367)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS (1) (2) (3) (4) (5)	<u>\$212,362</u>	<u>\$261,945</u>	<u>\$ 292,117</u>	<u>\$ 259,181</u>	<u>\$ 165,321</u>
PERCENTAGES					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	<u>(66.76%)</u>	<u>(63.40%)</u>	<u>(62.17%)</u>	<u>(63.24%)</u>	<u>(67.47%)</u>
Balance Available for Debt Service	33.24%	36.60%	37.83%	36.76%	32.53%
Depreciation and Amortization Expense	<u>(14.53%)</u>	<u>(14.40%)</u>	<u>(14.05%)</u>	<u>(14.12%)</u>	<u>(13.85%)</u>
Earnings Before Interest Expense	18.72%	22.19%	23.78%	22.64%	18.68%
Interest Incurred on Debt	(7.44%)	(8.30%)	(8.70%)	(8.57%)	(9.18%)
Other	<u>(0.65%)</u>	<u>(0.63%)</u>	<u>(0.04%)</u>	<u>(0.26%)</u>	<u>(0.56%)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>10.63%</u>	<u>13.26%</u>	<u>15.04%</u>	<u>13.81%</u>	<u>8.95%</u>

(1) Income before transfers to the General Fund and Other Funds for the 12 months ended September 30, 2018, are as follows (in thousands rounded):

Transfer to General Fund	\$154,914
Transfers to Other Funds	\$12,829

(2) Excludes Combined Utility Funds' deferred costs recovered in future years of (\$31,680) for the 12 months ended September 30, 2018.

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

(4) Excludes capital contributions of \$108,877 for the 12 months ended September 30, 2018.

(5) Excludes other post-employment benefits ("OPEB") accrual of \$35,336 and net pension obligation ("NPO") accrual of (\$26,325) for the 12 months ended September 30, 2018.

Source: City Controller's Office.

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

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

	Fiscal Year Ended September 30				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
REVENUE					
ELECTRIC UTILITY					
Domestic and Rural Residential	\$489,985	\$456,576	\$321,985	\$332,685	\$327,508
Commercial General	711,457	719,532	861,208	853,546	897,019
City Utility Departments	-	-	-	-	-
Public Street Lighting	-	-	-	-	-
City General Government Departments	-	-	-	-	-
Sales to Other Utilities	50,482	44,331	42,119	27,798	19,305
Transmission	78,616	78,049	75,926	74,332	68,974
Rent from Electric Property	3,620	3,204	3,750	2,269	1,998
Customers' Forfeited Discounts and Penalties	5,966	5,424	6,352	6,854	6,966
Miscellaneous	<u>60,397</u>	<u>55,016</u>	<u>58,887</u>	<u>53,953</u>	<u>45,385</u>
Total Electric Utility	<u>\$1,400,523</u>	<u>\$1,362,132</u>	<u>\$1,370,227</u>	<u>\$1,351,437</u>	<u>\$1,367,155</u>
WATER UTILITY					
Water Services	290,868	312,491	290,646	\$267,164	\$233,827
Miscellaneous Revenue	6,528	5,458	2,607	2,168	158
Revenue Stability Fee	4,850	5,098	7,223	6,905	5,722
Reserve Fund Surcharge	-	-	-	-	-
Reclaimed Revenue	<u>1,936</u>	<u>1,515</u>	<u>1,384</u>	<u>944</u>	<u>820</u>
Total Water Utility	<u>304,182</u>	<u>\$324,562</u>	<u>\$301,860</u>	<u>\$277,181</u>	<u>\$240,527</u>
WASTEWATER UTILITY					
Wastewater Services	265,798	271,715	257,161	\$237,553	\$231,336
Miscellaneous Revenue	5,086	2,803	2,813	2,257	730
Reclaimed Revenue	-	-	-	-	-
Total Wastewater Utility	<u>270,884</u>	<u>\$274,518</u>	<u>\$259,974</u>	<u>\$239,810</u>	<u>\$232,066</u>
Interest	<u>\$22,967</u>	<u>\$13,736</u>	<u>\$9,754</u>	<u>\$7,922</u>	<u>\$8,264</u>
TOTAL REVENUE	<u>\$1,998,556</u>	<u>\$1,974,948</u>	<u>\$1,941,815</u>	<u>\$1,876,350</u>	<u>\$1,848,012</u>

Source: City Controller's Office.

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

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

<u>EXPENSE</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ELECTRIC UTILITY					
Production	179,981	173,860	215,562	\$ 225,269 (3)	\$278,893
Joint Facility Production	218,373	162,343	162,166	169,435 (3)	200,373
System Control	26,454	19,423	19,371	16,989	15,286
Transmission and Distribution	193,291	188,583	176,675	166,016	154,556
Jobbing and Contract Work	1,625	1,207	1,207	645	998
Customer Accounting and Collection	9,515	16,203	15,946	15,501	15,030
Customer Services	27,435	28,928	25,521	4,391	4,138
Administrative and General	<u>427,253</u>	<u>428,057</u>	<u>373,320</u>	<u>380,038</u>	<u>359,520</u>
Total Electric Utility	<u>1,083,927</u>	<u>1,018,604</u>	<u>989,768</u>	<u>\$978,284</u>	<u>1,028,794</u>
WATER UTILITY					
Operations (1)	68,108	-	-	-	-
Treatment (1)	-	37,456	37,835	\$35,593	\$35,915
Pipeline Operations (1)	-	26,547	23,795	23,169	23,889
Engineering Services	4,512	3,876	3,296	3,472	5,159
Water Resources Management	3,586	3,923	3,733	3,699	3,443
Environmental Affairs & Conservation	7,780	7,264	7,880	7,486	8,464
Support Services - Utility	14,168	12,571	11,444	11,022	12,064
One Stop Shop	164	294	225	264	270
Reclaimed Water Services	534	526	(2,989)	(1,609)	(3,575)
Other Operating Expenses	<u>31,814</u>	<u>31,290</u>	<u>31,577</u>	<u>30,155</u>	<u>31,582</u>
Total Water Utility	<u>130,666</u>	<u>123,747</u>	<u>116,796</u>	<u>\$113,251</u>	<u>\$117,211</u>
WASTEWATER UTILITY					
Operations (1)	\$ 62,412	-	-	-	-
Treatment (1)	-	40,911	38,544	\$36,132	\$37,106
Pipeline Operations	-	18,825	17,048	16,972	16,488
Engineering Services	7,200	6,317	5,263	4,966	5,789
Water Resources Management	4,427	4,526	4,150	3,911	3,779
Environmental Affairs & Conservation	3,088	2,819	2,925	2,911	2,343
Support Services - Utility	13,767	12,821	11,454	10,769	11,482
One Stop Shop	-	441	361	346	289
Other Operating Expenses	<u>28,664</u>	<u>23,185</u>	<u>20,916</u>	<u>19,048</u>	<u>23,584</u>
Total Wastewater Utility	<u>\$ 119,558</u>	<u>\$ 109,845</u>	<u>\$ 100,661</u>	<u>\$ 95,055</u>	<u>\$ 100,860</u>
TOTAL EXPENSE (2)	<u>\$1,334,151</u>	<u>\$1,252,196</u>	<u>\$1,207,225</u>	<u>\$1,186,590</u>	<u>\$1,246,865</u>
NET REVENUE AVAILABLE FOR DEBT SERVICE	<u>\$ 664,405</u>	<u>\$ 722,752</u>	<u>\$ 734,590</u>	<u>\$ 689,760</u>	<u>\$ 601,147</u>
Electric Customers	485,204	472,701	469,534	457,750	446,872
Water Customers	235,174	231,014	227,432	223,162	217,035
Wastewater Customers	221,862	217,794	214,373	212,260	204,482

(1) 'Treatment' and 'Pipeline Operations' line items were combined and reclassified as 'Operations' beginning in fiscal year 2018.

(2) Interest expense, depreciation, amortization, other non-operating items, NPO and OPEB accrual are not included in total expense.

(3) Reclassification of expenses from 'Production' to 'Joint Facility Production.'

Source: City Controller's Office.

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

DISCUSSION OF OPERATING STATEMENT

Austin Energy Revenues

Variations in total Austin Energy revenues for the fiscal years (“FY”) ended September 30, 2014 through September 30, 2018 were attributable to changes in cost of fuel for power generation and weather variations. Total fuel costs are passed through to the consumer.

