

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER __, 2020

Ratings: Moody's: " "

S&P: " "

Fitch: " "

(See "OTHER RELEVANT INFORMATION – Ratings")

NEW ISSUES – Book-Entry-Only

Delivery of the Series 2020A Bonds is subject to the receipt of the opinion of Norton Rose Fulbright US LLP, Bond Counsel, to the effect that, assuming continuing compliance by the City of Austin, Texas (the "City") with certain covenants contained in the Nineteenth Supplement described in this document, interest on the Bonds will be excludable from gross income for federal income taxation under existing law, subject to the matters described under "TAX MATTERS – Series 2020A" in this document. Interest on the Taxable Series 2020B Bonds will be included in gross income for federal income tax purposes. See "TAX MATTERS – Taxable Series 2020B" in this document.

CITY OF AUSTIN, TEXAS

\$227,920,000*

Electric Utility System Revenue Refunding and
Improvement Bonds, Series 2020A

\$55,390,000*

Electric Utility System Revenue Refunding
Bonds, Taxable Series 2020B

Dated: Date of Initial Delivery

Due: November 15, as shown on pages i and ii of this document

The bonds offered in this document are the \$227,920,000* City of Austin, Texas Electric Utility System Revenue Refunding and Improvement Bonds, Series 2020A (the "Series 2020A Bonds") and the \$55,390,000* City of Austin, Texas Electric Utility System Revenue Refunding Bonds, Taxable Series 2020B (the "Taxable Series 2020B Bonds"). The Series 2020A Bonds and Taxable Series 2020B Bonds are collectively referred to in this document as the "Bonds." The Bonds represent the nineteenth and twentieth series, respectively, 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 of the City (the "City Council") governing the issuance of the City's Electric Utility System indebtedness (the "Master Ordinance") and are authorized and being issued in accordance with Ordinance No. _____-____ (the "Nineteenth Supplement") authorizing the Series 2020A Bonds and Ordinance No. _____-____ (the "Twentieth Supplement") authorizing the Taxable Series 2020B Bonds, each passed on September 17, 2020, by the City Council. The Nineteenth Supplement and Twentieth Supplement each delegated to a designated "Pricing Officer" the authority to effect the sale of the Bonds, subject to the terms of the Nineteenth Supplement and Twentieth 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 also has outstanding one series of Prior Subordinate Lien Obligations (defined in this document), which are secured by joint and several pledges of the net revenues of both the Water and Wastewater System and Electric Utility System. The City must comply with the covenants and security provisions relating to the Prior Subordinate Lien Obligations 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 Utility 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 Obligations 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, the Nineteenth Supplement for the Series 2020A Bonds and the Twentieth Supplement for the Taxable Series 2020B Bonds. **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 to the underwriters set forth below (the "Underwriters") and shall be payable on May 15, 2021 and each November 15 and May 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/registrant (the "Paying Agent/Registrar") for the Bonds.

MATURITY SCHEDULE

See "Maturity Schedule" on pages i and ii
of this document

The City reserves the right, at its option, to redeem the Bonds of either series prior to their scheduled maturities. (See "DESCRIPTION OF THE BONDS - Redemption of the Series 2020A Bonds" and "Redemption of the Series 2020B 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 Opinions" in this document). Certain legal matters will be passed upon for the City by McCall, Parkhurst & Horton LLP, Disclosure Counsel for the City, and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP.

It is expected that the Bonds will be delivered through the facilities of DTC on or about November 17, 2020 (the "Date of Initial Delivery").

RBC Capital Markets

Hilltop Securities

Raymond James

*Preliminary, subject to change.

CITY OF AUSTIN, TEXAS
\$227,920,000*
Electric Utility System Revenue Refunding and Improvement Bonds,
Series 2020A

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</u> (1)
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\$ _____ % Term Bonds maturing November 15, 20____, priced to yield _____%, CUSIP Suffix ____ (1) (2)

(Interest to accrue from Date of Initial Delivery)

Redemption of the Series 2020A Bonds

The Series 2020A Bonds will be subject to optional redemption and mandatory sinking fund redemption as described in “DESCRIPTION OF THE BONDS – Redemption of the Series 2020A Bonds” in this document.

*Preliminary, subject to change.

- (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. The City, the Financial Advisor, and the Underwriters do not take any responsibility for the accuracy of such numbers.
- (2) Initial yield shown is the yield to the first optional redemption date of _____ for the Bonds

CITY OF AUSTIN, TEXAS
\$55,390,000*
Electric Utility System Revenue Refunding Bonds,
Taxable Series 2020B

Base CUSIP No. 052414 (1)

MATURITY SCHEDULE

Maturity Date <u>(November 15)</u>	Principal <u>Amount</u>	Interest <u>Rate</u>	Initial <u>Yield</u>	CUSIP <u>Suffix</u> (1)
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\$ _____ % Term Bonds maturing November 15, 20__, priced to yield _____ %, CUSIP Suffix ____ (1)

(Interest to accrue from Date of Initial Delivery)

Redemption of the Taxable Series 2020B Bonds

The Taxable Series 2020B Bonds will be subject to make-whole redemption, optional redemption and mandatory sinking fund redemption as described in “DESCRIPTION OF THE BONDS – Redemption of the Taxable Series 2020B Bonds”.

*Preliminary, subject to change.

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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
Nuria Rivera-Vandermyde	Deputy City Manager
Mark Dombroski ⁽¹⁾	Interim 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

- (1) Mark Dombroski was appointed Interim Chief Financial Officer effective July 1, 2020, following the planned retirement of Elaine Hart, who was the City’s Chief Financial Officer. Mark Dombroski serves as the Deputy General Manager and Chief Financial and Risk Officer for Austin Energy, which is the City’s electric utility system. The City has begun the recruitment process for hiring a new Chief Financial Officer.

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

Dennis P. Waley
Managing Director
PFM Financial Advisors LLC
111 Congress Ave, Suite 2150
Austin, TX 78701
(512) 614-5323
waleyd@pfm.com

SELECTED FINANCIAL INFORMATION

Combined Utility Systems (Electric Utility System and Water and Wastewater System)

The selected financial information below presents selected historical information related to the Combined Utility Systems of the City, which is comprised of 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, 2016 through September 30, 2019 is derived from the City's audited financial statements for the respective fiscal years. This information should be read in conjunction with the audited financial statements included in "APPENDIX B – AUDITED FINANCIAL STATEMENTS" in this document.

The historical financial information includes debt service on obligations issued under liens of the Combined Utility Systems that are now closed: the Prior First Lien Obligations (no obligations outstanding as of May 15, 2019) and Prior Subordinate Lien Obligations (one series of obligations outstanding with a final maturity of May 15, 2025). These closed prior liens are secured by joint and several pledges of the net revenues of both the Water and Wastewater System and Electric Utility System. While the remaining series of Prior Subordinate Lien Obligations remain outstanding, the City must comply with the covenants and security provisions relating to such Prior Subordinate Lien Obligations. **The Master Ordinance provides that no additional revenue obligations payable from the same sources and secured in the same manner as the Prior First Lien Obligations and 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 Combined Utility Systems, may continue to be issued on a subordinate lien basis to the Parity Electric Utility Obligations.

Operating Summary of the Combined Utility Systems

		(000's)			
		Fiscal Year Ended September 30 (2)			
	<u>12-Months</u> <u>Ended</u> <u>6-30-2020 (2)</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Combined Gross Revenues	\$2,037,148	\$2,031,435	\$1,998,556	\$1,974,948	\$1,941,815
Combined Maintenance and Operating Expenses	<u>1,365,506</u>	<u>1,366,470</u>	<u>1,334,151</u>	<u>1,252,196</u>	<u>1,207,225</u>
Combined Net Revenues	<u>\$ 671,642</u>	<u>664,965</u>	<u>\$ 664,405</u>	<u>\$ 722,752</u>	<u>\$ 734,590</u>
Principal and Interest on Revenue Bonds of the Combined Utility Systems (Prior First Lien Obligations and Prior Subordinate Lien Obligations) (1)	\$ 21,090	\$ 46,527	\$ 80,433	\$ 60,298	\$ 33,867
Debt Service Coverage on Revenue Bonds of the Combined Utility Systems (Prior First Lien Obligations and Prior Subordinate Lien Obligations) (1)	31.85x	14.29x	8.26x	11.99x	21.69x

- (1) Includes only the Prior First Lien Obligations, which were fully paid and discharged on May 15, 2019, and Prior Subordinate Lien Obligations, which are the obligations secured by a pledge of the Net Revenues of the Combined Utility Systems. Unaudited. See "OTHER RELEVANT INFORMATION – Independent Auditors" in this document.

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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, 2016 through September 30, 2019 is derived from the City's audited financial statements for the respective fiscal years. This information should be read in conjunction with the audited financial statements included in "APPENDIX B – AUDITED FINANCIAL STATEMENTS" in this document.

The historical financial information includes the portion of Austin Energy's debt service on obligations issued under liens of the Combined Utility Systems that are now closed: the Prior First Lien Obligations (no obligations outstanding as of May 15, 2019) and Prior Subordinate Lien Obligations (one series of debt obligations outstanding with a final maturity of May 15, 2025). These closed prior liens are secured by joint and several pledges of the net revenues of both the Water and Wastewater System and Electric Utility System. While the remaining series of Prior Subordinate Lien Obligations remain outstanding, the City must comply with the covenants and security provisions relating to such Prior Subordinate Lien Obligations. **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 currently authorized, having a combined pledge of Net Revenues of the Combined Utility Systems, may continue to be issued on a subordinate lien basis to the Parity Electric Utility Obligations.

Operating Summary of the Electric Utility System

		(000's)			
		Fiscal Year Ended September 30 (4)			
	<u>12-Months Ended 6-30-2020 (4)</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Gross Revenues	\$1,449,643	\$1,471,267	\$1,417,232	\$1,373,020	\$1,378,749
Maintenance and Operating Expenses	<u>1,098,884</u>	<u>1,105,466</u>	<u>1,083,928</u>	<u>1,018,604</u>	<u>989,768</u>
Net Revenues	<u>\$350,759</u>	<u>\$365,801</u>	<u>\$333,304</u>	<u>\$354,416</u>	<u>\$388,981</u>
Principal and Interest paid by the Electric Utility System on Revenue Bonds of the Combined Utility Systems (Prior First Lien Obligations and Prior Subordinate Lien Obligations)(1)	11,052	9,135	12,604	12,650	19,742
Net Revenues available for Parity Electric Utility Obligations	339,706	356,666	320,700	341,766	369,239
Principal and Interest on Parity Electric Utility Obligations (2)	\$140,021	\$82,236	\$81,024	\$92,320	\$107,989
Debt Service Coverage on Parity Electric Utility Obligations (3)	2.43x	4.34x	3.96x	3.70x	3.42x

(1) Represents Austin Energy's portion of the Prior First Lien Obligations (which were fully paid and discharged in fiscal year 2019), and Prior Subordinate Lien Obligations, which are obligations secured by a pledge of the Net Revenues of the Combined Utility Systems.

(2) Secured by a lien on and pledge of the Net Revenues of the City's Electric Utility System. Increased debt service for the 12-month period ending June 30, 2020 reflects the prior issuance of Parity Electric Utility Obligations in 2019.

(3) Unaudited. See "DEBT SERVICE REQUIREMENTS" and "OTHER RELEVANT INFORMATION – Independent Auditors" in this document.

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

THE 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, and there shall not 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.

The City, PFM Financial Advisors LLC, and the Underwriters do not 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.

INFORMATION CONCERNING OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES

REFERENCES HEREIN TO THE “ISSUER” MEAN THE CITY OF AUSTIN, TEXAS AND REFERENCES TO “BONDS” OR “SECURITIES” MEAN THE BONDS OFFERED BY THIS DOCUMENT. NEITHER THE ISSUER NOR THE UNDERWRITERS ASSUME ANY RESPONSIBILITY FOR THIS SECTION.

THE BONDS WILL TRADE AND SETTLE ON A UNIT BASIS (ONE UNIT EQUALING ONE BOND OF \$5,000 PRINCIPAL AMOUNT). FOR ANY SALES MADE OUTSIDE THE UNITED STATES, THE MINIMUM PURCHASE AND TRADING AMOUNT IS 30 UNITS (BEING 30 BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF \$150,000).

NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA (“EEA”)

THE BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EUROPEAN ECONOMIC AREA (“EEA”). FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (AS AMENDED, “MIFID II”); OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE 2002/92/EC (AS AMENDED OR SUPERSEDED, THE “INSURANCE MEDIATION DIRECTIVE”), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II; OR (III) NOT A QUALIFIED INVESTOR AS DEFINED IN DIRECTIVE 2003/71/EC (AS AMENDED OR SUPERSEDED, THE “PROSPECTUS DIRECTIVE”). CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 (AS AMENDED, THE “PRIIPS REGULATION”) FOR OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

THIS OFFICIAL STATEMENT HAS BEEN PREPARED ON THE BASIS THAT ALL OFFERS OF THE BONDS TO ANY PERSON THAT IS LOCATED WITHIN A MEMBER STATE OF THE EEA WILL BE MADE PURSUANT TO AN EXEMPTION UNDER ARTICLE 3(2) OF THE PROSPECTUS DIRECTIVE, AS IMPLEMENTED IN MEMBER STATES OF THE EEA, FROM THE REQUIREMENT TO PRODUCE A PROSPECTUS FOR OFFERS OF THE BONDS. ACCORDINGLY, ANY PERSON MAKING OR INTENDING TO MAKE ANY OFFER IN THE EEA OF THE BONDS SHOULD ONLY DO SO IN CIRCUMSTANCES IN WHICH NO OBLIGATION ARISES FOR THE ISSUER OR ANY OF THE UNDERWRITERS TO PROVIDE A PROSPECTUS FOR SUCH OFFER. NEITHER THE ISSUER NOR THE UNDERWRITERS HAVE AUTHORIZED, NOR DO THEY AUTHORIZE, THE MAKING OF ANY OFFER OF BONDS THROUGH ANY FINANCIAL INTERMEDIARY, OTHER THAN OFFERS MADE BY THE UNDERWRITERS, WHICH CONSTITUTE THE FINAL PLACEMENT OF THE BONDS CONTEMPLATED IN THIS OFFICIAL STATEMENT.

IN RELATION TO EACH MEMBER STATE OF THE EEA THAT HAS IMPLEMENTED THE PROSPECTUS DIRECTIVE (EACH, A “RELEVANT MEMBER STATE”), WITH EFFECT FROM AND INCLUDING THE DATE ON WHICH THE PROSPECTUS DIRECTIVE IS IMPLEMENTED IN THAT RELEVANT MEMBER STATE, THE OFFER OF ANY BONDS WHICH IS THE SUBJECT OF THE OFFERING CONTEMPLATED BY THIS OFFICIAL STATEMENT IS NOT BEING MADE AND WILL NOT BE MADE TO THE PUBLIC IN THAT RELEVANT MEMBER STATE, OTHER THAN: (A) TO ANY LEGAL ENTITY WHICH IS A “QUALIFIED INVESTOR” AS SUCH TERM IS DEFINED IN THE PROSPECTUS DIRECTIVE; (B) TO FEWER THAN 150 NATURAL OR LEGAL PERSONS (OTHER THAN “QUALIFIED INVESTORS” AS SUCH TERM IS DEFINED IN THE PROSPECTUS DIRECTIVE), SUBJECT TO OBTAINING THE PRIOR CONSENT OF THE RELEVANT UNDERWRITER OR THE ISSUER FOR ANY SUCH OFFER OR (C) IN ANY OTHER CIRCUMSTANCES FALLING WITHIN ARTICLE 3(2) OF THE PROSPECTUS DIRECTIVE; PROVIDED THAT NO SUCH OFFER OF THE BONDS SHALL REQUIRE THE ISSUER OR ANY UNDERWRITER TO PUBLISH A PROSPECTUS PURSUANT TO ARTICLE 3(1) OF THE PROSPECTUS DIRECTIVE OR A SUPPLEMENT TO A PROSPECTUS PURSUANT TO ARTICLE 16 OF THE PROSPECTUS DIRECTIVE.

FOR THE PURPOSES OF THIS PROVISION, THE EXPRESSION AN “OFFER OF SECURITIES TO THE PUBLIC” IN RELATION TO THE BONDS IN ANY RELEVANT MEMBER STATE MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE BONDS TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE THE BONDS, AS THE SAME MAY BE VARIED IN THAT RELEVANT MEMBER STATE BY ANY MEASURE IMPLEMENTING THE PROSPECTUS DIRECTIVE IN THAT RELEVANT MEMBER STATE.

EACH SUBSCRIBER FOR OR PURCHASER OF THE BONDS IN THE OFFERING LOCATED WITHIN A RELEVANT MEMBER STATE WILL BE DEEMED TO HAVE REPRESENTED, ACKNOWLEDGED AND AGREED THAT IT IS A “QUALIFIED INVESTOR” WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE. THE ISSUER AND EACH UNDERWRITER AND OTHERS WILL RELY ON THE TRUTH AND ACCURACY OF THE FOREGOING REPRESENTATION, ACKNOWLEDGEMENT AND AGREEMENT.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

THIS OFFICIAL STATEMENT HAS NOT BEEN APPROVED FOR THE PURPOSES OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (“FSMA”) AND DOES NOT CONSTITUTE AN OFFER TO THE PUBLIC IN ACCORDANCE WITH THE PROVISIONS OF SECTION 85 OF THE FSMA. IT IS FOR DISTRIBUTION ONLY TO, AND IS DIRECTED SOLELY AT, PERSONS WHO (I) ARE OUTSIDE OF THE UNITED KINGDOM (II) ARE INVESTMENT PROFESSIONALS, AS SUCH TERM IS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE “FINANCIAL PROMOTION ORDER”), (III) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER OR (IV) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE “FSMA”) IN CONNECTION WITH THE ISSUE OR SALE OF ANY BONDS MAY OTHERWISE BE LAWFULLY COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THIS OFFICIAL STATEMENT IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFICIAL STATEMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFICIAL STATEMENT OR ANY OF ITS CONTENTS.

NOTICE TO PROSPECTIVE INVESTORS IN HONG KONG

THE CONTENTS OF THIS OFFICIAL STATEMENT HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG. YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE OFFER OF THE BONDS. IF YOU ARE IN ANY DOUBT ABOUT ANY OF THE CONTENTS OF THIS OFFICIAL STATEMENT, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

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NOTICE TO PROSPECTIVE INVESTORS IN TAIWAN

THE OFFER OF THE BONDS HAS NOT BEEN AND WILL NOT BE REGISTERED OR FILED WITH, OR APPROVED BY, THE FINANCIAL SUPERVISORY COMMISSION OF TAIWAN AND/OR OTHER REGULATORY AUTHORITY OF TAIWAN PURSUANT TO RELEVANT SECURITIES LAWS AND REGULATIONS, AND THE BONDS MAY NOT BE OFFERED, ISSUED OR SOLD IN TAIWAN THROUGH A PUBLIC OFFERING OR IN CIRCUMSTANCES WHICH CONSTITUTE AN OFFER WITHIN THE MEANING OF THE SECURITIES AND EXCHANGE ACT OF TAIWAN THAT REQUIRES THE REGISTRATION OR FILING WITH OR APPROVAL OF THE FINANCIAL SUPERVISORY COMMISSION OF TAIWAN. THE BONDS MAY BE MADE AVAILABLE OUTSIDE TAIWAN FOR PURCHASE BY INVESTORS RESIDING IN TAIWAN (EITHER DIRECTLY OR THROUGH PROPERLY LICENSED TAIWAN INTERMEDIARIES), BUT MAY NOT BE OFFERED OR SOLD IN TAIWAN EXCEPT TO QUALIFIED INVESTORS VIA A TAIWAN LICENSED INTERMEDIARY. ANY SUBSCRIPTIONS OF BONDS SHALL ONLY BECOME EFFECTIVE UPON ACCEPTANCE BY THE ISSUER OR THE RELEVANT DEALER OUTSIDE TAIWAN AND SHALL BE DEEMED A CONTRACT ENTERED INTO IN THE JURISDICTION OF INCORPORATION OF THE ISSUER OR RELEVANT DEALER, AS THE CASE MAY BE, UNLESS OTHERWISE SPECIFIED IN THE SUBSCRIPTION DOCUMENTS RELATING TO THE BONDS SIGNED BY THE INVESTORS.

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OFFICIAL STATEMENT

Relating to

CITY OF AUSTIN, TEXAS

\$227,920,000*

**Electric Utility System Revenue Refunding
and Improvement Bonds, Series 2020A**

\$55,390,000*

**Electric Utility System Revenue Refunding
Bonds, Taxable Series 2020B**

INTRODUCTION

This Official Statement is being furnished in connection with the proposed issuance by the City of Austin, Texas (the “City”) of its \$227,920,000* City of Austin, Texas Electric Utility System Revenue Refunding Bonds and Improvement Bonds, Series 2020A (the “Series 2020A Bonds”) and its \$55,390,000* City of Austin, Texas Electric Utility System Revenue Refunding Bonds, Taxable Series 2020B (the “Taxable Series 2020B Bonds”). The Series 2020A Bonds and Taxable Series 2020B Bonds are collectively referred to in this document as 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 of the City (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, Ordinance No. _____-____ authorizing the Series 2020A Bonds (the “Nineteenth Supplement”) and Ordinance No. _____-____ authorizing the Taxable Series 2020B Bonds (the “Twentieth Supplement”), each passed by the City Council on September 17, 2020. The Nineteenth Supplement and the Twentieth Supplement each delegated to a designated “Pricing Officer” the authority, through the execution of a certificate stating the terms of the sale of the related series of Bonds (the “Pricing Certificate”), to effect the sale of the Bonds, subject to the terms of the Nineteenth Supplement and the Twentieth 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 authorizing their issuance (collectively, the “Bond Ordinance”). 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 Nineteenth Supplement and the Twentieth Supplement, or the Bond Ordinance, as applicable (see APPENDICES C and D).** A description of The Depository Trust Company, New York, New York (“DTC”) and its Book-Entry-Only System and the global clearance procedures applicable to the Bonds is attached as APPENDIX F. 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. As used in this document, “FY” refers to the fiscal year of the City, which encompasses the twelve-month period commencing on October 1 and ending on the following September 30.

The City has issued, and there currently remains outstanding, one series of Prior Subordinate Lien Obligations and Commercial Paper Obligations secured by a joint and several pledge of the Net Revenues of the City’s Combined Utility Systems. Pursuant to the Master Ordinance, no additional Prior Subordinate Lien Obligations may be issued. There are no Prior First Lien Obligations outstanding and no additional Prior First 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 Energy 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.

*Preliminary, subject to change.

The City has also issued revenue obligations secured solely by the net revenues of the Water and Wastewater System (the "Water and Wastewater System Separate Lien Obligations") pursuant to a separate Water and Wastewater Master Ordinance (Ordinance No. 0006008-56A, adopted June 8, 2000), the terms and provisions of which differ substantially from those of the Master Ordinance. The City intends to issue additional Water and Wastewater Separate Lien Obligations on or about the same time as the delivery of the Bonds, including the the \$202,460,000 Water and Wastewater System Revenue Refunding Bonds, Series 2020C on November 10, 2020 and the \$16,995,000 of Water and Wastewater Separate Revenue Bonds, Series 2020D on November 17, 2020.

As noted under "DEBT PAYABLE FROM COMBINED UTILITY SYSTEMS REVENUES" in this document, \$75,840,000 of one series of Prior Subordinate Lien Obligations (with maturities extending through May 15, 2025) are outstanding as of the date of this document 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.

