

OFFICIAL STATEMENT DATED OCTOBER 11, 2017

New Issue: Book-Entry-Only

Ratings: S&P Global Ratings: "A-"
Moody's Investors Service: "A3"
(See "RATINGS")

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date hereof, except as explained under "TAX MATTERS" in this Official Statement. See "TAX MATTERS" in this Official Statement for a discussion of Bond Counsel's opinion and certain collateral federal tax consequences.

AUSTIN-BERGSTROM LANDHOST ENTERPRISES, INC.
(a Non-Profit Public Facility Corporation acting on behalf of the City of Austin, Texas)
\$45,600,000
AIRPORT HOTEL SENIOR REVENUE REFUNDING AND IMPROVEMENT BONDS
SERIES 2017

Dated: October 1, 2017; Interest to accrue from date of initial delivery.

Due: October 1, as shown on inside cover.

Austin-Bergstrom Landhost Enterprises, Inc. (the "Issuer") is issuing its \$45,600,000 Airport Hotel Senior Revenue Refunding and Improvement Bonds, Series 2017 (the "Bonds"). The Bonds are issued pursuant to the provisions of Chapter 303, Texas Local Government Code, as amended, and Chapter 1207, Texas Government Code, as amended, and an Indenture of Trust, effective as of October 1, 2017 for the Bonds (the "Indenture") between the Issuer and U.S. Bank National Association, as trustee (the "Trustee").

The proceeds of the Bonds, together with certain other funds, will be used to: (i) refund the Issuer's Airport Hotel Senior Revenue Bonds, Series 1999A (the "Series 1999A Bonds") and its Airport Hotel Subordinate Revenue Bonds, Series 1999B (the "Series 1999B Bonds" and, together with the Series 1999A Bonds, the "Series 1999 Bonds") and to deposit the redemption price of certain of the outstanding Series 1999 Bonds with the Series 1999 Bond Trustee (defined herein) on November 1, 2017, as agreed upon in the Letter of Intent (defined herein), in order to redeem and discharge in full all of the outstanding Series 1999 Bonds previously issued to, among other things, refinance the construction, acquisition, improvement and equipment of the Hilton Austin Airport (the "Hotel") at Austin-Bergstrom International Airport (the "Airport"); (ii) fund mold remediation and the replacement of the Hotel heating, ventilating, and air conditioning system; (iii) fund additional capital improvements in and operating expenses for the Hotel; (iv) fund the Senior Debt Service Reserve Fund for the Bonds; and (v) pay certain costs of issuance of the Bonds. See "PLAN OF FINANCE – Sources and Uses of Funds".

The Hotel is managed by Boykin Prospera, LLC (the "Manager") as the "Hilton Austin Airport" pursuant to a "Management Agreement" between the Manager and the Issuer and a "License Agreement" between the Issuer and Hilton Franchise Holdings LLC as more fully described herein. The Hotel opened in 2001 and has been operated continuously since such date.

The Bonds will be registered and offered in principal denominations of \$5,000 and integral multiples thereof. Interest on the Bonds will be payable on April 1, 2018 and on each October 1 and April 1 thereafter until maturity or prior redemption. The Bonds are subject to optional, and extraordinary mandatory redemption as described herein and are payable by the Issuer from the Trust Estate (as such term is defined in the Indenture).

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

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

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

SEE INSIDE COVER PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,
INITIAL YIELDS AND CUSIP NUMBERS

The Bonds are offered for delivery when, as and if issued, subject to receipt of the opinions of the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Bond Counsel for the Issuer. See "APPENDIX I – FORM OF BOND COUNSEL'S OPINION." Certain legal matters will be passed upon for the Issuer by Norton Rose Fulbright US LLP as disclosure counsel to the Issuer, and for the underwriter listed below (the "Underwriter") by its counsel, Orrick, Herrington & Sutcliffe LLP. It is expected that the Bonds will be available for initial delivery to the Underwriter through the facilities of DTC on or about November 1, 2017.

Citigroup

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

\$45,600,000

**AUSTIN-BERGSTROM LANDHOST ENTERPRISES, INC.
AIRPORT HOTEL SENIOR REVENUE REFUNDING AND IMPROVEMENT BONDS,
SERIES 2017**

Maturity (October 1)⁽¹⁾	Principal Amount	Interest Rate	Initial Yield	CUSIP No.⁽²⁾
2018	\$ 680,000	5.000%	1.240%	052193AC3
2019	630,000	5.000	1.340	052193AD1
2020	910,000	5.000	1.470	052193AE9
2021	1,140,000	5.000	1.620	052193AF6
2022	1,280,000	5.000	1.820	052193AG4
2023	1,425,000	5.000	1.990	052193AH2
2024	1,595,000	5.000	2.160	052193AJ8
2025	1,780,000	5.000	2.360	052193AK5
2026	1,985,000	5.000	2.530	052193AL3
2027	2,200,000	5.000	2.650	052193AM1
2028	2,425,000	5.000	2.760 ⁽³⁾	052193AN9
2029	2,670,000	5.000	2.850 ⁽³⁾	052193AP4
2030	2,925,000	5.000	2.910 ⁽³⁾	052193AQ2
2031	3,200,000	5.000	2.980 ⁽³⁾	052193AR0
2032	3,490,000	5.000	3.050 ⁽³⁾	052193AS8
2033	3,800,000	5.000	3.090 ⁽³⁾	052193AT6
2034	4,130,000	5.000	3.140 ⁽³⁾	052193AU3
2035	4,480,000	5.000	3.180 ⁽³⁾	052193AV1
2036	4,855,000	5.000	3.210 ⁽³⁾	052193AW9

¹ The Bonds are subject to redemption at the option of the Issuer, in whole or in part on any date, on or after October 1, 2027, from any legally available funds, at a Redemption Price equal to the principal amount of Bonds called for redemption, plus accrued interest thereon to the date fixed for redemption. See "DESCRIPTION OF THE BONDS – Redemption Provisions".

² CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the Issuer, the Financial Advisor, or the Underwriter are responsible for the selection or correctness of the CUSIP numbers set forth herein.

³ Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on October 1, 2027, the first optional call date for such Bonds, at a Redemption Price equal to the principal amount of Bonds, plus accrued interest thereon to the redemption date.

NOTICE TO INVESTORS

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

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

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

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

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

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

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

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

THE BONDS WILL NEVER CONSTITUTE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY, THE STATE OF TEXAS, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF TEXAS, WITHIN THE MEANING OF ANY CONSTITUTIONAL PROVISIONS OR STATUTORY LIMITATION WHATSOEVER, BUT THE BONDS WILL BE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR AS PROVIDED IN THE INDENTURE. NEITHER THE FAITH NOR CREDIT OF THE CITY, THE STATE OF TEXAS, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF TEXAS IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF THE BONDS OR THE INTEREST OR ANY PREMIUM THEREON OR OTHER COST INCIDENT THERETO. WITHOUT LIMITING AND IN ADDITION TO THE FOREGOING, THE UNDERWRITER UNDERSTANDS THAT THE ISSUER IS AN ENTITY ENTIRELY SEPARATE AND APART FROM THE CITY, AND THAT NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE BONDS NOR IS AVAILABLE WITH RESPECT TO ANY PAYMENT OBLIGATIONS OF THE ISSUER DESCRIBED IN OR CONTEMPLATED BY THIS OFFICIAL STATEMENT. NEITHER THE MEMBERS OF THE GOVERNING BODY

OF THE ISSUER, NOR ANY PERSON EXECUTING THE BONDS WILL BE LIABLE PERSONALLY ON THE BONDS BY REASON OF THE ISSUANCE THEREOF. THE ISSUER HAS NO TAXING POWER. NO OBLIGATION OR RESPONSIBILITY OF THE ISSUER ARISING UNDER OR CONCERNING THE CLOSING DOCUMENTS WILL EVER CONSTITUTE AN INDEBTEDNESS OR GENERAL OBLIGATION OR RESPONSIBILITY OF THE CITY. THE ISSUER CANNOT PLEDGE THE CREDIT OF THE CITY OR CAUSE THE CITY TO INCUR OR ASSUME ANY INDEBTEDNESS ON BEHALF OF THE ISSUER.

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

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

NONE OF THE MANAGER, OR ANY OF ITS AFFILIATES OR ITS OFFICERS, DIRECTORS, AGENTS, OR EMPLOYEES WILL IN ANY WAY BE DEEMED AN ISSUER OR UNDERWRITER OF THE BONDS AND WILL HAVE NO LIABILITY WHATSOEVER ARISING OUT OF OR RELATING TO ANY FINANCIAL STATEMENTS, PROSPECTUSES, OR OTHER FINANCIAL INFORMATION CONTAINED IN ANY DISCLOSURE DOCUMENT OR SIMILAR WRITTEN OR ORAL COMMUNICATION OTHER THAN THAT WHICH PERTAINS TO THE MANAGER, OR ITS OPERATIONS. ALL TERMS USED IN THIS PARAGRAPH HAVE THE MEANING AS DEFINED IN THE SECURITIES ACT OF 1933, AS AMENDED.

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

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

ISSUER BOARD OF DIRECTORS AND OFFICERS

Name*	Office	Occupation
Gregory S. Milligan	President	Executive Vice President, Harney Management Partners, LLC
Susana Carbajal	Vice President	Assistant Director, Austin-Bergstrom International Airport
Elaine Hart	Secretary and Treasurer	Interim City Manager, City of Austin, Texas
Art Alfaro	Director	Treasurer, City of Austin, Texas

*As of August 11, 2017, the Board of Directors has one vacant position.

ISSUER'S AND CITY'S CONSULTANTS AND ADVISORS

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Dallas and Austin, Texas

Financial Advisor to the City

PFM Financial Advisors LLC
Austin, Texas

Disclosure Counsel to the Issuer

Norton Rose Fulbright US LLP
Austin and Dallas, Texas

Trustee

U.S. Bank National Association
Houston, Texas

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OFFICIAL STATEMENT

AUSTIN-BERGSTROM LANDHOST ENTERPRISES, INC.

\$45,600,000

AIRPORT HOTEL SENIOR REVENUE REFUNDING AND IMPROVEMENT BONDS SERIES 2017

INTRODUCTION

This Official Statement, including the cover page and appendices, sets forth certain information relating to the offering and sale by the Austin-Bergstrom Landhost Enterprises, Inc. (the “Issuer”) of its \$45,600,000 Airport Hotel Senior Revenue Refunding and Improvement Bonds, Series 2017 (the “Bonds”). See “DESCRIPTION OF THE BONDS” herein. For definitions of certain capitalized terms used in this Official Statement and not herein defined, see the Appendices hereto.

General

In 1998, the City of Austin, Texas (the “City”) determined that construction of a full service hotel on a site adjacent to the Austin-Bergstrom International Airport (the “Airport”) would result in economic benefits to the City, including the generation of additional tax revenues, employment opportunities, and economic activity related to the construction and operation of the hotel.

The City Council of the City authorized the creation of the Issuer to finance the construction of the franchised Hilton Austin Airport (the “Hotel”). In 1999, the Issuer issued bonds for such purpose. See “INTRODUCTION – The Prior Bonds” below. The Hotel opened in 2001 and has been operated continuously ever since. See “INTRODUCTION – The Hotel” below.

The Issuer

The Issuer is a nonprofit public facility corporation created and existing under Chapter 303, Texas Local Government Code, as amended (the “Act”). The creation of the Issuer, its Articles of Incorporation and Bylaws, its board members and the issuance of debt has been authorized by the City. See “THE ISSUER”.

On August 3, 2017, the City Council of the City adopted a resolution approving the issuance of the Bonds by the Issuer. The Issuer has no employees, and does not intend to engage or employ anyone other than (i) the operations consultant to assist it in the operations of the Hotel, (ii) the Engineer Consultant, and (iii) a Consultant when required under the Indenture.

The financial statements of the Issuer, as of December 31, 2016, and for the year then ended, included in this Official Statement, have been audited by RSM US LLP, independent auditors, as stated in their report appearing in APPENDIX F – AUDITED FINANCIAL STATEMENTS OF THE ISSUER.

RSM US LLP, independent auditor to the Issuer, has not been engaged to perform and has not performed, since the date of the report included as APPENDIX F, any procedures on the financial statements addressed in that report. RSM US LLP also has not performed any procedures relating to this Official Statement. The Issuer has received a consent from RSM US LLP for the inclusion of its 2016 audit report in this Official Statement.

The Prior Bonds

In order to finance a portion of the cost of constructing, acquiring, improving and equipping the Hotel at the Airport, the Issuer issued its \$38,785,000 Airport Hotel Senior Revenue Bonds, Series 1999A (the “Series 1999A Bonds”) and its \$3,730,000 Airport Hotel Subordinate Revenue Bonds, Series 1999B (the “Series 1999B Bonds,” together with the Series 1999A Bonds, the “Series 1999 Bonds”) in accordance with the provisions of the

Act, the proceedings adopted by the Board and the City Council, and the Indenture of Trust dated as of February 1, 1999 by and between the Issuer and Chase Bank of Texas, National Association, Austin, Texas (the "Prior Indenture").