Water and Wastewater System Revenues

Variations in Water and Wastewater System revenues for the period FY14 through FY18 were largely attributable to weather and system rate changes, including imposition of Stage 2 watering restrictions beginning in September 2011. See “WATER SYSTEM – Water Use Management Plan and LCRA Management Plan” and “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates” in this document.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY14 through FY18 were largely attributable to changes in the cost of fuel for power generation and general inflationary increases in other expense categories.

Water and Wastewater System Expenses

Changes in Water and Wastewater System expenses for the period FY14 through FY18 were primarily attributable to inflationary increases in the cost of power and chemicals, along with system growth.

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

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

	2018	2017	2016	2015	2014
Plant Cost					
Utility Systems					
Electric	\$5,574,059	\$5,428,545	\$5,288,802	\$5,141,259	\$4,980,357
Water	2,903,016	2,817,554	2,736,990	2,663,637	2,576,314
Wastewater	<u>2,616,571</u>	<u>2,529,448</u>	<u>2,416,799</u>	<u>2,352,947</u>	<u>2,299,833</u>
Total Cost	<u>\$11,093,646</u>	<u>\$10,775,547</u>	<u>\$10,442,591</u>	<u>\$10,157,843</u>	<u>\$9,856,504</u>
Allowance for Depreciation:					
Electric	2,978,260	2,827,731	2,678,849	\$2,537,491	\$2,392,899
Water	869,971	811,230	752,394	701,383	650,103
Wastewater	<u>1,060,395</u>	<u>996,455</u>	<u>935,782</u>	<u>876,532</u>	<u>817,485</u>
Total Depreciation	<u>\$4,908,626</u>	<u>\$4,635,416</u>	<u>\$4,367,025</u>	<u>\$4,115,406</u>	<u>\$3,860,486</u>
Cost after Depreciation	<u>\$6,185,020</u>	<u>\$6,140,131</u>	<u>\$6,075,566</u>	<u>\$6,042,437</u>	<u>\$5,996,018</u>
Equity in Utility Systems					
Utility Systems	\$11,093,646	\$10,775,547	\$10,442,591	\$10,157,843	\$9,856,504
Plus: Inventories, Materials and Supplies (1)	55,025	53,528	55,187	51,884	56,649
Net Construction Assets and Unamortized Bond Issue Cost	<u>109,641</u>	<u>104,331</u>	<u>114,533</u>	<u>164,690</u>	<u>151,561</u>
	<u>\$11,258,312</u>	<u>\$10,993,406</u>	<u>\$10,612,311</u>	<u>\$10,374,417</u>	<u>\$10,064,714</u>
Less:					
Allowance for Depreciation	\$4,908,626	\$4,635,416	\$4,367,025	\$4,115,406	\$3,860,486
Total	<u>\$4,908,626</u>	<u>\$4,635,416</u>	<u>\$4,367,025</u>	<u>\$4,115,406</u>	<u>\$3,860,486</u>
Utility Systems, Net	\$6,349,686	\$6,297,990	\$6,245,285	\$6,259,012	\$6,204,228
Revenue Bonds and Other Debt Outstanding (2)	3,979,273	4,011,156	4,014,446	4,076,665	4,062,603
Net Debt	\$3,979,273	\$4,011,156	\$4,014,446	\$4,076,665	\$4,062,603
Equity in Utility Systems	<u>\$2,370,413</u>	<u>\$2,286,834</u>	<u>\$2,230,840</u>	<u>\$2,182,346</u>	<u>\$2,141,625</u>
Percentage of Equity in Utility Systems	37.33%	36.31%	35.72%	34.87%	34.52%

(1) Does not include fuel, oil or coal inventories of approximately \$140.14 million at September 30, 2018. Consists primarily of spare parts inventory at Fayette Plant and South Texas Project.

(2) Includes Revenue Bonds and Tax and Revenue Bonds of \$3,716,796 (net of discounts and inclusive of premiums); Capital Lease Obligations of \$934; Commercial Paper of \$254,767; General Obligation Bonds of \$2,977; and Contractual Obligation Bonds of \$3,799. Source: City Controller's Office.

LITIGATION

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

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, and otherwise challenging the reasonableness of the City's rate of return and debt service coverage levels. 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 appealed the trial court's decision to the 14th Court of Appeals in Houston (Cause No. 14-18-00071-CV). On April 23, 2019, the appellate court partially upheld the trial court's dismissal of the case, holding that the City's inclusion of generation costs in retail rates was proper and dismissing other claims, but remanded the remainder of the case on the grounds that municipal utility ratepayers have general standing to bring suit alleging the excessiveness of utility rates.

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 12, 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 Minnesota 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. 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 for 18 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. Under current state law, landowner and/or voter approval is required as part of the process for the annexation of territory into a city. The process varies depending on the characteristics of the area that will be considered for annexation, generally involving a petition from each landowner, a petition signed by registered voters and owners of land in the area, or an election at which qualified voters approve the proposed annexation. Additionally, the process involves staff review, development of a written service agreement (or regulatory plan for a limited purpose annexation), notification, publication of a newspaper notice, public hearings, and ordinance approval.

Upon approval, the City provides a wide range of services to the annexed area – police and fire protection, emergency medical services, solid waste collection, and maintenance of public facilities such as water and wastewater, roads, streets,

and parks. 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, 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.

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	1,283	0
2018	136	0

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

Recent Annexation

In 2018 the City annexed and dissolved the Cascades Municipal Utility District No. 1 (MUD) at the request of the property owner. At the time of annexation the area was undeveloped and the MUD had not issued any debt. The property owner determined that the proposed Cascades at Onion Creek subdivision could be developed as originally planned and without the need for a MUD and the City agreed to annex and dissolve the MUD. The taxable assessed value at the time of annexation was \$584,827.

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. The 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 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 a 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 three plans are called the City of Austin Employees Retirement System ("COAERS"), the City of Austin Police

Retirement System (the “Police Retirement System”) and the City of Austin Fire Fighters Relief and Retirement Fund (the “Firefighter Retirement System”). 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 COAERS include amounts allocable to the City employees within Austin Water and Austin Energy; the contributions allocable to such employees are paid from gross revenues of the related utility systems and constitute operating expenses of Austin Water and Austin Energy, respectively.

The following describes the contributions in place as of October 1, 2018. Municipal employees contribute 8.0% and the City contributes 18.0% of payroll. Firefighters (who are not members of the Social Security System) contribute 18.7% of payroll, and the City contributes 22.05%. Police officers contribute 13.0% and the City contributes 21.313% of payroll.

The City’s net pension liability was measured as of December 31, 2017 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 and Police Retirement System. For the Firefighter Retirement System, the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016 using the final 2017 assumptions and then was rolled forward to the plan’s year ending December 31, 2017.

The COAERS, as of December 31, 2017, had a net pension liability of \$1.15 billion with a plan fiduciary net position as a percentage of the total pension liability of 69.8%. The Police Retirement System, as of December 31, 2017, had a net pension liability of \$420.1 million with a plan fiduciary net position as a percentage of the total pension liability of 64.7%. The Firefighter Retirement System, as of December 31, 2017 had a net pension liability of \$85.0 million with a plan fiduciary net position as a percentage of the total pension liability of 91.8%.

The COAERS and Police Retirement System plan had no changes of assumptions or benefit terms that affected the total pension liability for the measurement period.

The Firefighter Retirement System 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, 2019 a cost-of-living adjustment increase of 2.30% went into effect.

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, 2017, the amortization period of the unfunded actuarial accrued liability for the COAERS was 30 years, for the Police Officers’ Fund was 35 years and the Firefighters’ Fund was 17 years.

As of December 31, 2017, the actuarial accrued liability for the COAERS was \$3,797,823,303 and the funded ratio was 68.3%. The actuarial accrued liability for the Police Retirement System was \$1,185,017,294 and the funded ratio was 65.8%. The actuarial accrued liability for the Firefighters Retirement System was \$1,038,118,085 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, the City Council approved an amendment to the SFP that increased the City’s 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.

Other Post-Employment Benefits (“OPEB”)

In addition to the contributions made to the three pension systems, the City provides certain other postemployment benefits (“OPEB”) to its retirees. The City’s OPEB plan is a defined-benefit single-employer plan. Allocation of City funds to pay postemployment benefits other than pensions is determined on an annual basis by the City Council as part of the budget approval process on a pay-as-you-go basis. The City is under no obligation to pay any portion of the cost of other postemployment benefits for retirees or their dependents.