COVID-19 PANDEMIC

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation.

Due to a recent increase in COVID-19 cases, recent executive orders modified the phased reopening of businesses in Texas, subject to further restrictions in the Governor's discretion. For example, Executive Order GA-28, which was issued on June 26, 2020, and remains in effect until modified, amended, rescinded or superseded by the Governor, established occupancy limits to 50% of most businesses in Texas, limited bars and similar establishments to drive-through, pickup or delivery options, and made most outdoor gatherings of more than 100 people subject to approval by local authorities, subject to exceptions outlined in the order. Businesses otherwise subject to a 50% occupancy limit and located in a county meeting certain Department of State Health Services criteria are eligible to operate at up to 75% of occupancy. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <http://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement. In addition to the actions by the state and federal officials, certain local officials, including Travis County, have declared a local state of disaster and have issued "shelter-in-place" orders. Many of the federal, state and local actions and policies under the aforementioned disaster declarations and shelter-in-place orders are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of businesses and directly impacts the economy.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue to negatively affect economic output worldwide and within the City. These negative impacts These negative impacts have reduced the collection of sales and other excise taxes, charges, and fees within the City and may continue to do so; the Pandemic's economic impact may also reduce or otherwise negatively affect future property values within the City as well as the assets of City pension funds. The duration, severity and degree of any impact of COVID-19 is uncertain and difficult to predict at this time due to the dynamic nature of the Pandemic. The City has experienced a loss in revenues and an increase in costs associated with mitigating the impacts of the Pandemic on the residents of the City, including public health, emergency response, support to homeless and vulnerable populations, small businesses support, among others.

Financial Impact of the COVID-19 Pandemic on Austin Energy

As a result of COVID-19 and the corresponding local stay-at-home mandates and social distancing guidelines, Austin Energy has experienced...

[Austin Energy update to come...]

The Obligations are secured by net revenues of the City's Electric Utility System. A reduction in system revenues may reduce the revenue available to the operations and maintenance expenses of the Electric Utility System and debt service on the Bonds, which may require an increase in system rates and charges. A reduction in the collection Electric Utility System revenues may negatively impact the system's operations and overall financial condition.

The financial and operating data contained herein are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the current financial condition or future prospects of the City.

The City continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the City. While the potential impact of the Pandemic on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition, and the effect could be material.

PLAN OF FINANCING

The Series 2020A Bonds are being issued as tax-exempt bonds pursuant to the provisions of the Nineteenth Supplement (see "TAX MATTERS - SERIES 2020A BONDS" in this document), and the Taxable Series 2020B Bonds are being issued as taxable bonds pursuant to the provisions of the Twentieth Supplement (see "TAX MATTERS – TAXABLE SERIES 2020B BONDS" in this document).

A portion of the Series 2020A Bonds are being issued to refund \$110,000,000 of the City's outstanding tax-exempt commercial paper obligations issued for the Electric Utility System (the "Tax-Exempt Refunded Notes") and a portion of the Taxable Series 2020B Bonds are being issued to refund \$55,000,000 of the City's outstanding taxable commercial paper obligations issued for the Electric Utility System (the "Taxable Refunded Notes"). The issuance of the Series 2020A Bonds and the Taxable Series 2020B Bonds, together with City's November 10, 2020 issuance of Water and Wastewater Revenue Refunding Bonds, Series 2020C, to be issued as separate water and wastewater revenue refunding obligations (secured by net revenues of the City's Water and Wastewater System), will restore the City's available capacity under its commercial paper note program that has been established for the Combined Utility Systems (as described further in "COMMERCIAL PAPER NOTE PROGRAMS" in this document). The Tax-Exempt Refunded Notes and the Taxable Refunded Notes are hereafter collectively referred to in this document as the "Refunded Notes." Any interest on the Refunded Notes due is expected to be paid from available revenues of the Electric Utility System.

A portion of the Series 2020A Bonds will also be issued to refund a portion of the City's outstanding Parity Electric Utility Obligations as described in "SCHEDULE I – SCHEDULE OF REFUNDED BONDS" attached to this document (the "Refunded Bonds") for debt service savings.

A portion of the Series 2020A Bonds will be issued to fund the construction and acquisition of Austin Energy's new headquarters complex. Proceeds from the Bonds will also be used to pay costs of issuance.

The Bonds represent the nineteenth and twentieth encumbrances to be issued or incurred as Parity Electric Utility Obligations under the Master Ordinance. The City has issued, and there currently remain outstanding, one series of Prior Subordinate Lien Obligations and Commercial Paper Obligations secured by a joint and several pledge of the net revenues of the City's Water and Wastewater System and Electric Utility System. Pursuant to the Master Ordinance, no additional Prior 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 Electric Utility System revenue obligations 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 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 comply with the covenants and security provisions relating to the Prior Subordinate Lien Obligations while any such obligations remain outstanding.

Refunded Notes

The Nineteenth Supplement provides that from the proceeds of the sale of the Series 2020A Bonds, and the Twentieth Supplement provides that from the proceeds of the sale of the Taxable Series 2020B Bonds, in each case, together with other available funds of the City, the City will deposit or cause to be deposited with U.S. Bank National Association, in its capacity as the issuing and paying agent for the Refunded Notes (the "CP Issuing and Paying Agent"), the amount

necessary to accomplish the discharge, defeasance and final payment of the Refunded Notes in accordance with the terms of the respective ordinances authorizing the issuance thereof. The principal of and interest on all of the Refunded Notes will be paid on the date of delivery of the Bonds, which is the scheduled maturity date of the Refunded Notes, from amounts deposited with the CP Issuing and Paying Agent.

Refunded Bonds

The Refunded Bonds, and interest due thereon, will be paid on the scheduled redemption date of the Refunded from funds to be deposited pursuant to an Escrow Agreement (the “Escrow Agreement”), between the City and U.S. Bank National Association (the “Escrow Agent”). The Nineteenth Supplement and the Twentieth Supplement provide that a portion of the proceeds of the sale of the Series 2020A Bonds, together with other lawfully available funds of the City, if any, will be deposited with the Escrow Agent in an amount necessary to accomplish the discharge and final payment of the Refunded Bonds. These amounts will be used to purchase direct obligations of the United States of America (the “Escrowed Securities”) to be held by the Escrow Agent in a special escrow account (the “Escrow Fund”). Escrowed Securities acquired and held by the Escrow Agent shall not mature after the scheduled date of redemption of the Refunded Bonds. Pursuant to the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds from amounts held in the Escrow Fund. _____, LLC, will verify at the time of delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate that the Escrowed Securities will mature and pay interest in such amounts and at such times which, together with any uninvested funds, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. The amounts held in the Escrow Fund will not be available to pay the debt service on the Bonds.

By deposit of cash and Escrowed Securities with the Escrow Agent pursuant to the Escrow Agreement, the City will have entered into a firm banking and financial arrangement for the discharge and final payment of the Refunded Bonds, in accordance with applicable law. As a result of such firm banking and financial arrangements, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the principal of and interest on the Escrowed Securities and the cash held for such purpose by the Escrow Agent, and the Refunded Bonds will not be included in or considered to be an obligation of the City for the purpose of any limitation on the issuance of ad valorem tax debt obligations by the City.

SOURCES AND USES OF FUNDS

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

	<u>The Series 2020A Bonds</u>	<u>The Taxable Series 2020B Bonds</u>
Par Amount of the Bonds		
Net Premium		
City Contribution		
Total Sources of Funds		
Par Amount of the Bonds		
Net Premium		
City Contribution		
Total Sources of Funds		
Par Amount of the Bonds		
Net Premium		
City Contribution		
Total Sources of Funds		

(1) Costs of Issuance includes the fees of bond counsel, disclosure counsel, financial advisor, rating agencies, Paying Agent/Registrar, escrow and verification agents and certain other bond issuance costs.

DEBT PAYABLE FROM COMBINED UTILITY SYSTEMS REVENUES

(As of November 17, 2020)

<u>Combined Utility Systems Obligations</u> (a)	
Prior Subordinate Lien Obligations	\$75,840,000
<u>Parity Electric Utility Obligations</u> (b)	
<u>Water and Wastewater System Separate Lien Obligations</u> (c)	
Parity Water and Wastewater Obligations	
<u>Commercial Paper</u> (d)	
<u>General Obligation Bonds</u> (e)	
<u>Assumed Municipal Utility District Obligations</u> (f)	
TOTAL	<hr/>

See "SECURITY FOR THE BONDS" in this document.

- (a) No additional Prior Subordinate Lien Obligations can be issued under the terms of the Master Ordinance.
- (b) Preliminary, subject to change. Includes the Bonds and excludes the Refunded Bonds.
- (c) The Water and Wastewater System Separate Lien Obligations are payable from the Net Revenues of the Water and Wastewater System only. Includes the City's November 10, 2020 issuance of \$202,460,000 Water and Wastewater System Revenue Refunding Bonds, Series 2020C and the City's November 17, 2020 issuance of \$16,995,000 of Water and Wastewater System Revenue Bonds, Series 2020D, to be issued as additional Water and Wastewater Separate Lien Obligations.
- (d) Excludes the amounts being refunded by the Bonds. See "COMMERCIAL PAPER NOTE PROGRAMS" and "SECURITY FOR THE BONDS – Issuance of Parity Electric Utility Obligations" in this document.
- (e) General Obligation Bonds include certain Contractual Obligations and Public Improvement Bonds of the City that 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."

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PRO FORMA DEBT SERVICE REQUIREMENTS [PFM to update]

Parity Electric Utility System Obligations (a) (c)											
Fiscal Year	Prior	The Series 2019B Bonds		The Taxable Series 2019C Bonds		Existing Parity	Total Parity	Separate Lien	Assumed MUD	Total Debt	
Ending 9/30	Subordinate Lien	Principal	Interest	Principal	Interest	Electric Utility	Electric Utility	Water &	Obligations(a)(e)	Service Payable	From Systems
	Obligations(a)(b)					System	System	Wastewater		Revenues	
						Obligations(a)(c)	Obligations(c)	Obligations(a)(d)			
2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 913,500	\$ 881,915	\$ 1,795,415	
2020	21,090,425	-	6,227,833	-	2,462,974	131,329,955	140,020,762	151,320,371	661,645	313,093,203	
2021	14,963,350	-	8,492,500	655,000	3,352,037	129,497,924	141,997,461	168,823,159	669,724	326,453,694	
2022	20,964,250	-	8,492,500	665,000	3,338,645	130,490,466	142,986,611	175,783,963	663,681	340,398,504	
2023	19,950,225	750,000	8,473,750	1,430,000	3,317,007	126,164,605	140,135,362	178,316,263	666,568	339,068,418	
2024	19,666,450	1,250,000	8,423,750	1,795,000	3,283,182	126,930,577	141,682,508	188,154,488	664,896	350,168,342	
2025	15,834,863	1,250,000	8,361,250	1,860,000	3,244,178	126,727,420	141,442,848	188,016,989	668,673	345,963,372	
2026	-	1,300,000	8,297,500	1,925,000	3,202,584	129,317,522	144,042,606	185,552,415	604,005	330,199,026	
2027	-	1,750,000	8,221,250	2,495,000	3,151,722	140,440,750	156,058,722	184,542,055	-	340,600,777	
2028	-	-	8,177,500	765,000	3,112,925	140,235,377	152,290,801	191,601,454	-	343,892,255	
2029	-	4,185,000	8,072,875	2,965,000	3,065,059	127,327,610	145,615,543	174,983,025	-	320,598,568	
2030	-	4,400,000	7,858,250	3,045,000	2,986,618	113,903,237	132,193,105	169,119,469	-	301,312,574	
2031	-	4,625,000	7,632,625	3,130,000	2,904,480	113,799,117	132,091,223	130,966,837	-	263,058,059	
2032	-	4,860,000	7,395,500	3,220,000	2,817,622	104,235,006	122,528,127	116,602,379	-	239,130,507	
2033	-	5,110,000	7,146,250	3,315,000	2,724,964	61,268,118	79,564,332	116,632,740	-	196,197,072	
2034	-	5,370,000	6,884,250	3,415,000	2,627,030	57,081,010	75,377,291	116,587,848	-	191,965,139	
2035	-	5,650,000	6,608,750	3,520,000	2,524,379	56,912,786	75,215,915	116,402,303	-	191,618,218	
2036	-	5,935,000	6,319,125	3,635,000	2,411,211	56,898,190	75,198,526	115,712,622	-	190,911,148	
2037	-	6,240,000	6,014,750	3,765,000	2,287,779	56,654,368	74,961,897	113,621,910	-	188,583,807	
2038	-	6,560,000	5,694,750	3,900,000	2,159,927	56,512,829	74,827,506	101,607,440	-	176,434,945	
2039	-	6,900,000	5,358,250	4,035,000	2,027,571	55,270,106	73,590,927	91,542,658	-	165,133,585	
2040	-	7,250,000	5,004,500	4,170,000	1,890,712	31,494,251	49,809,463	91,107,079	-	140,916,542	
2041	-	7,625,000	4,632,625	4,320,000	1,744,131	31,343,035	49,664,790	78,996,802	-	128,661,592	
2042	-	8,015,000	4,241,625	4,480,000	1,587,227	30,947,500	49,271,352	67,714,250	-	116,985,602	
2043	-	8,425,000	3,830,625	4,645,000	1,424,528	28,333,875	46,659,028	54,594,125	-	101,253,153	
2044	-	8,860,000	3,398,500	4,815,000	1,255,856	29,412,125	47,741,481	42,891,750	-	90,633,231	
2045	-	9,310,000	2,944,250	4,990,000	1,081,033	29,038,625	47,363,908	18,632,250	-	65,996,158	
2046	-	9,790,000	2,466,750	5,175,000	899,791	29,110,000	47,441,541	18,622,250	-	66,063,791	
2047	-	10,290,000	1,964,750	5,360,000	711,952	-	18,326,702	7,103,250	-	25,429,952	
2048	-	10,820,000	1,437,000	5,555,000	517,337	-	18,329,337	-	-	18,329,337	
2049	-	11,375,000	882,125	5,760,000	315,591	-	18,332,716	-	-	18,332,716	
2050	-	11,955,000	298,875	5,970,000	106,445	-	18,330,320	-	-	18,330,320	
Total	\$ 112,469,563	\$ 169,850,000	\$ 179,254,833	\$ 104,775,000	\$ 68,536,496	\$ 2,250,676,383	\$2,773,092,713	\$ 3,356,465,642	\$ 5,481,107	\$6,247,509,024	

- (a) Preliminary, subject to change. Debt service as of November 17, 2020. Existing debt service shown excludes debt service on the Refunded Bonds.
- (b) Prior Subordinate Lien Obligations (closed lien) are payable from Net Revenues of the Combined Utility Systems. Approximately 25.8% of debt service for the Prior Subordinate Lien Obligations is paid from net revenues of Austin Water and 74% is paid from net revenues of Austin Energy.
- (c) Parity Electric Utility Obligations are secured by and payable from Net Revenues of the Electric Utility System.
- (d) Water and Wastewater System Separate Lien Obligations are secured by and payable from Net Revenues of the Water and Wastewater System. This table includes the City's November 10, 2020 issuance of Water and Wastewater System Revenue Refunding Bonds, Series 2020C (\$202.46 million) and the November 17, 2020 issuance of Water and Wastewater System Revenue Bonds, Series 2020D (\$16.995 million to be issued as a low-interest loan with the Texas Water Development Board).
- (e) 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. 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 the date of this document, there is \$75,840,000 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.

Parity Electric Utility Obligations. . . . The Bonds are to be issued as Separate Lien Obligations of the City’s Electric Utility System. The Master Ordinance, the Nineteenth Supplement (with respect to the Series 2020A Bonds) and the Twentieth Supplement (with respect to the Taxable Series 2020B Bonds) 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 Utility 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 Nineteenth Supplement and the Twentieth Supplement each 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 the Bonds and 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 (defined in this document) 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 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 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 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 Reserve Fund securing the Prior Subordinate Lien Obligations under the Bond Ordinance as of August 31, 2020 is \$24,903,894 and is funded with cash. The City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following such substitution, the cash and securities released from the Reserve Fund shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior 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 the Bonds and Parity Electric Utility Obligations

The Master Ordinance does not provide for a reserve fund for the Bonds and outstanding Parity Electric Utility

Obligations. The Nineteenth Supplement and the Twentieth Supplement each 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 System Reserve Fund is required, the City may deposit cash to the Electric Utility System 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 Supplemental Ordinance, 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.

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 Supplemental Ordinance. 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 Ordinance, is not in default in the performance and observance of any of the terms, provisions and conditions in the Master Ordinance and any Supplement Ordinance 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 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.

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 Supplemental Ordinance 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 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 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 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.

COMMERCIAL PAPER NOTE PROGRAMS

The City has established two short-term interim financing commercial paper program structures, a (1) \$400,000,000 tax-exempt commercial paper program (the "Tax-Exempt Commercial Paper Note Program") and a \$100,000,000 taxable commercial paper program (the "Taxable Commercial Paper Note Program," and together with the Tax-Exempt Commercial Paper Note Program, the "Commercial Paper Note Programs"). The purpose of the Commercial Paper Note Programs is to provide funds for the interim financing of a portion of the costs of capital improvements of the Combined Utility Systems. Notes issued under the Commercial Paper Note Programs (referred to as "Commercial Paper Obligations" in this document) 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 Water and Wastewater System can only be utilized to finance (i) new water and wastewater plans, (ii) capital expansions, (iii) growth-related projects, (iv) routine capital improvements required for normal business operation, and/or (v) improvements to comply with local, state and federal mandates or regulations. The 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" in this document.

Liquidity support for the \$400,000,000 Tax-Exempt Commercial Paper Note Program is provided by a revolving credit agreement issued by JPMorgan Chase Bank, National Association ("JPMorgan"). The revolving credit agreement with JPMorgan, which was amended and restated in October 2020, expires in accordance with its terms on October 7, 2022. The revolving credit agreement with JPMorgan also allows for the direct placement of tax-exempt notes with JPMorgan.

Liquidity support for the \$100,000,000 Taxable Commercial Paper Note Program is provided by a revolving credit agreement issued by Barclays Bank PLC ("Barclays"). The revolving credit agreement with Barclays, which became effective in October 2020, expires in accordance its terms on October 7, 2022. The revolving credit agreement with Barclays amended and restated the Taxable Commercial Paper Note Program to increase the amount of taxable commercial paper notes outstanding from time to time to \$100,000,000 from the previous authorization of \$75,000,000.

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DESCRIPTION OF THE BONDS

General

The Bonds will be dated the date of delivery. Interest on the Bonds will accrue from their dated date and will be payable on May 15, 2021 and each November 15 and May 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 pages i and ii of this document. Principal of the Bonds is payable at maturity, subject only to prior redemption as described in this document.

Redemption of the Series 2020A Bonds

Optional Redemption of the Series 2020A Bonds...The City reserves the right at its option to redeem Series 2020A 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.

Upon any optional redemption of Series 2020A Bonds, if less than all of the Series 2020A 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 Series 2020A Bonds, or portion of the Series 2020A Bonds, within such maturity will be selected at random, by lot or other customary method selected by the Paying Agent/Registrar.

At least forty-five (45) days prior to a redemption date for the Series 2020A Bonds (unless a shorter notification period shall be satisfactory to the Paying Agent/Registrar), the City shall notify the Paying Agent/Registrar of the decision to redeem Series 2020A Bonds, the principal amount of each Stated Maturity to be redeemed, and the date of redemption therefor. The decision of the City to exercise the right to redeem Series 2020A Bonds shall be entered in the minutes of the governing body of the City.

Mandatory Sinking Fund Redemption of the Series 2020A Bonds...The Series 2020A Bonds having stated maturities of November 15, 20__ and November 15, 20__, respectively (the "Series 2020A Term Bonds"), shall be subject to mandatory redemption in part prior to maturity at the redemption price of par plus accrued interest to the date of redemption on November 15 in each of the years and in principal amounts as follows:

_____% Series 2020A Term Bond due November 15, 20__		_____% Series 2020A Term Bond due November 15, 20__	
Year	Principal Amount	Year	Principal Amount
_____		_____	
_____		_____	
_____		_____	
_____		_____	
_____+		_____+	

+Stated maturity.

Approximately 45 days prior to each mandatory redemption date for the Series 2020A Term Bonds, the Paying Agent/Registrar shall select by lot the numbers of the Series 2020A Term Bonds within the applicable stated maturity to be redeemed on the next following November 15 from moneys set aside for that purpose in the Debt Service Fund. Any Series 2020A Term Bond not selected for prior redemption shall be paid on the date of its Stated Maturity.

The principal amount of the Series 2020A Term Bonds of a stated maturity required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Series 2020A Term Bonds of like maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Series 2020A Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Redemption of the Taxable Series 2020B Bonds

Make Whole Redemption of the Series 2020B Bonds... Prior to November 15, 20__, the Taxable Series 2020B Bonds shall be subject to redemption, at the option of the City, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof (and if within a Stated Maturity by lot by the Paying Agent/Registrar) on any business day at a redemption price equal to the greater of (A) 100% of the principal amount of the Taxable Series 2020B Bonds to be redeemed and (B) the sum of the present value of the remaining scheduled payments of principal and interest to the payment date of the Taxable Series 2020B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Taxable Series 2020B Bonds are to be redeemed, discounted to the date on which the Taxable Series 2020B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus __ basis points, with respect to Taxable Series 2020B Bonds maturing in each of the years 20__ through 20__, inclusive; plus __ basis points, with respect to Taxable Series 2020B Bonds maturing in each of the years 20__ through 20__, inclusive; and plus __ basis points, with respect to Taxable Series 2020B Bonds maturing in each of the years 20__ through 20__, inclusive, plus, in each case accrued and unpaid interest on the Taxable Series 2020B Bonds to be redeemed to but not including the redemption date.

“*Make Whole Period*” means the period between the date of redemption of the Taxable Series 2020B Bonds to be redeemed pursuant to the make whole optional redemption provisions of the Taxable Series 2020B Bonds described above and the payment date.

“*Treasury Rate*” means, as of any redemption date for a Taxable Series 2020B Bond, (i) the time-weighted interpolated average yield to maturity, assuming a 360-day year consisting of twelve 30-day months, for a term equal to the Make Whole Period of the yields of the two U.S. Treasury nominal securities at “constant maturity” (as compiled and published in the Federal Reserve Statistical Release H.15 (519) that is publicly available not less than two (2) Business Days nor more than 30 calendar days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data reasonably selected by the Paying Agent/Registrar most nearly equal to the period from the redemption date to the maturity date of such Taxable Series 2020B Bond, taking into account any Sinking Fund Payments for such Taxable Series 2020B Bonds)) maturing immediately preceding and succeeding the Make Whole Period or (ii) if the period from the redemption date to such payment date is less than one year, the weekly average yield on actually traded U.S. Treasury Securities adjusted to a constant maturity of one year. The Treasury Rate will be determined by an independent accounting firm, investment banking firm, or financial advisor retained and compensated by the City at the City’s expense.

The redemption price of the Taxable Series 2020B Bonds to be redeemed pursuant to the make whole optional redemption provision described above will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the City at the City’s expense to calculate such redemption price. The Paying Agent/Registrar and the City may conclusively rely on such determination of redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

Upon any make whole optional redemption of Taxable Series 2020B Bonds, if less than all of the Taxable Series 2020B 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 Taxable Series 2020B Bonds, or portion of the Taxable Series 2020B Bonds, within such maturity will be selected at random, by lot or other customary method selected by the Paying Agent/Registrar.