Since 2004, the operation of the Hotel has not generated sufficient cash flow to pay debt service on the Series 1999 Bonds when due. The failure to pay debt service when due on the Series 1999 Bonds is an event of default under the Prior Indenture. Principal of \$37,935,000 and interest of \$142,256 on the Series 1999A Bonds is due and owing as of August 1, 2017. Approximately \$24,600,000 of principal and accreted interest is due and owing as of August 1, 2017 on the Series 1999B Bonds despite their stated maturity of April 1, 2016. The Series 1999B Bonds continue to accrete interest.

In 2013, Austin-Bergstrom Acquisition LLC ("ABA") acquired and currently holds a majority interest in the Series 1999A Bonds (approximately 95.61%) and a 100% interest in the Series 1999B Bonds. Due to the Issuer's default under the Series 1999 Bonds, under the terms of the Prior Indenture, ABA has directed the Series 1999 Bond Trustee (herein defined) to control the Revenues for the benefit of the holders of the Series 1999 Bonds.

In 2015, mold was identified in the Hotel atrium. Mold remediation is estimated to cost approximately \$6 million, which includes replacing the Hotel's heating, ventilating, and air conditioning ("HVAC") system, skylight and stucco repairs, and other related mechanical repairs. Due to the Issuer's default under the Series 1999 Bonds, ABA directed the payment from the Prior Indenture trust estate to itself as bondholder rather than make the repairs and capital improvements needed by the Hotel.

Since 2014, the City's Department of Aviation has assisted the Issuer in its negotiations with ABA to: (1) refinance the terms of the Series 1999 Bonds and (2) finance the necessary repairs and capital improvements required to continue operating the Hotel in a first class manner consistent with Hilton standards.

On July 28, 2016, the Issuer, the City, ABA, the Airport and UMB Bank, N.A., as successor trustee of the Series 1999 Bonds (the "Series 1999 Bond Trustee") under the Prior Indenture, entered into a Letter of Intent, as amended by Amendment No. 1 to Letter of Intent dated June 30, 2017 (together the "Letter of Intent"), in which the parties agreed to the following terms in order to allow the Issuer to be taken out of default, extinguish the Series 1999 Bonds, regain control of the Revenues, and resume responsibility for its capital improvements:

1. The Issuer will use commercially reasonable efforts to issue the Bonds no later than the Offering Date, or such later date as ABA may agree to. The "Offering Date" is the later of (a) 60 days following receipt by the Issuer of the approved License Agreement from Hilton Franchise Holdings LLC and (b) September 30, 2017.
2. The Bonds will be used to discharge the Series 1999A Bonds and the Series 1999B Bonds held by ABA in the amount of \$30 million, less the amount to pay off all bondholders of the Series 1999A Bonds other than ABA.
3. The Issuer and ABA will share the cost to replace the HVAC system and remediate mold in the Hotel estimated to cost \$5.682 million. Prior to the closing of the Bonds, an aggregate of \$1 million of the cost to replace the HVAC system and remediate mold in the Hotel will, at the direction of ABA, be paid from the Prior Indenture reserve and replacement fund. After the closing of the Bonds, \$1 million of Bond proceeds will be used to reimburse the Issuer so that ABA will have paid for \$2 million of the cost to replace the HVAC system and remediate mold in the Hotel. The remaining amount will be paid by the Issuer.
4. The Airport advanced \$3 million to start repairs on the Hotel and the Issuer has agreed to use Bond proceeds to reimburse the Airport for such advance.
5. The City has agreed to transfer surplus net revenues of the Airport (i.e. Surplus Airport System Revenues (defined herein)) on a subordinate basis to support the Bonds by replenishing, if

necessary, the Senior Debt Service Reserve Fund (defined herein) to the Senior Debt Service Reserve Requirement (defined herein) pursuant to the terms of the Grant Agreement (defined herein). “See “SECURITY FOR AND SOURCES OF PAYMENT FOR THE BONDS - Senior Debt Service Reserve Fund” and “- Grant Agreement” herein.

The Bonds

The Bonds will be issued by the Issuer pursuant to the laws of the State of Texas, including particularly the Act and an Indenture of Trust, dated as of October 1, 2017 (the “Indenture”), between the Issuer and U.S. Bank National Association, Houston, Texas (the “Trustee”).

The Bonds are being issued to: (i) refund the Series 1999 Bonds and to deposit the redemption price of the outstanding Series 1999 Bonds with the Series 1999 Bond Trustee on November 1, 2017, as agreed upon in the Letter of Intent, in order to redeem and discharge in full all of the outstanding Series 1999 Bonds previously issued to, among other things, refinance the construction, acquisition, improvement and equipment of the Hotel at the Airport; (ii) fund mold remediation and the replacement of the Hotel heating, ventilating, and air conditioning system; (iii) fund additional capital improvements in and operating expenses for the Hotel; (iv) fund the Senior Debt Service Reserve Fund for the Bonds; and (v) pay certain costs of issuance of the Bonds. Proceeds of the Bonds will be used approximately as set forth in “PLAN OF FINANCE – Sources and Uses of Funds.” Upon the retirement of the Series 1999 Bonds, the lien on the trust estate held by the Series 1999 Bond Trustee will be released.

Security for the Bonds

The Bonds are special limited obligations of the Issuer and are payable by the Issuer solely from all revenues generated from the Hotel, and from certain amounts and funds held by the Trustee as the Trust Estate under the Indenture. The Hotel is being leased to the Issuer pursuant to the Facilities Lease Agreement (defined herein) with the City. The City currently leases the real property on which the Airport and the Hotel are located from the United States Air Force. The Hotel is managed by Boykin Prospera, LLC (the “Manager”) pursuant to the Management Agreement (defined herein) with the Issuer. See “APPENDIX B - SUMMARY OF CERTAIN PROVISIONS OF THE BOND DOCUMENTS” and “SECURITY FOR AND SOURCES OF PAYMENT FOR THE BONDS”.

The Facilities Lease Agreement expires on the date that the Bonds are released and extinguished. In addition, the Facilities Lease Agreement may be terminated early by the City upon the occurrence of certain events of default thereunder after a cure period applicable thereto. If any Bonds are outstanding when the Facilities Lease Agreement terminates, the repayment thereof will be limited solely to amounts then held by the Trustee under the Indenture. See “RISK FACTORS”.

Pursuant to a Grant Agreement, dated as of October 1, 2017 (the “Grant Agreement”), the City has agreed, pursuant to the Letter of Intent, to provide Surplus Airport System Revenues (defined herein), to the extent they are available, for deposit into the Senior Debt Service Reserve Fund solely to restore deficiencies in the Senior Debt Service Reserve Fund, for a term ending on the date that the Bonds, or obligations issued to refinance the Bonds, are no longer outstanding. See “SECURITY FOR AND SOURCES OF PAYMENT FOR THE BONDS - Senior Debt Service Reserve Fund” and “- Grant Agreement” herein. Any Grant funded pursuant to the Grant Agreement will constitute a “Subordinate Obligation” of the City as such term is defined in the Revenue Bond Ordinances. The obligation of the City to deposit Surplus Airport System Revenues into Senior Debt Service Reserve Fund is junior and subordinate to the payment of the City’s Revenue Bonds secured by Airport Net Revenues (defined herein). See “AUSTIN-BERGSTROM INTERNATIONAL AIRPORT - Revenue Bonds and Other Obligations of the Airport” and “APPENDIX H – SUMMARY OF CERTAIN PROVISIONS OF THE REVENUE BOND ORDINANCES.”

The Hotel

The Hilton Austin Airport is located at 9515 Hotel Drive, Austin, Texas, 78719 and is within one mile of the terminal building of the Airport. See “THE HOTEL” herein.

Market Study Report

In connection with the issuance of the Bonds, HVS Consulting & Valuation, a division of TS Worldwide, LLC, Boulder, Colorado (the “Hotel Market Consultant”), prepared a Market Study Report (the “Hotel Market Study”), dated August 31, 2017. See “PLAN OF FINANCE – Market Study Report” and “APPENDIX A - MARKET STUDY REPORT” hereto.

Austin-Bergstrom International Airport

The Austin-Bergstrom International Airport (Airport) is comprised of airport, heliport and aviation facilities or any interest therein owned, operated or controlled in whole or in part by the City of Austin. The Airport Fund accounts for the financial operations of the Airport and is reported as a major fund in the City’s Comprehensive Annual Financial Report (CAFR). Because the Issuer is a legally separate entity from the City of Austin, the Issuer’s condensed financial information is included in the City’s CAFR as a discretely presented component unit in the government-wide financial statements. Information about the Issuer is also included in Notes 1 and 17 of the City’s CAFR. The Airport is classified by the FAA as a medium hub airport and according to Airports Council International - NA, the Airport is the 38th largest airport in the United States based on calendar year 2015 total passengers. See “AUSTIN-BERGSTROM INTERNATIONAL AIRPORT” and “APPENDIX G - AUDITED FINANCIAL STATEMENTS OF THE CITY OF AUSTIN, TEXAS” hereto.

Risk Factors

The purchase of Bonds is subject to certain risks. See “RISK FACTORS”. Each prospective investor in the Bonds should read this Official Statement in its entirety, including all Appendices hereto.

THE ISSUER

Overview

The Issuer, a nonprofit public facility corporation, has been duly established and created pursuant to the Act as a constituted authority and instrumentality of the City, and is authorized to act on behalf of the City to issue obligations to finance and refinance the costs of “public facilities” within the meaning of the Act. Among other things, the Issuer is authorized by the Act to issue bonds and use the proceeds derived from the sale of such bonds to finance the construction, expansion or improvement of a “public facility,” which term includes facilities located within the City which have been found by the Board of Directors of the Issuer to be required, necessary or suitable for the acquisition, construction, rehabilitation and equipping of real, personal or mixed use property devoted to public use. The Issuer is governed by a Board of Directors consisting of five members, each of whom is appointed by the governing body of the City. The Issuer is a conduit financing entity and as such has no significant assets and, except for the issuance of its limited obligation bonds and the use of their proceeds to finance “the project” pursuant to the Act, has no independent operations or expertise with respect to constructing or operating a hotel.

THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OR LIABILITY OF THE ISSUER, THE CITY OR THE STATE OF TEXAS, OR A LOAN OF THE CREDIT THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL, STATUTORY OR CHARTER DEBT LIMITATION OR RESTRICTION.

THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE REVENUES ASSIGNED TO THE TRUSTEE UNDER THE TERMS OF THE INDENTURE TO SECURE PAYMENT OF THE BONDS. NONE OF THE CITY, THE ISSUER, THE STATE OF TEXAS OR ANY OF ITS POLITICAL SUBDIVISIONS ARE OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS OR OTHER COSTS INCIDENT TO THEM EXCEPT FROM THE REVENUES PLEDGED FOR SUCH PURPOSE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OR THE STATE OF TEXAS OR ANY OF ITS POLITICAL SUBDIVISIONS IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE MEMBERS OF THE GOVERNING BODY OF THE ISSUER NOR ANY PERSON EXECUTING THE BONDS

WILL BE LIABLE PERSONALLY ON THE BONDS BY REASON OF THE ISSUANCE THEREOF. THE ISSUER HAS NO TAXING POWER.

Board of Directors

The names and occupations of the current Board of Directors and Officers of the Issuer are as follows:

Name*	Office	Occupation
Gregory S. Milligan	President	Executive Vice President, Harney Management Partners, LLC
Susana Carbajal	Vice President	Assistant Director, Austin-Bergstrom International Airport
Elaine Hart	Secretary and Treasurer	Interim City Manager, City of Austin, Texas
Art Alfaro	Director	Treasurer, City of Austin, Texas

*As of August 11, 2017, the Board of Directors has one vacant position.

Officials, Staff and Consultants

The Issuer has no employees, and does not intend to engage or employ anyone other than (i) the operations consultant to assist it in the operations of the Hotel, (ii) the Engineer Consultant, and (iii) a Consultant when required under the Indenture.

Gregory S. Milligan, President of the Board of Directors, also acts as a consultant to the Issuer. Mr. Milligan is currently the Executive Vice President of Harney Management Partners, LLC (“HMP”). Mr. Milligan is the practice leader of the Insolvency Advisory, Fiduciary Services, Strategic Divestiture and Real Estate Services practice areas for the HMP offices located in Chicago, Austin and Madison, in addition to his work with all other areas of the firm’s corporate advisory practice. For more than 20 years, and with engagements involving onsite advisory to clients in more than 25 states and several foreign countries, Mr. Milligan has maintained a practice exclusively surrounding financial crisis and other troubled situations. Mr. Milligan joined HMP in 1998 and opened the second HMP office in Austin in 2001. Since that time, he has both led and collaborated on engagements with highly successful outcomes, meriting multiple peer-review awards from the Turnaround Management Association and the M&A Advisor.