Other postemployment benefits include access to medical, dental, and vision insurance for the retiree and the retiree’s family and \$1,000 of life insurance on the retiree only. All retirees who are eligible to receive pension benefits under any of the City’s three pension systems are eligible for other postemployment benefits. Retirees may also enroll eligible dependents under the medical, dental, and vision plan(s) in which they participate.

In fiscal year 2018, the City implemented Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, which increased the total other postemployment benefits liability by \$1.51 billion over the previously reported net other postemployment benefits obligation. The City does not accumulate assets in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

GASB Statement No. 75 requires governments offering postemployment benefits other than pensions to record a liability in the current period for total future postemployment benefit obligations for existing employees and retirees in excess of plan assets. In addition, it identifies accepted actuarial methods and assumptions, allows deferral of certain OPEB expense items, expands financial statement note disclosures, and changes disclosure of required supplementary information.

Day-to-day accounting and administration of the OPEB activities is provided by the City and recorded in the Employee Benefits Fund. However, at year end an adjustment is made to recognize OPEB expenses in the operating funds that provide funding to the Employee Benefits Fund to pay for the City’s portion of these benefits. No separate plan report is available.

The City subsidizes between 20% and 80% of the projected medical premium for retirees and a lesser portion for dependents and surviving spouses depending on years of service at retirement. The retiree must pay the unsubsidized portion of the premium. Both the City and retirees’ estimated premiums are deposited in the Employee Benefits Fund, which pays actual claims for medical and prescription drugs and 100% of the retiree’s basic life insurance premium. The cost of coverage above the \$1,000 level for life insurance premium is paid by the retiree. 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 \$43.14 million in 2018 and \$43.05 million in 2017. As of September 30, 2018, the total OPEB liability is \$2.52 billion.

See “APPENDIX B – AUDITED FINANCIAL STATEMENTS – Note 8 and Note 18” 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 \$4.44 million for claims and damages at the end of fiscal year 2018. Employee injuries are covered by the Workers’ Compensation Fund, and health claims are protected by the Employee Benefits Fund.

INVESTMENTS

The City invests its available funds in investments authorized by State law, particularly the Texas Public Funds Investment

Act, Chapter 2256, Texas Government Code (the "PFIA"), in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

Legal Investments

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

- (1) obligations, including the Federal Home Loan Banks and letters of credit, of the United States or its agencies and instrumentalities;
- (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 the State of Texas 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 the State of Texas 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.

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, 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 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 decommissioning trust market value, as of December 31, 2018, was \$223,526,978.

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 State 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

As of April 30, 2019 the City's investable funds were invested in the following categories.

<u>Type of Investment</u>	<u>Percentage</u>
U. S. Treasuries	17%
U. S. Agencies	45%
Money Market Funds	1%
Local Government Investment Pools	37%

The dollar weighted average maturity for the combined City investment portfolios is 255 days. The City prices

the portfolios weekly utilizing a market pricing service.

TAX MATTERS

The following is a general summary of the United States federal income tax consequences of the purchase and ownership of the Bonds. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the Bonds in light of the investor's particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax exempt organizations, financial institutions, brokers-dealers, and persons who have hedged the risk of owning the Bonds). The summary is therefore limited to certain issues relating to initial investors who will hold the Bonds as "capital assets" within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"), and acquire such Bonds for investment and not as a dealer or for resale. Prospective investors should note that no rulings have been or will be sought from the Internal Revenue Service (the "IRS") with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS.

Payments of Stated Interest on the Bonds

The stated interest paid on the Bonds will be included in the gross income, as defined in section 61 of the Code, of the beneficial owners thereof and be subject to U.S. federal income taxation when received or accrued, depending on the tax accounting method applicable to the beneficial owners thereof.

Original Issue Discount

If a substantial amount of the Bonds of any stated maturity is purchased at original issuance for a purchase price (the "Issue Price") that is less than their face amount by more than one quarter of one percent times the number of complete years to maturity, the Bonds of such maturity will be treated as being issued with "original issue discount." The amount of the original issue discount will equal the excess of the principal amount payable on such Bonds at maturity over its Issue Price, and the amount of the original issue discount on the Bonds will be amortized over the life of the Bonds using the "constant yield method" provided in the Treasury Regulations. As the original issue discount accrues under the constant yield method, the beneficial owners of the Bonds, regardless of their regular method of accounting, will be required to include such accrued amount in their gross income as interest. This can result in taxable income to the beneficial owners of the Bonds that exceeds actual cash distributions to the beneficial owners in a taxable year.

The amount of the original issue discount that accrues on the Bonds each taxable year will be reported annually to the IRS and to the beneficial owners. The portion of the original issue discount included in each beneficial owner's gross income while the beneficial owner holds the Bonds will increase the adjusted tax basis of the Bonds in the hands of such beneficial owner.

Premium

If a beneficial owner purchases a Bond for an amount that is greater than its stated redemption price at maturity, such beneficial owner will be considered to have purchased the Bond with "amortizable bond premium" equal in

amount to such excess. A beneficial owner may elect to amortize such premium using a constant yield method over the remaining term of the Bond and may offset interest otherwise required to be included in respect of the Bond during any taxable year by the amortized amount of such excess for the taxable year. Bond premium on a Bond held by a beneficial owner that does not make such an election will decrease the amount of gain or increase the amount of loss otherwise recognized on the sale, exchange, redemption or retirement of a Bond. However, if the Bond may be optionally redeemed after the beneficial owner acquires it at a price in excess of its stated redemption price at maturity, special rules would apply under the Treasury Regulations which could result in a deferral of the amortization of some bond premium until later in the term of the Bond. Any election to amortize bond premium applies to all taxable debt instruments held by the beneficial owner on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

Medicare Contribution Tax

Pursuant to section 1411 of the Code, as enacted by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals beginning January 1, 2013. The additional tax is 3.8% of the lesser of (i) net investment income (defined as gross income from interest, dividends, net gain from disposition of property not used in a trade or business, and certain other listed items of gross income), or (ii) the excess of “modified adjusted gross income” of the individual over \$200,000 for unmarried individuals (\$250,000 for married couples filing a joint return and a surviving spouse). Holders of the Bonds should consult with their tax advisor concerning this additional tax, as it may apply to interest earned on the Bonds as well as gain on the sale of a Bond.

Disposition of Taxable Bonds and Market Discount

A beneficial owner of Bonds will generally recognize gain or loss on the redemption, sale or exchange of a Bond equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the beneficial owner’s adjusted tax basis in the Bonds. Generally, the beneficial owner’s adjusted tax basis in the Bonds will be the beneficial owner’s initial cost, increased by the original issue discount previously included in the beneficial owner’s income to the date of disposition. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the beneficial owner’s holding period for the Bonds.

Under current law, a purchaser of a Bond who did not purchase the Bonds in the initial public offering (a “subsequent purchaser”) generally will be required, on the disposition of the Bonds, to recognize as ordinary income a portion of the gain, if any, to the extent of the accrued “market discount.” Market discount is the amount by which the price paid for the Bonds by a subsequent purchaser is less than the sum of Issue Price and the amount of original issue discount previously accrued on the Bonds. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire Bonds with market discount. As an alternative to the inclusion of market discount in income upon disposition, a subsequent purchaser may elect to include market discount in income currently as it accrues on all market discount instruments acquired by the subsequent purchaser in that taxable year or thereafter, in which case the interest deferral rule will not apply. The re-characterization of gain as ordinary income on a subsequent disposition of Bonds could have a material effect on the market value of the Bonds.

Legal Defeasance

If the City elects to defease the Bonds by depositing in escrow sufficient cash and/or obligations to pay when due outstanding Bonds (a “legal defeasance”), under current tax law, a beneficial owner of Bonds may be deemed to have sold or exchanged its Bonds. In the event of such a legal defeasance, a beneficial owner of Bonds generally would recognize gain or loss in the manner described above. Ownership of the Bonds after a deemed sale or exchange as a result of a legal defeasance may have tax consequences different from those described above, and each beneficial owner should consult its own tax advisor regarding the consequences to such beneficial owner of a legal defeasance of the Bonds.