At least forty-five (45) days prior to a redemption date for the Taxable Series 2020B Bonds (unless a shorter notification period shall be satisfactory to the Paying Agent/Registrar), the City shall notify the Paying Agent/Registrar of the decision to redeem the Taxable Series 2020B Bonds, the principal amount of each Stated Maturity to be redeemed, and the date of redemption therefor. The decision of the City to exercise the right to redeem Taxable Series 2020B Bonds shall be entered in the minutes of the governing body of the City.

Optional Redemption of the Taxable Series 2020B Bonds... The Taxable Series 2020B Bonds maturing on or after November 15, 20__ shall be subject to redemption prior to maturity, at the option of the City, 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.

Upon any optional redemption of Taxable Series 2020B Bonds, if less than all of the Taxable Series 2020B 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 Taxable Series 2020B Bonds, or portion of the Taxable Series 2020B Bonds, within such maturity will be selected at random, by lot or other customary method selected by the Paying Agent/Registrar.

At least forty-five (45) days prior to a redemption date for the Taxable Series 2020B Bonds (unless a shorter notification period shall be satisfactory to the Paying Agent/Registrar), the City shall notify the Paying Agent/Registrar of the decision to redeem the Taxable Series 2020B Bonds, the principal amount of each Stated Maturity to be redeemed, and the date of redemption therefor. The decision of the City to exercise the right to redeem Taxable Series 2020B Bonds shall be entered in the minutes of the governing body of the City.

Mandatory Sinking Fund Redemption of the Taxable Series 2020B Bonds...The Taxable Series 2020B Bonds having stated maturities of November 15, 20__ and November 15, 20__, respectively (the "Taxable Series 2020B Term Bonds"), shall be subject to mandatory redemption in part prior to maturity at the redemption price of par plus accrued interest to the date of redemption on November 15 in each of the years and in principal amounts as follows:

_____% Taxable Series 2020B Term Bond due November 15, 20__		_____% Taxable Series 2020B Term Bond due November 15, 20__	
	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
_____		_____	
_____		_____	
_____		_____	
_____+		_____	
_____		_____+	

+Stated maturity.

Approximately 45 days prior to each mandatory redemption date for the Taxable Series 2020B Term Bonds, the Paying Agent/Registrar shall select by lot the numbers of the Taxable Series 2020B Term Bonds within the applicable stated maturity to be redeemed on the next following November 15 from moneys set aside for that purpose in the Debt Service Fund. Any Taxable Series 2020B Term Bond not selected for prior redemption shall be paid on the date of its Stated Maturity.

The principal amount of the Taxable Series 2020B Term Bonds of a stated maturity required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Taxable Series 2020B Term Bonds of like maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Taxable Series 2020B Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Redemption Procedures for the Bonds

Notice of redemption of the Bonds identifying the Bonds or portions thereof to be redeemed, and specifying the redemption date, the redemption price, the places and dates of payment, that from the redemption date interest will cease to accrue, and whether the redemption (in the case of an optional redemption) is conditioned upon sufficient moneys being available on the redemption date (or any other condition), shall be given by the Paying Agent/Registrar by mailing a copy of such redemption notice, not less than 30 days nor more than 60 days prior to the date fixed for redemption, to the Registered Owner of each such Bond to be redeemed in whole or in part at the address shown on the registration books. Redemption notices will be sent by first class mail, except that notices to Registered Owners of at least \$1,000,000 of Bonds shall be sent by registered mail. Failure to mail any such notice to the Registered Owner of any such Bond or any defect therein shall not affect the validity of the proceedings for such redemption of such Bond. Any such notice mailed as described above shall be conclusively presumed to have been duly given, whether or not the Registered Owner of any Bond receives the notice.

If a Bond is of a denomination larger than \$5,000, all or a portion of such Bond (in a denomination of \$5,000 or any integral multiple thereof) may be redeemed, but such Bond shall be redeemed only in a principal amount equal to \$5,000 or any integral multiple thereof. Upon surrender of any Bond for redemption in part only, the City shall execute and the Paying Agent/Registrar shall authenticate and deliver to the Registered Owner thereof, at the expense of the City, a new

Bond, maturity and interest rate and of authorized denominations, in aggregate principal amount equal to the unredeemed portion of the Bond surrendered.

Selection of Bonds to be Redeemed

If fewer than all of the Series 2020A Bonds are called for redemption, such Series 2020A Bonds (or portions thereof) to be redeemed shall be selected by lot by the Paying Agent/Registrar (except at any time when such Series 2020A Bonds are held in a book-entry system, in which case selection of such Series 2020A Bonds to be redeemed will be in accordance with procedures established by the book-entry depository).

It is the City's intent that redemption allocations on the Taxable Series 2020B Bonds made by DTC be made on a pro-rata pass-through distribution of principal basis as described above. However, none of the City, the Underwriters or the Paying Agent/Registrar can provide any assurance that DTC, DTC's Participants or any other intermediary will allocate the redemption of Taxable Series 2020B Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Taxable Series 2020B Bonds on a pro-rata pass-through distribution of principal basis as discussed above, then the Taxable Series 2020B Bonds will be selected for redemption in accordance with DTC procedures, by lot.

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.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND NOT HAVING BEEN RESCINDED, BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The Paying Agent/Registrar and the City, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption relating to the Bonds, notice of proposed amendment to the ordinances or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds within a maturity to be redeemed will not be governed by the Nineteenth Supplement or the Twentieth Supplement, as the case may be, and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. See "APPENDIX F - DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES" in this document.

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, Dallas, Texas. The City retains the right to replace the Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City will promptly cause written notice 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 Nineteenth Supplement and the Twentieth Supplement, as applicable.

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

None of the Master Ordinance, the Nineteenth Supplement or the Twentieth 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, the Nineteenth Supplement or the Twentieth 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, the Nineteenth Supplement or the Twentieth 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. None of the Master Ordinance, the Nineteenth Supplement or the Twentieth 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 Nineteenth Supplement or the Twentieth 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, the Nineteenth Supplement or the Twentieth 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) (“Wasson I”), that governmental immunity does not imbue a city with derivative immunity when it performs a proprietary, as opposed to a governmental, function in respect to contracts executed by a city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interests, Ltd. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) (“Wasson II”, and together with *Wasson I*, “Wasson”), ruled that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function at the time it entered into the contract, not at the time of the alleged breach. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law guidance at the time of the contractual

relationship. 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 authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the state's immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of a 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 Nineteenth Supplement and the Twentieth Supplement), and defeasance of the Bonds, see APPENDIX C attached to this document.

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THE SYSTEMS

The City owns and operates an electric utility system (also referred to in this document as the “Electric Utility System,” the “Electric Power and Light System” or “Austin Energy”) and a water and wastewater system (also referred to in this document as the “Water and Wastewater System,” the “Water and Wastewater Utility” or “Austin Water”) which provide the City, as well as adjoining areas of Travis County and certain adjacent areas of Williamson County, with electric, water and wastewater services. 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, City individually-owned gas/oil-fired electric facilities and a biomass generation facility are available to meet Electric Utility System demand. The City owns all the facilities of the Water and Wastewater System. For the fiscal year commencing October 1, 2019, the Electric Utility System had approximately 1,784 full-time regular employees and the Water and Wastewater Utility had approximately 1,218 full-time regular employees.

ELECTRIC UTILITY SYSTEM “AUSTIN ENERGY”

Management (as of July 31, 2020)

	<u>Years at City</u>	<u>Additional Years of Experience</u>	<u>Total</u>
General Manager			
Jacqueline Sargent, PE	5	26	31
Deputy General Managers			
Russell Maenius, <i>Acting Chief Financial and Risk Officer</i> ⁽¹⁾	20	16	36
Kerry Overton, <i>Chief Customer and Compliance Officer</i>	19	11	30
Vice Presidents			
Erika Bierschbach, <i>Market Operations and Resource Planning</i>	19	7	26
Gerardo Galvan, <i>Customer Care Services</i>	3	15	18
Elaine Veselka, <i>Customer Account Management</i>	11	12	23
Deborah Kimberly, <i>Customer Energy Solutions and Corp. Communication</i>	6	30	36
William Sweeney, <i>Power Production</i>	28	4	32
Tammy Cooper, <i>Regulatory Affairs and Corporate Communications</i>	0.2	23	23
Elton Richards, <i>Electric System Field Operations</i>	1	40	41
Thomas Pierpoint, <i>Electric Systems Engineer and Technical Services</i>	1	39	40

Service Area

The service area for Austin Energy was established by the Public Utility 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.

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Customer Base – Average Monthly Number of Customers

<u>For the 12-Month Period ended September 30, 2019</u>	<u>Average Monthly Number of Customers</u>	<u>Percent</u>
Residential	443,792	89.43
Commercial	49,587	9.99
Industrial	114	0.02
Public Street & Highway	4	0.00
Governmental Authorities	<u>2,761</u>	<u>0.56</u>
Total Service Area Customers	<u>496,258</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, solar, and landfill methane. See “DESCRIPTION OF PHYSICAL PROPERTY” and “STRATEGIC PLANS, GOALS AND POLICIES – Austin Energy Resource, Generation and Climate Protection Plan to 2037” in this document.

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Generation Facilities – TABLE ONE

As of August 1, 2020, generation facilities wholly or partially owned by Austin Energy and in operation are as follows.

Unit	Year Installed	Nameplate Rating (MW)	Fuel
Fayette Power Project			
Unit No. 1	1979	285.0	Coal
Unit No. 2	1980	285.0	Coal
Decker Power Station			
Unit No. 1	1970	321.0	Gas
Unit No. 2	1977	405.0	Gas
Gas Turbines	1988	200.0	Gas
Sand Hill Energy Center			
Gas Turbines	2001	180.0	Gas
Gas Turbines	2010	90.0	Gas
Combined Cycle	2004	300.0	Gas
MEC CHP (Dell Children's Hospital)	2006	4.6	Gas
South Texas Project Electric Generating Station			
Unit No. 1	1988	200.0	Nuclear
Unit No. 2	1989	200.0	Nuclear
Nacogdoches Biomass Facility	2012	115.0	Biomass
Total Capacity owned by Austin Energy		2,585.6	
Purchased Power (1)(2):			
Skyline Renewables Whirlwind Energy LLC	2007	59.80	Wind
Skyline Renewables RES North America Hackberry Wind, LLC	2008	165.6	Wind
Exelon Whitetail Wind Energy, LLC	2012	92.3	Wind
Duke Energy Los Vientos IB, LLC	2012	201.6	Wind
FRV Solar AE, LLC	2011	30.0	Solar
Duke Energy Los Vientos III, LLC	2015	200.0	Wind
BHE Renewables TX Jumbo Road Wind, LLC	2015	300.0	Wind
Energy Developments, Inc.	2002-2003	7.8	Landfill Methane
Duke Energy Los Vientos IV, LLC	2016	200.0	Wind
Southern Power Roserock Solar, LLC	2016	157.5	Solar
Southern Power East Pecos Solar, LLC	2017	118.5	Solar
Consolidated Edison CED Upton County Solar, LLC	2017	157.5	Solar
DESRI Midway Solar, LLC	2018	178.5	Solar
Power Fin Texas Solar Project, LLC	2018	3.2	Solar
Avangrid Karankawa Wind, LLC	2019	206.6	Wind
Total Capacity from Purchased Power		2,078.9	
Total Capacity including Purchased Power		4,664.5	

(1) The City has also signed contracts to purchase electric energy to be provided in future years. See "CUSTOMER STATISTICS - Power and Energy Purchase Contracts" in this document.

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

Source: Austin Energy.

See "CUSTOMER STATISTICS - Generation and Use Data - TABLE THREE" in this document for more information on peak demand and generation capacity.

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.

<u>Fuel Type</u>	Percentage Net Load (*) As of September 30				
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Coal	24.3%	23.1%	29.2%	29.4%	26.5%
Natural Gas	16.1	16.5	13.2	18.7	15.6
Nuclear	26.0	24.6	24.2	25.2	25.1
Renewable Energy	23.2	29.7	35.9	37.5	38.3
Net Market Purchases/(Sales)	<u>10.4</u>	<u>6.1</u>	<u>(2.5)</u>	<u>(10.8)</u>	<u>(5.5)</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 146 days as of July 31, 2020.

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.

Renewable Energy . . . [Can we provide a brief narrative regarding renewable energy?]

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 comprised of an equal number of voting representatives from each participant 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. Beginning in 2012, FPP

installed mercury removal technology equipment to reach compliance with the MATS rule on Units 1 and 2. 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. Decker 1 and 2 have a combined generating capacity of 730 megawatts. The plant also includes four Pratt and Whitney aeroderivative gas turbines with a combined generating capacity of 200 megawatts placed into service in 1988. The Decker plant is served by two natural gas pipelines. Decker 1 will cease operations and retire after the summer peak of 2020.

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 was scheduled to expire in 2027 and 2028, respectively. Under NRC regulations, the STP owners requested a 20-year license renewal which was approved for Units 1 and 2 on September 18, 2017. The license renewals allow operation of STP Units 1 and 2 until August 20, 2047 and December 15, 2048, respectively.

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 STP 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 1 was retrofitted with a High Pressure Turbine upgrade in 2020 which resulted in an additional 21.9 MW of capacity, of which Austin Energy's share is 3.5 MW.

In 2018, 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 Units 1 and 2 spent fuel pool.

Nacogdoches Biomass Facility

Austin Energy acquired from Southern Power Company a 115 MW biomass power plant, fueled by wood waste such as forest residue, mill residue, waste pallets and municipal wood waste located in Nacogdoches County, Texas in June of 2019. Prior to the acquisition, Austin Energy received up to 100 MW of output from the Nacogdoches Biomass Facility under a 20-year Power Purchase Agreement ("PPA") that would have expired in 2032. The acquisition enabled Austin Energy to avoid approximately \$275 million in additional costs over the remaining term of the PPA. Austin Energy has contracted with NAES Corporation ("NAES") to provide full-service operations and maintenance at the Nacogdoches Biomass Facility. NAES currently has operations at over 160 power plants in North America, including a similar biomass facility located in Gainesville, Florida.

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.

District Energy & Cooling Program

Austin Energy's District Energy & Cooling program (the "DEC Program") is a market-based program that constructs, maintains and operates district energy and cooling plants. These plants transform electrical energy into thermal energy to distribute, via a network of underground pipes, to external customers in the form of chilled water to cool and air condition their buildings. Aggregation of loads enables superior efficiency, reliability, and quality when compared to stand-alone systems. In this region, 40-45% of the electricity consumed by a typical commercial building powers its air conditioning system. The thermal energy storage elements enable Austin Energy to shift electrical consumption from on-peak to off-peak electrical periods.

The DEC Program serves the City's Central Business District, Domain development (the "Domain"), and the Mueller Redevelopment Zone ("Mueller"). The DEC Program currently has 70 customers with over 19 million square feet of space connected to its district energy and cooling systems including residential towers, office buildings, hotels, the Austin Convention Center, downtown library and City Hall. The systems serving the Central Business District and Domain provide chilled water services while the system serving Mueller provides chilled water, steam and on-site generated electricity to the Dell Children's Medical Center of Central Texas and chilled water to neighboring buildings.

DEC Program is supported by revenue from its customers and offers many benefits in return, including reduced construction and capital costs, extraordinary reliability, and simple, low risk operations. Benefits to Austin Energy and the City include having a valuable tool for economic development, providing new revenue from long-term service agreements, and environmental stewardship. All Austin Energy customers benefit from reduced electric market and regulatory charges due to the active electric demand management provided by the thermal energy storage elements of the DEC Program. The Resource, Generation and Climate Protection Plan to 2030 includes a goal of 30 MW and 40 MW of thermal demand shift

by 2027 and 2030 respectively. The DEC Program currently provides a peak of 19 MW shift and is projected to reach 30 MW by 2027.

Austin Energy entered into a 30-year contract with Austin Community College (“ACC”) on May 2, 2019 for DEC Program to provide chilled water for ACC’s Highland Campus located in North Austin. ACC was founded in 1973 and has grown to over 76,000 students across 11 campuses serving Central Texas. Once complete, the Highland Campus will consist of 1.3 million square feet on 81 acres.

Austin Energy will design and build a 6000-ton, unmanned Chilled Water Plant on the ACC Highland Campus. The plant, will include all appurtenances associated with a chilled water plant, including pumps, chillers, plant controls, cooling towers, piping, and thermal energy storage. The project is scheduled for completion in the spring of 2021.

Austin Energy is currently constructing its fourth chilled water plant in downtown (Austin Energy recently completed its third downtown plant – DCP4 - a 3,000-ton satellite plant on the roof of the Austin Convention Center). District Cooling Plant #3 (DCP3) is scheduled for completion in the 4th quarter of 2020. It will provide 10,000 tons of additional cooling capacity to support growth of the downtown DEC Program.

Austin Energy has just closed a Request for Qualifications for a design/build firm to construct its second chilled water plant at Mueller. The plant (Mueller Energy Center #2) will provide 6,000 tons of additional capacity (as well as thermal energy storage) to support the new Austin Energy headquarters, expansion of the Dell Children’s Medical Center and other customers at Mueller.

CUSTOMER RATES

Retail Service Rates

The City Council has original jurisdiction over Austin Energy's retail electric rates. Customers 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 was 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 net power supply costs.
- Regulatory Charge: recovers dollar-for-dollar Austin Energy’s retail transmission expense and other regulatory expenses, such as the Electric Reliability Council of Texas’s 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, weatherization, arrearage management and emergency financial assistance for low income customers (approximately 35,000 customers through Fiscal Year 2019).
- 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 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 Energy. 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 in this document).

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. As a result, four of Austin Energy’s 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 and other power supply costs, and purchased power agreement costs, plus an adjustment for the prior year over/under-recovery.

Typical Monthly Residential Electric Bills of Large Texas Cities

<u>City</u>	<u>Monthly Electric Bill*</u>
AUSTIN	\$101.68
Dallas	102.27
San Antonio	107.21
Houston	111.80
El Paso	114.57
Corpus Christi	117.13

* Average monthly residential bill for 1,000 KWh during the period October 2018 – September 2019, including fuel costs. Dallas, 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.

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CUSTOMER STATISTICS

Five Year Electric Customer Statistics – TABLE TWO

TABLE TWO shows service area billed customer sales for fiscal years 2015 through 2019. The revenue per year varies in large degree due to the price of power 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				
	2015	2016	2017	2018	2019
<u>Revenue (000's)</u>					
Residential	\$ 465,608	\$ 453,555	460,644	490,443	496,643
Commercial	467,175	484,162	476,618	465,363	484,138
Industrial	185,034	181,909	176,698	178,676	187,206
Public Street & Highway	2,412	2,679	2,734	2,636	2,788
Sales to Government Authorities	<u>81,656</u>	<u>75,897</u>	<u>73,191</u>	<u>72,019</u>	<u>73,274</u>
Total	\$1,201,885	\$1,198,202	\$1,189,885	\$1,209,137	\$1,244,049
<u>MWH</u>					
Residential	4,320,492	4,258,275	4,360,743	4,608,438	4,522,859
Commercial	4,644,241	4,891,990	4,921,879	4,924,929	4,937,091
Industrial	2,795,815	2,817,055	2,820,344	2,968,235	2,962,835
Public Street & Highway	50,315	51,164	51,438	51,673	52,087
Sales to Government Authorities	<u>879,415</u>	<u>862,343</u>	<u>855,887</u>	<u>864,734</u>	<u>854,147</u>
Total	12,690,278	12,880,827	13,010,291	13,418,009	13,329,019
<u>Average Monthly Number of Customers</u>					
Residential	401,556	411,366	421,752	433,411	443,792
Commercial	46,253	47,352	48,285	48,966	49,587
Industrial	127	110	104	112	114
Public Street & Highway	6	7	6	4	4
Sales to Government Authorities	<u>2,501</u>	<u>2,508</u>	<u>2,554</u>	<u>2,711</u>	<u>2,761</u>
Total	450,443	461,343	472,701	485,204	496,258
<u>Average Monthly KWH per Customer</u>					
Residential	897	863	862	886	849
Commercial	8,367	8,609	8,495	8,382	8,297
Industrial	1,838,142	2,127,685	2,250,873	2,213,449	2,168,986
Public Street & Highway	653,436	609,091	695,102	1,076,528	1,108,227
Sales to Government Authorities	<u>29,303</u>	<u>28,655</u>	<u>27,931</u>	<u>26,584</u>	<u>25,781</u>
<u>Average Monthly Bill per Customer</u>					
Residential	\$ 96.63	\$ 91.88	\$ 91.02	\$ 94.30	\$ 93.26
Commercial	841.70	852.07	822.58	791.98	813.61
Industrial	121,652.57	137,393.42	141,020.30	133,240.82	137,047.14
Public Street & Highway	31,325.98	31,891.33	36,947.02	54,922.30	59,312.68
Sales to Government Authorities	<u>2,720.86</u>	<u>2,521.99</u>	<u>2,388.52</u>	<u>2,213.79</u>	<u>2,211.65</u>
<u>Average Revenues per KWH</u>					
Residential	\$0.10777	\$0.10651	\$0.10563	\$0.10642	\$0.10981
Commercial	0.10059	0.09897	0.09684	0.09449	0.09806
Industrial	0.06618	0.06457	0.06265	0.06020	0.06318
Public Street & Highway	0.04794	0.05236	0.05315	0.05102	0.05352
Sales to Government Authorities	0.09285	0.08801	0.08552	0.08328	0.08579

Source: Austin Energy.

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Electric Rates

The PSA, Regulatory Charge, and Community Benefit Charges are updated each year and the new rates are 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, 2019 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.

In April, 2020, as a result of the COVID-19 pandemic, Austin Energy temporarily reduced residential rates and returned a Regulatory Charge over-recovery during the final six months of the fiscal year. Austin Energy also increased the discount for the CAP from 10% to 15%. The residential rates will return to their prior rates and the Regulatory Charge will be recalculated and updated on November 1, 2020. The CAP discount will continue at the 15% rate.

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 \$82 million in fiscal year 2019 and are expected to total approximately \$84 million in fiscal year 2020. 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

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
2019	774,575,973

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. 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 THREE

	Fiscal Year Ended September 30									
	2019		2018		2017		2016		2015	
	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
kWh Received from ERCOT		14,686,072,244				863,722,320		1,452,541,760		1,990,108,990
Less: kWh Delivered to ERCOT		<u>(1,590,257,054)</u>		<u>(1,858,211,190)</u>		<u>(1,218,787,411)</u>		<u>(501,325,385)</u>		<u>(215,343,640)</u>
				-						
Total kWh Delivered to Service Area		<u>13,954,768,444</u>		<u>13,946,086,630</u>		<u>13,550,232,018</u>		<u>13,366,460,084</u>		<u>13,385,265,990</u>
Service Area Energy Use:										
Residential	443,792	4,522,859,322	433,411	4,608,437,926	421,752	4,360,742,811	411,366	4,258,275,530	401,556	4,320,491,678
General Service (Less UT & ENW)	<u>51,463</u>	<u>8,405,888,312</u>	<u>50,760</u>	<u>8,370,161,391</u>	<u>49,908</u>	<u>8,182,982,288</u>	<u>48,952</u>	<u>8,180,335,482</u>	<u>47,815</u>	<u>7,930,288,974</u>
	<u>495,255</u>	<u>12,928,747,634</u>	<u>484,171</u>	<u>12,978,599,317</u>	<u>471,660</u>	<u>12,543,725,099</u>	<u>460,318</u>	<u>12,438,611,012</u>	<u>449,371</u>	<u>12,250,780,652</u>
Public Street Lighting	4	52,086,667	4	51,673,359	6	51,437,560	7	51,163,631	6	50,314,561
City Utility Departments (*)	282	240,686,856	309	264,127,365	327	288,204,138	309	268,278,325	349	265,271,198
Other City Departments (*)	<u>717</u>	<u>107,497,843</u>	<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>1,003</u>	<u>400,271,366</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>
Total Service Area Sales	496,258	13,329,019,000	485,204	3,418,009,000	472,701	13,010,291,000	461,343	880,827,000	450,443	690,278,000
Loss and Unaccounted For		<u>625,749,444</u>		<u>528,077,630</u>		<u>539,941,018</u>		<u>485,633,084</u>		<u>694,987,990</u>
Total kWh Delivered to Service Area	<u>496,258</u>	<u>13,954,768,444</u>	<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>
System Peak Demand (kW)		2,809,978		2,878,000		2,654,000		2,755,000		2,735,000

Source: Austin Energy.