THE HOTEL

Overview and History

The Hotel is a full-service lodging facility featuring 262 rooms, a restaurant and lounge, 17,505 square feet of meeting space, an outdoor pool, an outdoor whirlpool, a fitness center, a sundries counter/coffee shop, lobby workstations, a guest laundry room, and vending areas. The Hotel has four stories with an additional below-grade level that was configured into meeting space. The courtyard was enclosed to create a four-story center atrium for the Hotel. The Hotel's address is 9515 Hotel Drive, Austin, Texas, 78719. The Hotel has been in continuous operation since January 10, 2001.

Management and Management Agreement

Concurrent with the issuance of the Bonds, the Issuer and Boykin Prospera, LLC (the “Manager”) are entering into an Amended and Restated Hotel Management Agreement dated as of October 1, 2017 (the “Management Agreement”) pursuant to which the Issuer will continue to retain the services of the Manager to operate the Hotel. The Management Agreement will have an initial term of 60 months and may be extended thereafter for up to two additional 12-month periods, subject to the mutual agreement of the Manager and the Issuer. The Management Agreement requires the Manager to (1) conduct a full service hotel operation that will provide the public with good and efficient services and with full service hotel accommodations, (2) operate and manage the

Hotel in a professional manner in accordance with prudent management practices common to the operation of comparable full service hotels in the local hotel industry, and (3) to ensure that the Hotel complies with the standards of Hilton (defined below) pursuant to the License Agreement. Upon the occurrence of an event of default thereunder, the non-defaulting party may exercise remedies including the termination of the Management Agreement. See “APPENDIX C - MANAGEMENT AGREEMENT.”

Operations and License Agreement

Hilton Franchise Holdings LLC (“Hilton”) and the Issuer entered into an agreement dated as of October 1, 2017 (the “License Agreement”) pursuant to which Hilton granted to a non-exclusive license to operate the Hotel as a hotel in the Hilton system. The License Agreement replaced the original franchise agreement dated March 3, 1999. Hilton Franchise Holdings LLC is an affiliate of Hilton Worldwide Holdings, Inc. (“HWHI”). The License Agreement by its term has an expiration date of December 31, 2032. The License Agreement requires the Issuer, or a manager approved by Hilton, to operate the Hotel in a first-class manner in accordance with the License Agreement and as a hotel in the Hilton system. Upon the occurrence of an event of default thereunder, Hilton may terminate the License Agreement. See “APPENDIX D -LICENSE AGREEMENT.”

Hilton Hotels & Resorts, commonly known as simply “Hilton,” is the signature/flagship brand of HWHI, recognized internationally as a preeminent hospitality company. With over 90 years of history, the Hilton brand is one of the largest hotel brands in the world, with locations in major city centers, near airports and convention centers, and in popular vacation destinations. Hilton hotels cater to business, group, and leisure travelers, with most properties featuring swimming pools and whirlpools, fitness centers, business centers, restaurant facilities, and meeting space, among other amenities. In addition, guests benefit from Hilton's worldwide reservations system and its highly acclaimed guest loyalty program, Hilton HHonors. As of year-end 2016, there were 570 hotels (208,762 rooms) operating under the Hilton brand in the U.S. In 2016, the brand operated at an average occupancy level of 74.5%, with an average daily rate of \$167.05 and revenue per available room of \$124.47 (worldwide).

The Facilities Lease Agreement

Concurrent with the issuance of the Bonds, the Issuer and the City will enter into a Ground Lease Agreement dated as of October 1, 2017 (the “Facilities Lease Agreement”) pursuant to which the City will lease to the Issuer the Hotel and approximately ten acres of land upon which the Hotel is situated. The Issuer shall pay to the City monthly rent equal to five percent of Total Revenues. The Facilities Lease Agreement expires on the date that the Bonds are released and extinguished. Upon the occurrence of an event of default thereunder, the City may exercise remedies including the termination of the Facilities Lease Agreement.

Historical Operations

TABLE ONE – Historical Operations

Calendar Year	2016			2015					
Rooms Available	262			262					
Paid Occupied Rooms	79,876			85,042					
Days Open	366			365					
Paid Occupancy	83.3%			Amount			88.9%		
Average Daily Rate	\$139.90	% of	Available	Occupied	\$136.54	% of	Available	Occupied	Amount
RevPAR	\$116.54	Revenue	Room	Room	\$121.42	Revenue	Room	Room	Amount
OPERATING REVENUE									
Rooms	\$11,174,897	74.1%	\$42,652	\$139.90	\$11,611,819	74.2%	\$44,320	\$136.54	
Food	2,962,286	19.6%	11,306	37.09	3,142,534	20.1%	11,994	36.95	
Beverage	559,293	3.7%	2,135	7.00	520,769	3.3%	1,988	6.12	
Other Operated Departments	229,595	1.5%	876	2.87	242,582	1.6%	926	2.85	
Miscellaneous Income	153,716	1.0%	587	1.92	127,287	0.8%	486	1.50	
TOTAL OPERATING REVENUE	\$15,079,787	100.0%	\$57,556	\$188.79	\$15,644,991	100.0%	\$59,714	\$183.97	
DEPARTMENTAL EXPENSES *									
Rooms	\$2,232,528	20.0%	\$8,521	\$27.95	\$2,223,734	19.2%	\$8,488	\$26.15	
Food and Beverage	2,062,487	58.6%	7,872	25.82	2,110,821	57.6%	8,057	24.82	
Other Operated Departments	124,382	54.2%	475	1.56	141,452	58.3%	540	1.66	
TOTAL DEPARTMENTAL EXPENSES	\$4,419,397	29.3%	\$16,868	\$55.33	\$4,476,007	28.6%	\$17,084	\$52.63	
TOTAL DEPARTMENTAL PROFIT	\$10,660,390	70.7%	\$40,689	\$133.46	\$11,168,984	71.4%	\$42,630	\$131.33	
UNDISTRIBUTED OPERATING EXPENSES									
Administrative and General	\$1,372,898	9.1%	\$5,240	\$17.19	\$1,289,031	8.2%	\$4,920	\$15.16	
Information and Telecommunications Systems	256,181	1.7%	978	3.21	283,534	1.8%	1,082	3.33	
Sales and Marketing	965,137	6.4%	3,684	12.08	994,883	6.4%	3,797	11.70	
Franchise Fee	976,859	6.5%	3,728	12.23	969,331	6.2%	3,700	11.40	
Property Operation and Maintenance	755,825	5.0%	2,885	9.46	735,656	4.7%	2,808	8.65	
Utilities	747,792	5.0%	2,854	9.36	820,837	5.2%	3,133	9.65	
TOTAL UNDISTRIBUTED EXPENSES	\$5,074,692	33.7%	\$19,369	\$63.53	\$5,093,272	32.6%	\$19,440	\$59.89	
GROSS OPERATING PROFIT	\$5,585,698	37.0%	\$21,319	\$69.93	\$6,075,712	38.8%	\$23,190	\$71.44	
MANAGEMENT FEES	406,620	2.7%	1,552	5.09	398,652	2.5%	1,522	4.69	
INCOME BEFORE NON-OPERATING INCOME AND EXPENSES	\$5,179,078	34.3%	\$19,767	\$64.84	\$5,677,060	36.3%	\$21,668	\$66.76	
NON-OPERATING INCOME AND EXPENSES									
Insurance	\$214,457	1.4%	\$819	\$2.68	\$183,302	1.2%	\$700	\$2.16	
Ground Lease	692,637	4.6%	2,644	8.67	746,455	4.8%	2,849	8.78	
Other Expense / Income	146,167	1.0%	558	1.83	337,493	2.2%	1,288	3.97	
Administrative Fee	25,000	0.2%	95	0.31	25,000	0.2%	95	0.29	
TOTAL NON-OPERATING INCOME AND EXPENSES	\$1,078,261	7.2%	\$4,115	\$13.50	\$1,292,250	8.3%	\$4,932	\$15.20	
EBITDA	\$4,100,817	27.2%	\$15,652	\$51.34	\$4,384,810	28.0%	\$16,736	\$51.56	

* Departmental expenses are expressed as a % of departmental revenues.

	Calendar Year		2014		2013				
	Rooms Available		262		262				
	Paid Occupied Rooms		83,060		81,108				
	Days Open		365		365				
	Paid Occupancy		86.9%		84.8%				Amount
	Average Daily Rate	\$126.14	% of	Available	Occupied	\$121.84	% of	Available	Occupied
	RevPAR	\$109.56	Revenue	Room	Room	\$103.34	Revenue	Room	Room
OPERATING REVENUE									
Rooms	\$10,476,876		71.5%	\$39,988	\$126.14	\$9,882,044	71.6%	\$37,718	\$121.84
Food	3,354,086		22.9%	12,802	40.38	3,160,096	22.9%	12,061	38.96
Beverage	462,560		3.2%	1,765	5.57	403,444	2.9%	1,540	4.97
Other Operated Departments	273,757		1.9%	1,045	3.30	259,703	1.9%	991	3.20
Miscellaneous Income	79,274		0.5%	303	0.95	95,522	0.7%	365	1.18
TOTAL OPERATING REVENUE	\$14,646,553		100.0%	\$55,903	\$176.34	\$13,800,809	100.0%	\$52,675	\$170.15
DEPARTMENTAL EXPENSES *									
Rooms	\$2,103,553		20.1%	\$8,029	\$25.33	\$2,071,374	21.0%	\$7,906	\$25.54
Food and Beverage	2,270,711		59.5%	8,667	27.34	2,255,987	63.3%	8,611	27.81
Other Operated Departments	252,807		92.3%	965	3.04	244,154	94.0%	932	3.01
TOTAL DEPARTMENTAL EXPENSES	\$4,627,071		31.6%	\$17,661	\$55.71	\$4,571,515	33.1%	\$17,449	\$56.36
TOTAL DEPARTMENTAL PROFIT	\$10,019,482		68.4%	\$38,242	\$120.63	\$9,229,294	66.9%	\$35,226	\$113.79
UNDISTRIBUTED OPERATING EXPENSES									
Administrative and General	\$1,366,952		9.3%	\$5,217	\$16.46	\$1,511,205	11.0%	\$5,768	\$18.63
Information and Telecommunications Systems	-		0.0%	0	0.00	-	0.0%	0	0.00
Sales and Marketing	971,021		6.6%	3,706	11.69	910,243	6.6%	3,474	11.22
Franchise Fee	902,142		6.2%	3,443	10.86	812,979	5.9%	3,103	10.02
Property Operation and Maintenance	795,414		5.4%	3,036	9.58	723,923	5.2%	2,763	8.93
Utilities	752,024		5.1%	2,870	9.05	747,794	5.4%	2,854	9.22
TOTAL UNDISTRIBUTED EXPENSES	\$4,787,553		32.7%	\$18,273	\$57.64	\$4,706,144	34.1%	\$17,962	\$58.02
GROSS OPERATING PROFIT	\$5,231,929		35.7%	\$19,969	\$62.99	\$4,523,150	32.8%	\$17,264	\$55.77
MANAGEMENT FEES	390,840		2.7%	1,492	4.71	383,172	2.8%	1,462	4.72
INCOME BEFORE NON-OPERATING INCOME AND EXPENSES	\$4,841,089		33.1%	\$18,477	\$58.28	\$4,139,978	30.0%	\$15,801	\$51.04
NON-OPERATING INCOME AND EXPENSES									
Insurance	\$242,777		1.7%	\$927	\$2.92	\$214,973	1.6%	\$821	\$2.65
Ground Lease	697,698		4.8%	2,663	8.40	658,894	4.8%	2,515	8.12
Other Expense / Income	61,043		0.4%	233	0.73	21,428	0.2%	82	0.26
Administrative Fee	25,000		0.2%	95	0.30	25,000	0.2%	95	0.31
TOTAL NON-OPERATING INCOME AND EXPENSES	\$1,026,518		7.0%	\$3,918	\$12.36	\$920,295	6.7%	\$3,513	\$11.35
EBITDA	\$ 3,814,571		26.0%	\$14,559	\$45.93	\$3,219,683	23.3%	\$12,289	\$39.70

* Departmental expenses are expressed as a % of departmental revenues.