Backup Withholding

Under section 3406 of the Code, a beneficial owner of the Bonds who is a United States person, as defined in section 7701(a)(30) of the Code, may, under certain circumstances, be subject to “backup withholding” on

payments of current or accrued interest on the Bonds. This withholding applies if such beneficial owner of Bonds: (i) fails to furnish to payor such beneficial owner's social security number or other taxpayer identification number ("TIN"); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends, or other "reportable payments" as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such beneficial owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain beneficial owners of the Bonds. Beneficial owners of the Bonds should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations

Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the rate of 30% on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest received by the beneficial owners of the Bonds is not treated as effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if: (i) the beneficial owner provides a statement to the payor certifying, under penalties of perjury, that such beneficial owner is not a United States person and providing the name and address of such beneficial owner; (ii) such interest is treated as not effectively connected with the beneficial owner's United States trade or business; (iii) interest payments are not made to a person within a foreign country which the IRS has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such beneficial owner is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such beneficial owner is not a bank receiving interest on the Bonds pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the Bonds are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no backup withholding under sections 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to beneficial owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor does not have actual knowledge that such person is a United States person.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to a foreign financial institution, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain United States persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, the Foreign Account Tax Compliance Act ("FATCA") imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial United States owner. Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest and principal under the Bonds and sales proceeds of Bonds held by or through a foreign entity. Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

Reporting of Interest Payments

Subject to certain exceptions, interest payments made to beneficial owners with respect to the Bonds will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and TIN of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a

Bond for U.S. federal income tax purposes.

CONTINUING DISCLOSURE OF INFORMATION

In the Sixteenth Supplement and the Pricing Certificate, the City has made the following agreement for the benefit of the Holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the MSRB.

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in the main text of the Official Statement within the various tables described in the Pricing Certificate and in APPENDIX B, and if not provided as part of such financial information and operating data, audited financial statements of the City, when and if available. The City will update and provide this financial information and operating data within six (6) months after the end of each fiscal year, beginning with the fiscal year ending in 2019 and audited financial statements within 12 months of each fiscal year beginning with the fiscal year ending in 2019. If audited financial statements are not available within 12 months after any such fiscal year end, the City will file unaudited financial statements within such 12 month period and audited financial statements for such fiscal year when and if the audit report on such statements becomes available. The City will provide the updated information to the MSRB through its EMMA information system.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's website or filed with the Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide unaudited financial information by the required time and audited financial statements when and if they become available. 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's current fiscal year is October 1 to September 30. Accordingly, it must provide updated financial statements and operating data by March 31 of each year unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

Disclosure Event Notices

The City shall notify the MSRB, in a timely manner not in excess of 10 Business Days after the occurrence of the event, of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City or obligated person; (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; (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material (Neither the Bonds nor the Sixteenth Supplement make any provision for debt service reserves or liquidity enhancement); (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of

acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties. 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 Sixteenth Supplement. The City intends the words used in (15) and (15) above and the definition of Financial Obligations to have the meaning ascribed to them in SEC release No. 34-83885, dated August 20, 2018.

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. As used in clause 15 and clause 16, the term “Financial Obligation” means a: (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Business Day” means a day other than a Saturday, Sunday, a legal holiday, or a day on which banking institutions are authorized by law or executive order to close in the City or the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located.

Availability of Information

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

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

With respect to the City’s continuing disclosure agreement regarding the Rental Car Special Facility Revenue Bonds, the City failed to file rating upgrades from Moody’s and Fitch within the ten day window which started on July 10, 2015 and August 17, 2016, respectively. The City filed the event notices with respect to the ratings upgrade on December 14, 2016.

The failure to file the ratings upgrade in a timely manner was also filed on the same date. With respect to the continuing disclosure agreement entered into by ABLE, with respect to its Series 1999A & 1999B Bonds, ABLE did not file its financial statements by the June 30 deadline for Fiscal Year December 31, 2015. The financial statements were filed on July 19, 2016 and the failure to file notice was posted on September 1, 2017. The referenced ABLE bonds are no longer outstanding. With respect to the City's continuing disclosure reports regarding its outstanding Airport System Revenue Bonds, the City determined that 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. With respect to the City's continuing disclosure reports regarding its outstanding Combined Utility Revenue Bonds, Water and Wastewater System Revenue Bonds, and Electric Utility System Revenue Bonds, 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 February 3, 2017, the City filed a ratings upgrade notice for the Prior First-Lien Combined Electric, Water and Wastewater Revenue Bonds, which took place on July 1, 2015. The failure to file the ratings upgrade in a timely manner was also filed on the same date. On June 30, 2017, the City filed updated financial information and operating data to reflect Fiscal Year 2016 information on the first page of the "Water Service Rates" table. The City has implemented procedures to ensure timely filing of all future financial information and event notices and will continue to provide updates to the financial information and operating data as changes occur.

OTHER RELEVANT INFORMATION

Ratings

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

Registration and Qualification of Bonds

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

Legal Opinions

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the City in accordance with their terms payable solely from and, together with the outstanding Parity Electric Utility Obligations and Prior Subordinate Lien Obligations equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Electric Utility System in the manner provided in the Sixteenth Supplement and the approving legal opinion of Bond Counsel, to like effect. The form of Bond Counsel's opinion is attached as APPENDIX E. Certain legal matters will be passed upon for the City by McCall, Parkhurst & Horton, L.L.P., Disclosure Counsel for the City, and the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility for this Official Statement or undertaken independently to verify any of the information contained in it, except that, in their capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions, "PLAN OF FINANCING", "SECURITY FOR THE BONDS," "DESCRIPTION OF THE BONDS" (except for the information under the subheading "Bondholders' Remedies"), "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the subheading "Compliance with Prior Undertakings"), "OTHER RELEVANT INFORMATION – Registration and Qualification of Bonds," "OTHER RELEVANT INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas" and "OTHER RELEVANT INFORMATION – Legal Opinions," and in "APPENDIX C" and "APPENDIX D" to verify that the information relating to the Bonds, the Master Ordinance, and the Sixteenth Supplement contained under such captions and in APPENDICES C and D in all respects accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is true and accurate. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the delivery of the Bonds. The opinion of Bond Counsel will accompany the global certificate deposited with DTC in connection with the use of the Book-Entry-Only System.

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

Financial Advisor

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

Underwriting

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

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

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety

of these services to the City and to persons and entities with relationships with the City, for which they received or will receive customary fees and expenses.

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

Forward - Looking Statements

The statements contained in this document and in any other information provided by the City that are not purely historical are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date of this document, 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.

Independent Auditors

The financial data listed as fiscal year 2019 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 fiscal year 2019 information, nor the forward-looking financial information, nor have they expressed any opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited financial information. The unaudited information is preliminary and is subject to change as a result of the audit and may differ from the audited financial statements when they are released.

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

Miscellaneous Information

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

amendment thereto, and authorize its further use in the offering of the Bonds by the Underwriters.

Steve Adler

Mayor
City of Austin, Texas

ATTEST:
Jannette S. Goodall

City Clerk
City of Austin, Texas

DRAFT

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information is presented for informational purposes only.

GENERAL INFORMATION

The City of Austin (the “City”), chartered in 1839, has a Council-Manager form of government with a Mayor who is elected at large and ten Councilmembers who are elected by geographic district. 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 2018 population of 963,797. Over the past ten years, Austin’s population has increased by approximately 25.1%, or 193,501 residents. Geographically, the City consists of approximately 326 square miles. The current estimated median household income for residents of the City is \$63,191 according to Nielsen SiteReports. The City’s per capita income is estimated to be \$57,600.

The City offers several broad-ranged educational opportunities for those individuals with a desire to learn. Austin is a highly educated city, with 49% of adults twenty-five years or older holding a bachelor’s or advanced degree, compared to 29% for Texas and 31% 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 seventh largest public university in the nation, is known as a world-class center of education and research and was ranked 15th among public universities in the 2018 U.S. News and World Report Best Colleges 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 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 are committed to creating a work environment that fosters creative thinking and innovation throughout the organization, thereby better positioning the workforce to more effectively respond to new challenges as well as new opportunities. City employees take enormous pride in their work.

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.

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 2019 includes \$67.7 million for mobility projects including sidewalks, bike lanes, urban trails, and the Corridor Construction Program improvements. Progress continues on several joint interchange projects along Interstate 35 with the Texas Department of Transportation, one of the City's regional partners. An additional \$160 million in bond funding was approved by city-wide election in November 2018, which will fund a number of transportation projects including a replacement for one of the bridges over Lady Bird Lake. In addition to capital projects, the City is undergoing a pilot program for licensing dockless scooters and bicycles to improve mobility in the central city. Over 15,000 scooters have been licensed by nine companies in Austin's core neighborhoods and downtown.