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Energy Risk Management

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

The City implemented GASB Statement 53, Accounting and Financial Reporting for Derivative Instruments, in fiscal year 2010, which addresses the recognition, measurement, and disclosure related to derivative instruments. In accordance with GASB Statement No. 53, the City is required to report the fair value of all derivative instruments on the statement of net 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, 2019, \$105,207 in premiums were deferred. As of September 30, 2019, the fair value of Austin Energy's futures, options and swaps was an unrealized loss of \$3.3 million, of which \$3.5 million is reported as derivative instruments in liabilities and \$206,000 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, 2019. 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. All power generated from these facilities is sold into the ERCOT market.

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, L.L.C. The project began full-scale commercial operation in December 2008.

In August 2009, Austin Energy signed a 25-year contract with FRV Solar AE, LLC, a subsidiary of Austin Solar, LLC, a successor to 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 DESRI, who purchased the asset from 174 Power Global, a subsidiary of Hanwha Q Cells for up to 178.5 MW of capacity from a facility located 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 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 from a facility under construction in San Patricio and Bee Counties Texas. Commercial operation began in December 2019.

In December 2017 Austin Energy entered into a Power Purchase Agreement with IP Aragon, 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 third quarter of 2021.

In October 2018, Austin Energy and East Blackland Solar Project, LLC, a Recurrent Energy subsidiary, entered into a 15 year Power Purchase Agreement for the purchase and sale of energy produced from a 144 MW solar facility to be constructed in Travis County, Texas near the town of Pflugerville. Commercial operation is expected in thirdquarter of 2021.

In March 2019, Austin Energy signed a 20 year Power Purchase Agreement with a subsidiary of Pattern Energy Group, Inc. for the purchase and sale of 170 MW of energy output from a wind project located in Kenedy County, Texas with commercial operation planned for the fourth quarter of 2020.

In May 2019, Austin Energy and Pandora Solar, LLC, a subsidiary of NextEra Energy, entered into a 15-year contract covering the purchase and sale of energy generated from a 250 MW solar project to be constructed in Wilson County, Texas. Commercial operation is expected by the end of 2023.

In August 2019, Austin Energy and RWE Renewables (successor to E.ON Climate and Renewables) entered into a 12 year Power Purchase Agreement providing for the purchase and sale of energy generated from the 200 MW Raymond Wind facility located in Willacy and Cameron Counties, Texas. Commercial operations are expected in the fourth quarter 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 August 31, 2020 are as follows:

	<u>Number of Substations</u>	<u>Miles of Lines</u>	<u>Kilovolts</u>
Transmission	14	632	345/138/69
Distribution	62	11,666	35/12.5/7.2
Overhead Primary		2,372	
Overhead Secondary		2,520	
Underground Primary		3,395	
Underground Secondary		3,379	

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

Austin Energy’s two major business units 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 Systems Field Operations and Electric Systems Engineering and Technical Services business units – responsible for the construction, maintenance and operation of the City’s Electric Utility System - became the first of any utility in the nation to earn ISO-9001:2000 registration. Auditors from the National Standards Authority of Ireland (“NSAI”), the worldwide entity that certifies ISO quality management program, issued the registration on January 3, 2008. The certification followed a rigorous four-day review in December 2007 of the Electric Systems Quality Management System by NSAI auditors. In June 2012, Electric Systems Quality Management System was re-registered under the ISO- 9001:2008 standard. More recently, in June 2017, Austin Energy’s Electric Systems Quality Management System was recommended for upgraded certification under the ISO-9001: 2015 standard, by NSAI.
- 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.

These business units continue to maintain their respective certifications.

Conventional System Improvements

Austin Energy's five-year Capital Improvements Spending Plan (the "Capital Plan"), which was approved by the City Council in August 2020, addresses approximately \$1.05 billion of capital spending needs from fiscal year 2021-2025. Funding for the Capital Plan is expected to be provided from revenues of Austin Energy and the issuance of debt, including short-term commercial paper and long-term revenue bonds. Austin Energy currently anticipates that approximately 50% of the five-year Capital Plan will be debt funded and 50% will be funded from revenues.

The Capital 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. Major projects in the Capital Plan include, the construction of a new downtown substation, the construction of three distinct chiller plants to serve the Austin Community College Highland Campus, the downtown Seaholm development, and the Mueller development respectively, and the purchase of Austin Energy's new headquarters (estimated cost of \$150 million, with final funding of \$88 million slated to be provided in FY2021).

\$1,045,000,000 Five Year Capital Spending Plan

<u>\$ in Millions</u>	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>Total</u>
Distribution	\$ 108	\$ 93	\$ 90	\$ 85	\$ 76	\$ 452
Distribution Substation	17	11	9	9	9	55
Transmission	<u>36</u>	<u>25</u>	<u>25</u>	<u>25</u>	<u>25</u>	<u>136</u>
Electric Service Delivery	161	129	124	119	110	643
Power Production	76	57	32	27	24	216
Customer Service Billing & Metering	5	2	4	0	0	11
Facilities, Technology & Support Services	<u>115</u>	<u>18</u>	<u>20</u>	<u>18</u>	<u>4</u>	<u>175</u>
Total	<u>\$ 357</u>	<u>\$ 206</u>	<u>\$ 180</u>	<u>\$ 164</u>	<u>\$ 138</u>	<u>\$ 1,045</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 517,000 AMI meters: 462,000 2-way communicating residential meters and 54,000 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

Austin Energy's mission is *"To safely deliver clean, affordable, reliable energy and excellent customer service."* To achieve its mission, Austin Energy adopted a 2020-2025 strategic plan. (the "Strategic Plan"). The Strategic Plan identifies adaptive strategies to proactively address customer expectations, deploy innovative technology, provide responsible energy services and ensure Austin Energy is well prepared for the challenges ahead.

The Strategic Plan is informed by several sources, including Austin Energy's Technology Roadmap, Facilities Masterplan, Resource, Generation Plan and Climate Protection Plan, and the City's strategic planning efforts. The primary focus of the Strategic Plan is to improve Austin Energy's competitive position while realizing its vision of *"Powering a cleaner, brighter future with customer-driven, community-focused solutions."*

The Strategic Plan addresses six overarching goals that are designed to enable Austin Energy to realize its vision. **Customer Experience**, **Environmental Leadership**, and **Grid Resilience** focus on delivering value to the customer and providing customer choice in the products and services offered. **Employee Experience** and **Financial Health** provide an internal focus on maintaining and increasing the value provided to employees, customers and the communities served. Finally, **Health and Safety** has both an internal and external focus, speaking to Austin Energy's responsibility to always operate safely.

Each goal is overseen by a goal manager and a cross-functional team of staff who are executing the projects to achieve their goal. Each goal manager is partnered with an executive sponsor, a member of the Austin Energy executive team, who is responsible for championing and ultimately achieving the goal.

In order to measure performance over time, thirteen Key Performance Indicators ("KPIs"), and a target value for each KPI, have been established. Austin Energy publicly reports its strategic progress through both the Strategic Plan 2020-2025 Tableau Dashboards and a monthly strategic project update report that is sent to the Chief Operating Officer.

Austin Energy Resource, Generation, and Climate Protection Plan to 2030

On August 12, 2019 the Electric Utility Commission (EUC) created the Resource Plan Working Group (Working Group) to provide leadership and guidance to Austin Energy and the City Council on technical and market issues to meet environmental, efficiency and goals established by the City Council.

The Austin Energy Resource, Generation and Climate Protection Plan to 2030 (the "2030 Plan") outlines the Working Group's recommendations and strategic goals and represents an extensive effort of the Austin community working through the Working Group and Austin Energy staff. The 2030 Plan is based on analysis of the risks, costs and opportunities to meet future demand for electricity. The 2030 Plan is intended to be flexible and dynamic in order to respond to changing circumstances, including customer electric load, economic conditions, energy prices, and technological development, while strictly committing to firm carbon reductions.

The 2030 Plan updates and replaces the Austin Energy Resource, Generation and Climate Protection Plan to 2027. To the extent the provisions of the 2030 Plan are inconsistent with prior resource plans for Austin Energy or related City Council resolutions adopting such plans, the 2030 Plan will prevail.

Vision Statement – This 2030 Plan commits Austin Energy to continuing to provide affordable, dependable and safe electricity service to residents and businesses while pursuing the City's climate protection and sustainability goals and the directives set forth in the Austin Climate Emergency Resolution. As a part of its commitment, Austin Energy will maintain an energy supply portfolio sufficient to offset customer demand while eliminating carbon and other pollutant emissions from its electric generation facilities within the limitations set by the City Council. Austin Energy commits to providing access to the benefits of this 2030 Plan for limited-income communities and communities of color.

Affordability – Affordability of electricity service for Austin Energy customers is an overarching goal of the 2030 Plan. Developments in the wholesale energy market in recent years have demonstrated that if Austin Energy carefully manages its portfolio it can achieve its environmental goals economically, efficiently and affordably. Austin Energy will do so with

a commitment to the specific affordability metrics set by the City Council.

Generation Resource Objectives – As of March 2020, Austin Energy generates energy on an annualized basis equal to approximately 63% of its total customer load using carbon-free resources, 40% from renewable resources and 23% from the South Texas Project nuclear facility. As explained in more detail below, under the 2030 Plan, Austin Energy will eliminate its existing emissions through retirement of its carbon-emitting generation plants and anticipates purchasing additional, cost-effective, renewable energy resources.

No New Carbon Generating Assets – Austin Energy will seek to avoid purchasing, contracting for or building long-term generation or storage resources that emit new carbon, or any additional nuclear power generation resources.

Carbon Reduction Goals – Austin Energy has established a goal to have 86% of its electricity generation carbon-free by year-end 2025, 93% carbon-free by year-end 2030, and all generation resources carbon-free by 2035. Austin Energy commits to advance these goals more rapidly, if feasible given technological developments, affordability, and risks to Austin Energy customers.

Additional Renewable Generation Facilities – Austin Energy will utilize its annual RFP process to seek the best available renewable energy and electricity storage opportunities to add to Austin Energy’s generation resource portfolio as necessary to meet 2030 Plan goals and to assess market trends for future planning. With the exception of the Local Solar goals, the 2030 Plan does not designate the components of Austin Energy’s renewable energy portfolio. Austin Energy will plan for least-cost and least-risk acquisition of renewable resources and electricity storage as available in the energy market and as necessary to meet 2030 Plan goals.

Specific Actions to Achieve Generation Resource Objectives

Fayette Power Project – Austin Energy seeks to maintain its current target to cease operation of Austin Energy’s portion of the Fayette Power Project (FPP) coal plant by year-end 2022. Austin Energy will continue to recommend to the City Council the establishment of any cash reserves necessary to provide for that schedule.

Decker Creek Power Station – Austin Energy seeks to maintain its current target to cease operations and begin retirement of existing Decker Steam gas-fired 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.

REACH for Carbon Free by 2035 – Upon City Council approval of the 2030 Plan, Austin Energy anticipates adopting a new market-based approach to accelerate reduction of carbon emissions by its legacy generators in the most economic manner available. This approach, known as *Reduce Emissions Affordably for Climate Health* (“REACH”), will incorporate a cost of carbon in the generation dispatch price, allowing Austin Energy to reduce generation output during low-margin periods but keep the resources available for high-margin periods. Austin Energy anticipates applying an annual amount of approximately 2% of the prior year’s PSA to implement REACH. Austin Energy will continue to adhere to the City Council affordability metrics through active portfolio management. The REACH plan is expected to reduce the utility’s carbon emissions by 30% or approximately 4 million metric tons between approval of this 2030 Plan and Austin Energy’s exit from FPP. Thereafter, the REACH plan is expected to reduce carbon emissions by 8% each year, while maintaining the flexibility to protect our customers’ rates in periods of high prices in the wholesale market, until achieving zero carbon emissions by 2035. Austin Energy will report semi-annually to the Electric Utility Commission and the City Council the realized reduction in carbon emissions from the REACH plan’s implementation.

Local Solar Resources – In addition to the large-scale energy resources discussed above, Austin Energy seeks to:

- Achieve a total of 375 MW of local solar capacity by the end of 2030, of which 200 MW will be customer-sited (when including both in-front-of-meter and behind-the-meter installations).
- Continue a shared solar pilot program for multi-family housing and upon development of an automated electronic billing system, allow for expansion of this program.
- Provide moderate and limited-income customers preferential access to community solar programs.

Energy Efficiency and Demand Response – In addition to the generation resources described above, Austin Energy will sponsor energy efficiency and demand response initiatives aimed to reduce overall system load and reduce peak

demand as follows:

- Achieve energy efficiency savings equal to at least 1% per annum of retail sales, targeting a total of at least 1,200 MW of demand side management (energy efficiency and demand response) capacity by 2030, including a target of 225 MW of economic peak demand response capacity by 2030.
- Target serving at least 25,000 residential and business customer participants per year for all CES programs (Energy Efficiency, Austin Energy Green Building, Demand Response and Solar) with at least 25% of those customers being limited-income customers.
- Commit to achieving 30 MW of local thermal storage by 2027 and 40 MW of local thermal storage by 2030.
- Allow near real-time access to hourly energy use data for Austin Energy customers via the automated meter infrastructure, including compatibility with Green Building products and services.
- Continue to move forward on energy code and green building development, including assessing the 2021 International Energy Conservation Code, and specific solar-ready, EV- ready, electric building-ready and net-zero requirements for commercial and residential construction for possible adoption in future codes.

Electric Transportation – Austin Energy will pursue the Climate Protection Plan Goals and Austin Mobility Plan and expansion of Austin Energy revenue base by:

- Supporting private-public partnerships that promote, market, and provide electric vehicle support to assist in the transition to electric transportation.
- Support the City of Austin Fleet Services' electrification plan.
- Evaluate equitable growth of public and private charging station deployments by offering rebates, operational support, outreach, and special public charging rates that includes support for limited-income populations.

Financial Policies

The objective of Austin Energy's financial policies is 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 fund 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 a transfer to the City's General Fund (the "General Fund Transfer," which is a formula-based appropriation), capital investment, repair and replacement, debt management, competitive strategies, and other Austin Energy funding requirements. Once these obligations have been met, any remaining net revenues of the Electric Utility System will be deposited into Austin Energy's reserve funds in the following order until each reserve reaches its minimum funding level: Working Capital Reserve, 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 an 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, 2019, Austin Energy's operating cash balance was \$407 million and Days Cash on Hand ("DCOH") was 218 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 City's 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 cash-funded debt service reserve, or a combination of bond insurance policies, surety bonds, or cash for its existing revenue bond issues, in accordance with the bond covenants of the Combined Utility Systems revenue bonds.
- Debt service coverage of a minimum of 2.0x shall be targeted for the Electric Utility System's revenue bonds, and a coverage minimum of 1.0x coverage shall be targeted when additionally including all short-term debt,

including commercial paper obligations and non-revenue obligations.

- 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 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 depreciation expense of the Electric Utility System.
- 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 District Cooling Program 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) the 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 the General Fund Transfer, 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 revenue bonds of the Electric Utility System. 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 June 30, 2020, the market value of the investments in the trust was \$234.6 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 the Public Utility Regulatory Act ("PURA") by filing a petition with the PUCT containing the requisite number of valid signatures from residential ratepayers who take service outside the City limits. State courts have held that the PUCT may apply the same ratemaking standards in such an appeal as are applied to utilities over which the PUCT has original jurisdiction.

Section 35.004 of PURA requires Austin Energy 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 Austin Energy to provide wholesale services at rates, terms of access, and conditions that are not unreasonably preferential, prejudicial, discriminatory, predatory, or anti-competitive.

ERCOT serves as the Independent System Operator (“ISO”) for the ERCOT region of Texas. ERCOT was certified in 2000 to serve as the ISO by the PUCT 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 are active in the ERCOT stakeholder process. ERCOT membership 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, Operating Guides, and Other Binding Documents.

SB7 also amended PURA to provide for retail deregulation of the electric utility industry in the State. The law opened retail competition for Investor Owned Utilities in the ERCOT region beginning January 1, 2002. SB7 allows local authorities to choose whether to bring retail competition to their Municipally Owned Utilities (“MOUs”) and leaves 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.

ERCOT Wholesale Market Design

Austin Energy participates in the ERCOT wholesale power market. 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 market. All power to serve Austin Energy’s load is procured from the ERCOT market. Participation in this 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 market.

The PUCT has considered changes to the ERCOT wholesale market to address potential reliability challenges. To address these concerns, the PUCT 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. Austin Energy staff closely monitor PUCT activities and provides comments to the PUCT regarding possible market design changes.

Federal Rate Regulation

Austin Energy is not subject to the jurisdiction of the Federal Energy Regulatory Commission (“FERC”) under sections 205 and 206 of the Federal Power Act and is not subject to Federal statutes and regulation in the establishment of rates, the issuance of securities or the operation, maintenance or expansion of Austin Energy. Nevertheless, Austin Energy submits various reports to FERC and participates in ERCOT, a stakeholder organization established under State law that is similar to the Regional Transmission Organizations envisioned in FERC Order No. 2000.

Pursuant to the Energy Policy Act of 2005, Austin Energy is 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. Every five years, FERC reviews and approves the Delegation Agreement between NERC and Texas Reliability Entity, Inc. (“Texas RE”), which governs the responsibilities of Texas RE as the Regional Entity responsible for overseeing the NERC reliability standards in the ERCOT region. Additionally, Texas RE serves as the PUCT’s Reliability Monitor. In that role, Texas RE monitors Austin Energy’s compliance with the ERCOT Protocols and other reliability-related rules. Austin Energy has established a Reliability Compliance Program to examine the requirements for compliance with reliability standards and to evaluate and implement any needed changes to systems and procedures. Austin Energy’s

compliance with reliability standards is verified through external audits and other oversight processes conducted by Texas RE.

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 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

Federal Greenhouse Gas Regulations

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 in February, 2016, pending review in the D.C. Circuit Court. Prior to a final decision by the Circuit Court, the USEPA proposed revising the rule in August 2018, and in September 2019 the final Affordable Clean Energy ("ACE") rule became effective and replaced the Clean Power Plan. The ACE rule requires states to submit plans to EPA with carbon emission rate limits for coal generating units based on heat rate improvement measures. Coal generators in Texas including Fayette Power Project ("FPP") must submit evaluations of the potential for emission rate reductions from heat rate improvements to the Texas Commission on Environmental Quality ("TCEQ") by October 30, 2020. Final carbon rate limits pursuant to the ACE rule are expected to be final and effective no later than July 2024.

Mercury and Air Toxics Standards (MATS)

USEPA's final MATS rule published in February 2012 set emissions limits for mercury and other toxic air emissions from coal-fired electric utility boilers. For Austin Energy, this rule applies to FPP Units 1 and 2. Numerous states and industry groups challenged USEPA's determination that the rule is appropriate and necessary, and USEPA finalized a finding in May 2020 that the rule benefits did not outweigh the costs, but left the 2012 limits in place. Original legal challenges are being held in abeyance and new petitions for review of the May 2020 finding have been filed.

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 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 emission of nitrogen oxide ("NO_x") exceeded allocations in 2018 and 2019, resulting in the need to purchase excess allowances on the market. Future year allowance needs are unknown and the need for allowance purchases will be reduced or eliminated with the planned retirement of Decker units 1&2 in 2020 and 2021 respectively.

Regional Haze Rule

The federal Regional Haze Program is intended to restore and protect visibility in federal Class I areas, which are mostly national parks. Fossil-fuel burning power plants are a primary source of the pollution that reduces visibility and are subject

to regional haze program requirements via either a state or federal implementation plan (SIP or FIP). Coal plants in Texas including FPP are subject to a federal program that caps SO₂ emissions in the state. That Texas FIP has been the subject of numerous challenges, regulatory reviews and revisions; in June 2020, USEPA finalized minor revisions and reaffirmed the need for the Texas SO₂ trading program. FPP is subject to the SO₂ requirements and must hold allowances to cover its emissions, however at this time the need for, and cost of, additional allowances for compliance are not deemed significant.

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 the City's 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. In November 2019, USEPA proposed revisions to the rule for certain wastewater streams. Because FPP implements dry ash handling and onsite, no-discharge treatment of scrubber effluent, neither the original nor the proposed revisions of the ELG regulation have significant compliance requirements for Austin Energy.

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

The South Texas Nuclear Power Plant, in which the City owns a partial interest ("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 is set to expire on December 31, 2025. As of September 30, 2019, the limit of liability under the Price-Anderson Act for licensees of nuclear power plants is \$13.8 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 September 30, 2019) 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 nuclear 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 nuclear 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 nuclear property damage insurance and \$1.25 billion of excess nuclear 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 warrants additional funds needed by NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for accidental outage insurance, primary and excess nuclear property damage insurance is \$52.7 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 \$1.878 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 2018 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 market value of assets held in the decommissioning trust as of June 30, 2020 was \$234,605,445. For Fiscal Year 2020, 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 Daiichi 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 Reactors and not BWR's, no changes are required.

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

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THE WATER AND WASTEWATER SYSTEM

Management

<u>Name</u>	<u>Years at City*</u>	<u>Additional Years of Experience</u>	<u>Total</u>
Director			
Greg Meszaros	13	22	35
Assistant Directors			
David Anders, <i>Financial Services</i>	32	8	40
Rick Coronado, P.E., <i>Operations</i>	25	-	25
Kevin Critendon, P.E., <i>Environmental Planning and Development Service</i>	9	27	36
Sherri Hampton, <i>Employee Leadership Development</i>	10	16	26
Randi Jenkins, <i>Customer Experience</i>	14	4	18
Shay Roalson, P.E., <i>Engineering Services</i>	0.4	27	27.4

*As of August 31, 2020.

**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 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	1998 – 1,313,831 Acre-Feet	2009 – 584,800 Acre-Feet
1988 – 834,000 Acre-Feet	1999 – 803,240 Acre-Feet	2010 – 798,500 Acre-Feet
1989 – 667,900 Acre-Feet	2000 – 627,370 Acre-Feet	2011 – 670,000 Acre-Feet
1990 – 692,300 Acre-Feet	2001 – 1,371,435 Acre-Feet	2012 – 212,800 Acre-Feet
1991 – 829,700 Acre-Feet	2002 – 1,674,985 Acre-Feet	2013 – 210,600 Acre-Feet
1992 – 5,419,000 Acre-Feet	2003 – 1,017,294 Acre-Feet	2014 – 219,200 Acre-Feet
1993 – 978,000 Acre-Feet	2004 – 928,065 Acre-Feet	2015 – 201,700 Acre-Feet
1994 – 708,200 Acre-Feet	2005 – 1,077,031 Acre-Feet	2016 – 1,478,341 Acre-Feet
1995 – 896,700 Acre-Feet	2006 – 553,200 Acre-Feet	2017 – 739,900 Acre-Feet
1996 – 758,300 Acre-Feet	2007 – 2,156,000 Acre-Feet	2018 – 277,600 Acre-Feet
1997 – 3,013,512 Acre-Feet	2008 – 623,200 Acre-Feet	2019 – 2,518,000 Acre-Feet

* Data from 1987 to 2019 is referenced from USGS Water-Year Summary Statistics.