	Calendar Year	2012			
	Rooms Available	262			
	Paid Occupied Rooms	76,973			
	Days Open	366			
	Paid Occupancy	80.3%			Amount
	Average Daily Rate	\$114.99	% of	Available	Occupied
	RevPAR	\$92.30	Revenue	Room	Room
OPERATING REVENUE					
Rooms	\$8,851,242	69.4%	\$33,783	\$114.99	
Food	3,160,184	24.8%	12,062	41.06	
Beverage	374,730	2.9%	1,430	4.87	
Other Operated Departments	269,978	2.1%	1,030	3.51	
Miscellaneous Income	99,508	0.8%	380	1.29	
TOTAL OPERATING REVENUE	\$12,755,642	100.0%	\$48,686	\$165.72	
DEPARTMENTAL EXPENSES *					
Rooms	\$1,911,115	21.6%	\$7,294	\$24.83	
Food and Beverage	2,162,617	61.2%	8,254	28.10	
Other Operated Departments	243,182	90.1%	928	3.16	
TOTAL DEPARTMENTAL EXPENSES	\$4,316,914	33.8%	\$16,477	\$56.08	
TOTAL DEPARTMENTAL PROFIT	\$8,438,728	66.2%	\$32,209	\$109.63	
UNDISTRIBUTED OPERATING EXPENSES					
Administrative and General	\$1,337,835	10.5%	\$5,106	\$17.38	
Information and Telecommunications Systems	-	0.0%	0	0.00	
Sales and Marketing	836,292	6.6%	3,192	10.86	
Franchise Fee	700,447	5.5%	2,673	9.10	
Property Operation and Maintenance	678,012	5.3%	2,588	8.81	
Utilities	751,769	5.9%	2,869	9.77	
TOTAL UNDISTRIBUTED EXPENSES	\$4,304,355	33.7%	\$16,429	\$55.92	
GROSS OPERATING PROFIT	\$4,134,373	32.4%	\$15,780	\$53.71	
MANAGEMENT FEES	375,660	2.9%	1,434	4.88	
INCOME BEFORE NON-OPERATING INCOME AND EXPENSES	\$3,758,713	29.5%	\$14,346	\$48.83	
NON-OPERATING INCOME AND EXPENSES					
Insurance	\$208,223	1.6%	\$795	\$2.71	
Ground Lease	570,875	4.5%	2,179	7.42	
Other Expense / Income	443,108	3.5%	1,691	5.76	
Administrative Fee	25,000	0.2%	95	0.32	
TOTAL NON-OPERATING INCOME AND EXPENSES	\$1,247,206	9.8%	\$4,760	\$16.20	
EBITDA	\$2,511,507	19.7%	\$9,586	\$32.63	

* Departmental expenses are expressed as a % of departmental revenues.

Important Note - HWHI, its parents, subsidiaries or affiliates or any of their respective officers, directors, members, managers, stockholders, owners, agents or employees (collectively, the "Hilton Parties") have not reviewed or endorsed any financial information or projections made in this Official Statement.

Atrium Project

Non-toxic mold has been identified in the Hotel's atrium; it has been tested and found to not be harmful. In order to mitigate it and prevent future recurrences, a mold remediation and HVAC rehabilitation project is being undertaken which includes replacing the heating, ventilating, and air conditioning system, skylight and stucco repairs, and other related mechanical repairs (the "Atrium Project"). A project management firm has been retained and a design-build contract executed. The estimated Atrium Project costs of approximately \$6.0 million are anticipated to have minimum negative financial impact while improving overall operational efficiency and occupancy at the Hotel.

Capital Improvements

A portion of the proceeds of the Bonds will be used to fund capital improvements at the Hotel. The improvements are necessary to ensure the Hotel continues to operate in a first-class manner consistent with Hilton standards. Guestrooms will be renovated; including renovations to bathrooms, furniture replacement, and bedding and soft goods replacement. In addition, the main lobby, lobby bar, restaurant, and meeting rooms are to be updated. A variety of aging equipment and systems are also to be replaced, including laundry equipment, kitchen coolers, and the parking lot automated gate system. The capital improvements are anticipated to cost approximately \$13 million. See "PLAN OF FINANCE" herein.

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PLAN OF FINANCE

A portion of the proceeds of the Bonds, together with certain other funds held by the Series 1999 Bond Trustee, will be used to defease the Series 1999 Bonds on the date of initial delivery of the Bonds and subsequently redeem a portion of the Series 1999A Bonds on or about December 4, 2017. The proceeds of the Bonds will be used approximately as described below under “- Sources and Uses of Funds”.

Sources and Uses of Funds

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

Sources of Funds	
Bonds (Par Amount)	\$45,600,000.00
Original Issue Premium	7,498,661.40
Total Sources	\$53,098,661.40
Use of Funds	
Deposit to Series 1999 Bond Trustee (Defeasance and discharge of Series 1999 Bonds pursuant to the Letter of Intent)	\$30,000,000.00
Reimbursement for the Atrium Project	4,000,000.00
Deposit to 2017 Project Account (Capital Projects)	13,000,000.00
Deposit to 2017 Project Account (Working Capital)	750,000.00
Deposit to Senior Debt Service Reserve Fund	3,952,691.63
Costs of Issuance, including legal fees and Underwriter’s discount	1,395,969.77
Total Uses	\$53,098,661.40

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Debt Service Requirements

The annual debt service requirements for the Bonds are set forth below:

Year 10/1	Bonds		
	Principal	Interest	Total
2018	\$680,000	\$2,090,000	\$2,770,000
2019	630,000	2,246,000	2,876,000
2020	910,000	2,214,500	3,124,500
2021	1,140,000	2,169,000	3,309,000
2022	1,280,000	2,112,000	3,392,000
2023	1,425,000	2,048,000	3,473,000
2024	1,595,000	1,976,750	3,571,750
2025	1,780,000	1,897,000	3,677,000
2026	1,985,000	1,808,000	3,793,000
2027	2,200,000	1,708,750	3,908,750
2028	2,425,000	1,598,750	4,023,750
2029	2,670,000	1,477,500	4,147,500
2030	2,925,000	1,344,000	4,269,000
2031	3,200,000	1,197,750	4,397,750
2032	3,490,000	1,037,750	4,527,750
2033	3,800,000	863,250	4,663,250
2034	4,130,000	673,250	4,803,250
2035	4,480,000	466,750	4,946,750
2036	4,855,000	242,750	5,097,750
Total	\$45,600,000	\$29,171,750	\$74,771,750

Market Study Report

In connection with the issuance of the Bonds, the Hotel Market Consultant prepared the Hotel Market Study, dated August 31, 2017, which is presented in its entirety in APPENDIX A. The Hotel Market Consultant has given its consent to the inclusion of the Hotel Market Study in this Official Statement.

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

The objective of the Hotel Market Study is to evaluate the supply and demand factors affecting the market for transient accommodations in the Austin area for the purpose of developing a forecast of income and expenses for the Hotel. The Hotel Market Study presents a forecast of income and expenses for the Hotel for the ten years beginning August 1, 2017 through July 31, 2027 (the "Forecast Period"), including the assumptions upon which the forecasts are based. In the Hotel Market Study, projections are made for a successive twelve-month period ending July 31 (a "Projection Year") within the Forecast Period.

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

The Hotel has performed well from an occupancy standpoint, with the Hotel's occupancy penetration averaging over 111.0% between 2004 and 2015. More notably, occupancy remained in the 80.5% to 88.9% range from 2011 to 2015. However, in 2016 occupancy declined slightly, as management began focusing on hotel room rate increases. Meanwhile, the average room rate at the Hotel has increased since 2010, largely attributable to strong overall hotel room rate growth in the City, as well as the Hotel's ability to increase airline contract rates.

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

Forecasts of Occupancy, Average Rate, and RevPAR⁽¹⁾

Projection Year End	Occupancy Level	Average Rate	RevPAR ⁽²⁾
2018	81%	\$145.60	\$117.94
2019	81	151.56	122.76
2020	83	157.48	130.71
2021	84	162.53	136.52
2022	84	167.40	140.62

The Hilton Parties have not reviewed or endorsed any financial information or projections made in this Official Statement.

- (1) See APPENDIX A, Market Study Report, Figure 6-8 "Forecasts of Occupancy, Average Rate, and RevPAR".
(2) Revenue per available room.

Projected Debt Service Coverage

The table set forth below summarizes the projected Debt Service coverage for the Bonds.

Pro-Forma Debt Service Coverage Table (Dollars in 000s)

Fiscal Year	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
EBITDA Less Reserve ⁽¹⁾	\$3,472	\$3,616	\$3,966	\$4,227	\$4,322	\$4,423	\$4,545	\$4,684	\$4,828	\$4,976
Add Back: Facilities Lease Payments ⁽²⁾	711	729	751	773	797	821	845	871	897	924
Amount Available for Debt Service	4,183	4,345	4,717	5,000	5,119	5,244	5,390	5,555	5,725	5,900
Less: Series 2017 Debt Service ⁽³⁾	2,770	2,876	3,125	3,309	3,392	3,473	3,572	3,677	3,793	3,909
Senior Debt Service Coverage	1.51x	1.51x	1.51x	1.51x	1.51x	1.51x	1.51x	1.51x	1.51x	1.51x
Amount Remaining After Debt Service	\$1,413	\$1,469	\$1,592	\$1,691	\$1,727	\$1,771	\$1,818	\$1,878	\$1,932	\$1,991
Less: Lease Payments ⁽¹⁾	711	729	751	773	797	821	845	871	897	924
Less: Additional Senior Debt Service Reserve Requirements Fund ⁽³⁾	-	-	-	-	-	-	-	-	-	-
Excess Revenue Available to Issuer	\$702	\$740	\$841	\$918	\$930	\$950	\$973	\$1,007	\$1,035	\$1,067

The Hilton Parties have not reviewed or endorsed any financial information or projections made in this Official Statement.

- (1) See APPENDIX A, Market Study Report, Figure 7-8 "Ten-Year Forecast of Revenue and Expense".
(2) Facilities Lease payments added back to cash flow as the deposit occurs later in the Revenue Flow of Funds in the Indenture.
(3) Provided by PFM Financial Advisors LLC.

DESCRIPTION OF THE BONDS

General

The Bonds will be issued in fully registered form in principal denominations of \$5,000 or integral multiples thereof. Interest due and payable on the Bonds on any Interest Payment Date (defined herein) will be paid to the person who is the Registered Owner as of the close of business on the fifteenth day of the calendar month (whether or not a business day) preceding such Interest Payment Date (the “Record Date”). Each Bond bears interest from the date of initial delivery of the Bonds if authenticated prior to April 1, 2018 or otherwise from the Interest Payment Date that is, or immediately precedes the date on which such Bond is authenticated.

The Bonds will be dated October 1, 2017. The Bonds will bear interest from the date of their initial delivery to the Underwriter at the interest rates as set forth on the inside cover hereof, payable on April 1, 2018, and each October 1 and April 1 thereafter until maturity or prior redemption (each an “Interest Payment Date”). Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

See “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE BOND DOCUMENTS” for certain provisions contained in the Indenture, including without limitation certain covenants, the rights and duties of the Trustee, the rights and remedies of the Trustee acting at the direction of a majority of Owners, provisions relating to amendments of the Indenture, and procedures for defeasance of the Bonds.

Redemption Provisions

Optional Redemption. The Bonds shall be subject to redemption at the option of the Issuer, in whole or in part at any time on or after October 1, 2027, from any legally available funds, at a Redemption Price equal to the principal amount to be redeemed, together with interest accrued thereon to the Redemption Date.

Extraordinary Mandatory Redemption. The Bonds shall be subject to extraordinary mandatory redemption at the direction of the Issuer, in whole or in part on the earliest date following the date for which notice of redemption can be given as provided in the Indenture, at a price equal to the principal amount of Bonds to be redeemed plus interest accrued thereon to the date fixed for redemption, without premium, from proceeds of insurance or condemnation awards not used to repair or replace the Hotel.

Notice of Redemption. The Trustee shall give notice of redemption, in the name of the Issuer, to Owners affected by redemption at least 30 days but not more than 60 days before each redemption and send such notice of redemption by first-class mail to each owner of a Bond to be redeemed; each such notice shall be sent to the owner’s registered address.

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

The Trustee’s obligation to give notice shall not be conditioned upon the prior payment to the Trustee of funds sufficient to pay the Redemption Price on the Bonds to which such notice relates or interest thereon to the Redemption Date. The failure to give notice to any Owner of any Bond or portion thereof to be redeemed shall not affect the validity of any proceedings for the redemption of any other Bond for which such notice has been duly given.