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. For 2019 there were no base rate increases for five of the City's six rate assessing enterprise departments. This is significant, as there have been rate increases in at least two of these departments for each of the previous nine budget cycles.

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 2007, the median sales price of a home increased almost 60% gradually pricing more and more families out of the home buying market. At a June 2018 City Council meeting, action was taken to increase the general homestead exemption from 8% to 10% of eligible property value. In the November 2018 bond election, voters approved \$250 million for planning, constructing and renovating affordable housing facilities for low- and moderate-income residents. Additionally, the current budget fully funds the Housing Trust Fund for the first time, enabling the City to reach income-restricted affordable housing goals adopted in the Austin Strategic Housing Blueprint.

In the arena of economic opportunity, the Small and Minority Business Resources Department will conduct a new disparity study to examine the participation of women and minority-owned businesses in public sector contracting over the past several years. Results of the study will form the basis of the MBE/WBE Procurement Program.

Safety – The 2019 budget includes 6 additional Airport Police officers, 16 sworn fire personnel, funding for 27 additional APD officers, and two new fire stations. Austin's Fire Department responds to approximately 87,000 incidents per year. The department's goal is to reach each emergency location within 8 minutes of call receipt. As the City develops and expands, this goal is an increasing challenge. In response, completion of a new fire station and design work on two others is slated for FY 2019. In tandem with the pilot program to license dockless mobility devices previously mentioned, Austin Health is working with the Centers for Disease Control to conduct a safety study, the first of its kind in the nation. Results of the study will be used to make recommendations for safe usage of the new technology.

Health & Environment – Reducing reliance on traditional higher-polluting fuel sources is behind the \$220 million budgeted for Austin Energy to purchase more sustainable fuel sources in fiscal year 2019. Funding was provided for Austin Resource Recovery toward the purchase of vehicles for existing programs as well as vehicles and containers for expanding the curbside composting program, which is adding approximately 52,000 households in fiscal year 2019. In addition, several departments received recognition for their sustainability efforts:

- The new Central Library was awarded LEED Platinum status in July 2018. The platinum designation is the

highest level of recognition awarded by the U.S. Green Building Council and only six commercial buildings have ever received it

- In July 2018, Austin Water received Platinum Certification from The Alliance for Water Efficiency for excellence in water conservation program operation and management.
- In October 2018, the Airports Council International awarded Austin Bergstrom International Airport a Level 2 Accreditation in its Airport Carbon Accreditation Program, which recognizes the airport's efforts in reducing its overall carbon footprint. In addition to participating in Austin Energy's GreenChoice® program for terminal operations, ABIA has replaced over 30 diesel powered vehicles with electric vehicles.

Cultural and Learning Opportunities – Established in fiscal year 2018, the Historic Preservation Fund was allocated additional funding from the Hotel-Motel Occupancy Tax in order to preserve, restore and rehabilitate historic structures city-wide. Also, the bond elections in November 2018 saw approval for \$128 million for development of community, cultural and creative arts facilities.

Government that Works – The five-year capital improvements spending plan includes \$1.1 billion in support of this priority, of which \$262.7 million is expected to be expended in 2019. The majority of funding supports maintenance of and upgrades to the City's electric and water and wastewater systems to ensure continued incremental improvement to the condition and quality of these crucial components of the City's infrastructure. Funding is also included for technological replacement and enhancement such as a new data center and conversion to a remote water meter reading system which uses cellular or radio transmission.

FINANCIAL INFORMATION

Internal Controls

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

Financial Policies

The City has adopted a comprehensive set of Financial Policies to ensure that the City's financial resources are managed in a prudent manner and to provide a foundation for financial sustainability. 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.

Long-Term Financial Planning

Austin leaders are continually looking towards and planning for the future. A key City financial policy requires annual preparation of a five-year financial forecast projecting revenues and expenditures for all operating funds. This forecast is used as a tool to develop the following year's operating budget. In addition, the City annually prepares a five-year Capital Improvement Project (CIP) Plan that outlines all capital projects in progress, those that will be implemented in the five-year horizon, and related funding sources. A second plan covering a 10-year planning horizon, the Long-Range CIP Strategic Plan, is also updated biennially. This plan provides a data-driven approach to planning for how the City's future capital improvements support the way Austin functions and grows. Such an approach assists in aligning the City's CIP investments with the Imagine Austin Comprehensive Plan and the City Council's new strategic priorities as the City strives to strike a balance between ongoing capital needs necessary to maintain services for a rapidly growing community and strategic investments that support community priorities. In support of long-range capital improvement, \$925 million within seven new bond propositions were approved by Austin voters in the November 2018 election.

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 clean energy and climate protection to strategic mobility planning. A brief summary of these planning documents can be found in the Integrated Planning section of the City's approved budget.

Maintaining sound financial and economic development policies within the City organization allows for a high level of services to the community. Because of consistent adherence to the City's financial policies and the area's healthy economy, the City's bond ratings for its General Obligation credit remain "AAA" from three of the major rating agencies, Moody's, S&P, and Fitch. Through defeasances in 2018 and 2019, Austin Water has retired \$__ million of debt which improved debt service coverage and reduced scheduled debt service payments over the next five years.

Budgetary Control

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

Throughout the year, primary responsibility for fiscal analysis of budget to actual expense or revenue and overall program fiscal standing rests with the department operating the program. The City Manager is authorized to transfer appropriation balances within a fund and department of the City. The City Council must approve amendments to the budget and transfers of appropriations from one fund and department to another. As demonstrated by the statements and schedules included in the City's 2018 Comprehensive Annual Financial Report ("CAFR"), the City continues to meet its responsibility for sound financial management.

Budgetary Information

The 2019 Budget was developed in a manner true to the City's unwavering commitment to openness, transparency, and public engagement. The City's Budget is now organized around strategic outcomes. The budget development process still integrates a collaborative approach to the City's finances with business planning, performance measurement, and resident input, but by organizing around City Council identified strategic outcomes, the document is more focused on the bigger picture and less on the minutiae of departmental expenditures. Input was gathered and evaluated to address the many issues, concerns, and priorities identified by Austin's citizens, employees, boards and commissions, and Councilmembers. The result was a budget built around the ideals of livability, affordability, and inclusivity that dictate the operations of Austin's city government.

The structurally balanced fiscal year 2019 Approved Budget totals \$4.1 billion and includes \$1 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. Austin budgeted revenue comes from utility charges (48%), various taxes (including property) (25%), charges for services and goods (14%), and other revenue such as interest, fees, and transfers (13%). The 2019 budget was approved with a 0.45 cent decrease to the property tax rate, from 44.48 to 44.03 cents per \$100 of taxable value.

The City's largest enterprise department, Austin Energy, is the eighth largest municipal-owned electric utility in the U.S. in terms of customers served. Austin Energy serves more than 480,000 customers within a service territory of approximately 437 square miles in the Greater Austin area. The approved budget for fiscal year 2019 is \$1.4 billion in annual revenues, including transfers. The utility has a diverse generation mix that includes nuclear, coal, natural gas, and an increasing portfolio of renewable energy sources such as solar and wind.

The City's second largest enterprise activity is the Austin Water, 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 2019 budget projects revenues and transfers of \$613 million. For the first time in several years, the utility has a slight decrease for water and wastewater rates for 2019. Reduction in projected revenue is the result of the 2018 rate reduction.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of

Achievement for Excellence in Financial Reporting to the City for its 2017 CAFR. The City has received this award for 11 consecutive years. The certificate is valid for a period of one year only. City management believes that the 2018 CAFR conforms to the Certificated of Achievement Program requirements, and is submitting it to the GFOA for review.

The City also received the GFOA Distinguished Budget Presentation award for the 2018 budget as well as a 2017 Certificate of Excellence in Performance Measurement from the International City/County Management Association (ICMA), and the Achievement of Excellence in Procurement from the National Procurement Institute in 2018.