Using the last thirty-three years from 1987-2019, the average flow was 1,159,200 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" in this document). 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 3,950 miles of water mains of varying diameters, 31 major storage facilities with a storage capacity of approximately 170 million gallons, 29,560 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, intended 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. TCEQ approved the "2020 LCRA WMP" in early 2020.

Water Storage and Pumping Facilities

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

	Total Storage Capacity (Millions of Gallons)	Firm Pumping Capacity (Gallons per Minute)
<u>North System</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.

Historical Water Pumpage - TABLE FOUR

The following table summarizes historical demand and maximum day water pumpage from fiscal years 2010 through 2019.

<u>Fiscal Year</u>	<u>Total Pumpage (Millions of Gallons)</u>	<u>Percent Change</u>	<u>Maximum Day Pumpage (Millions of Gallons)</u>
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
2019	47,294	(2.5)	209

Source: Austin Water.

Projected Water Pumpage - TABLE FIVE

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>
2020	51,647	216
2021	50,241	210
2022	50,619	211
2023	51,035	215
2024	51,876	217

Source: Austin Water.

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Information Concerning Water Sales - TABLE SIX

Fiscal Year Ended September 30										
	<u>2015</u>		<u>2016</u>		<u>2017</u>		<u>2018</u>		<u>2019</u>	
	<u>Average #</u> <u>of</u> <u>Customers</u>	<u>Thousand</u> <u>Gallons</u>	<u>Average #</u> <u>of</u> <u>Customers</u>	<u>Thousand</u> <u>Gallons</u>	<u>Average #</u> <u>of</u> <u>Customers</u>	<u>Thousand</u> <u>Gallons</u>	<u>Average #</u> <u>of</u> <u>Customers</u>	<u>Thousand</u> <u>Gallons</u>	<u>Average #</u> <u>of</u> <u>Customers</u>	<u>Thousand</u> <u>Gallons</u>
Thousand Gallons Pumped		43,480,893		44,687,336		47,312,289		48,520,957		47,294,234
Less: Sales to Other Water Utilities (1)		<u>2,281,694</u>		<u>2,487,912</u>		<u>2,665,026</u>		<u>2,621,961</u>		<u>2,337,219</u>
Thousand Gallons to System		<u>41,199,199</u>		<u>42,199,424</u>		<u>44,647,263</u>		<u>45,898,996</u>		<u>44,957,015</u>
Water Sales:										
Retail (2)	220,946	34,810,518	224,956	36,657,742	228,332	37,902,093	232,324	38,143,134	236,249	37,010,281
City Departments	<u>560</u>	<u>598,114</u>	<u>610</u>	<u>598,089</u>	<u>619</u>	<u>601,601</u>	<u>621</u>	<u>678,923</u>	<u>609</u>	<u>666,871</u>
Total Sales to Ultimate Consumer	<u>221,506</u>	<u>35,408,632</u>	<u>225,566</u>	<u>37,255,831</u>	<u>228,951</u>	<u>38,503,694</u>	<u>232,945</u>	<u>38,822,057</u>	<u>236,858</u>	<u>37,677,152</u>
Used by Water Utility		52,483		58,291		54,528		41,248		62,370
Other Unmetered Usage		1,278,338		1,313,808		1,390,981		1,412,287		1,390,450
Loss and Unaccounted For		<u>4,459,746</u>		<u>3,571,494</u>		<u>4,698,060</u>		<u>5,139,404</u>		<u>5,827,043</u>
Thousand Gallons to System		<u>41,199,199</u>		<u>42,199,424</u>		<u>44,647,263</u>		<u>45,414,996</u>		<u>44,957,015</u>
Maximum Daily Consumption		206,966		197,568		203,834		195,902		207,824
Average Daily Consumption		103,261		108,887		112,791		113,545		109,628

(1) Includes sales to all wholesale customers.

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

Source: Austin Water.

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Large Water Customers - TABLE SEVEN

**Water and Wastewater Utility
Large Water Customers (1)
Five Year Comparative Data (2015-2019)**

Fiscal Year Ended September 30 (Gallons and Dollars in Thousands)										
	<u>2015</u>		<u>2016</u>		<u>2017</u>		<u>2018</u>		<u>2019</u>	
	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>
Samsung Austin Semiconductor	1,558,196	\$10,010	1,975,811	\$12,601	2,184,016	\$14,627	2,317,298	\$13,913	2,263,875	\$11,016
Travis County WCID #10	708,235	3,374	774,588	2,569	822,205	2,125	839,323	2,775	732,154	4,391
University of Texas (2)	746,252	5,517	805,549	6,046	804,756	6,296	777,696	5,158	728,455	2,003
NXP USA INC (Formerly Freescale, Inc.) (3)	708,784	4,164	676,043	4,235	529,506	4,164	610,488	3,770	647,122	3,152
Wells Branch MUD	420,508	1,937	464,228	1,452	480,115	1,231	483,764	1,520	414,951	1,082
North Austin MUD #1	391,524	1,796	394,365	1,306	425,839	1,170	416,336	1,347	373,305	1,027
Austin Independent School District (4)	313,672	2,461	318,036	2,615	340,342	2,795	343,591	2,119	313,089	1,627
Cypress Semiconductor (Formerly Spansion)	299,686	1,868	304,672	1,996	319,139	2,123	329,873	2,483	299,131	2,227
Northtown MUD	267,479	1,193	287,294	891	290,888	695	296,842	916	270,556	701
Mid America Apartments LP (5)	-	-	-	-	141,145	939	185,075	1,037	204,572	1,083
Total:	<u>5,414,336</u>	<u>32,319</u>	<u>6,000,586</u>	<u>33,711</u>	<u>6,337,951</u>	<u>36,165</u>	<u>6,600,286</u>	<u>35,038</u>	<u>6,247,210</u>	<u>28,308</u>
Texas Facilities Commission (6)	<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>	<u>176,940</u>	<u>\$1,205</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.

(5) 2019 was the first year that Mid America Apartments LP was a top 10 customer; 2017 is the first year data was collected.

(6) The Texas Facilities Commission was not a top 10 water customer in 2019; totals for the Texas Facilities Commission include all locations and data as a top 10 water user from 2015-2018.

Source: Austin Water.

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WASTEWATER SYSTEM

Service Area

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

Facilities

Austin Water has two main wastewater treatment plants with a total permitted capacity of 150 mgd, one biosolids treatment and beneficial reuse facility, over 2,776 miles of sanitary wastewater mains and lines, and 143 city-owned, in-service lift stations. The two treatment plants are the Walnut Creek Wastewater Treatment Plant, which began operations in 1977 and is currently operating in the 75 mgd phase with permitted capacity up to 100 mgd after expansion, and the South Austin Regional Wastewater Treatment Plant, which started operating in 1986 and is currently operating in the 75 mgd phase. 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 on April 5, 2019 with an expiration date on April 5, 2024. The Walnut Creek Wastewater Treatment Plant permit was renewed on March 12, 2020 with an expiration date of March 12, 2025. The South Austin Regional Wastewater Treatment Plant permit was renewed on December 19, 2019 with an expiration date of December 19, 2024.

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.

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Lift Stations

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

<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 EIGHT

The following table summarizes the historical influent wastewater flows to the City's wastewater treatment facilities from fiscal years 2010 through 2019.

<u>Fiscal Year</u>	<u>Total Wastewater Flow (Millions of Gallons)</u>	<u>Percent Change</u>
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)
2019	42,176	17.2

Source: Austin Water.

Projected Wastewater Flows – TABLE NINE

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>
2020	43,115
2021	43,730
2022	44,478
2023	45,237
2024	46,081
2025	47,059

Source: Austin Water.

COMBINED WATER AND WASTEWATER SYSTEM INFORMATION

Future Capital Improvements for Water and Wastewater System

Austin Water's proposed FY 2021-2025 capital spending plan requires approximately \$971 million of funding for system improvements. The future water and wastewater system improvements included in the five-year capital spending plan include treatment facilities, reservoir, pump station and lift station improvements, and major transmission distribution and collection improvements. Austin Water anticipates financing such improvements with: (1) the issuance of \$324 million additional Parity Water/Wastewater Obligations (including refunding of commercial paper issued to provide interim financing for such improvements); (2) the application of \$371 million of anticipated transfers from current Water and Wastewater System revenues and amounts on hand; and (3) an estimated \$276 million in low-interest loan assistance from the TWDB.

Future TWDB Swift Funding... 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 to fund these projects 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 million for projects associated with reclaimed water systems and \$9.2 million for AMI, as Parity Water/Wastewater Obligations issued by the City. Anticipated future loan closings through TWDB include multi-year commitments for AMI over the next four years which will total an additional \$80.195 million in loan proceeds. **The City's anticipated fall 2020 issuance of \$16.9 million of Series 2020D Bonds (additional Parity Water/Wastewater Obligations) would be financed through the TWDB's SWIFT program.**

Future TWDB SRF Funding... Additionally, in February 2020, the City was awarded funding, in the form of low-interest loans, from the TWDB for up to \$120.83 million from the state revolving fund ("SRF") program for water and wastewater infrastructure projects. The City was awarded a total of \$67.83 million for water projects and \$53 million for wastewater projects. The SRF loan financings will be structured as parity water/wastewater obligations of the City privately placed with the TWDB. The City closed on its first such SRF loans in February 2020 in an aggregate par of \$15.0 million (the Series 2020A Bonds and the Series 2020B Bonds). **The City anticipates issuing additional parity water/wastewater obligations in winter 2021 in the combined par amount of \$19.8 million; such issuances would be financed through the TWDB's SRF program.**

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 entering 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 purified 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, four water storage facilities with 7.5 MG in storage, and 72.8 miles of mains. An additional 10.2 miles of mains are in design or under construction. The water reuse facilities presently serve a total of 152 metered customers.

Customer demand is highly dependent on weather conditions. In calendar year 2019, customers used 1.60 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 reclaimed 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 April 10, 2020 – TABLE TEN” in this document. The Water Revenue Stability Reserve Fund exists separate and distinct from the Water and Wastewater Utility Reserve Fund established by the Water and Wastewater Utility Master Ordinance. 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 Water Revenue Stability Reserve Fund is used, the balance will be replenished to the target level within 5 years. Upon creation of the Water Revenue Stability Reserve Fund, the goal to reach the target funding level of 120 days of budgeted water operating requirements was 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 Water 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 operating purposes of the Water and Wastewater Utility, is primarily intended to pay operating expenses or debt service on Parity Water/Wastewater Obligations related to water purposes, and may only be used to offset current year shortfalls in gross revenues of water operations 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 will be replenished to the 120-day level within a five-year period.

As of June 30, 2020, the balance of the Water Revenue Stability Fund was \$49.9 million and fully funded. The balance of the Water Revenue Stability Reserve Fund is forecasted to be \$51.0 million by September 30, 2020. No assurance can be given that these forecasted balances will remain at the 120-day goal; however, the volumetric surcharge for the Water 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 Water Revenue Stability Reserve Fund. Notwithstanding the foregoing policy restrictions of the City currently in effect with respect to the use of moneys within the Water Revenue Stability Reserve Fund, the provisions of the separate Water and Wastewater Master Ordinance regarding the use of moneys on deposit in the Water Fund (including the Water 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 has defeased portions of outstanding Parity Water/Wastewater Obligations; the defeasances, which were funded with Capital Recovery Fee collections and operating funds, have allowed the Water and Wastewater Utility to realize approximately \$156.1 million in net present value savings in the last three fiscal years. 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 of the Water and Wastewater Utility 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 2019 projects debt service coverage levels in fiscal year 2020 of 1.71 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.

On April 9, 2020 and in response to the impact of COVID-19, the Austin City Council approved a 10% rate reduction of tiers 1, 2 and 3 for water volume rates and tiers 1 and 2 for wastewater volume rates, for both our CAP customer rates and residential Non-CAP rates. These temporary rates will be effective through October 31, 2020. The current Non-CAP rates that were effective November 1, 2019, will resume effective November 1, 2020. The CAP customer 10% rate reduction will remain in effect throughout FY 2021.

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 2021 fiscal year, a zero-percent rate increase was approved for a majority of the retail customer rates except for non-CAP

rates, which will return to pre-COVID 19 rates. Any rate increase approved by City Council as part of the fiscal year 2021 approved budget the rates would not take effect prior to November 1, 2020. 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.

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

Water Service Rates Effective as of April 10, 2020 – TABLE TEN

Monthly Customer Charges

<u>Customer Account Charge</u>	<u>Meter Size</u>	<u>Retail Equivalent Meter Charge per Month (1)</u>	<u>Multifamily Charge per Month (2)</u>	<u>Commercial Charge 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				
		<u>Retail per 1,000 Gals. (3)</u>	<u>Wholesale per 1,000 Gals. (3)</u>	
Water Revenue Stability Reserve Fund Surcharge		\$0.05	\$0.10	
Community Benefit Charge				<u>Wholesale per 1,000 Gals. (5)</u>
				\$0.15
Residential Monthly Tiered Minimum Charge		<u>Min. Charge per Month (4)</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		<u>Min. Charge per Month (2)</u>		
NXP - Ed Bluestein (formerly Freescale)		\$29,250.00		
NXP - W. William Cannon (formerly Freescale)		21,400.00		
Samsung		121,100.00		
Skorpios (formerly Novati)		4,250.00		
Cypress (formerly Spansion)		22,800.00		
University of Texas		16,350.00		

- (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 (Non-CAP) (2)	
0 – 2,000 Gallons	\$ 2.60
2,001 – 6,000 Gallons	4.33
6,001 – 11,000 Gallons	7.51
11,001 – 20,000 Gallons	12.70
20,001 – Over Gallons	14.21
Single-Family Residential (CAP) (2)	
0 – 2,000 Gallons	1.23
2,001 – 6,000 Gallons	3.65
6,001 – 11,000 Gallons	4.53
11,001 – 20,000 Gallons	11.51
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)	
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
Skorprios (formerly Novati)	
Off Peak	4.96
Peak	5.48
Cypress (formerly Spansion)	
Off Peak	5.00
Peak	5.52
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.

Wastewater Service Rates Effective as of April 10, 2020 – TABLE ELEVEN

Customer Account Charge

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

Community Benefit Charge

<u>Charge per 1,000</u>
<u>Gallons (3)</u>
\$0.15

Volume Unit Charge (1)

	<u>Unit Cost per 1,000 Gallons (2)</u>
Retail	
Single-Family	
0 - 2,000 Gallons	\$ 4.37
2,001 - Over Gallons	8.95
Single-Family Customer Assistance Program (3)	
0 - 2,000 Gallons	\$ 3.11
2,001 - Over Gallons	7.90
Multifamily	\$ 8.93
Commercial	\$ 8.95
Large Volume:	
NXP – Ed Bluestein (formerly Freescale)	\$ 7.74
NXP – W. William Cannon (formerly Freescale)	8.52
Samsung	8.66
Novati (formerly Sematech)	7.75
Spansion	7.90

(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.

(3) Fee is charged per 1,000 gallons of wastewater billed for all retail customers.

Source: Austin Water.

The combined water and wastewater minimum charge and volumetric service rates effective as of November 1, 2019 were unchanged from 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 Public Utility Commission of Texas (“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 \$6.2 million, or 2.2%, of the approximate \$287.4 million annual water revenue for fiscal year 2020. The final ruling in favor of the petitioners does not have a significant revenue impact to the Water and Wastewater Utility.

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 withdrew this application on December 2, 2019. The case was dismissed on January 10, 2020.

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 was revised effective October 1, 2018. The revised fees are shown below, and under the terms of the Water and Wastewater System Master Ordinance, such fees do not constitute gross revenues of the Water and Wastewater System. 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

Analysis of Water Bills - TABLE TWELVE

	Fiscal Year Ended September 30				
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Average Monthly Bill Per Customer - Water					
Residential (1)	\$43.16	\$46.60	\$50.41	\$49.83	\$43.67
Multifamily (1)	820.44	946.79	882.93	766.84	704.57
Commercial (1)	343.17	369.49	400.44	359.50	320.16
Large Volume	260,155.12	306,025.68	335,060.66	317,821.74	297,756.97
City Departments	683.60	653.55	660.28	653.60	612.03
Average Monthly Bill – Above Customers	\$94.84	\$104.61	\$109.90	\$101.95	\$90.88
Sales to Other Water Utilities (2)	\$42,146.05	\$44,412.60	\$47,174.74	\$47,910.10	\$42,926.88
Average Monthly Bill – All Customers	\$98.26	\$107.95	\$113.39	\$105.44	\$93.96
<u>Average Monthly Use in 1,000 Gallons – Water</u>					
Residential (1)	5.77	5.78	5.86	5.84	5.24
Multifamily (1)	128.84	135.75	124.12	127.55	123.67
Commercial (1)	45.45	47.27	50.64	49.77	46.64
Large Volume	42,053.37	48,701.32	51,286.38	51,997.13	52,294.19
City Departments	89.16	82.47	81.16	91.59	89.69
Average Monthly Use – Above Customers	13.33	13.86	14.01	13.96	13.03
Sales to Other Water Utilities (2)	10,588.02	12,092.58	13,046.12	12,930.25	11,264.47
Average Monthly Use – All Customers	14.19	14.77	14.98	14.90	13.84
<u>Average Revenue Per 1,000 Gallons – Water</u>					
Residential (1)	\$7.48	\$8.07	\$8.60	\$8.54	\$8.33
Multifamily (1)	6.37	6.97	7.11	6.01	5.70
Commercial (1)	7.55	7.82	7.91	7.22	6.86
Large Volume	6.19	6.28	6.53	6.11	5.69
City Departments	7.67	7.92	8.14	7.14	6.82
Average Revenue – Above Customers	\$7.11	\$7.55	\$7.84	\$7.30	\$6.97
Sales to Other Water Utilities (2)	\$3.98	\$3.67	\$3.62	\$3.71	\$3.81
Average Revenue – All Customers	\$6.92	\$7.31	\$7.57	\$7.08	\$6.79

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

(2) Includes all Wholesale customers.

Source: Austin Water.

Analysis of Wastewater Bills - TABLE THIRTEEN

	Fiscal Year Ended September 30				
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Average Monthly Bill Per Customer – Wastewater					
Residential (1)	\$ 36.35	\$ 38.63	\$ 40.02	\$ 38.41	\$ 35.34
Multifamily (1)	1,172.57	1,237.57	1,209.90	1,175.46	1,135.09
Commercial (1)	395.74	411.21	457.33	431.66	413.43
Large Volume	224,832.98	273,628.93	299,070.91	330,416.09	299,193.33
City Departments	450.32	361.80	522.17	446.47	383.47
Average Monthly Bill – Above Customers	\$ 89.62	\$ 96.03	\$ 100.28	\$ 96.14	\$ 89.63
Sales to Other Utilities (2)	\$55,611.39	\$47,413.06	\$49,785.58	\$52,040.32	\$54,713.65
Average Monthly Bill – All Customers	\$92.27	\$98.48	\$102.81	\$98.74	\$92.32
Average Monthly Use in 1,000 Gallons – Wastewater					
Residential (1)	\$ 3.88	\$ 3.87	\$ 3.84	\$ 3.79	\$ 3.53
Multifamily (1)	132.58	133.96	126.89	126.62	125.95
Commercial (1)	43.79	43.52	47.06	45.77	45.04
Large Volume	29,135.26	33,944.97	35,456.50	40,110.14	37,394.54
City Departments	47.91	36.50	51.26	47.40	41.70
Average Monthly Use – Above Customers	\$ 9.97	\$ 10.17	\$ 10.25	\$ 10.12	\$ 9.65
Sales to Other Utilities (2)	\$ 10,020.74	\$ 9,749.92	\$ 10,391.34	\$ 10,174.46	\$ 9,934.19
Average Monthly Use – All Customers	\$ 10.45	\$ 10.68	\$ 10.78	\$ 10.62	\$ 10.14
Average Revenue Per 1,000 Gallons – Wastewater					
Residential (1)	\$9.36	\$9.97	\$10.43	\$10.14	\$10.01
Multifamily (1)	8.84	9.24	9.53	9.28	9.01
Commercial (1)	9.04	9.45	9.72	9.43	9.18
Large Volume	7.72	8.06	8.43	8.24	8.00
City Departments	9.40	9.91	10.19	9.42	9.20
Average Revenue – Above Customers	\$8.99	\$9.44	\$9.79	\$9.50	\$9.29
Sales to Other Utilities (2)	\$5.55	\$4.86	\$4.79	\$5.11	\$5.51
Average Revenue – All Customers	\$8.83	\$9.22	\$9.54	\$9.29	\$9.10

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

(2) Includes all Wholesale customers.

Source: Austin Water.

**ELECTRIC UTILITY SYSTEM
AND WATER AND WASTEWATER SYSTEM OPERATIONS
OCTOBER 1, 2015 TO SEPTEMBER 30, 2019**
(in thousands rounded)

	Fiscal Year Ended September 30				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
INCOME					
Revenue	\$2,031,435	\$1,998,556	\$1,974,948	\$1,941,815	\$ 1,876,350
Operating Expense	<u>(1,366,470)</u>	<u>(1,334,151)</u>	<u>(1,252,196)</u>	<u>(1,207,225)</u>	<u>(1,186,590)</u>
Balance Available for Debt Service	664,965	664,405	722,752	734,590	689,760
Depreciation and Amortization Expense	<u>(327,840)</u>	<u>(290,323)</u>	<u>(284,451)</u>	<u>(272,769)</u>	<u>(264,896)</u>
Earnings Before Interest Expense	337,125	374,082	438,301	461,821	424,864
Interest Incurred on Debt	(148,596)	(148,659)	(163,851)	(168,956)	(160,881)
Other	<u>(11,113)</u>	<u>(13,061)</u>	<u>(12,505)</u>	<u>(748)</u>	<u>(4,802)</u>
INCOME (LOSS) BEFORE TRANSFERS (1) (2) (3) (4)	<u>\$177,416</u>	<u>\$212,362</u>	<u>\$261,945</u>	<u>\$ 292,117</u>	<u>\$ 259,181</u>
PERCENTAGES					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	<u>(67.27%)</u>	<u>(66.76%)</u>	<u>(63.40%)</u>	<u>(62.17%)</u>	<u>(63.24%)</u>
Balance Available for Debt Service	32.73%	33.24%	36.60%	37.83%	36.76%
Depreciation and Amortization Expense	<u>(16.14%)</u>	<u>(14.53%)</u>	<u>(14.40%)</u>	<u>(14.05%)</u>	<u>(14.12%)</u>
Earnings Before Interest Expense	16.60%	18.72%	22.19%	23.78%	22.64%
Interest Incurred on Debt	(7.31%)	(7.44%)	(8.30%)	(8.70%)	(8.57%)
Other	<u>(0.55%)</u>	<u>(0.65%)</u>	<u>(0.63%)</u>	<u>(0.04%)</u>	<u>(0.26%)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>8.73%</u>	<u>10.63%</u>	<u>13.26%</u>	<u>15.04%</u>	<u>13.81%</u>

(1) Income before transfers to the General Fund and Other Funds for the 12 months ended September 30, 2019, are as follows (in thousands rounded):

Transfer to General Fund	\$157,586
Transfers to Other Funds	\$12,815

(2) Excludes Combined Utility Funds' deferred costs recovered in future years of (\$46,716) for the 12 months ended September 30, 2019.