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

Selection of Bonds to be Redeemed. If less than all of the Bonds are to be redeemed, the maturities within the Bonds to be redeemed or their method of selection shall be determined by the Issuer. If less than all of the Bonds of a single maturity are to be redeemed, the Bonds to be redeemed will be selected by lot or other random method by the Trustee in such a manner as the Trustee may determine.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company (“DTC”), New York, New York, while the Bonds are registered in its nominee’s name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Issuer and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC

is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). Direct Participants and Indirect Participants are referred to herein collectively as “Participants”. DTC has Standard & Poor’s rating of “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the Issuer or the Trustee, on payable dates in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

NOTWITHSTANDING ANY PROVISION OF THE INDENTURE, THE TRUSTEE, SO LONG AS THE DTC BOOK-ENTRY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION, NOTICE OF PROPOSED AMENDMENT TO THE INDENTURE, OR OTHER NOTICES WITH RESPECT TO THE BONDS ONLY TO DTC. ANY FAILURE BY DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO NOTIFY THE BENEFICIAL OWNERS, OF ANY NOTICES AND THEIR CONTENTS OR EFFECT WILL NOT AFFECT THE VALIDITY OF THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON ANY SUCH NOTICE. REDEMPTION OF PORTIONS OF THE BONDS BY THE ISSUER WILL REDUCE THE OUTSTANDING PRINCIPAL AMOUNT OF SUCH BONDS HELD BY DTC. IN SUCH EVENT, DTC MAY IMPLEMENT, THROUGH ITS BOOK-ENTRY SYSTEM, A REDEMPTION OF SUCH BONDS HELD FOR THE ACCOUNT OF DTC PARTICIPANTS IN ACCORDANCE WITH ITS OWN RULES OR OTHER AGREEMENTS WITH DTC PARTICIPANTS, AND DIRECT PARTICIPANTS AND INDIRECT PARTICIPANTS MAY IMPLEMENT A REDEMPTION OF SUCH BONDS FROM THE BENEFICIAL OWNERS. ANY SUCH SELECTION OF THE BONDS TO BE REDEEMED WILL NOT BE GOVERNED BY THE INDENTURE AND WILL NOT BE CONDUCTED BY THE TRUSTEE. NONE OF THE ISSUER, THE TRUSTEE, OR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM DIRECT OR INDIRECT PARTICIPANTS ACT AS NOMINEES, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT; THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OR INTEREST; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO THE REGISTERED OWNERS OF THE BONDS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF PARTIAL REDEMPTION OF THE BONDS; OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC (OR ITS NOMINEE) AS THE REGISTERED OWNER OF THE BONDS. IF LESS THAN ALL OF THE BONDS ARE TO BE REDEEMED, THE CURRENT DTC PRACTICE IS TO DETERMINE BY LOT THE AMOUNT OF INTEREST OF EACH DTC PARTICIPANT IN EACH MATURITY TO BE REDEEMED.

Use of Certain Terms in Other Sections of this Official Statement

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

Effect of Termination of Book-Entry-Only System

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

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, printed certificates shall be delivered to the registered owner and thereafter the Bonds may be transferred and exchanged on the registration books of the Trustee only upon presentation and surrender to the Trustee and such transfer or exchange shall be without expense

or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Trustee. See “Book-Entry-Only System” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

SECURITY FOR AND SOURCES OF PAYMENT FOR THE BONDS

Following is a summary of certain provisions of the Indenture, including but not limited to sections of the Indenture detailing the pledge of the Trust Estate, revenue covenant, flow of funds, debt service deposits, Senior Debt Service Reserve Fund, Additional Bonds, and Permitted Investments. These summaries do not purport to be comprehensive or definitive. See APPENDIX B for a more complete description of these provisions of the Indenture.

Pledge of Trust Estate

The Bonds are limited obligations of the Issuer payable solely from and secured by a pledge of the Trust Estate. The term Trust Estate is defined in the Indenture to include, among other things, the revenues from the Hotel received by or on behalf of the Issuer. Revenues of the Hotel include, but are not limited to, except to the extent specifically excluded therefrom: (a) Total Revenues, which includes all receipts, revenues, income, investment earnings on funds which are deposited in the Revenue Fund and other money received by or on behalf of the Issuer in respect of the operation of the Hotel; (b) proceeds from insurance, condemnation awards with respect to the Issuer’s interest in the Hotel, and liquidated damages under contracts to the extent the same relate to the Hotel; (c) all amounts payable to the Issuer as liquidated damages under contracts, in each case, to the extent the same relate to the Hotel; (d) all amounts derived from the sale or other disposition of the Issuer’s interest in the Hotel; (e) amounts derived as grants, loans or otherwise from the United States of America, the State or any other Person which may be available for, and which the Issuer determines to, deposit in the Revenue Fund; (f) all investment earnings not included in Total Revenues that are transferred to or maintained in any Fund, Account or subaccount therein; (g) all moneys released from another Fund or Account and transferred to the Revenue Fund pursuant to the Indenture; and (h) all other amounts derived from or in respect of the operation of the Hotel which do not constitute Total Revenues but constitute revenues in accordance with Generally Accepted Accounting Principles. See “APPENDIX B — SUMMARY OF CERTAIN PROVISIONS OF THE BOND DOCUMENTS” for a more complete definition of the Trust Estate, Revenues and Total Revenues. The Trust Estate also includes amounts held in certain Funds and Accounts pursuant to the Indenture, as further described herein. See “THE HOTEL” herein for a description of the Hotel. A security interest in the Hotel is not granted as part of the Trust Estate.

Limited Obligation

THE BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE TRUST ESTATE IN ACCORDANCE WITH THE INDENTURE. NONE OF THE STATE, THE CITY OR ANY POLITICAL CORPORATION, SUBDIVISION OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS, OTHER THAN THE ISSUER BUT SOLELY FROM THE TRUST ESTATE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, THE CITY OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION OR AGENCY THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR PREMIUM, IF ANY, OR THE INTEREST ON THE BONDS. THE ISSUER HAS NO TAXING POWER.

Flow of Funds

As graphically depicted below, all Revenues shall be delivered to the Trustee immediately upon receipt by or on behalf of the Issuer and shall be deposited by the Trustee in the Revenue Fund immediately upon receipt by

the Trustee and amounts in the Revenue Fund shall be used for the purposes and in the order of priority set forth below:

First, on or before the fifteenth day of each month, to the extent not paid from other sources, Operating and Maintenance Expenses budgeted by the Issuer for the next succeeding month shall be distributed to, or to the order of, the Issuer;

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

Third, on or before the fifteenth day of each month, to the extent not paid from other sources, there shall be deposited into the Administrative Fee Fund the amount necessary to pay the Administrative Fees and Expenses due the following month, together with any accruals from prior periods, and the Trustee shall pay directly to the City an amount equal to \$10,000 each month as payment of one-twelfth of the City Fee;

Fourth, on or before the fifteenth day of each month there shall be transferred into the Renewal and Replacement Fund an amount equal to 4% of the Total Revenues received during such month, together with an amount necessary to replenish any draws therefrom to pay Debt Service on the Senior Bonds pursuant to the Indenture or to pay a Lease Payment; provided that such percentage may be adjusted by the Issuer upon written notice to the Trustee after taking into consideration the amount set forth in each R&R Plan as provided in the Indenture; provided further that if the amount to be deposited therein is greater than 4% of Total Revenues during any month, then such excess amount over 4% shall be deposited into the Renewal and Replacement Fund only after any deposit required by clause *Eighth* below to any debt service fund hereafter created to secure the payment of Subordinate Bonds has been made;

Fifth, unless provision for such payments from the Construction Fund or otherwise has been made as contemplated by the Indenture or otherwise, on or before the fifteenth day of each month, or at such other times as shall be set forth in any Supplemental Indenture, there shall be transferred to the Senior Debt Service Fund an amount equal to:

(A) one-sixth of any interest to become due and payable on each Series of Outstanding Senior Bonds on the next Interest Payment Date for such Series, plus an amount equal to any shortfall from a prior month to the extent not made up from another source; and

(B) one-twelfth of any Principal Installments to become due and payable on any Series of Outstanding Senior Bonds on or before the next date on which such Principal Installment is payable, plus an amount equal to any shortfall from a prior month.

Sixth, if the Senior Debt Service Reserve Fund contains less than the Senior Debt Service Reserve Fund Requirement due to (i) a withdrawal therefrom or (ii) a decrease therein due to a valuation of the investments on deposit therein pursuant to Section 6.04(b) of the Indenture, or (iii) an increase in the amount of the Senior Debt Service Reserve Fund Requirement, and the City DSRF Certificate required by Section 5.08(d) of the Indenture provides that Surplus Airport System Revenues are insufficient to fund the deficiency in the Senior Debt Service Reserve Fund to the Senior Debt Service Reserve Fund Requirement, then on or before the fifteenth day of the month next succeeding the receipt of such certificate, an amount equal to the amount needed to replenish the Senior Debt Service Reserve Fund to the Senior Debt Service Reserve Fund Requirement shall be deposited to the Senior Debt Service Reserve Fund, and if Revenues are insufficient at the time of such deposit to attain the Senior Debt Service Reserve Fund Requirement, such deposits shall continue each month from the next available Revenues until the Senior Debt Service Reserve Fund is funded at the Senior Debt Service Reserve Fund Requirement;

Seventh, on or before the fifteenth day of each month, to the extent not paid from other sources, there shall be deposited into the Lease Payment Fund the next Lease Payment estimated by the Manager to

be due and owing to the City under the Facilities Lease Agreement, together with any shortfall from any prior month's deposit due to an adjustment in such estimate or an insufficiency during such prior month or months in the deposit made therein, which estimate and shortfall shall be provided in writing by the Manager to the Trustee each month;

Eighth, if Subordinate Bonds are issued and outstanding, there shall be transferred to the trustee or other agent holding the funds for the payment of debt service of Subordinate Bonds amounts to enable the timely payment of Subordinate Bonds in the manner described in the proceedings authorizing the issuance of Subordinate Bonds;

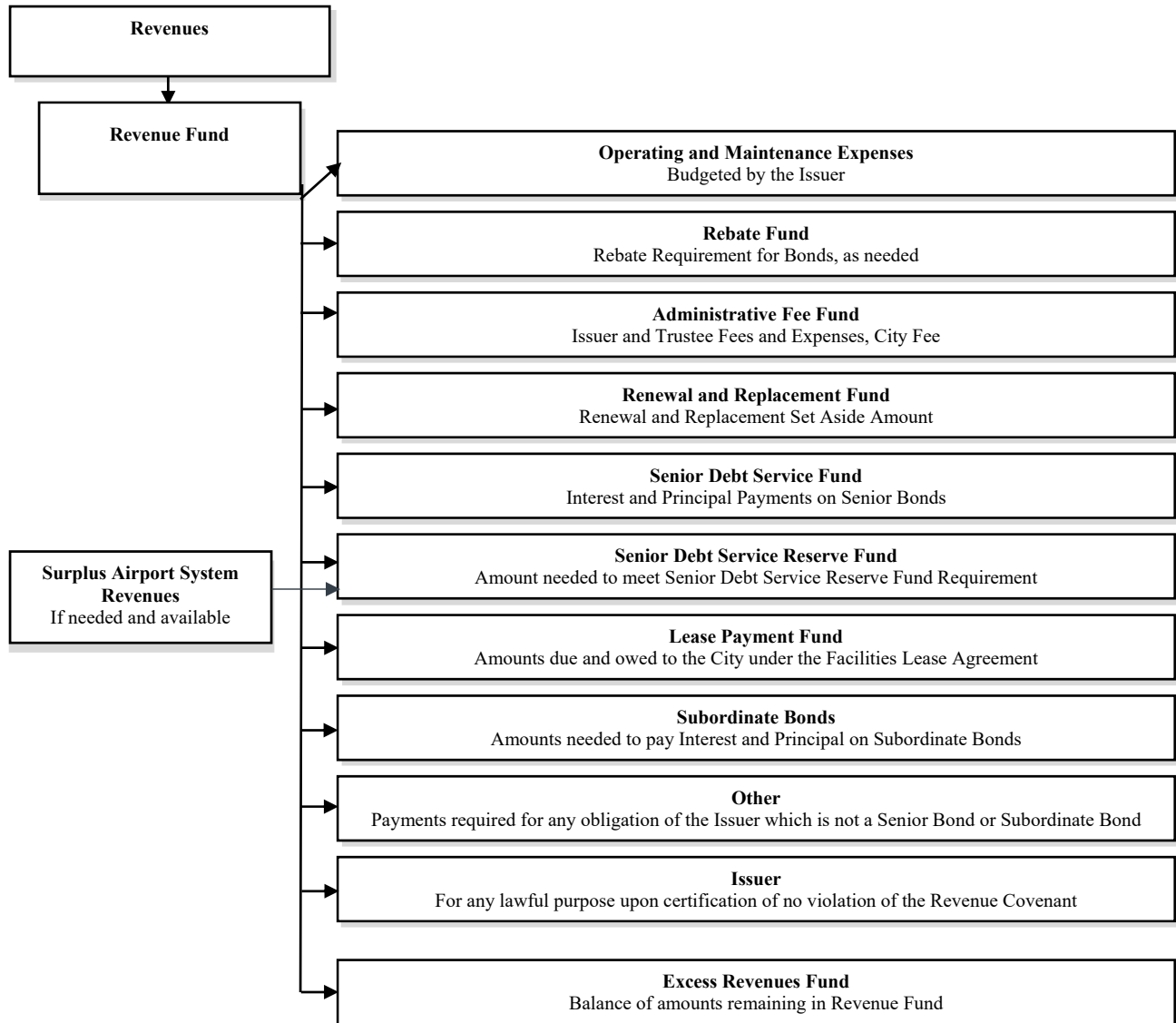
Ninth, any money remaining in the Revenue Fund at the end of any Fiscal Year after making the deposits required in clauses *First* through *Eighth* above shall be used to make or provide for all deposits, payments or transfers required by any agreement or other instrument creating or evidencing any obligation which is not a Senior Bond or Subordinate Bond, at the time and in the manner provided for in such instrument;

Tenth, any money remaining in the Revenue Fund at the end of any Fiscal Year after making the deposits required in clauses *First* through *Ninth* above may be transferred to the Issuer for any lawful purpose upon delivery of a certificate executed by an Authorized Issuer Representative and delivered to the City and the Trustee certifying that such transfer will not cause the Issuer to be in violation of the Revenue Covenant at the time such transfer is made.