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

DRAFT

Employment by Industry in the Austin Metropolitan Area (1)

	<u>2014</u>		<u>2015</u>		<u>2016</u>		<u>2017</u>		<u>2018</u>	
		% of		% of		% of		% of		% of
	total	total	total	total	total	total	total	total	total	total
Mining, Logging, and Construction	52,900	5.60%	56,800	5.80%	59,800	5.90%	63,300	6.00%	63,400	5.90%
Manufacturing	56,200	5.90%	54,900	5.60%	56,000	5.50%	58,600	5.60%	61,600	5.70%
Trade, Transportation, and Utilities	164,300	17.40%	172,100	17.40%	178,000	17.40%	182,100	17.30%	187,700	17.30%
Information	27,100	2.90%	28,900	2.90%	29,400	2.90%	32,200	3.10%	34,300	3.20%
Financial Activities	53,000	5.60%	55,500	5.60%	58,700	5.80%	61,800	5.90%	63,600	5.90%
Professional and Business Services	156,500	16.50%	166,700	16.90%	173,200	17.00%	180,500	17.10%	188,000	17.40%
Education and Health Services	109,100	11.50%	113,700	11.50%	117,400	11.50%	122,300	11.60%	126,900	11.70%
Leisure and Hospitality	108,600	11.50%	118,100	12.00%	122,300	12.00%	126,900	12.00%	128,700	11.90%
Other Services	42,400	4.50%	42,500	4.30%	43,900	4.30%	45,100	4.30%	45,100	4.20%
Government	<u>175,700</u>	<u>18.60%</u>	<u>177,800</u>	<u>18.00%</u>	<u>181,900</u>	<u>17.80%</u>	<u>182,400</u>	<u>17.30%</u>	<u>182,700</u>	<u>16.90%</u>
Total nonfarm employment	<u>945,800</u>	<u>100.00%</u>	<u>987,000</u>	<u>100.00%</u>	<u>1,020,600</u>	<u>100.00%</u>	<u>1,055,200</u>	<u>100.00%</u>	<u>1,082,000</u>	<u>100.00%</u>

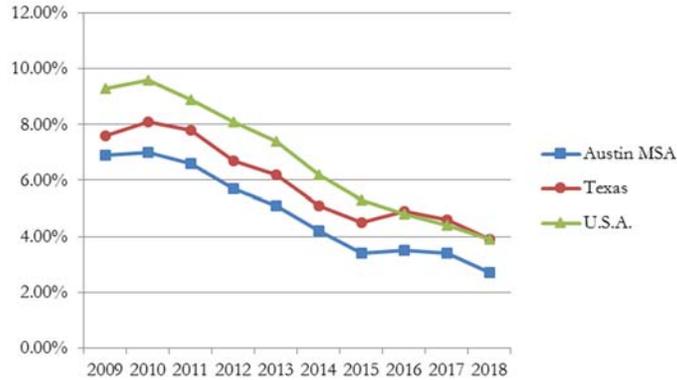
(1) Austin-Round Rock MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically; data contained in this document is the latest provided. Based on calendar year.

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

DRAFT

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

Average Annual Unemployment Rate



	<u>Austin MSA</u>	<u>Texas</u>	<u>U.S.A.</u>
2009	2009	6.90%	7.60%
2010	2010	7.00%	8.10%
2011	2011	6.60%	7.80%
2012	2012	5.70%	6.70%
2013	2013	5.10%	6.20%
2014	2014	4.20%	5.10%
2015	2015	3.40%	4.50%
2016	2016	3.50%	4.90%
2017	2017	3.40%	4.60%
2018	2018	2.70%	3.90%

Note: Information is updated periodically; data contained in this document is latest provided.
 Source: Texas Labor Market Review, Texas Workforce Commission.

City Sales Tax Collections (In Millions) (1)

<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	\$18.369	1-1-19	\$18.697
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	22.174	2-1-19	23.474
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	17.895	3-1-19	19.197
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	16.939	4-1-19	18.499
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	21.249		
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	18.371		
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	19.552		
8-1-13	16.088	8-1-14	16.970	8-1-15	19.483	8-1-16	21.467	8-1-17	19.930	8-1-18	20.338		
9-1-13	14.119	9-1-14	15.385	9-1-15	16.429	9-1-16	16.352	9-1-17	17.401	9-1-18	19.701		
10-1-13	14.644	10-1-14	15.309	10-1-15	16.514	10-1-16	17.106	10-1-17	17.828	10-1-18	19.502		
11-1-13	16.187	11-1-14	17.734	11-1-15	18.952	11-1-16	19.059	11-1-17	19.382	11-1-8	20.661		
12-1-13	14.192	12-1-14	15.735	12-1-15	16.269	12-1-16	17.033	12-1-17	17.567	12-1-18	20.483		
	<u>\$176.02</u>		<u>\$191.01</u>		<u>\$204.56</u>		<u>\$213.40</u>		<u>\$219.33</u>		<u>\$235.23</u>		<u>\$79.87</u>

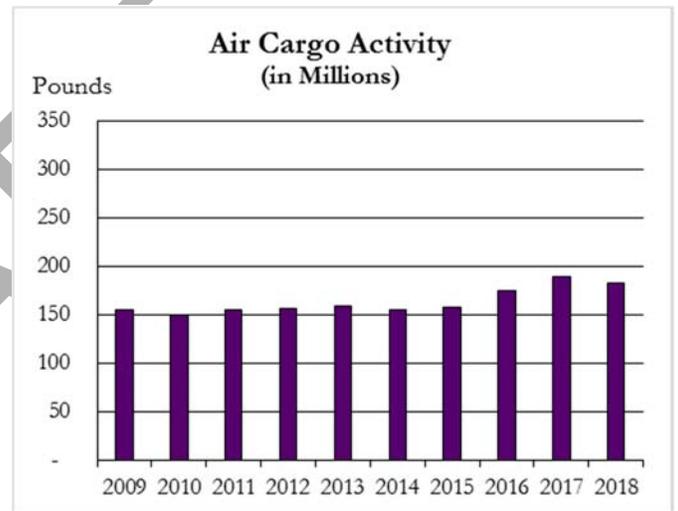
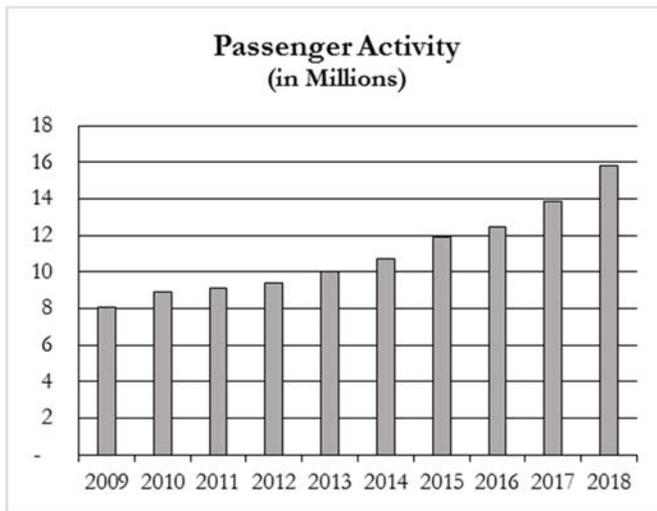
(1) Sales taxes are not pledged to the payment of the Bonds.
 Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2018)

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
State Government	Government	37,890
The University of Texas at Austin	Education	23,925
City of Austin	Government	14,038
HEB Grocery	Grocery/Retail	13,756
Federal Government	Government	13,000
Dell Computer Corporation	Computers	13,000
Austin Independent School District	Education	11,379
St. David's Healthcare Partnership	Healthcare	10,309
Seton Healthcare Network	Healthcare	9,947
Samsung Austin Semiconductor	Manufacturer	8,935

Source: 2018 Comprehensive Annual Financial Report.

Transportation



Austin-Bergstrom International Airport

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

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

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

On February 2, 2017 the City issued \$185,300,000 of Airport System Revenue Bonds, Series 2017A and \$129,655,000 of Airport System Revenue Bonds, Series 2017B (AMT) to finance the parking garage project construction costs the Airport Terminal/Apron Expansion and Improvement project. The City anticipates authorizing the issuance of \$300,000,000 in Airport System Revenue Bonds (AMT), in July 2019, with a delivery of the bonds anticipated to occur by the fourth calendar quarter of 2019.

Other Forms of Transit

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

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

Demographic and Economic Statistics - Last Ten Years

<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>
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	1,834,319	84,319,550	46,818	45,968	5.7%
2013	841,649	321	1,883,528	89,014,800	46,436	47,260	5.2%
2014	878,002	321	1,942,255	97,444,500	49,227	50,171	4.2%
2015	899,919	323	2,000,784	103,473,800	52,519	51,717	3.4%
2016	925,491	326	2,060,558	109,057,100	56,163	52,926	3.3%
2017	946,080	325	2,115,827	115,982,300	56,849	54,817	3.1%
2018	963,797	326	2,130,664(6)	122,793,898(5)	63,191(6)	57,600(5)	2.9%
2009-2018 Change	25.12%	7.98%	26.55%	91.00%	32.98%	50.73%	

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 2018, which are estimated figures; final figures will be available which will not be available until later in 2019 and are estimated. ; the 2019 figures are estimates.
- (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.