(3) Excludes capital contributions of \$122,243 for the 12 months ended September 30, 2019.

(4) Excludes other post-employment benefits ("OPEB") and net pension liability accruals. These amounts for the 12 months ended September 30, 2019 were \$30,950 and \$44,823, respectively.

Source: City Controller's Office.

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

	Fiscal Year Ended September 30				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
REVENUE					
ELECTRIC UTILITY					
Domestic and Rural Residential	\$499,861	\$489,985	\$456,576	\$321,985	\$332,685
Commercial General	745,974	711,457	719,532	861,208	853,546
Sales to Other Utilities	47,092	50,482	44,331	42,119	27,798
Transmission	81,734	78,616	78,049	75,926	74,332
Rent from Electric Property	7,736	3,620	3,204	3,750	2,269
Customers' Forfeited Discounts and Penalties	5,540	5,966	5,424	6,352	6,854
Miscellaneous	<u>\$59,362</u>	<u>\$60,397</u>	<u>\$55,016</u>	<u>\$58,887</u>	<u>\$53,953</u>
Total Electric Utility	<u>\$1,447,299</u>	<u>\$1,400,523</u>	<u>\$1,362,132</u>	<u>\$1,370,227</u>	<u>\$1,351,437</u>
WATER UTILITY					
Water Services	275,095	290,868	312,491	290,646	\$267,164
Miscellaneous Revenue	8,444	6,528	5,458	2,607	2,168
Revenue Stability Fee	1,901	4,850	5,098	7,223	6,905
Reserve Fund Surcharge	-	-	-	-	-
Reclaimed Revenue	<u>2,013</u>	<u>1,936</u>	<u>1,515</u>	<u>1,384</u>	<u>944</u>
Total Water Utility	<u>\$287,453</u>	<u>\$304,182</u>	<u>\$324,562</u>	<u>\$301,860</u>	<u>\$277,181</u>
WASTEWATER UTILITY					
Wastewater Services	258,349	265,798	271,715	257,161	\$237,553
Miscellaneous Revenue	5,769	5,086	2,803	2,813	2,257
Reclaimed Revenue	-	-	-	-	-
Total Wastewater Utility	<u>\$ 264,118</u>	<u>\$ 270,884</u>	<u>\$274,518</u>	<u>\$259,974</u>	<u>\$239,810</u>
Interest	<u>\$32,565</u>	<u>\$22,967</u>	<u>\$13,736</u>	<u>\$9,754</u>	<u>\$7,922</u>
TOTAL REVENUE	<u>\$2,031,435</u>	<u>\$1,998,556</u>	<u>\$1,974,948</u>	<u>\$1,941,815</u>	<u>\$1,876,350</u>

Source: City Controller's Office.

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

<u>EXPENSE</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
ELECTRIC UTILITY					
Production	\$208,231	\$179,981	\$173,860	\$215,562	\$ 225,269 (3)
Joint Facility Production	189,141	218,373	162,343	162,166	169,435 (3)
System Control	21,490	26,454	19,423	19,371	16,989
Transmission and Distribution	198,816	193,291	188,583	176,675	166,016
Jobbing and Contract Work	2,222	1,625	1,207	1,207	645
Customer Accounting and Collection	25,457	9,515	16,203	15,946	15,501
Customer Services	24,948	27,435	28,928	25,521	4,391
Administrative and General	<u>435,161</u>	<u>427,253</u>	<u>428,057</u>	<u>373,320</u>	<u>380,038</u>
Total Electric Utility	<u>\$1,105,466</u>	<u>\$1,083,927</u>	<u>\$1,018,604</u>	<u>\$989,768</u>	<u>\$978,284</u>
WATER UTILITY					
	\$71,373	\$68,108	\$ -	\$ -	\$ -
Operations (1)	-	-	-	-	-
Treatment (1)	-	-	37,456	37,835	\$35,593
Pipeline Operations (1)	-	-	26,547	23,795	23,169
Engineering Services	5,572	4,512	3,876	3,296	3,472
Water Resources Management	3,901	3,586	3,923	3,733	3,699
Environmental Affairs & Conservation	7,496	7,780	7,264	7,880	7,486
Support Services - Utility	21,899	14,168	12,571	11,444	11,022
One Stop Shop	0	164	294	225	264
Reclaimed Water Services	1,312	534	526	(2,989)	(1,609)
Other Operating Expenses	<u>27,580</u>	<u>31,814</u>	<u>31,290</u>	<u>31,577</u>	<u>30,155</u>
Total Water Utility	<u>\$139,133</u>	<u>\$130,666</u>	<u>\$123,747</u>	<u>\$116,796</u>	<u>\$113,251</u>
WASTEWATER UTILITY					
Operations (1)	\$ 65,585	\$ 62,412	-	-	-
Treatment (1)	-	-	40,911	38,544	\$36,132
Pipeline Operations	-	-	18,825	17,048	16,972
Engineering Services	6,936	7,200	6,317	5,263	4,966
Water Resources Management	4,673	4,427	4,526	4,150	3,911
Environmental Affairs & Conservation	3,013	3,088	2,819	2,925	2,911
Support Services - Utility	21,791	13,767	12,821	11,454	10,769
One Stop Shop	-	-	441	361	346
Other Operating Expenses	<u>19,873</u>	<u>28,664</u>	<u>23,185</u>	<u>20,916</u>	<u>19,048</u>
Total Wastewater Utility	<u>\$ 121,871</u>	<u>\$ 119,558</u>	<u>\$ 109,845</u>	<u>\$ 100,661</u>	<u>\$ 95,055</u>
TOTAL EXPENSE (2)	\$ 1,366,470	\$1,334,151	\$1,252,196	\$1,207,225	\$1,186,590
NET REVENUE AVAILABLE FOR DEBT SERVICE	<u>\$664,965</u>	<u>\$ 664,405</u>	<u>\$ 722,752</u>	<u>\$ 734,590</u>	<u>\$ 689,760</u>
Electric Customers	485,204	485,204	472,701	469,534	457,750
Water Customers	235,174	235,174	231,014	227,432	223,162
Wastewater Customers	221,862	221,862	217,794	214,373	212,260

- (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, net pension liability and OPEB accrual are not included in total expense.
(3) Reclassification of expenses from 'Production' to 'Joint Facility Production.'
- Source: City Controller's Office.

DISCUSSION OF OPERATING STATEMENT

Austin Energy Revenues

Variations in total Austin Energy revenues for the fiscal years (“FY”) ended September 30, 2015 through September 30, 2019 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 FY15 through FY19 were largely attributable to weather and system rate changes, including imposition of Stage 2 watering restrictions beginning in September 2011. See “WATER SYSTEM – Water Use Management Plan and LCRA Water Management Plan” and “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates” in this document.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY15 through FY19 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 FY15 through FY19 were primarily attributable to inflationary increases in the cost of power and chemicals, along with system growth.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Plant Cost					
Utility Systems					
Electric	\$6,179,413	\$5,574,059	\$5,428,545	\$5,288,802	\$5,141,259
Water	2,983,187	2,903,016	2,817,554	2,736,990	2,663,637
Wastewater	<u>2,698,343</u>	<u>2,616,571</u>	<u>2,529,448</u>	<u>2,416,799</u>	<u>2,352,947</u>
Total Cost	<u>\$11,860,943</u>	<u>\$11,093,646</u>	<u>\$10,775,547</u>	<u>\$10,442,591</u>	<u>\$10,157,843</u>
Allowance for Depreciation:					
Electric	3,175,348	2,978,260	2,827,731	2,678,849	\$2,537,491
Water	926,457	869,971	811,230	752,394	701,383
Wastewater	<u>1,123,127</u>	<u>1,060,395</u>	<u>996,455</u>	<u>935,782</u>	<u>876,532</u>
Total Depreciation	<u>\$5,224,932</u>	<u>\$4,908,626</u>	<u>\$4,635,416</u>	<u>\$4,367,025</u>	<u>\$4,115,406</u>
Cost after Depreciation	<u>\$6,636,011</u>	<u>\$6,185,020</u>	<u>\$6,140,131</u>	<u>\$6,075,566</u>	<u>\$6,042,437</u>
Equity in Utility Systems					
Utility Systems	\$11,860,943	\$11,093,646	\$10,775,547	\$10,442,591	\$10,157,843
Plus: Inventories, Materials and Supplies (1)	66,269	55,025	53,528	55,187	51,884
Net Construction Assets and Unamortized Bond Issue Cost	<u>148,739</u>	<u>109,641</u>	<u>104,331</u>	<u>114,533</u>	<u>164,690</u>
	<u>\$12,075,951</u>	<u>\$11,258,312</u>	<u>\$10,993,406</u>	<u>\$10,612,311</u>	<u>\$10,374,417</u>
Less:					
Allowance for Depreciation	\$5,224,932	\$4,908,626	\$4,635,416	\$4,367,025	\$4,115,406
Total	<u>\$5,224,932</u>	<u>\$4,908,626</u>	<u>\$4,635,416</u>	<u>\$4,367,025</u>	<u>\$4,115,406</u>
Utility Systems, Net	<u>\$6,851,019</u>	<u>\$6,349,686</u>	<u>\$6,297,990</u>	<u>\$6,245,285</u>	<u>\$6,259,012</u>
Revenue Bonds and Other Debt Outstanding (2)	\$4,487,193	\$3,979,273	\$4,011,156	\$4,014,446	\$4,076,665
Net Debt	\$4,487,193	\$3,979,273	\$4,011,156	\$4,014,446	\$4,076,665
Equity in Utility Systems	<u>\$2,363,826</u>	<u>\$2,370,413</u>	<u>\$2,286,834</u>	<u>\$2,230,840</u>	<u>\$2,182,346</u>
Percentage of Equity in Utility Systems	34.50%	37.33%	36.31%	35.72%	34.87%

(1) Does not include fuel, oil or coal inventories of approximately \$15.5 million at September 30, 2019. 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 matters described below) will not have a material adverse effect on the City's financial condition or the financial condition of the Electric Utility System or of the Water and Wastewater System.

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 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 on certain grounds. Both parties are currently seeking review of the appellate decision by the Texas Supreme Court in Cause No. 19-0475.

THE CITY

Administration

Incorporated in 1839, the City operates under a Council-Manager form of government under its Home Rule Charter. The City Council is comprised of an eleven-member council, with the Mayor elected at-large, and the remaining members elected from ten single-member districts. Councilmembers, including the Mayor, serve a four-year term, with the terms staggered so that every two years five of the councilmembers and the Mayor stand for election, and five councilmembers stand for election two years later. 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, 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 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.

Deputy City Manager – Nuria Rivera-Vandermyde

Nuria Rivera-Vandermyde was appointed Deputy City Manager in October 2019 and oversees the Government that Works for All outcome. See "APPENDIX A – GENERAL INFORMATION REGARDING THE CITY – General Information" in this document. She is an attorney by profession and brings over 20 years of executive experience in both the public and private sectors to her role. Prior to joining the City, she served as City Coordinator for the City of Minneapolis, after serving previously as the Deputy City Coordinator and the Director of Regulatory Services for the City of Minneapolis. In her role in the City Coordinator's Office – the department charged with providing leadership and direction in the management of city government – Ms. Rivera-Vandermyde assisted the Mayor and City Council in defining city policy and establishing priorities, mobilized departments to implement the Mayor and Council's priorities, and worked to strengthen the management and administrative systems of the city. She helped ensure major citywide projects were aligned across the enterprise and had direct oversight responsibilities for the following departments: 311, 911, Convention Center, Communications, Emergency Management, Finance and Property Services, Human Resources, Information Technology, Intergovernmental Relations, and Neighborhood and Community Relations. Key highlights of her accomplishments during her tenure at the city include leading the city's Minimum Wage and Safe & Sick Leave ordinances, creation of the city's first division of Race and Equity, passage of the city's first Strategic and Racial Equity Action Plan, development of the city's first supplier diversity spend dashboard, overhaul of the city's performance management and innovation programs, development of the city's comprehensive tiered licensing system, code rewrite for the city's animal care ordinance, establishment of the city's first Transgender Equity Council, and the successful transition of the city's first major homeless encampment to a service-rich Navigation Center for over 175 residents. Ms. Rivera-Vandermyde has served on a number of community boards and organizations including HousingLink, a nonprofit organization dedicated to connecting low-to-moderate income families to affordable housing choices, and was named one of Bloomberg Philanthropies "Data-driven Women to Watch" in 2018. A native of Puerto Rico, Ms. Rivera-Vandermyde earned her B.A. at Amherst College and her J.D. from New York University School of Law. Prior to joining the City of Minneapolis, Ms. Rivera-Vandermyde's experience also included international consulting specializing in judicial and regulatory compliance, oversight of the correctional system in Puerto Rico as Deputy Commissioner, CEO of a non-profit healthcare corporation charged with providing healthcare services to over 14,000 inmates, and private practice experience as a corporate litigator in Boston, MA.

Interim Chief Financial Officer – Mark Dombroski

Mr. Mark Dombroski was appointed to serve as the City's Interim Chief Financial Officer on July 1, 2020, following the planned retirement of Elaine Hart, the City's former Chief Financial Officer. Mr. Dombroski currently serves as the Deputy General Manager and Chief Financial and Risk Officer with Austin Energy where he is responsible for financial management, risk management, and corporate services. Prior to that role, Mr. Dombroski served as the interim General Manager to Austin Energy and supervised the City's power utility that is responsible for providing electricity to more than 450,000 customers. Additionally, he served as the utility's Senior Vice President of Finance and Corporate Services. Before relocating to Austin, Mr. Dombroski was the Director of Finance for Seattle City Light, the 10th largest public utility in the United States. Preceding his career in public administration, Mr. Dombroski served as an Officer in the United States Marine Corps, in addition to earning his undergraduate degree from the University of Texas at Dallas, and his Master of Public Administration degree from Seattle University.

Deputy Chief Financial Officer – Greg Canally

Mr. Greg Canally is the Deputy Chief Financial Officer for the City of Austin with responsibility for the Treasury Office, Purchasing Office and Capital Contract Office, and works 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 the 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 degree in Economics from Villanova University and a Master of Science degree in Economics from

the University of Texas at Austin.

Deputy Chief Financial Officer – Ed Van Eenoo

Mr. Ed Van Eenoo currently serves as Deputy Chief Financial Officer overseeing the Budget Office and the Office of Performance Management within the Financial Services Department. Mr. Van Eenoo was appointed to the position of Deputy Chief Financial Officer in 2013 after serving four years as the Budget Officer for the City. Prior to joining the City, he spent nine years with the City of Chula Vista including time as a Fiscal and Management Analyst, Assistant Director of Budget and Analysis, and four years as the Director of Budget and Analysis. Mr. Van Eenoo received a Bachelor of Science degree in Economics from The University of Eastern Michigan and a Master of Science degree in Applied Economics from Virginia Tech University.

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, maintenance of bridges, streets and storm drains. The City owns and operates several major enterprises including electricity (Austin Energy), water and wastewater (Austin Water), airport (Austin-Bergstrom International 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 municipal employees and 6% for police officers and a percentage based on the amount of increase in the Consumer Price Index for the firefighters, but only if recommended by an independent actuary and approved by the retirement boards.

Annexation Program

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 being 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 to compel compliance with the service plan or to disannex 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 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 annexes a district, then 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. The City then 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 relating to 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 a limited purpose because 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 following table sets forth (in acres) the annual results of the City’s annexations since 2010.

<u>Calendar Year</u>	<u>Full Purpose Acres (1)</u>	<u>Limited Purpose Acres</u>
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
2019	185	166
2020	65	0

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

Recent Annexation

In 2020, the City conducted full purpose annexations of greenfield land at the request of property owners. The 65 acres annexed were proposed for development as residential and light industrial uses.

In 2019, the City annexed for limited purposes several recently acquired and vacant outparcels located in the Pilot Knob MUD development project. Additionally, at the landowner’s request, the City annexed for full purposes a 126-acre undeveloped parcel which the landowner plans to develop into a corporate campus.

In 2018, the City annexed and dissolved the Cascades MUD No. 1 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 without the need for a MUD and the City agreed to annex and dissolve the MUD. The taxable assessed value (“TAV”) at the time of annexation was \$584,827.

The largest of the 2017 annexations was the River Place MUD 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 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 TAV for these areas at the time of annexation was approximately \$25.4 million.

Future Annexation

Annexations continue to be considered at the request of property owners. No large-scale annexations are currently scheduled in the near future.

Pension Plans

The City has three contributory defined benefit retirement plans for its general municipal, fire, and police employees. These three plans include 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 "Fire Fighters Retirement Fund"). 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 Energy, Austin Water and the City's Aviation Department ("Aviation"); the contributions allocable to such employees are paid from gross revenues of the respective systems and constitute operating expenses of Austin Energy, Austin Water, and Aviation, respectively.

As of October 1, 2019, municipal employees contribute 8.0% and the City contributes 18.0% of payroll to the COAERS. Fire fighters (who are not members of the Social Security System) contribute 18.7% of payroll, and the City contributes 22.05% to the Fire Fighters Retirement Fund. Police officers contribute 13.0% and the City contributes 21.313% of payroll to the Police Retirement System. The contributions to the pension plans are designed to fund current service costs and to amortize the unfunded actuarial accrued liability. As of December 31, 2019, the amortization period of the unfunded actuarial accrued liability was 40 years for the COAERS, infinite for the Police Retirement System, and 21.9 years for the Fire Fighters Retirement Fund.

The City's net pension liability was measured as of December 31, 2019 for each of the City's three pension plans. Information on the liabilities and funding measurements of each plan is discussed below.

City of Austin Employees' Retirement System (COAERS)...The members of the COAERS include City civilian and EMS employees as well as pension system employees. The COAERS provides plan members with a monthly pension payment derived from a predetermined formula based on length of service, salary history, and payout options. There are two groups in this plan with a vesting period of five years for both plans. Employees hired prior to January 1, 2012 are eligible to retire at any age after 23 years of service, at age 55 with 20 years of service, or at 62 with 5 years of service. The annual retirement benefit is calculated by multiplying the number of years of service by the average of the three highest earning years out of the last 10 years worked; this amount is then multiplied by 3%. Employees hired on or after January 1, 2012 follow a similar structure with modified factors: retirement eligibility occurs at age 62 with 30 years of service, or at 65 with 5 years, and the multiplier is 2.5%. The plan changes creating the second group were implemented in order to address long-term structural imbalances in the plan.

As of December 31, 2019, the COAERS reported a total net pension liability of \$1.56 billion, of which \$325.2 million is allocable to Austin Energy, \$162.8 is allocable to Austin Water, and \$62.9 is allocable to Aviation. The COAERS' fiduciary net position as a percentage of the total pension liability was 65.2%. The actuarial accrued liability for the COAERS as of December 31, 2019 was \$4.49 billion and the funded ratio was 63.5%. As of December 31, 2018, the COAERS reported a net pension liability of \$1.53 billion with a plan fiduciary net position as a percentage of the total pension liability of 61.7%. The actuarial accrued liability for the COAERS was \$3.99 billion and the funded ratio was 67.6%. Based on an experience study conducted in 2019, COAERS adopted changes to certain plan assumptions that, among other contributing factors, resulted in a decrease in the funded ratio and an increase in the amortization period from 32 years in 2018 to 40 years in 2019. The most significant plan assumption change was a reduction in the investment return assumption to 7.00% from 7.50%.

The COAERS funding policy is to maintain contribution rates sufficient to cover the normal cost of the plan and to amortize any unfunded actuarial accrued liabilities over a period not to exceed 25 years. Currently, the total contribution rate is sufficient to amortize the System's unfunded liabilities in approximately 40 years, an increase from the 32-year

amortization period in the previous year. Since 2005, the City has taken certain actions intended to improve the long-term financial health of the COAERS, including increased City contributions, the establishment of a second, lesser benefit tier for new employees hired on or after January 1, 2012 and a reduction in the pension multiplier. The City intends to explore additional plan changes as discussed in more detail below.

Police Retirement System... The members of the Police Retirement System include all cadets, upon enrollment in the Austin Police Academy, commissioned law enforcement officers employed by the City's Police Department, and full-time employees of the Police Retirement System. The Police Retirement System provides retirement, death, and disability benefits to plan members and their beneficiaries. Benefits are vested after 10 years. Retirement benefits are paid in the form of a monthly life annuity and are based on the years of service times the highest 36 months of salary in the last 10 contributing years of service. A multiplier of 3.2% is applied to the years of service. Eligibility occurs with 23 years of creditable service, at age 55 with 20 years of service, or at age 62.

As of December 31, 2019, the Police Retirement System reported a net pension liability of \$1.32 billion for the 2019 plan year, which is an increase from the \$1.19 billion net pension liability reported for the prior 2018 plan year. The fiduciary net position as a percentage of the total pension liability increased to 39.44% for the 2019 plan year from 37.72% in the prior year. There were no changes to the actuarial assumptions and methodology during the most recent plan year. For plan year 2019, the Police Retirement System adopted changes to certain plan assumptions in May 2019, based on an experience study conducted in 2019, including a reduction to the investment return assumption (from 7.75% to 7.25%), a reduction of payroll growth assumption and adoption of a new mortality table. The assumption changes, among other contributing factors, resulted in a decrease in the funded ratio and an increase in the amortization period from 35 years in 2017 to infinite in 2018. Additionally, the use of a lower, blended discount rate – as required by GASB guidelines – contributed to the increase in the net pension liability. A full description of the assumptions for the Police Retirement System is available in the actuarial reports available on its website.

The actuarial accrued liability for the Police Retirement System as of December 31, 2019 was \$1.46 billion and the funded ratio was 58.4%. The actuarial accrued liability for the Police Retirement System as of December 31, 2018 was \$1.39 billion and the funded ratio was 58.1%.

Fire Fighters Retirement Fund... The members of the Fire Fighters Retirement Fund include commissioned firefighters and Texas state-certified employees of the Fire Department. Members are eligible to retire at 50 years of age with at least 10 years of service credit or with at least 25 years of service credit at any age. Retirement benefits are paid in the form of a monthly life annuity based on years of service times the highest 36 months of salary during the member's contributing years of service. The multiplier for the Fire system is 3.3%. The Fire Fighters Retirement Fund also provides early retirement options.

The Fire Fighters Retirement Fund, as of December 31, 2019, reported a net pension liability of \$126.1 million, with a plan fiduciary net position as a percentage of the total pension liability of 89.1%. The actuarial accrued liability for the Fire Fighters Retirement Fund was \$1.15 billion and the funded ratio was 86.8%. As of December 31, 2018, the Fire Fighters Retirement Fund reported a net pension liability of \$184.1 million and plan fiduciary net position as a percentage of the total pension liability of 83.2%. The actuarial accrued liability for the Fire Fighters Retirement Fund as of December 31, 2018 was \$1.08 billion and the funded ratio was 88.0%.