Whenever the amount on deposit in the Senior Debt Service Reserve Fund is in excess of the Senior Debt Service Reserve Fund Requirement and the other conditions set forth in the Indenture have been complied with, the excess on deposit in such Fund shall be transferred to the Revenue Fund and applied as provided in clauses *First* through *Tenth* above.

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Flow of Funds Chart



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Additional Transfers to the Senior Debt Service Fund

If on any Interest Payment Date there are not sufficient moneys in the Senior Debt Service Fund on such date to pay principal of and interest on the Bonds, then due and owing, moneys shall be transferred to the Senior Debt Service Fund from the following sources in an amount which, together with the amount then on deposit in the Senior Debt Service Fund, will result in the Senior Debt Service Fund having the balance required to be on deposit therein pursuant to the requirements under the caption entitled “Flow of Funds” above:

First, from the Senior Capitalized Interest Account, if any, created for such Series of Bonds;

Second, from the Senior Debt Service Reserve Fund;

Third, from the Construction Fund; and

Fourth from the Renewal and Replacement Fund.

Any moneys transferred to the Senior Debt Service Fund from the Construction Fund as provided in *Third* above shall be transferred only at the direction of the City.

Senior Debt Service Reserve Fund

If on any date the amount in the Senior Debt Service Fund shall be less than the amount required to make all payments of principal and Redemption Price of and interest on the Senior Bonds then due and payable, the Trustee shall transfer amounts from the Senior Debt Service Reserve Fund to the extent necessary to make such payments.

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

Except as otherwise provided herein, whenever the amount in the Senior Debt Service Reserve Fund exceeds the Senior Debt Service Reserve Fund Requirement, the Trustee shall transfer such excess to the Revenue Fund.

If there occurs a deficiency in the Senior Debt Service Reserve Fund resulting from the events described in clause *Sixth* of the Flow of Funds, the Trustee shall immediately notify the Issuer and the City of such event and the amount of the deficiency that exists in the Senior Debt Service Fund (the “DSRF Deficiency Notice”). Upon being so notified by the Trustee, the City shall determine whether surplus revenues held by the City under the terms of its ordinances (the “Revenue Bond Ordinances”) authorizing the issuance of City general airport revenue bonds (“Surplus Airport System Revenues”) are sufficient to replenish the Senior Debt Service Reserve Fund to the Senior Debt Service Reserve Fund Requirement, and provide a certificate to the Trustee (the “City DSRF Certificate”) of such fact within 90 days of its receipt of the DSRF Deficiency Notice. If Surplus Airport System Revenues are sufficient, the City shall transfer Surplus Airport System Revenues to the Trustee within 120 days of its receipt of the DSRF Deficiency Notice, in accordance with the terms of the Grant Agreement, for deposit to the credit of the Senior Debt Service Reserve Fund in an amount equal to such deficiency. The Trustee agrees that immediately upon receipt of Surplus Airport System Revenues from the City delivered in accordance with the Grant Agreement, the Trustee shall deposit such amounts to the credit of the Senior Debt Service Reserve Fund, and will notify the City and the Issuer of such deposit. The parties recognize that the sole source of money available to the City to make such deposits is Surplus Airport System Revenues, and if the City delivers the City DSRF Certificate within 90 days of receipt of the DSRF Deficiency Notice, no Event of Default shall be deemed to have occurred under the terms of the Indenture. If the City DSRF Certificate provides that Surplus Airport System Revenues are insufficient to

replenish the Senior Debt Service Reserve Fund to the Senior Debt Service Reserve Fund Requirement, the Senior Debt Service Reserve Fund deficiency will be funded with the next available Revenues.

Notwithstanding any other provision heretofore of any Supplemental Indenture, the Trustee, at the written direction of the Issuer at any time, and upon receipt of a written opinion of Bond Counsel to the effect that such substitution shall not cause the interest on the Bonds to become includable as gross income to the holders of such Bonds for federal income tax purposes, shall substitute for the cash deposit in the Senior Debt Service Reserve Fund or any Account or Subaccount thereof, a letter of credit, surety bond, insurance policy, agreement guaranteeing payment or other undertaking by a financial institution to insure that cash in the amount otherwise required to be maintained therein will be available to the Trustee as needed. Upon any such substitution, the cash deposit in such Fund, Account or Subaccount shall be transferred to the Construction Fund or the Revenue Fund, as directed by the Issuer.

“Senior Debt Service Reserve Fund Requirement” means (a) on the Closing Date, the average annual principal and interest requirements for the Bonds and (b) on each Calculation Date, the maximum annual principal and interest requirements for the Senior Bonds during the next five Fiscal Years following such Calculation Date.

“Calculation Date” means October 1, 2022, and each fifth anniversary thereafter while the Bonds are outstanding.

Grant Agreement

Pursuant to the Grant Agreement, the City has agreed, pursuant to the Letter of Intent, to provide Surplus Airport System Revenues, to the extent they are available, for deposit into the Senior Debt Service Reserve Fund for a term ending on the date that the Bonds, or obligations issued to refinance the Bonds, are no longer outstanding.

Upon receiving written notice from the Trustee in the form of a DSRF Deficiency Notice noting (i) that a deficiency in the Senior Debt Service Reserve Fund exists due to (A) a withdrawal from the Senior Debt Service Reserve Fund, (B) a decrease in the value of such fund resulting from a decrease in valuation of the investments on deposit therein, or (C) an increase in the Senior Debt Service Reserve Fund Requirement resulting from a recalculation of the Senior Debt Service Reserve Fund Requirement on a Calculation Date, and (ii) the amount of such deficiency, the City shall expeditiously, and in no event later than 45 days after receipt of the DSRF Deficiency Notice, make a determination (the “Grant Funding Determination”) as to whether Surplus Airport System Revenues are, or will become, sufficient to fund such deficiency in the Senior Debt Service Reserve Fund within 120 days from the date of the DSRF Deficiency Notice.

Following the Grant Funding Determination, the City shall expeditiously, and in no event later than 90 days after receipt of the DSRF Deficiency Notice, provide a certificate in the form of a City DSRF Certificate to the Trustee and the Issuer, as to the City’s ability to transfer Surplus Airport System Revenues in the form of a grant or grants to the Issuer equal to the amount necessary to restore the Senior Debt Service Reserve Fund to the Senior Debt Service Reserve Fund Requirement (the “Grant”).

If the City DSRF Certificate delivered to the Trustee provides that Surplus Airport System Revenues are sufficient to fund the Grant to the Issuer in order to restore the Senior Debt Service Reserve Fund to the Senior Debt Service Reserve Fund Requirement, the Grant shall be transferred by the City to the Trustee, on behalf of the Issuer, within 120 days of the date of the DSRF Deficiency Notice.

If the City DSRF Certificate delivered to the Trustee provides that Surplus Airport System Revenues are insufficient to fund the Grant to the Issuer in order to restore the Senior Debt Service Reserve Fund to the Senior Debt Service Reserve Fund Requirement, no further action by the City will be required and the Trustee shall proceed to restore such deficiency in the Senior Debt Service Reserve Fund pursuant to the *Sixth* clause of the Flow of Funds.

Any Grant made by the City pursuant to the terms of the Grant Agreement is payable solely from Surplus Airport System Revenues available, or to become available, within the 120-day period immediately following the date of the DSRF Deficiency Notice, and the availability of such Surplus Airport System Revenues is subject further to the terms and conditions set forth in the Revenue Bond Ordinances and any additional ordinances adopted from time to time by the City in connection with the issuance of general airport revenue bonds. Any Grant made by the City pursuant to the Grant Agreement will constitute a “Subordinate Obligation,” as such term is defined in the Revenue Bond Ordinances.

Any Grant by the City shall be made only if the Hotel remains in continuous operation during the term of the Grant Agreement and the City has no obligation under the Grant Agreement to make a Grant to fund a deficiency in the Senior Debt Service Reserve Fund resulting directly or indirectly from a closure, whether temporary or otherwise, of the Hotel.

In no event will a grant provided by the City under the Grant Agreement be used to fund the initial increase in the Senior Debt Service Reserve Fund Requirement resulting from the issuance of Additional Bonds pursuant to the Indenture. In the event the Senior Debt Service Reserve Fund Requirement increases due to the issuance of Additional Bonds, such initial deficiency in the Senior Debt Service Reserve Fund will be funded with proceeds of Additional Bonds or other available funds of the Issuer at the time of the issuance of such Additional Bonds.

Revenue Covenant

The Issuer has covenanted in the Indenture to fulfill the following requirements:

(a) There shall be fixed, charged and collected pursuant to the Facilities Lease Agreement and the Indenture such fees or other charges in respect of the Hotel as shall be required to produce Net Revenues which, for 12 months beginning on the first day of the thirteenth month immediately following Closing Date, and for each Fiscal Year thereafter, shall be at least equal to 1.25 times the Aggregate Debt Service due on the Senior Bonds in such 12-month period or Fiscal Year.

(b) Before the beginning of such 12-month period or each such Fiscal Year, the Issuer will review or cause to be reviewed the financial status of the Hotel in order to estimate and determine whether Total Revenues for such 12-month period or the current Fiscal Year and for the following Fiscal Year will be sufficient to comply with the covenant set forth in subsection (a) of this Section. In connection with the preparation of the annual budget for each Fiscal Year, the Issuer will prepare and file or cause to be prepared and filed with the Trustee, the City, and any Owner submitting a request therefor, a copy of its estimate of Total Revenues, Operating and Maintenance Expenses, Debt Service and any transfers of Total Revenues required to be made to any other Fund or Account hereunder, together with a statement of the pertinent estimates and assumptions, which must take into consideration the cost of completing any uncompleted portion of the Hotel defined in Supplemental Indentures and the issuance of future Series of Additional Bonds, if necessary, to finance the completion. If the Issuer in adopting, or causing the adoption of, any annual budget determines that Total Revenues may be inadequate to meet such covenant, or if the audited financial reports regarding the Hotel prepared by the Issuer show that the Issuer did not satisfy such covenant for the prior Fiscal Year, the Issuer shall, within 60 days of such determination or the date such audit is final, engage or cause to be engaged a Consultant who shall conduct a study and, within 60 days of such engagement, recommend such actions as will provide sufficient Net Revenues in the next succeeding 12 months and thereafter each Fiscal Year to comply with the covenant in subsection (a) of this Section and that will provide additional Net Revenues in such next succeeding 12 months and thereafter each Fiscal Year to eliminate any deficiency at the earliest practicable time. A copy of such study and recommendations shall be filed with the Trustee, the City and any Owner requesting such study. The Issuer will take such recommended action no later than 60 days after the receipt of such recommendations from the Consultant.

(c) Failure to comply with the covenant described in subsection (a) above will not constitute an Event of Default if either (i) the Issuer complies or causes to be complied with the covenant described in

subsection (b) above or (ii) the Consultant provides a written opinion to the Trustee that any action that attempts to comply with such covenant is impracticable at that time; provided, however, that failure to produce Net Revenues at least equal to 1.00 times the Aggregate Debt Service due on the Senior Bonds in a Fiscal Year will in all events constitute an Event of Default. For purposes of the preceding sentence, "impracticable" means (A) such action would not result in compliance with the covenant described in subsection (a) above, (B) the economic cost of taking such action exceeds the economic benefit resulting from such action or (C) the Issuer does not have sufficient available funds to pay the cost of taking such action.

(d) If the recommendation of the Consultant includes replacing the Operator of the Hotel, the Manager shall have 30 days from the date of issuance of the recommendation to retain a second Consultant to review the initial Consultant's study and recommendations. If the second Consultant concurs with the initial Consultant's recommendation to replace the Operator, the Issuer shall direct the Manager to do so under the Management Agreement or, if the Manager is the Operator, the Issuer shall replace the Manager. If the second Consultant recommends retaining the Operator, upon the City's direction, the Issuer shall direct the Manager to replace the Operator or, if the Manager is the Operator, the Issuer shall replace the Manager.