Utility Connections

<u>Year</u>	<u>Utility Connections</u>		
	<u>Electric (1)</u>	<u>Water (1)</u>	<u>Gas (1)</u>
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	226,749
2018	485,204	235,174	221,314

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

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

Housing Units

Rental rates in the City averaged \$1.46 per square foot, with an occupancy rate of 93.1% as of December 2018, 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	236,688
2010	19,547	4,819,525,215	246,561
2011	21,067	5,276,728,492	250,474
2012	25,227	6,718,087,395	266,305
2013	29,985	8,607,692,421	287,067
2014	30,168	9,268,438,505	307,227
2015	31,454	10,433,969,643	331,722
2016	32,713	11,375,656,754	347,741
2017	33,947	12,447,529,430	366,675
2018	34,469	13,152,971,542	381,588

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

(1) As of June 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)	89.6%

Source: Cushman & Wakefield.

Education

The Austin Independent School District has an enrollment of 80,032 for the 2018/2019 school year and an estimated average daily attendance of 73,906. The District includes 130 campuses.

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

The University of Texas at Austin had a total enrollment of 51,832 for the fall semester of 2018 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

APPENDIX B
AUDITED FINANCIAL STATEMENTS

DRAFT

APPENDIX C

SUMMARY OF CERTAIN MASTER ORDINANCE PROVISIONS

DRAFT

APPENDIX D

SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO
PRIOR SUBORDINATE LIEN OBLIGATIONS

References to the Bonds contained in this Appendix D refer to Prior Subordinate Lien Obligations previously issued and secured by the Net Revenues of the Combined Utility Systems, and do not refer to the Electric Utility System Revenue Bonds, Taxable Series 2019A, currently being issued, nor the Parity Electric Utility System obligations. Additionally, references to Prior Lien Bonds in this Appendix D are not applicable due to the fact that no previously issued bonds are outstanding as of May 15, 2019.

Definitions. The following definitions are provided:

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

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

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

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

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

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

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

Expenses.

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

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

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

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

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

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

Waterworks and Sewer System-means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of treated potable water and the collection, treatment and disposal of water-carried wastes, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Waterworks and Sewer System" shall not include facilities of any kind which are declared not to be a part of the Waterworks and Sewer System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

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

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

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

- (1) To pay the respective Maintenance and Operating Expenses thereof,
- (2) To provide amounts required to establish, maintain or restore, as the case may be, a required balance in any reserve or contingency fund created for the payment and security of Separate Lien Obligations,
- (3) To produce combined Net Revenues of the Systems sufficient to pay the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Prior Lien Bonds, the Subordinate Lien Bonds, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems, and
- (4) To produce combined Net Revenues of the Systems (after satisfaction of the amounts required to be paid in 2 and 3 above) equal to at least the sum of (i) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior Lien Bonds and Separate Lien Obligations and (ii) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Subordinate Lien Bonds and all other indebtedness (except Prior Lien Bonds and Separate Lien Obligations) payable only from and secured solely by lien on and pledge of the Net Revenues of the Systems, either or both.

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

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

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

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

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

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

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

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

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

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

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

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

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

Prior Lien Bonds or Subordinate Lien Bonds outstanding.

The total amount required to be accumulated and maintained in the Reserve Fund is \$106,790,235.15 (the Required Reserve), which amount is equal to or greater than the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds as determined on the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund.

Currently, the Required Reserve is fully funded with Financial Commitments of Financial Security Assurance Inc. in the amounts of \$30,000,000 (the Initial Financial Commitment acquired) and \$76,790,325.15 (an additional Financial Commitment acquired on or about August 31, 2004).

When and so long as the money and investments, or Financial Commitments, are on deposit to the credit of the Reserve Fund in an amount equal to or exceeding the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Reserve, the City covenants and agrees to cure the deficiency in the Required Reserve within twelve (12) months from the date the Required Reserve deficiency occurred with available Net Revenues in the Electric Fund and the Water and Sewer Fund, and the City hereby covenants and agrees that, subject only to payments required for the payment of principal of and interest on the Prior Lien Bonds and the establishment and maintenance of the special funds (other than the Reserve Fund) created for the payment and security thereof, all Net Revenues remaining in the Electric Fund and the Water and Sewer Fund shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amount as required by the terms of this Ordinance and any other ordinance pertaining to obligations the payment of which are secured by the Required Reserve. During such time as the Reserve Fund contains the total Required Reserve, the City may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the "Interest and Redemption Fund" created and established for the payment and redemption of the Subordinate Lien Bonds while the same remain outstanding and, at such time as the Subordinate Lien Bonds are no longer outstanding, such surplus may be deposited in the Bond Fund.

Notwithstanding any provision contained herein to the contrary, the Required Reserve may be funded, in whole or in part, by depositing to the credit of the Reserve Fund (i) cash, (ii) investments, and (iii) one or more Financial Commitments. The term Financial Commitments means an irrevocable and unconditional policy of bond insurance or surety bond in full force and effect issued by an insurance company or association duly authorized to do business in the State of New York and the State of Texas and with financial strength meeting the requirements below. Such insurance policy or surety bond shall provide for payment thereunder of moneys when other funds available to the payment of the Prior Lien Bonds or Subordinate Lien Bonds, or both, in the interest and sinking fund maintained for the payment of the Prior Lien Bonds or Subordinate Lien Bonds, or both, is insufficient on a payment date when interest or principal, or both, is due and payable for such obligations.

The financial strength of the insurance company or association providing the Financial Commitment must be rated on the date of the deposit of the Financial Commitment to be credit of the Reserve Fund in the highest rating category by Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings and, if rated, by A.M. Best. In the event the rating of the financial strength of a provider of a Financial Commitment falls below (i) "Aa2" by Moody's Investors Service, Inc., (ii) "AA" by Standard & Poor's Ratings Services, (iii) "AA" by Fitch Ratings or (iv) if applicable, "A+" by A.M. Best, the City will be required to replace the Financial Commitment with (a) cash and Authorized Securities or (b) a substitute Financial Commitment issued by an insurance company or association that satisfies the ratings requirements summarized above in this paragraph (but in no event less than the ratings described in clauses (i), (ii), (iii) and (iv) of this sentence).

Notwithstanding any provision herein to the contrary, the City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following the substitution of one or more Financial Commitments for cash and securities held in the Reserve Fund, the cash and securities released from the Reserve Fund, net of costs incurred with respect to the initial substitution of the Financial Commitment, shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior Lien Bonds and Subordinate Lien Bonds in a manner that reduces the principal amount and Maturity Amount of outstanding Prior Lien Bonds and Subordinate Lien Bonds.

(b) Initial Financial Commitment. As permitted in paragraph (a) above, the City has determined to acquire initially

a Financial Commitment for the Reserve Fund with coverage in the maximum amount of \$30,000,000 to fund in part the Required Reserve from Financial Security Assurance Inc., a New York domiciled insurance company (hereinafter referred to as "FSA"). In accordance with FSA's terms for the issuance of a "Municipal Bond Debt Service Reserve Insurance Policy" (the "Reserve Policy"), an Insurance Agreement by and between the City and FSA has been submitted to the City for approval and execution, and such Insurance Agreement, substantially in the form and content of Exhibit A attached hereto, is hereby approved and authorized to be executed by the City Manager and such Insurance Agreement, as executed and delivered by the City Manager, shall be deemed the Insurance Agreement herein approved by the City Council and authorized for execution.

To the extent the City should make a draw under the Reserve Policy, the City acknowledges and agrees the repayment of "Policy Costs," as defined in the Insurance Agreement, shall constitute a payment of an amount required to be deposited in the Reserve Fund to establish and maintained the Required Reserve, and insofar as the priority of uses of the revenues of (i) Electric Light and Power System and (ii) the Waterworks and Sewer System, such Policy Costs shall be entitled to the same priority of payment identified in the Prior Lien Bond Ordinances for payments required to be deposited in the Reserve Fund to establish and maintain the Required Reserve.

Interest and Redemption Funds. For purposes of providing funds to pay the principal of and interest on the Prior Lien Bond or the Subordinate Lien Bonds, as the case may be, as the same becomes due and payable (whether at maturity or upon redemption), the City agrees to maintain at a depository bank of the City a separate and special account or fund known as the "City of Austin Interest and Redemption Fund" (the "Interest and Redemption Fund").