The Fire Fighters Retirement Fund adopted changes to certain actuarial assumptions used in the 2019 actuarial valuation based on an experience study that was conducted in early 2020. The assumption changes adopted had minimal impact on the amortization period and funded ratio. The most significant actuarial assumption changes included a decreased investment return assumption (from 7.70% to 7.50%) and decreased payroll growth (from 3.50% to 2.00%). In addition, effective January 1, 2020, a cost-of-living adjustment increase of 1.70% 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.

Future City Pension System Reforms... In response to the reported actuarial funding data for COAERS and the Police Retirement System, which indicates that both pension systems are currently significantly underfunded, the City has begun working with both pension systems to resolve the funding shortfalls. The State's Pension Review Board ("PRB") has already identified the Police Retirement System as a system at risk due to the infinite amortization period reflected in the

plan's 2018 report. If the Police Retirement System has three consecutive annual reports that reflect an amortization period of over 40 years, then the PRB will take action by requiring the system to develop and implement a funding soundness restoration plan.

The City earmarked \$11.3 million of funds in the FY 2020-21 budget that are intended to provide an initial first phase of increased City contributions to its pension plans. Such funding is contingent upon the City's ability to develop and implement future pension plan reforms, which may include changes to plan benefits, contributions and governance. Any such pension plan reforms will be undertaken in collaboration with City Council, the COAERS, and the PRS. Certain reforms and plan changes will require approval by the Texas Legislature, which convenes its biennial session in January 2021. If City pension reforms are ultimately not approved or implemented, the FY 2020-21 budget funds will revert to City fund balance.

Other Post-Employment Benefits ("OPEB")

In addition to the contributions made to the three pension systems, the City provides certain other post-employment benefits ("OPEB") to its retirees. The City's OPEB plan is a defined-benefit single-employer plan. Allocation of City funds to pay OPEB 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 OPEB for retirees or their dependents. **Payments with respect to retirees of Austin Energy, Austin Water and Aviation are paid from Gross Revenues and constitute Operating Expenses of the respective systems.**

OPEB 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 OPEB. Retirees may also enroll eligible dependents under the medical, dental, and vision plan(s) in which they participate.

Day-to-day accounting and administration of OPEB activities are 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 City does not accumulate assets in a trust that meets the criteria in paragraph 4 of GASB Statement 75. The City funds its OPEB liabilities on a pay-as-you-go basis. The estimated pay-as-you-go cost of providing medical and life benefits was \$44.1 million in fiscal year 2019 and \$43.14 million in fiscal year 2018.

The City commissions a biennial actuarial valuation of its OPEB liability. As of the most recent December 31, 2019 actuarial valuation date, the City's total OPEB liability increased to \$3.5 billion from \$2.4 billion as of the prior valuation date of December 31, 2017. The increase in the total OPEB liability was attributable to several assumption changes including primarily a reduction in the assumed discount rate (to 2.74% from 4.10%, based on the Bond Buyer US Weekly Yields General Obligation Bond Index as of the measurement date), an increase in the average mortality rate for police system retirees, increased service costs and changes to certain demographics assumptions (trend rates, enrollment for retirees and spouses).

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 \$2.17 million for claims and damages at the end of fiscal year 2019. Employee injuries are covered by the City's Workers' Compensation Fund and health claims are covered by the City's 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 letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks;
- (2) direct obligations of the State 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 or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or by explicit full faith and credit of the United States;
- (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent;
- (6) bonds issued, assumed or guaranteed by the State of Israel;
- (7) interest-bearing banking deposits that are guaranteed insured by the FDIC or the National Credit Union Share Insurance Fund ("NCUSIF") or their respective successors;
- (8) interest-bearing banking deposits other than those described by subdivision (7) if the funds invested in the banking deposits are invested through (a) a broker with a main office or branch office in this State that the City selects from a list the governing body or designated investment committee of the City adopts as required by Section 2256.025; or (b) a depository institution with a main office or branch office in this State that the City 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 City'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 City appoints as the City's custodian of the banking deposits issued for the City'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 (the "SEC") and operating under SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3);
- (9) (i) certificates of deposit or share certificates meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State 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; or (ii) certificates of deposits where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit;
- (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clauses (1) and (12) 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;
- (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 365 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 SEC that comply with the SEC Rule 2a-7;
 - (14) no-load mutual funds registered with the SEC 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, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

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 (8) 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 (86) above, clauses (12) through (14) 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; 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 June 30, 2020, was \$234,605,445.

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). The City’s investment policy currently limits the commercial paper that may be purchased to a term of 270 days or less.

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) adopt by written instrument a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution

- (3) 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,
- (4) 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 investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement attesting to these requirements;
- (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy;
- (6) provide specific investment training for the Chief Financial Officer of the City, Treasurer and Investment Officers;
- (7) restrict reverse repurchase agreements to not more than ninety (90) days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement;
- (8) restrict the investment in no-load mutual funds in the aggregate to no more than fifteen percent (15%) of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service;
- (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and
- (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

An investment officer of a local government is required to invest bond proceeds or pledged revenue only to the extent permitted by the PFIA and in accordance with (i) statutory provisions governing the debt issuance (or lease, installment sale, or other agreement) and (ii) the local government's investment policy regarding the debt issuance or the agreement.

Current Investments

As of June 30, 2020, the City's investable funds were invested in the following categories.

<u>Type of Investment</u>	<u>Percentage</u>
U. S. Treasuries	18%
U. S. Agencies	18%
Money Market Funds	5%
Local Government Investment Pools	59%

The dollar weighted average maturity for the combined City investment portfolios is 140 days. The City prices the portfolios weekly utilizing a market pricing service.

TAX MATTERS – SERIES 2020A BONDS

Tax Exemption

The delivery of the Series 2020A Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Series 2020A Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners of the Series 2020A Bonds. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. See "APPENDIX E – Form of Bond Counsel's Opinions" attached to this document.

In rendering the foregoing opinion, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Series 2020A Bonds pertaining to the use, expenditure, and investment of the

proceeds of the Series 2020A Bonds and will assume continuing compliance by the City with the provisions of the Nineteenth Supplement after the issuance of the Series 2020A Bonds. The Nineteenth Supplement contains covenants by the City with respect to, among other matters, the use of the proceeds of the Series 2020A Bonds and the facilities financed or refinanced with the Series 2020A Bonds by persons other than state or local governmental units, the manner in which the proceeds of the Series 2020A Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage “profits” from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Series 2020A Bonds to be includable in the gross income of the owners of the Series 2020A Bonds from the date of the issuance of the Series 2020A Bonds.

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (“IRS”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Series 2020A Bonds is commenced, under current procedures the IRS is likely to treat the City as the “taxpayer,” and the owners of the Series 2020A Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Series 2020A Bonds, the City may have different or conflicting interests from the owners of the Series 2020A Bonds. Public awareness of any future audit of the Series 2020A Bonds could adversely affect the value and liquidity of the Series 2020A Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Series 2020A Bonds. Prospective purchasers of the Series 2020A Bonds should be aware that the ownership of tax-exempt obligations such as the Series 2020A Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income credit, owners of an interest in a financial asset securitization investment trust (“FASIT”), and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Series 2020A Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Series 2020A Bonds. Prospective purchasers of the Series 2020A Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Tax Accounting Treatment of Discount and Premium Bonds on the Series 2020A Bonds

The initial public offering price of certain Series 2020A Bonds (the “Discount Bonds”) may be less than the amount payable on such Series 2020A Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Series 2020A Bonds described above under “TAX MATTERS – SERIES 2019 BONDS – Tax Exemption.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income

tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner before maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Series 2020A Bonds (the “Premium Bonds”) may be greater than the amount payable on such Series 2020A Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

TAX MATTERS – TAXABLE SERIES 2020B BONDS

The following is a general summary of certain United States federal income tax consequences of the purchase and ownership of the Taxable Series 2020B 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 Taxable Series 2020B 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 Taxable Series 2020B Bonds). The summary is therefore limited to certain issues relating to initial investors who will hold the Taxable Series 2020B Bonds as “capital assets” within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the “Code”), and acquire such Taxable Series 2020B 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.

As used herein, “U.S. Holder” means a beneficial owner of a Taxable Series 2020B Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a beneficial owner of a Taxable Series 2020B Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Taxable Series 2020B Bonds, the tax treatment of such partnership or a partner in such partnership

generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Taxable Series 2020B Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Taxable Series 2020B Bonds (including their status as U.S. Holders or Non-U.S. Holders).

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 TAXABLE SERIES 2020B BONDS.

U.S. Holders

Payments of Stated Interest on the Taxable Series 2020B Bonds

The stated interest paid on the Taxable Series 2020B Bonds will be included in the gross income, as defined in section 61 of the Code, of U.S. Holders and be subject to U.S. federal income taxation when received or accrued, depending on the tax accounting method applicable to the U.S. Holders.

Original Issue Discount

If a substantial amount of the Taxable Series 2020B 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 Taxable Series 2020B 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 Taxable Series 2020B Bonds at maturity over its Issue Price, and the amount of the original issue discount on the Taxable Series 2020B Bonds will be amortized over the life of the Taxable Series 2020B Bonds using the “constant yield method” provided in the Treasury Regulations. As the original issue discount accrues under the constant yield method, U.S. Holders, 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 U.S. Holders that exceeds actual cash distributions to the U.S. Holders in a taxable year.

The amount of the original issue discount that accrues on the Taxable Series 2020B Bonds each taxable year will be reported annually to the IRS and to the U.S. Holders. The portion of the original issue discount included in each beneficial owner’s gross income while the U.S. Holder holds the Taxable Series 2020B Bonds will increase the adjusted tax basis of the Taxable Series 2020B Bonds in the hands of such U.S. Holder.

Premium

If a U.S. Holder purchases a Taxable Series 2020B Bond for an amount that is greater than its stated redemption price at maturity, such U.S. Holder will be considered to have purchased the Taxable Series 2020B Bond with “amortizable bond premium” equal in amount to such excess. A U.S. Holder may elect to amortize such premium using a constant yield method over the remaining term of the Taxable Series 2020B Bond and may offset interest otherwise required to be included in respect of the Taxable Series 2020B Bond during any taxable year by the amortized amount of such excess for the taxable year. Bond premium on a Taxable Series 2020B Bond held by a U.S. Holder 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 Taxable Series 2020B Bond. However, if the Taxable Series 2020B Bond may be optionally redeemed after the U.S. Holder 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 Taxable Series 2020B Bond. Any election to amortize bond premium applies to all taxable debt instruments held by the U.S. Holder 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). U.S. Holders of the Taxable Series 2020B Bonds should consult with their tax advisor concerning this additional tax, as it may apply to interest earned on the Taxable Series 2020B Bonds as well as gain on the sale of a Taxable Series 2020B Bond.

Disposition of Taxable Series 2020B Bonds and Market Discount

A U.S. Holder will generally recognize gain or loss on the redemption, sale or exchange of a Taxable Series 2020B Bond equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the U.S. Holder's adjusted tax basis in the Taxable Series 2020B Bonds. Generally, the U.S. Holder's adjusted tax basis in the Taxable Series 2020B Bonds will be the U.S. Holder's initial cost, increased by the original issue discount previously included in the U.S. Holder'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 U.S. Holder's holding period for the Taxable Series 2020B Bonds.

Under current law, a purchaser of a Taxable Series 2020B Bond who did not purchase the Taxable Series 2020B Bonds in the initial public offering (a "subsequent purchaser") generally will be required, on the disposition of the Taxable Series 2020B 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 Taxable Series 2020B Bonds by a subsequent purchaser is less than the sum of Issue Price and the amount of original issue discount previously accrued on the Taxable Series 2020B Bonds. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire Taxable Series 2020B 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 Taxable Series 2020B Bonds could have a material effect on the market value of the Taxable Series 2020B Bonds.

Legal Defeasance

If the City elects to defease the Taxable Series 2020B Bonds by depositing in escrow sufficient cash and/or obligations to pay when due outstanding Taxable Series 2020B Bonds (a "legal defeasance"), under current tax law, a U.S. Holder may be deemed to have sold or exchanged its Taxable Series 2020B Bonds. In the event of such a legal defeasance, a U.S. Holder generally would recognize gain or loss in the manner described above. Ownership of the Taxable Series 2020B 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 U.S. Holder should consult its own tax advisor regarding the consequences to such beneficial owner of a legal defeasance of the Taxable Series 2020B Bonds.

Backup Withholding

Under section 3406 of the Code, a U.S. Holder may, under certain circumstances, be subject to "backup withholding" on payments of current or accrued interest on the Taxable Series 2020B Bonds. This withholding applies if such U.S. Holder: (i) fails to furnish to payor such U.S. Holder'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 U.S. Holder is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain U.S. Holders. U.S. Holders should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

Reporting of Interest Payments

Subject to certain exceptions, interest payments made to beneficial owners with respect to the Taxable Series 2020B 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 U.S. Holder for U.S. federal income tax purposes.

Non-U.S. Holders

Effectively Connected Income

If, under the Code, interest on the Taxable Series 2020B Bonds is effectively connected with the conduct of a trade or business within the United States by a Non-U.S. Holder, such interest will be subject to U.S. federal income tax in a similar manner as if the Taxable Series 2020B Bonds were held by a U.S. Holder, as described above, and in the case of Non-U.S. Holders that are corporations, interest on the Taxable Series 2020B Bonds also may be included in the computation of earnings and profits that are subject to a U.S. branch profits tax at a rate of up to 30%, unless an applicable tax treaty provides otherwise. Such Non-U.S. Holder will not be subject to withholding taxes, however, if it provides a properly executed Form W-8ECI to the Corporation or its paying agent, if any.

Withholding on Payments to Non-U.S. Holders

Under sections 1441 and 1442 of the Code, Non-U.S. Holders 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 Non-U.S. Holders 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 Non-U.S. Holder provides a statement to the payor certifying, under penalties of perjury, that such Non-U.S. Holder is not a United States person and providing the name and address of such Non-U.S. Holder; (ii) such interest is treated as not effectively connected with the Non-U.S. Holder'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 Taxable Series 2020B Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such Non-U.S. Holder is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such Non-U.S. Holder is not a bank receiving interest on the Taxable Series 2020B Bonds pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the Taxable Series 2020B 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 Non-U.S. Holders or intermediaries who have furnished Form W-8BEN, Form W-8EXP or Form W-8IMY, as applicable, provided the payor does not have actual knowledge that such person is a United States person.

Disposition of the Taxable Series 2020B Bonds

Generally gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the City or a deemed retirement due to defeasance of the Taxable Series 2020B Bond) or other disposition of a Taxable Series 2020B Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the City) or other disposition and certain other conditions are met.

Foreign Account Tax Compliance Act – U.S. Holders and Non-U.S. Holders

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 Taxable Series 2020B Bonds and sales proceeds of Taxable Series 2020B Bonds held by or through a foreign entity. Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

CONTINUING DISCLOSURE OF INFORMATION

In the Nineteenth Supplement, the Twentieth Supplement and the applicable 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 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 applicable 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 2020 and audited financial statements within 12 months of each fiscal year beginning with the fiscal year ending in 2020. 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 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; (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 Nineteenth Supplement, the Twentieth Supplement and the related Pricing Certificate, as applicable. None of the Bonds, the Nineteenth Supplement, the Twentieth Supplement nor the Pricing Certificate make any provision for debt service reserves or liquidity enhancement.

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); provided that “financial obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule. 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. No default by the City in observing or performing its obligations under its continuing disclosure undertaking for the Bonds shall constitute a breach of or default under the Nineteenth Supplement, the Twentieth Supplement or the applicable Pricing Certificate for purposes of any other provision of the Nineteenth Supplement, the Twentieth Supplement or the applicable Pricing Certificate.

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 the Austin-Bergstrom Landhost Enterprise ("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.

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 or marketability 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 Nineteenth Supplement and the Twentieth Supplement and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Series 2020A Bonds will be excludable from gross income for federal income tax purposes, subject to the matters described under “TAX MATTERS - SERIES 2020A BONDS”. The form of Bond Counsel’s opinions 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 – SERIES 2020A BONDS”, “TAX MATTERS – TAXABLE SERIES 2020B BONDS,” “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, the Nineteenth Supplement and the Twentieth 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 Series 2020A Bonds from the City at an aggregate purchase price of \$_____ (the \$_____ par amount of the Series 2020A Bonds, less an underwriting discount of \$_____, plus original issue premium of \$_____). The Underwriters will be obligated to purchase all of the Series 2020A Bonds if any Series 2020A Bonds are purchased. The Series 2020A 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 agreed, subject to certain customary conditions to delivery, to purchase the Taxable Series 2020B Bonds from the City at an aggregate purchase price of \$_____ (the \$_____ par amount of the Taxable Series 2020B Bonds, less an underwriting discount of \$_____). The Underwriters will be obligated to purchase all of the Taxable Series 2020B Bonds if any Taxable Series 2020B Bonds are purchased. The Taxable Series 2020B 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.

Verification of Arithmetical and Mathematical Calculations

_____ (the "Verification Agent"), a firm of independent certified public accountants, upon delivery of the Series 2020A Bonds, will deliver to the City its report indicating that it has examined the mathematical accuracy of computations prepared by PFM relating to the sufficiency of the payments on the Escrowed Securities and cash to be deposited in the Escrow Fund.

The report of the Verification Agent will include the statement that the scope of its engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to it and that it has no obligation to update its report because of events occurring, or data or information coming to their attention, subsequent to the date of their report. The report of the Verification Agent will be relied upon by Bond Counsel in rendering its opinions with respect to the exclusion of interest on the Series 2020A Bonds for federal income tax purposes and with respect to the defeasance of the Refunded Bonds.

Independent Auditors

The financial data listed as fiscal year 2020 has been derived from the internal records of the City. The City's independent auditors have not reviewed, examined, or performed any procedures with respect to the fiscal year 2020 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 fiscal year 2020 financial information. The fiscal year 2020 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 applicable Pricing Certificate authorized by the Nineteenth Supplement and the Twentieth Supplement, as applicable, 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.

ATTEST:

City Clerk
City of Austin, Texas

Mayor
City of Austin, Texas

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SCHEDULE I

SCHEDULE OF REFUNDED BONDS

Electric Utility System Revenue Refunding Bonds, Series 2010A

Maturity	Interest Rate	Par Amount Refunded	Call Date	Call Price	CUSIP⁽²⁾
11/15/2021	4.000%	720,000	12/17/2020	100% of par	052414LM9
11/15/2022	5.000%	6,610,000	12/17/2020	100% of par	052414LN7
11/15/2023	5.000%	6,935,000	12/17/2020	100% of par	052414LP2
11/15/2024	5.000%	7,370,000	12/17/2020	100% of par	052414LQ0
11/15/2025	4.000%	2,210,000	12/17/2020	100% of par	052414LR8
11/15/2025	5.000%	5,585,000	12/17/2020	100% of par	052414LS6
11/15/2026	5.000%	8,200,000	12/17/2020	100% of par	052414LT4
11/15/2027	5.000%	8,735,000	12/17/2020	100% of par	052414LU1
11/15/2028	5.000%	9,160,000	12/17/2020	100% of par	052414LV9
11/15/2029	5.000%	9,700,000	12/17/2020	100% of par	052414LW7
11/15/2030	4.375%	1,750,000	12/17/2020	100% of par	052414LX5
11/15/2030	5.000%	8,480,000	12/17/2020	100% of par	052414LY3
11/15/2040 ⁽³⁾	5.000%	14,635,000	12/17/2020	100% of par	052414LZ0
		<u>\$90,090,000</u>			

(1) Preliminary and subject to change. The refunding of any of the Refunded Bonds is contingent upon the delivery of the Series 2020A Bonds.

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

(3) Represents a term maturity.

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information is presented for informational purposes only.

GENERAL INFORMATION

The City of Austin, 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 elected officials serve four-year staggered terms subject to a maximum of two consecutive terms. The City Manager, appointed by the City Council, is responsible to the City Council for the management of all City employees, except City Council appointees, and for the administration of all City affairs.

The City, which is the capital of Texas, is the fourth most populous city in the state (behind Houston, San Antonio, and Dallas) and the eleventh largest in the nation with a September 2019 population of 980,886 according to the City's estimates. Over the past ten years, Austin's population increased by 26% or 202,326 residents. The City's demographer predicts that Austin will surpass the one million mark by mid-year 2020. Recent data released by the U.S. Census Bureau identified the Austin-Round Rock MSA as the fastest growing in the country. Geographically, Austin consists of approximately 327 square miles. The current estimated median household income for Austin residents is \$65,950 according to Nielsen Site Reports and Austin's per capita personal income is estimated to be \$63,400, a 7.9% increase over 2018.

The City offers several broad-ranged educational opportunities for those individuals with a desire to learn. Austin is a highly educated city, with 50% of adults 25 years or older holding a bachelor's or advanced degree, compared to 29% for Texas and 32% 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 14th among public universities in the 2019 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 – Imagine Austin, a comprehensive plan for the City's future approved by City Council in June 2012, sets a context to guide decision-makers for the next 30 years. The plan adheres to six 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

Strategic Plan – In the spring of 2018, the City Council adopted a strategic plan, Strategic Direction 2023, to provide a shared vision for the City for the next three to five years. Strategic Direction 2023 is inspired by Imagine Austin, which laid out a 30-year vision for the City. Six priority strategic outcomes were identified to help develop and guide City policies, initiatives, and budget development. The six outcomes are:

- Mobility;
- Economic Opportunity and Affordability;
- Safety;
- Health and Environment;
- Culture and Lifelong Learning; and
- Government that Works for All.

As a result of the Strategic Direction 2023 effort, the annual budget underwent significant modification to present departmental expenditure plans and measures affecting these six outcomes.

Mobility – In November 2016, Austinites approved a \$720 million general obligation bond proposition to fund transportation and mobility improvements. Approximately two-thirds of the funding will be devoted to corridor improvement projects with the remainder earmarked for regional and local improvements including bicycle and pedestrian facilities and safety. In August 2019, the Guadalupe and Lavaca corridor transit improvements were completed, the first 2016 Mobility Bond Corridor Construction project to complete construction. The capital spending plan for 2020 includes \$312.3 million for mobility, the bulk of which is related to Aviation property improvements including a new parking structure, consolidated maintenance facility and information technology facility. Other capital mobility projects include continued corridor improvements, sidewalk repairs and increasing miles of new and improved bike lanes. Operational highlights for the fiscal year 2020 budget include enhanced staffing for design, engineering and project management to maximize existing transportation infrastructure for efficiency and effectiveness, continuation of Vision Zero and additional right-of-way staff to help reduce backlogs to ensure safety on roadways and sidewalks alike.

Economic Opportunity and Affordability – Affordability remains a prime consideration as the City makes decisions that impact citizens who live in and operate businesses in the city. For 2020, there were no base rate increases for four of the City's six rate-assessing enterprise departments. The overall anticipated annual dollar change for the two rate increases is less than \$25 per year, and one of the rate increases only affects residential customers using the large 64-gallon trash cart. Ending homelessness continues to be the highest priority of the City Council. For fiscal year 2020, the budget includes \$64.4 million to address this crisis, an increase of \$18.7 million over the prior year. Funding is provided for a full range of services including housing displacement prevention, crisis mitigation while experiencing homelessness, re-empowerment by providing safe and sustainable housing solutions, and related support. In addition, \$42 million in capital spending on affordable housing is planned for 2020, with major project expenditures related to mixed-income, multi-family rental units and construction of new units for permanent supportive housing. In the arena of economic opportunity, the Economic Development Department budgeted \$2.6 million for redevelopment initiatives on City-owned properties that will result in additional taxable property value as well as affordable rental units. The department also collaborates with several area partners on the Master Community Workforce Plan with a goal of training 10,000 residents in workforce development programs in order to move them out of poverty and into family-sustaining careers.