Additional Bonds

The Issuer has not agreed to issue any Additional Bonds and currently does not intend to do so. No Additional Bonds shall be issued under the Indenture unless the following additional requirements are satisfied:

(a) All (but not less than all) the Bonds of each Series shall be executed by the Issuer for issuance under the Indenture and delivered to the Trustee and thereupon shall be authenticated by the Trustee or an Authenticating Agent and by it delivered upon the order of the Issuer, but only upon the receipt by the Trustee of:

(i) an opinion of Bond Counsel in customary form to the effect that, as of its date: (A) the Indenture and, with respect to Additional Bonds, the Supplemental Indenture authorizing the Additional Bonds of such Series have been duly authorized, executed and delivered by the Issuer, are in full force and effect and constitute legal, valid and binding special, limited obligations of the Issuer; (B) the Indenture and, with respect to Additional Bonds, such Supplemental Indenture create the valid pledge of and lien on the Trust Estate which they purport to create, subject only to the provisions of the Indenture and, with respect to Additional Bonds, such Supplemental Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture and, with respect to Additional Bonds, such Supplemental Indenture; and (C) the Bonds of such Series are valid and binding special, limited obligations of the Issuer, payable solely from the sources provided therefor in the Indenture and, with respect to Additional Bonds, such Supplemental Indenture; provided, however, that such opinion may include exceptions for limitations imposed by or resulting from bankruptcy, insolvency, moratorium, reorganization, or other laws affecting creditors' rights generally, matters relating to equitable or governmental principles and other exceptions or qualifications appropriate in the circumstances;

(ii) a letter, signed by an Authorized Issuer Representative, instructing the Trustee as to the delivery of such Bonds;

(iii) in the case of each Series of Additional Bonds, an executed copy of the Supplemental Indenture authorizing such Bonds which shall specify; (A) the authorized principal amount, designation, Tier (if applicable) and Series of such Bonds; (B) the maturity date or dates of the Bonds of such Series; (C) the interest rate or rates, if any, or the manner of determining such interest rate or rates, on the Bonds of such Series and the Interest Payment Date or Dates thereof; (D) the denominations of and the manner of dating, numbering and lettering the Bonds of such

Series; (E) any capitalized interest requirements (or the method of determining the same) for the Bonds of such Series; (F) any Paying Agent, Registrar, or other agent required in respect of the Bonds of such Series; (G) the Redemption Prices, if any, and the redemption or purchase terms, for the Bonds of such Series; (H) the amount and due date of each Sinking Fund Installment, if any, for Bonds of like maturity of such Series; (I) the form of the Bonds of such Series; and (J) any other provisions deemed advisable by the Issuer and not in conflict with the provisions of the Indenture;

(iv) if required by State law on their date of issuance, the written opinion of the Attorney General of the State of Texas with respect to the validity of the Bonds of such Series;

(v) such further opinions and instruments as are required by or pursuant to the provisions of the Indenture or any Supplemental Indenture;

(vi) a certified copy of the resolution adopted by the Board of the Issuer authorizing the issuance and delivery of such Bonds; and

(vii) a certified copy of the resolution adopted by the City Council of the City approving the issuance of such Bonds by the Issuer.

(b) All Refunding Bonds of each Series shall be executed by the Issuer for issuance under the Indenture and delivered to the Trustee and thereupon shall be authenticated by the Trustee or any Authenticating Agent and by it delivered upon the order of the Issuer, but only upon the receipt by the Trustee of:

(i) the opinions and instruments referred to in clause (a) above;

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

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

(iv) evidence satisfactory to the Trustee that the deposit of moneys or Investment Securities required by the Indenture has been made; and

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

(c) No Additional Bonds (including Refunding Bonds) shall be issued unless the following additional requirements are satisfied by delivery to the Trustee:

(i) for all Additional Bonds not permitted pursuant to paragraph (ii) below, the following conditions are met:

(A) a certificate or report of an Accountant to the effect that: (1) if such Additional Bonds (including Refunding Bonds) constitute Senior Bonds, the delivery of a certificate or report to the effect that Net Revenues will be generated such that (i) the ratio of such Net Revenues to the projected Aggregate Debt Service for the Senior Bonds, taking into account the Additional Bonds proposed to be issued and all Outstanding Bonds (other than the Bonds proposed to be refunded with proceeds of such Additional

Bonds), is not less than 1.25:1.00 for each fiscal year of the Issuer succeeding the date of issuance of such Additional Bonds and (ii) the ratio of such Net Revenues to the projected Aggregate Debt Service for the Senior Bonds and the Subordinate Bonds, taking into account the Additional Bonds proposed to be issued and all Outstanding Bonds (other than Bonds proposed to be refunded with proceeds of such Additional Bonds), is not less than 1.10:1.00 for each fiscal year of the Issuer succeeding the date of issuance of such Additional Bonds; provided, however, that if the issuance of Refunding Bonds achieves a gross cash flow savings, the delivery of a certificate or report by an Accountant is not required as a condition to the issuance of such Refunding Bonds as Additional Bonds; (2) if such Additional Bonds (including Refunding Bonds) constitute Subordinate Bonds, the delivery of a certificate or report to the effect that Net Revenues will be generated such that the ratio of such Net Revenues to the projected Aggregate Debt Service for the Senior Bonds and Subordinate Bonds is not less than 1.10:1.00 for each fiscal year of the Issuer following the date of issuance of such Additional Bonds; provided, however, that if the issuance of Refunding Bonds achieves a gross cash flow savings, the delivery of a certificate or report by an Accountant is not required as a condition to the issuance of such Refunding Bonds as Additional Bonds; and

(B) a certificate of an Authorized Issuer Representative dated as of the date of issuance of such Series of Additional Bonds, stating that there exists no Event of Default hereunder; and

(ii) without regard to the limitations of clause (i) above for any Refunding Bonds, a certificate executed by an Authorized Issuer Representative, dated as of the date of issuance of such Refunding Bonds, that the annual Debt Service during each Fiscal Year on the Refunding Bonds will not exceed the annual Debt Service during each Fiscal Year on Bonds refunded by the Refunding Bonds prior to the issuance of such Refunding Bonds, unless otherwise approved by the City.

Subordinate Bonds

The Issuer has the right to issue Subordinate Bonds that are subordinated in priority and in right and time of payment to (i) all amounts due on the Senior Bonds (including the Bonds) and (ii) all amounts required to be transferred or paid from the Revenue Fund or deposited in any Fund or Account in priority to the deposits to be made in accordance with the Flow of Funds set forth above.

Payment of the Subordinate Bonds shall be made by the Trustee only from moneys rightfully on deposit in the debt service fund and any other account hereafter created under the terms of Supplemental Indenture solely for the benefit of the holders of Subordinate Bonds. Payment of the Subordinate Bonds shall not be from funds required to pay or to be reserved to pay the Senior Bonds, any expenses, costs or fees relating thereto, any other amounts due hereunder. No payment shall be due and payable on the Subordinate Bonds, and the holders of the Subordinate Bonds, by acceptance of the Subordinate Bonds, expressly agree and acknowledge that (i) no payment shall be due and payable on the Subordinate Bonds, if the Trustee does not rightfully hold sufficient funds in the debt service fund and any other account hereafter created under the terms of Supplemental Indenture solely for the benefit of the holders of Subordinate Bonds to make such payment and (ii) if an Event of Default exists, no amounts may be transferred from the Revenue Fund to the debt service fund and any other account hereafter created in the proceedings authorizing the issuance of Subordinate Bonds solely for the benefit of the holders of Subordinate Bonds. No amounts deposited to the Senior Debt Service Fund, the Senior Debt Service Reserve Fund, the Administrative Fee Fund or the Renewal and Replacement Fund may be used to make payments on the Subordinate Bonds, unless no Senior Bonds remain Outstanding.

Investment of Funds

Moneys held in any Fund or Account to be held by the Trustee shall be invested and reinvested by the Trustee as promptly as practicable, in accordance with a Letter of Instructions executed by an Authorized Issuer Representative, in Investment Securities. Investment Securities in all Funds and Accounts shall mature, or the principal of and accrued interest on such Investment Securities shall be available for withdrawal without penalty, not later than such times as shall be necessary to provide moneys when needed for payment to be made from such Funds and Accounts.

AUSTIN-BERGSTROM INTERNATIONAL AIRPORT

Terms not defined in this section shall have the meanings set forth in the Revenue Bond Ordinances. See “APPENDIX H – SUMMARY OF CERTAIN PROVISIONS OF THE REVENUE BOND ORDINANCES” herein.

General

The Airport is comprised of airport, heliport and aviation facilities or any interest therein owned, operated or controlled in whole or in part by the City. The Airport is classified by the FAA as a medium hub airport and, according to Airports Council International - NA, the Airport is the 38th largest airport in the United States based on calendar year 2015 total passengers.

The Airport opened in 1999 at the site of the former Bergstrom Air Force Base, replacing Robert Mueller Municipal Airport. The Airport occupies a 4,240-acre site approximately eight miles southeast of downtown Austin. Airport access is provided by Texas State Highway 71 (“SH 71”), a six-lane divided highway running east-west, and U.S. Highway 183 (“US 183”), a four-lane divided highway running north-south. SH 71 provides access to Interstate Highway 35 (“I-35”) approximately six miles to the west.

The Airport’s two parallel north-south runways, designated 17L-35R and 17R-35L, are 9,000 feet and 12,250 feet long, respectively, 150 feet wide, and capable of accommodating all aircraft now in commercial service. The runways are separated by 6,700 feet, allowing their use for the simultaneous arrival of aircraft in virtually all weather conditions.

The main passenger terminal, the Barbara Jordan Terminal (the “Terminal” or the “North Terminal”), is 736,000 square feet and contains four levels:

- Level 1, the baggage claim level, provides 149,000 square feet of space for baggage claim devices, lobby, and support facilities. The baggage claim level accommodates a 33,000-square-foot Customs and Border Patrol (“CBP”) facility for the processing of arriving international passengers.
- Level 2, the apron level, provides 230,000 square feet of space for inbound and outbound baggage handling equipment and facilities, airline operations space, and other non-public areas. The apron level also provides a passenger holdroom for the ground-level loading of regional airline aircraft (Gate 1). The aircraft parking apron adjacent to the terminal provides approximately 56 acres for aircraft parking at the 25 terminal gates, as well as up to 24 “remain overnight” parking positions.
- Level 3, the concourse level, provides 294,000 square feet of space for airline check-in counters with lobby and queuing areas, airline offices, public circulation areas, passenger security screening facilities, concessions, passenger holdrooms, restrooms, and supporting facilities. The concourse provides 23 loading bridge-equipped aircraft parking positions (gates) capable of accommodating up to B-757-size aircraft in domestic service, one loading bridge-equipped gate (Gate 2) capable of accommodating widebody aircraft in international service and providing access to the CBP facility and to Gate 1 at the apron level.

- Level 4, the mezzanine level, provides 56,000 square feet of space for Aviation Department and other offices and for airline club rooms. Above the mezzanine level is a 7,000-square-foot penthouse level with mechanical rooms.

To keep pace with increasing passenger traffic and prepare for the future growth of air service to the rapidly growing area, Austin-Bergstrom International Airport is undergoing expansion. The Terminal & Apron Expansion and Improvement Project includes the addition of nine new gates, hold room space, concessions space, restroom facilities, concourse circulation space, and airport and airline support space. In addition, upgrades to utilities and infrastructure will be made to support the expansion. The terminal expansion is currently under construction and completion is expected in 2019. The construction of the first of three apron expansion phases in support of the terminal's expansion will be completed in summer 2017 with additional phases continuing through summer 2019. The project also includes improvements to the existing terminal facility, such as mechanical system improvements, baggage claim level infrastructure improvements, and roof replacement. The project is anticipated to cost \$378 million.

The Parking Garage & Administration Building Project is being constructed on West Parking Lot A to accommodate growing passenger demand for parking close to the terminal and office space needs for administrative staff. Construction is underway on the 6,000-space garage, which is slated for completion in winter 2018-2019. The new administration building will consolidate administration and IT staff and provide additional revenue-generating space in the terminal. The administration building portion of the project is in the design phase and is scheduled for completion in spring 2019. The project is anticipated to cost \$250 million.

Aviation's Consolidated Maintenance Facility project is in the design phase. This facility will consolidate the building maintenance, airline maintenance, motor pool, field maintenance, asset management, and warehousing teams. These groups are currently located at disparate locations on the airport campus, and the size and condition of these areas are no longer sufficient for comfortable, efficient maintenance operations. The project is anticipated to cost \$67 million.

The Baggage Handling System project is in the planning phase. The current Baggage Handling System is nearing its capacity to handle domestic and international passenger traffic. Additionally, the existing baggage handling system is separated into east and west matrix/system with no method for crossover between the two systems. As one of the most vital systems within airport infrastructure a new centralized baggage handling system will improve airport and TSA efficiency in addition to centralizing the baggage handling system function and increasing capacity to meet future demands. The project is anticipated to cost \$100 million.

In addition, the Aviation Department is in the data-gathering stage of its Master Plan Update. The Master Plan will serve as a strategic plan and provide long-term guidance for future airport improvements required to satisfy regional aviation demands. This plan will address the development of landside, terminal, and airside facilities for the next twenty years.