The City covenants that there shall be deposited into said Fund prior to each interest and principal payment date for the Prior Lien Bonds and for the Subordinate Lien Bonds from the Net Revenues in the Electric Fund and the Water and Sewer Fund amounts equal to one hundred per centum (100%) of the amount required to fully pay the interest on and principal then due and payable on the Prior Lien Bonds and the Subordinate Lien Bonds, as the case may be, such deposits to pay principal at maturity or redemption, as the case may be, and accrued interest to be made in substantially equal monthly installments on or before the 14th day of each month, beginning on or before the 14th day of the month. If the Net Revenues in the Electric Fund and the Water and Sewer Fund in any month are then insufficient to make the required payments into the Interest and Redemption Fund, then the amount of any deficiency in the payment shall be added to the amount otherwise required to be paid into the Interest and Redemption Fund in the next month.

The monthly deposits to the Interest and Redemption Fund for the payment of principal and interest on the Prior Lien Bonds and the Subordinate Lien Bonds shall continue to be made as hereinabove provided until such time as (i) the total amounts on deposit in the respective Interest and Redemption Fund and Reserve Funds is equal to the amount required to pay all outstanding indebtedness (principal and interest) for which said Funds were created and established or (ii) the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, are no longer Outstanding.

Accrued interest and premium, if any, received from the purchaser of the Bonds shall be deposited to the credit of the Interest and Redemption Fund and taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited in the Interest and Redemption Fund from the Net Revenues of the Systems.

Investment of Certain Funds. (a) Money in any Fund required to be maintained pursuant to this Ordinance may, at the option of the City, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested, including investments held in book-entry form, in direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year. All interest and income derived from deposits and investments in the Interest and Redemption Fund immediately shall be credited to, and any losses debited to, the Interest and Redemption Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in

Section 14 hereof, be credited to and deposited in the Interest and Redemption Fund.

All such investments with respect to the Interest and Redemption Fund and Reserve Fund shall be sold promptly when necessary to prevent any default in connection with the Subordinate Lien Bonds and, with respect to the Reserve Fund, to prevent any default in connection with the Prior Lien Bonds.

(b) Money in all Funds required to be maintained by this Ordinance, to the extent not invested, shall be secured in the manner prescribed by law for securing funds of the City.

Obligations of Inferior Lien and Pledge. The City hereby reserves the right to issue obligations payable from and secured by a lien on and pledge of the Net Revenues of the Systems, either or both, junior and subordinate to the lien and pledge securing the payment of the Subordinate Lien Bonds, as may be authorized by the laws of the State of Texas.

Maintenance and Operation-Insurance. The City shall maintain the Systems in good condition and operate each in an efficient manner and at reasonable cost. So long as any Bonds are Outstanding, the City agrees to maintain insurance, for the benefit of the Holders of the Bonds, on the Systems of a kind and in an amount which usually would be carried by municipal corporations engaged in a similar type of business. Nothing in this Ordinance shall be construed as requiring the City to expend any funds derived from sources other than the operation of the Systems, but nothing herein shall be construed as preventing the City from doing so.

Sale, Lease or Disposal of System Property. To the extent and in the manner provided by law, the City can sell, exchange or otherwise dispose of property and facilities constituting part of the System at any time and from time to time, provided such sale or exchange of property or facilities does not impede the operations of the System. In the event the property, facilities or assets of the System sold or exchanged represents more than 5% of the total assets of the System, the City agrees to notify the rating agencies then rating the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations and bond insurance companies insuring the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations of such sale, exchange or disposal of property and facilities. Prior to the sale or exchange of any assets or properties representing more than 5% of the total assets of the System being completed, a written response shall be obtained from the rating agencies then rating the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations to the effect that such sale or exchange of such assets or properties in and of itself will not result in a rating category change of the ratings then assigned on such obligations. Furthermore, the City to the extent and in the manner provided by law may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the System, provided such lease, contract, license, arrangement, easement or right does not impede or disrupt the operations of the System. The proceeds of any such sale, exchange or disposal of property or facilities shall be deposited to the credit of a special Fund or Account, and funds deposited to the credit of such Fund or Account shall be used either (i) to acquire other property necessary or desirable for the safe or efficient operation of the System, or (ii) to redeem, defease or retire Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations.

Records and Accounts. The City hereby covenants and agrees that so long as any of the Bonds or any interest thereon remains Outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the Waterworks and Sewer System and the Electric Light and Power System in which complete and correct entries shall be made of all transactions relating thereto, as provided by Article 1113, V.A.T.C.S. The Holders of any Bonds or any duly authorized agent or agents of such Holders shall have the right at all reasonable times to inspect such records, accounts and data relating thereto, and to inspect the respective Systems and all properties comprising same. The City further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

(a) A detailed statement of the income and expenditures of the Electric Light and Power System and of the Waterworks and Sewer System for such Fiscal Year.

(b) A balance sheet for the Electric Light and Power System and the Waterworks and Sewer System as of the end of such Fiscal Year.

(c) The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Prior Lien

Bonds or Subordinate Lien Bonds and his recommendations for any changes or improvements in the operations, records and accounts of the respective Systems.

(d) A list of insurance policies in force at the end of the Fiscal Year covering the properties of the respective Systems, setting out as to each policy the amount thereof, the risk covered, the name of the insurer and the policy's expiration date.

Expenses incurred in making an annual audit of the operations of the Systems are to be regarded as Maintenance and Operating Expenses of the respective Systems and paid on a pro rata basis or as otherwise determined by the City from available revenues in the Electric Fund and Water and Sewer Fund, either or both. Copies of each annual audit shall be furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, the Texas Water Development Board, Attention: Executive Administrator, State Water Pollution Control Revolving Fund and, upon request, to the original purchaser of any series of Subordinate Lien Bonds. The audits herein required shall be made within 120 days following the close of each Fiscal Year insofar as it is possible.

Deficiencies; Excess Net Revenues. (a) If on any occasion there shall not be sufficient Net Revenues of the Systems to make the required deposits into the Interest and Redemption Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available Net Revenues of the Systems, or from any other sources available for such purpose.

(b) Subject to making the required deposits to (i) all special funds created for the payment and security of the Prior Lien Bonds (including the Reserve Fund) (ii) all special funds created for the payment and security of the Subordinate Lien Bonds (including the Interest and Redemption Fund) and (iii) all funds or accounts created for the benefit of Separate Lien Obligations, the excess Net Revenues of the Systems, either or both, may be used by the City for any lawful purpose.

Final Deposits; Governmental Obligations. (a) All or any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be deemed to be paid, retired and no longer outstanding within the meaning of their respective ordinances when payment of the principal of, and redemption premium, if any, on such obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption), or (ii) shall have been provided by irrevocably depositing with, or making available to, the Paying Agent/Registrar, in trust and irrevocably set aside exclusively for such payment, (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the Paying Agent/Registrar with respect to which such deposit is made shall have been paid or the payment thereof provided for the satisfaction of the Paying Agent/Registrar. At such time as an obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or a lien on and pledge of the Net Revenues of the Systems, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys so deposited with the Paying Agent/Registrar, or an authorized escrow agent, may at the direction of the City also be invested in Government Obligations, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Government Obligations not required for the payment of the obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City or deposited as directed by the City.

(c) The City covenants that no deposit will be made or accepted under clause (a)(ii) of this Section and no use made of any such deposit which would cause the obligations to be treated as arbitrage bonds within the meaning of Section 103 of the Internal Revenue Code of 1986, as amended.

(d) Notwithstanding any other provisions of the ordinances, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of the obligations, the redemption premium, if any, and interest thereon, shall be applied to and used for the payment of such obligations, the redemption premium, if any, and interest thereon and the income on such money or Government Obligations shall not be considered to be "Gross Revenues" under this Ordinance.

Remedy in Event of Default. In addition to all rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Interest and Redemption Fund or the Reserve Fund as required by the ordinances authorizing the issuance of the Prior Lien Bonds or the Subordinate Lien Bonds, as the case may be, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in such ordinances, the Holders of any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the ordinance authorizing their issuance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

Special Obligations. The Bonds are special obligations of the City payable from the pledged Net Revenues of the Systems and the Holders shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

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

DRAFT

APPENDIX E
FORM OF BOND COUNSEL'S OPINION

DRAFT