Safety – In addition to the traditional public safety departments, other major departments in the safety outcome include Austin Energy, Austin Water and Watershed Protection. The fiscal year 2020 budget includes funding for 30 new police officers as called for in the department's staffing plan. In addition, 32 fire fighter and 12 new paramedic positions are included to staff the new Moore's Crossing Fire/EMS station. The Austin area has been ranked as the fifth highest for risk of wildfire in the western U.S. In response, the Austin Fire Department's Wildfire Division expects to conduct 44 "Firewise" community presentations every year and treat over 200 acres annually for wildfire prevention. Almost half of the planned capital spending for the Safety outcome is generated by Austin Water for water and wastewater upgrades and Watershed Protection for drainage, erosion and flood control, and water quality protection. In support of this strategic outcome, over \$33 million is included for flood risk reduction buyouts in the Onion Creek area. For fiscal year 2020, the Austin Fire Department's planned capital spending is \$46 million which is focused on the planning and construction of two fire and EMS stations, one in Travis County (southwest of downtown) and another in the Del Valle/Moore's Crossing area (southeast of downtown).

Health and Environment – The Parks and Recreation Department's fiscal year 2020 operating budget accounts for the largest portion of the Health and Environment outcome at \$85.6 million, with \$30 million of spending planned for capital

improvement projects. Funding for fiscal year 2020 includes completion of the Alliance Children's Garden in Town Lake Metro Park and Waterloo Park in the Waller Creek District, which includes a performing arts amphitheater. Completion of the park will move the city closer to its goal of maintaining 24 acres of parkland for every 1,000 citizens. Part of the City's goal toward being environmentally resilient and responsible is achieving carbon neutrality. The Office of Sustainability is one of many city departments that works to consistently help reduce the City's carbon footprint. Also notable, Austin Energy's Climate Protection Plan goal of reaching 800 megawatts (MW) of peak demand savings and demand response by 2020 are expected to be achieved as a result of a mix of energy efficiency products and services. On the health side of this strategic priority, there are a number of initiatives spanning departments and disciplines. A total of \$1.2 million and seven positions were added to the Emergency Medical Services department for the fiscal year 2020 budget to increase support for first responder mental health service calls. An initial investment of \$2.5 million in the Dove Springs Neighborhood Health Services Center in fiscal year 2020 will fund preliminary and design phases of this long-awaited neighborhood facility that will provide preventative health services and other offerings to residents of the area.

Culture and Lifelong Learning - A majority of the fiscal year 2020 budget for this strategic outcome lies with the Austin Public Library for continued support of the Central Library as well as library branches across the City. In the Economic Development Department \$750 thousand is available to assist nonprofit arts and music groups with maintaining work and performance space as these entities face displacement or lease increases in the current real estate market. In addition, in August Council voted to dedicate \$3 million of Hotel Occupancy Tax revenue to live music initiatives. With respect to capital spending, the 2018 voter-approved public improvement bonds included funding for improvements to the Emma S. Barrientos Mexican American Cultural Center, which will begin preliminary planning in fiscal year 2020. Funding is also included to begin renovation of the Faulk Central Library to meet minimal archival storage standards for the Austin History Center, which will begin using the space upon completion.

Government that Works for All - New operating initiatives for this strategic outcome include funding a study to develop fiscal sustainability plans for the Retirement Systems for Police Officers and civilian employees, and the creation of an Office of Cybersecurity within Communications and Technology Management to position the city to meet growing cybersecurity risk. On the CIP side of this strategic outcome, \$253.6 million has been allocated in Austin Energy's budget to include infrastructure maintenance and upgrades, a new headquarters at the Mueller development, a new downtown substation, and another district cooling plant. As City operations expand to serve a growing population, the city faces similar constraints in identifying office space for its staff. The new Planning and Development Center to be completed in fiscal year 2020 will consolidate several City departments into a one-stop shop for development-related functions.

In November 2018, Austin voters approved \$925 million in public improvement bonds which support five of the six strategic outcomes as follows:

- Economic Opportunity and Affordability - \$250 million for affordable housing;
- Mobility - \$160 million for transportation infrastructure;
- Safety - \$38 million for public safety projects;
- Health and Environment - \$184 million for flood mitigation, open space, and water quality protection, \$149 million for parks and recreation improvements, and \$16 million for health and human services facilities; and
- Culture and Lifelong Learning - \$128 million for libraries, museums, and cultural art facilities.

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 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. An important element of the policies dictates 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. The City maintains the goal of a structurally balanced budget to achieve long-term financial stability for the City.

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. 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. Maintaining sound financial and economic development policies within the City organization allows for a high level of services to the community. Because of consistent adherence to our financial policies and the area's healthy economy, the City's bond ratings for General Obligation bonds continue to be "AAA" for all three bond rating agencies, Moody's (Aaa), Standard & Poor's and Fitch Ratings, Inc. In one of the largest transactions in its history, the City purchased the Nacogdoches Generating Facility for \$460 million. As the plant's only customer, the City considered the purchase as more of a refinancing, ultimately saving electric customers about \$275 million.

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 Capital Improvements Program 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 2019 CAFR, the City continues to meet its responsibility for sound financial management.

Budgetary Information

The fiscal year 2020 Budget was developed in a manner that reflected the City's commitment to openness, transparency, and public engagement. The budget development process integrates a collaborative approach to the City's finances with business planning, performance measurement, and resident input. By organizing around strategic outcomes identified by City Council, the document focuses more on the bigger picture and less on the details 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 City Councilmembers. The result is a budget built around the ideals of livability, affordability, equity, and inclusivity that dictate the operations of Austin's city government.

The structurally balanced fiscal year 2020 Approved Budget totals \$4.2 billion and includes \$1.1 billion for the General Fund, providing for the continuation of high-quality public safety, health, library, parks, water, energy, infrastructure,

development, and other services for the citizens of Austin and visitors. Budgeted revenue comes from utility charges (47%), various taxes (including property) (27%), charges for services and goods (14%), and other revenue such as interest, fees, and transfers (12%). The fiscal year 2020 budget was approved with a \$0.0028 increase to the property tax rate, from 44.03 to 44.31 cents per \$100 of taxable value. This 2020 budget is the last under the 8% tax cap, which was reduced to 3.5% in the 2019 Texas legislative session.

The City's largest enterprise department, Austin Energy, is the seventh largest city-owned electric utility in the U.S. in terms of customers served. Austin Energy serves more than 485,000 customers within a service territory of approximately 437 square miles in the Greater Austin area. Its approved fiscal year 2020 budget is \$1.4 billion in annual revenues, including transfers. The utility has a diverse generation mix that includes nuclear, coal, natural gas, and an increasing portfolio of renewable energy sources such as solar and wind.

The City's second largest enterprise activity is Austin Water, which provides water and wastewater services to more than one million retail and wholesale customers spanning more than 540 square miles within Austin and surrounding areas. The fiscal year 2020 budget projects revenues and transfers in of \$625 million. There are no planned changes to water and wastewater rates for fiscal year 2020.

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ADDITIONAL INFORMATION

Ten Largest Employers (As of September 30, 2019)

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
State Government	Government	38,589
The University of Texas at Austin	Education	27,426
City of Austin	Government	14,471
HEB Grocery	Grocery/Retail	13,901
Federal Government	Government	13,400
Dell Computer Corporation	Computers	13,000
Austin Independent School District	Education	11,098
St. David's Healthcare Partnership	Healthcare	10,665
Ascension Seton	Healthcare	10,513
Samsung Austin Semiconductor	Manufacturer	8,935

Source: 2019 Comprehensive Annual Financial Report

Demographic and Economic Statistics - Last Ten Years

<u>Year</u>	<u>City of Austin Population (1)</u>	<u>Area of Incorporation (Square Miles) (1)</u>	<u>Population MSA (2)</u>	<u>Income (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>
2010	778,560	306	1,727,743	\$70,355,303	\$48,460	\$40,726	7.0%
2011	805,662	308	1,780,605	77,881,693	46,689	43,739	6.6%
2012	821,012	319	1,834,926	85,635,903	46,818	46,670	5.7%
2013	841,649	321	1,883,901	88,950,627	46,436	47,216	5.1%
2014	878,002	321	1,943,409	97,181,958	49,227	50,006	4.2%
2015	899,919	323	2,002,591	103,244,100	52,519	51,555	3.4%
2016	925,491	326	2,062,211	107,664,294	56,163	52,208	3.2%
2017	937,065	325	2,115,230	117,458,116	56,849	55,530	2.9%
2018	963,797	326	2,168,316	127,439,164	63,191	58,773	2.9%
2019	980,886	327	2,187,161(6)	138,650,094(5)	65,950(6)	63,400 (5)	2.6%
2010-2019 Change	25.99%	6.74%	26.61%	97.07%	36.09%	55.67%	

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 2019 which will not be available until later in 2020.
- (3) Source: Claritas, a Nielson Company.
- (4) Source: Bureau of Labor Statistics; United States Department of Labor as of September 30, 2019.
- (5) Data not available for 2019. Figures are estimated.
- (6) Source: Nielsen SiteReports.

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City Sales Tax Collections (In Millions) (1)

<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>
1-1-15	\$15.260	1-1-16	\$16.138	1-1-17	\$17.697	1-1-18	\$18.369	1-1-19	\$18.697	1-1-20	\$20.198
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	2-1-20	26.824
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	3-1-20	20.704
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	4-1-20	19.065
5-1-15	19.404	5-1-16	19.258	5-1-17	18.790	5-1-18	21.249	5-1-19	21.771	5-1-20	20.801
6-1-15	15.958	6-1-16	17.070	6-1-17	16.838	6-1-18	18.371	6-1-19	20.966	6-1-20	16.875
7-1-15	16.180	7-1-16	16.836	7-1-17	18.059	7-1-18	19.552	7-1-19	20.275	7-1-20	18.096
8-1-15	19.483	8-1-16	21.467	8-1-17	19.930	8-1-18	20.338	8-1-19	21.556		
9-1-15	16.429	9-1-16	16.352	9-1-17	17.401	9-1-18	19.701	9-1-19	21.797		
10-1-15	16.514	10-1-16	17.106	10-1-17	17.828	10-1-18	19.502	10-1-19	20.080		
11-1-15	18.952	11-1-16	19.059	11-1-17	19.382	11-1-18	20.661	11-1-19	22.017		
12-1-15	16.269	12-1-16	17.033	12-1-17	17.567	12-1-18	20.482	12-1-19	21.463		
<u>\$204.56</u>		<u>\$213.40</u>		<u>\$219.33</u>		<u>\$235.23</u>		<u>\$249.79</u>		<u>\$142.56</u>	

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

Source: City of Austin, Budget Office

Utility Connections

Utility Connections			
<u>Year</u>	<u>Electric (1)</u>	<u>Water (1)</u>	<u>Gas (1)</u>
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
2019	496,258	239,291	238,753

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

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

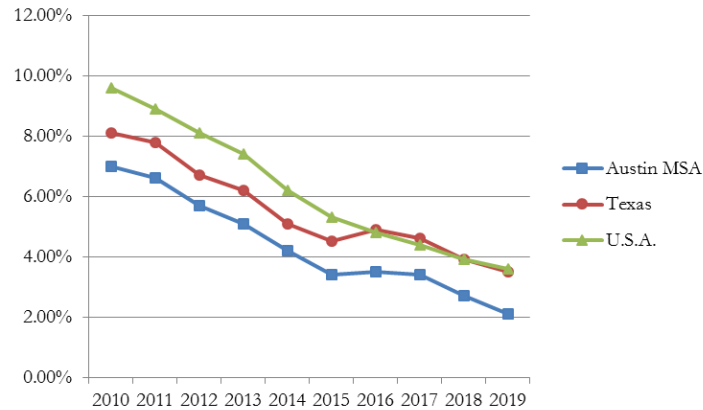
Employment by Industry in the Austin Metropolitan Area (1)

	2015		2016		2017		2018		2019	
		% of total		% of total		% of total		% of total		
Mining, Logging, and Construction	55,300	5.74%	58,800	5.87%	62,100	6.00%	64,500	6.00%	69,000	6.18%
Manufacturing	55,600	5.77%	55,800	5.57%	57,400	5.55%	60,700	5.64%	62,500	5.60%
Trade, Transportation, and Utilities	163,100	16.93%	170,100	16.99%	174,800	16.89%	179,700	16.71%	184,800	16.56%
Information	27,700	2.88%	29,000	2.90%	30,800	2.98%	34,700	3.23%	38,400	3.44%
Financial Activities	54,100	5.62%	57,000	5.69%	60,200	5.82%	63,100	5.87%	66,200	5.93%
Professional and Business Services	162,600	16.88%	171,000	17.08%	177,600	17.16%	187,700	17.45%	198,700	17.80%
Education and Health Services	111,600	11.58%	115,600	11.55%	120,600	11.65%	125,300	11.65%	128,900	11.55%
Leisure and Hospitality	115,500	11.99%	122,000	12.19%	125,700	12.15%	130,700	12.15%	135,600	12.15%
Other Services	42,700	4.43%	43,800	4.37%	45,000	4.35%	46,300	4.30%	47,500	4.26%
Government	<u>175,200</u>	18.19%	<u>178,100</u>	17.79%	<u>180,700</u>	17.46%	<u>183,000</u>	17.01%	<u>184,600</u>	16.54%
Total nonfarm employment	<u>963,400</u>	<u>100%</u>	<u>1,001,200</u>	<u>100%</u>	<u>1,034,900</u>	<u>100%</u>	<u>1,075,700</u>	<u>100%</u>	<u>1,116,200</u>	

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

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

Average Annual Unemployment Rate



Year	Austin MSA	Texas	U.S.A.
2011	6.6%	7.8%	8.9%
2012	5.7%	6.7%	8.1%
2013	5.2%	6.3%	7.4%
2014	4.2%	5.1%	6.2%
2015	3.4%	4.4%	5.3%
2016	3.1%	4.6%	4.9%
2017	3.1%	4.3%	4.4%
2018	2.9%	3.8%	3.9%
2019	2.7%	3.5%	3.7%
2020 ⁽¹⁾	7.5%	8.9%	11.1%

Source: U. S. Bureau of Labor Statistics, accessed July 29, 2020. Unemployment rates are non-seasonally adjusted. Information is updated periodically; the BLS revised certain prior year unemployment data for the Austin MSA on April 17, 2020 and for the State of Texas on March 4, 2020.

(1) Reflects the June 2020 monthly unemployment rate.

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Housing Units

Rental rates in the City averaged \$1.50 per square foot, with an occupancy rate of 91.5% as of June 30, 2020, per Capitol Market Research.

Residential Sales Data

<u>Year</u>	<u>Number of Sales</u>	<u>Total Volume (\$)</u>	<u>Average Price (\$)</u>
2011	21,034	5,281,953,406	251,100
2012	25,198	6,706,091,541	266,100
2013	29,970	8,601,985,078	287,000
2014	30,150	9,269,541,100	307,400
2015	31,560	10,462,239,995	331,500
2016	32,955	11,450,827,153	347,500
2017	33,947	12,447,529,430	366,675
2018	34,673	13,214,215,997	381,110
2019	17,988	7,065,024,558	392,763
2020 (1)	13,074	5,229,243,070	398,168

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

(1) As of June 2020.

City-Wide Austin Office Occupancy Rate

<u>Year</u>	<u>Occupancy Rate</u>
2011	82.7%
2012	86.8%
2013	89.2%
2014	90.9%
2015	90.9%
2016	91.8%
2017	89.5%
2018	89.4%
2019	89.4%
2020(1)	90.0%

(1) As of April 2020.

Source: Cushman & Wakefield.

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APPENDIX B
AUDITED FINANCIAL STATEMENTS

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APPENDIX C

SUMMARY OF CERTAIN MASTER ORDINANCE PROVISIONS

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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 current issuance of the Electric Utility System Revenue Refunding Bonds, Series 2020A, the Electric Utility System Revenue Refunding and Improvement Bonds, Taxable Series 2020B, nor the Parity Electric Utility System Obligations.

Additionally, references to Prior Lien Bonds (referred to as Prior First Lien Obligations in the Official Statement) in this Appendix D are not applicable due to the fact that no previously issued Prior Lien Bonds are outstanding as of May 15, 2019.

Definitions. The following definitions are provided:

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 [an ordinance related to Prior Subordinate Lien Obligations], 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 "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998," dated October 1, 1998.

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

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

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

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

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

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

shall constitute a lien on the Net Revenues of the Electric Light and Power System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

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

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

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

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

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

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

THIRD: To the payment of the amounts required to be deposited in the Reserve

Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

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

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

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

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

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

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

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

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

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

The total amount required to be accumulated and maintained in the Reserve Fund is \$106,790,235.15 (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 maintain 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.

Investment of Certain Funds. (a) Money in any Fund required to be maintained pursuant to this Ordinance may, at the option of the City, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested, including investments held in book-entry form, in direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year. All interest and income derived from deposits and investments in the Interest and Redemption Fund immediately shall be credited to, and any losses debited to, the Interest and Redemption Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 14 hereof, be credited to and deposited in the Interest and Redemption Fund.

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

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

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

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

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

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

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

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

(c) The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Prior Lien Bonds or Subordinate Lien Bonds and his recommendations for any changes or improvements in the operations, records and accounts of the respective Systems.

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

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

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

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

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

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

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

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

Remedy in Event of Default. In addition to all rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Interest and Redemption Fund or the Reserve Fund as required by the ordinances authorizing the issuance of the Prior Lien Bonds or the Subordinate Lien Bonds, as the case may be, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in such ordinances, the Holders of any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed

in the ordinance authorizing their issuance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

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

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

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APPENDIX E

FORM OF BOND COUNSEL'S OPINIONS

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APPENDIX F

DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

The information set forth in this Appendix F is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream Banking (DTC, Euroclear and Clearstream Banking together, the “Clearing Systems”) currently in effect. The information set forth in this Appendix F concerning the Clearing Systems has been obtained from sources that the City believes to be reliable, but none of the City, the Paying Agent/Registrar or the Underwriters take any responsibility for the accuracy, completeness or adequacy of the information in this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. The City will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

NEITHER THE CITY NOR THE PAYING AGENT/REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

DTC Book-Entry Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for the Bonds in their aggregate principal amount and will be deposited with DTC.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect 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.

Redemption notices shall be sent to DTC. Subject to the provisions described in the forepart under the heading "DESCRIPTION OF THE BONDS - Redemption of the Bonds," if less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, Redemption Price and Make-Whole Redemption Price, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers registered in "street name," and will be the responsibility of such Participant and not of DTC, the Underwriters, 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 principal, Redemption Price, Make-Whole Redemption Price and interest 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 securities 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 securities depository is not obtained, such Bond certificates are required to be printed and delivered. The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Bond certificates will be printed and delivered to DTC.

Each person for whom a Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments.

NONE OF THE CITY, THE UNDERWRITERS OR THE PAYING AGENT/REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein to Bondholders or registered owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Paying Agent/Registrar to DTC only.

For every transfer and exchange of Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

The City, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Bonds if the City determines that (i) DTC is unable to discharge its responsibilities with respect to the Bonds, or (ii) a continuation of the requirement that all of the outstanding Bonds be registered in the registration books kept by the Paying Agent/Registrar in the name of Cede & Co., as nominee of DTC, is not in the best interests of the Beneficial Owners.

NONE OF THE CITY, THE UNDERWRITERS OR THE PAYING AGENT/REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO: (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE NINETEENTH SUPPLEMENT AND THE TWENTIETH SUPPLEMENT; (III) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL, REDEMPTION PRICE OR MAKE-WHOLE REDEMPTION PRICE, OR INTEREST DUE WITH RESPECT TO THE BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE BONDS; OR (VI) ANY OTHER MATTER.

Euroclear and Clearstream Banking

Euroclear and Clearstream Banking each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream Banking provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream Banking also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream Banking have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream Banking customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream Banking is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system, either directly or indirectly.

Clearing and Settlement Procedures

The Bonds sold in offshore transactions will be initially issued to investors through the book-entry facilities of DTC, or Clearstream Banking and Euroclear in Europe if the investors are participants in those systems, or indirectly through organizations that are participants in the systems. For any of such Bonds, the record holder will be DTC's nominee. Clearstream Banking and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream Banking's and Euroclear's names on the books of their respective depositories.

The depositories, in turn, will hold positions in customers' securities accounts in the depositories' names on the books of DTC. Because of time zone differences, the securities account of a Clearstream Banking or Euroclear participant as a result of a transaction with a participant, other than a depository holding on behalf of Clearstream Banking or Euroclear, will be credited during the securities settlement processing day, which must be a business day for Clearstream Banking or Euroclear, as the case may be, immediately following the DTC settlement date. These credits or any transactions in the securities settled during the processing will be reported to the relevant Euroclear participant or Clearstream Banking participant on that business day. Cash received in Clearstream Banking or Euroclear as a result of sales of securities by or through a Clearstream Banking participant or Euroclear participant to a Direct Participant, other than the depository for Clearstream Banking or Euroclear, will be received with value on the DTC settlement date but will be available in the relevant Clearstream Banking or Euroclear cash account only as of the business day following settlement in DTC.

Transfers between DTC participants will occur in accordance with DTC rules. Transfers between Clearstream Banking participants or Euroclear participants will occur in accordance with their respective rules and operating procedures. Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Banking participants or Euroclear participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant depositories; however, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the system in accordance with its rules and procedures and within its established deadlines in European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream Banking participants or Euroclear participants may not deliver instructions directly to the depositories.

The City will not impose any fees in respect of holding the Bonds; however, holders of book-entry interests in the Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in DTC, Euroclear and Clearstream Banking.

Initial Settlement

Interests in the Bonds will be in uncertified book-entry form. Purchasers electing to hold book-entry interests in the Bonds through Euroclear and Clearstream Banking accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Bonds will be credited to Euroclear and Clearstream Banking participants' securities clearance accounts on the business day following the date of delivery of the Bonds against payment (value as on the date of delivery of the Bonds). Direct Participants acting on behalf of purchasers electing to hold book-entry interests in the Bonds through DTC will follow the delivery practices applicable to securities eligible for DTC's Same Day Funds Settlement system. Direct Participants' securities accounts will be credited with book-entry interests in the Bonds following confirmation of receipt of payment to the City on the date of delivery of the Bonds.

Secondary Market Trading

Secondary market trades in the Bonds will be settled by transfer of title to book-entry interests in DTC, Euroclear and Clearstream Banking. Title to such book-entry interests will pass by registration of the transfer within the records of DTC, Euroclear or Clearstream Banking, as the case may be, in accordance with their respective procedures. Book-entry interests in the Bonds may be transferred within DTC in accordance with procedures established for this purpose by DTC. Book-entry interests in the Bonds may be transferred within Euroclear and within Clearstream Banking and between Euroclear and Clearstream Banking in accordance with procedures established for these purposes by Euroclear and Clearstream Banking. Transfer of book-entry interests in the Bonds between DTC, Euroclear or Clearstream Banking may be effected in accordance with procedures established for this purpose by DTC, Euroclear and Clearstream Banking.

General

None of DTC, Euroclear or Clearstream Banking is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

None of the City, the Paying Agent/Registrar or the Underwriters will have any responsibility for the performance by DTC, Euroclear or Clearstream Banking or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

The information in this Appendix F concerning DTC, Euroclear and Clearstream Banking has been obtained from sources that the Underwriters believe to be reliable, but the Underwriters take no responsibility for the accuracy thereof or make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.