The Airport also includes a second passenger terminal, the 30,000 square-foot South Terminal. On April 13, 2017, Allegiant Air started operating out of the newly renovated South Terminal. The South Terminal includes three aircraft gates, ticketing and check-in areas, a central passenger hold room, a TSA checkpoint, a baggage screening area, a baggage claim area, a food court and other passenger amenities.

Approximately 14,300 public and 1,500 employee parking spaces are provided on Airport property in a three-level parking garage adjacent to the Terminal, the consolidated rental car garage, and in surface lots served by shuttle buses. Other facilities at the Airport include air cargo and general aviation facilities and facilities for Texas Department of Transportation flight services, Texas Air National Guard, aviation support, and non-aeronautical facilities.

The Airport's primary service region is the 4,220 square-mile, five county Austin-Round Rock Metropolitan Statistical Area (the "MSA"). According to the U.S. Department of Commerce, Bureau of the Census, the population of the MSA as of July 1, 2015 was 2,001,000, an increase of approximately 3.0% annually since July

1, 2010. The Airport is primarily an Origination and Destination (“O&D”) airport; approximately 95% of enplaned passengers (passengers boarding) at the Airport originated their air travel at the Airport and approximately 5% connected between flights during the City’s fiscal year 2015 (the latest fiscal year for which that information is available). Approximately 52% of enplaned passengers live in the Airport’s primary service region, and approximately 48% are visiting the service area.

The Airport’s secondary service region is defined by the location of (and airline service provided at) the nearest commercial service airports. The nearest airports classified as large or medium hub airports by the FAA are those serving San Antonio (a medium hub airport approximately 80 road miles to the southwest of the Airport), Houston (approximately 160 road miles to the east served by Houston Bush Intercontinental, a large hub, and Houston Hobby, a medium hub) and Dallas-Fort Worth (approximately 220 road miles to the north served by DFW International, a large hub; and Dallas Love Field, a medium hub). The table below shows historical airline traffic in the Airport.

TABLE TWO
(Corresponds to Table One of the Airport’s Continuing Disclosure
Undertaking pursuant to the Revenue Bond Ordinances)
Historical Airline Traffic
Austin-Bergstrom International Airport
(For Fiscal Years Ended September 30)

Fiscal Year	Enplaned Passengers ^(a)	Annual Increase (Decrease)	Passenger Aircraft Departures		Enplaned Passengers per Departure
			Annual	Average Daily	
2000	3,655,588	-	46,260	126	79
2001	3,679,949	0.7%	45,326	124	81
2002	3,264,847	(11.3)	41,959	115	78
2003	3,282,670	0.5	43,747	120	75
2004	3,482,196	6.1	47,207	129	74
2005	3,715,811	6.7	48,668	133	76
2006	3,981,081	7.1	50,663	139	79
2007	4,262,698	7.1	53,828	147	79
2008	4,473,485	4.9	56,597	155	79
2009	4,107,593	(8.2)	47,848	131	86
2010	4,256,806	3.6	46,745	128	91
2011	4,524,641	6.3	48,398	133	93
2012	4,662,738	3.1	48,372	132	96
2013	4,928,979	5.7	50,554	139	97
2014	5,275,464	7.0	51,877	142	102
2015	5,792,387	9.8	55,557	152	104
2016	6,180,464	6.7	56,349	154	110
2017 ^(b)	4,940,335	N/A	43,060	158	115
		<u>Average Annual Percent Increase (Decrease)</u>			
	2000-2003	(3.5)%		(1.8)%	
	2003-2008	6.4%		5.3%	
	2008-2009	(8.2)%		(15.5)%	
	2009-2016	6.0%		2.4%	

Note: Calculated percentages may not match those shown because of rounding.

^(a) Excludes through passengers.

^(b) October 1, 2016 through June 30, 2017.

Source: Aviation Department records.

Historical Financial Data

The City has agreed to provide Surplus Airport System Revenues, to the extent they are available, for deposit into the Senior Debt Service Reserve Fund for the Bonds. Any transfer of Surplus Airport System Revenues in the form of a Grant pursuant to the Grant Agreement will constitute a Subordinate Obligation under the Revenue

Bond Ordinances and is dependent on the availability of surplus revenues of the Airport (i.e. Surplus Airport System Revenues). The City, as operator of the Airport, currently accounts for the Airport's activities according to generally accepted accounting principles through an enterprise fund. Information on the Airport enterprise fund and the availability of Surplus Airport System Revenues can be found in the City's audited financial statements for the Fiscal Year ended September 30, 2016, which are included as APPENDIX G to this Official Statement.

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Table Three represents the historical operating results of the Airport enterprise fund for Fiscal Years 2012 through 2016 based on the audited financial statements of the City, as reported on by the City's certified public accountants.

TABLE THREE
(Corresponds to Table Six of the Airport's Continuing Disclosure
Undertaking pursuant to the Revenue Bond Ordinances)
Comparative Statements of Revenues, Expenses and Changes in Retained Earnings/Net Position
City of Austin, Texas
Airport Fund
(Fiscal Year Ended September 30)
(in thousands)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Revenue					
User fees and rental	\$ 95,904	\$ 103,515	\$ 108,960	\$ 119,969	\$ 135,765
Operating revenues	<u>95,904</u>	<u>103,515</u>	<u>108,960</u>	<u>119,969</u>	<u>135,765</u>
Expenses					
Operating expenses before depreciation	69,201	70,148	76,042	80,182	88,257
Depreciation	<u>20,398</u>	<u>21,121</u>	<u>21,151</u>	<u>20,690</u>	<u>28,092</u>
Total operating expenses	<u>89,599</u>	<u>91,269</u>	<u>97,193</u>	<u>100,872</u>	<u>116,349</u>
Operating income before non-operating revenues (expenses) and operating transfers	<u>6,305</u>	<u>12,246</u>	<u>11,767</u>	<u>19,097</u>	<u>19,416</u>
Non-operating revenues (expenses)					
Interest and other revenues	395	190	221	1,225	1,891
Interest on revenue bonds and other debt	(12,933)	(12,801)	(11,794)	(18,924)	(21,161)
Interest capitalized during construction	512	843	1,409	1,284	1,282
Passenger facility charges	18,414	19,506	19,806	22,384	24,101
Cost (recovered) to be recovered in future years	(220)	(207)	-	-	-
Other non-operating expenses	<u>537</u>	<u>(3,704)</u>	<u>(312)</u>	<u>(686)</u>	<u>535</u>
Total non-operating revenues (expenses)	<u>6,705</u>	<u>3,827</u>	<u>9,330</u>	<u>5,283</u>	<u>6,648</u>
Income (loss) before contributions and transfers	13,010	16,073	21,097	24,380	26,064
Capital contributions	9,030	4,598	4,808	8,405	3,018
Transfers In	-	-	3	-	5
Transfers Out	<u>(6,395)</u>	<u>(72)</u>	<u>(793)</u>	<u>(52)</u>	<u>(442)</u>
Change in net position	15,645	20,599	25,115	32,733	28,645
Total net position – beginning	478,704	494,349	512,535 ⁽¹⁾	517,020 ⁽²⁾	549,753
Total net position - ending	<u>494,349</u>	<u>514,948</u>	<u>537,650</u>	<u>549,753</u>	<u>578,398</u>

The Hilton Parties have not reviewed or endorsed any financial information or projections made in this Official Statement.

⁽¹⁾ An adjustment of (\$2,413) was applied to the final net position for FY 2013 to properly record implementation of GASB Statement No. 65.

⁽²⁾ An adjustment of (\$20,630) was applied to the beginning net position for FY 2015 to properly record implementation of GASB Statement No. 68 and 71.

Revenue Bonds and Other Obligations of the Airport

Pursuant to the Revenue Bond Ordinances, the following six series of Revenue Bonds are outstanding, in the following aggregate principal amounts, as of August 1, 2017: (1) the City's Airport System Refunding Revenue Bonds, Series 2005 (AMT) outstanding in the aggregate principal amount of \$179,075,000 (the "Series 2005 Airport Bonds"), (2) the City's Airport System Revenue Bonds, Series 2013, outstanding in the aggregate principal amount of \$56,410,000 (the "Series 2013 Airport Bonds"), (3) the City's Airport System Revenue Bonds, Series 2013A, outstanding in the aggregate principal amount of \$17,988,000 (the "Series 2013A Airport Bonds"), (4) the City's Airport System Revenue Bonds, Series 2014 (AMT) outstanding in the aggregate principal amount of \$244,495,000 (the "Series 2014 Airport Bonds"), (5) the City's Airport System Revenue Bonds, Series 2017A outstanding in the aggregate principal amount of \$185,300,000 (the "Series 2017A Airport Bonds"), and (6) the City's Airport System Revenue Bonds, Series 2017B (AMT) outstanding in the aggregate principal amount of \$129,665,000 (the "Series 2017B Airport Bonds," and collectively with the Series 2005 Airport Bonds, the Series 2013 Airport Bonds, the Series 2013A Airport Bonds, the Series 2014 Airport Bonds, and the Series 2017A Airport Bonds, the "Outstanding Revenue Bonds"). The City anticipates that it will issue approximately \$181,635,000 principal amount of Additional Revenue Bonds in 2018.

The Outstanding Revenue Bonds, together with any Additional Revenue Bonds (if and when issued), are secured by and payable from a first lien on the Airport Net Revenues. "Airport Net Revenues" means that portion of Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses of the Airport.

The Outstanding Revenue Bonds and a Swap Agreement with Morgan Stanley Capital Services, Inc. which is currently outstanding in connection with the Series 2005 Bonds, are the only outstanding obligations of the City payable from a first lien on and pledge of the Airport Net Revenues. Pursuant to the Revenue Bond Ordinances, the City has the right to issue Additional Revenue Bonds payable from a first lien on and pledge of the Airport Net Revenues if certain requirements under the Revenue Bond Ordinances are met. Additional Revenue Bonds (which may include, without limitation, bonds, notes, bond anticipation notes, commercial paper, lease or installment purchase agreements or certificates of participation therein and Credit Agreement Obligations to Credit Providers) may mature on any date or dates over any period of time; bear interest at a fixed or variable rate; be payable in any currency or currencies; be in any denominations; be subject to additional events of default; if bearing interest at a variable rate, may be subject to mandatory tender for purchase; have any interest and principal payment dates; be in any form (including registered, book-entry or coupon); include or exclude redemption provisions; be sold at a certain price or prices; be further secured by any separate and additional security; be subject to optional tender for purchase; and otherwise include such additional terms and provisions as the City may determine, subject to the then-applicable requirements and limitations imposed by State law. See "APPENDIX H – SUMMARY OF CERTAIN PROVISIONS OF THE REVENUE BOND ORDINANCES – Additional Bonds" in this Official Statement.

The City has reserved the right to issue or incur, for any lawful Airport System purpose, obligations secured in whole or in part by liens on the Airport Net Revenues that are junior and subordinate to the lien on Airport Net Revenues securing payment of the Outstanding Revenue Bonds and any Additional Revenue Bonds. Although such obligations are referred to in the Revenue Bond Ordinances as "Subordinate Obligations," such obligations may bear any name or designation provided by the ordinance authorizing their issuance. Such Subordinate Obligations may be secured by any other source of revenues lawfully available for such purposes. See "APPENDIX H – SUMMARY OF CERTAIN PROVISIONS OF THE REVENUE BOND ORDINANCES - Funds and Flow of Funds."

The City has issued, and reserves the right to issue additional, obligations of the City secured by a levy of ad valorem taxes from time to time issued or to be issued by the City for Airport System purposes ("General Obligation Airport Bonds"). General Obligation Airport Bonds may be paid from remaining Airport Net Revenues only after the payment of all Revenue Bonds and Subordinate Obligations. The City has General Obligation Airport Bonds currently outstanding in the aggregate principal amount of \$78,245, with maturities in each of the years 2017 through 2022. The City has no present intention of issuing any future General Obligation Airport Bonds. See "APPENDIX H – SUMMARY OF CERTAIN PROVISIONS OF THE REVENUE BOND ORDINANCES - Funds and Flow of Funds."

Pursuant to the Revenue Bond Ordinances, excluding Termination Payments, any amounts payable by the City under and pursuant to a Credit Agreement other than amounts payable as an Administrative Expense (“Credit Agreement Obligations”) are equally and ratably secured and are on a parity with Revenue Bonds. Termination Payments are payable as Subordinate Obligations.

The City has entered into, and may in the future enter into, contracts and agreements in the course of its business that include an obligation on the part of the City to make payments contingent upon the occurrence or non-occurrence of certain future events, including events that are beyond the direct control of the City. The payments may be payable on a parity with debt service on the Outstanding Revenue Bonds, including any payments made pursuant to a Swap Agreement. The City has certain contingent payment obligations pursuant to the Letter of Credit and Reimbursement Agreement with Sumitomo Mitsui Banking Corporation and a Swap Agreement with Morgan Stanley Capital Services, Inc. which is currently outstanding in connection with the Series 2005 Bonds. The City has no present intentions of entering into any additional agreement of the nature described in this paragraph.

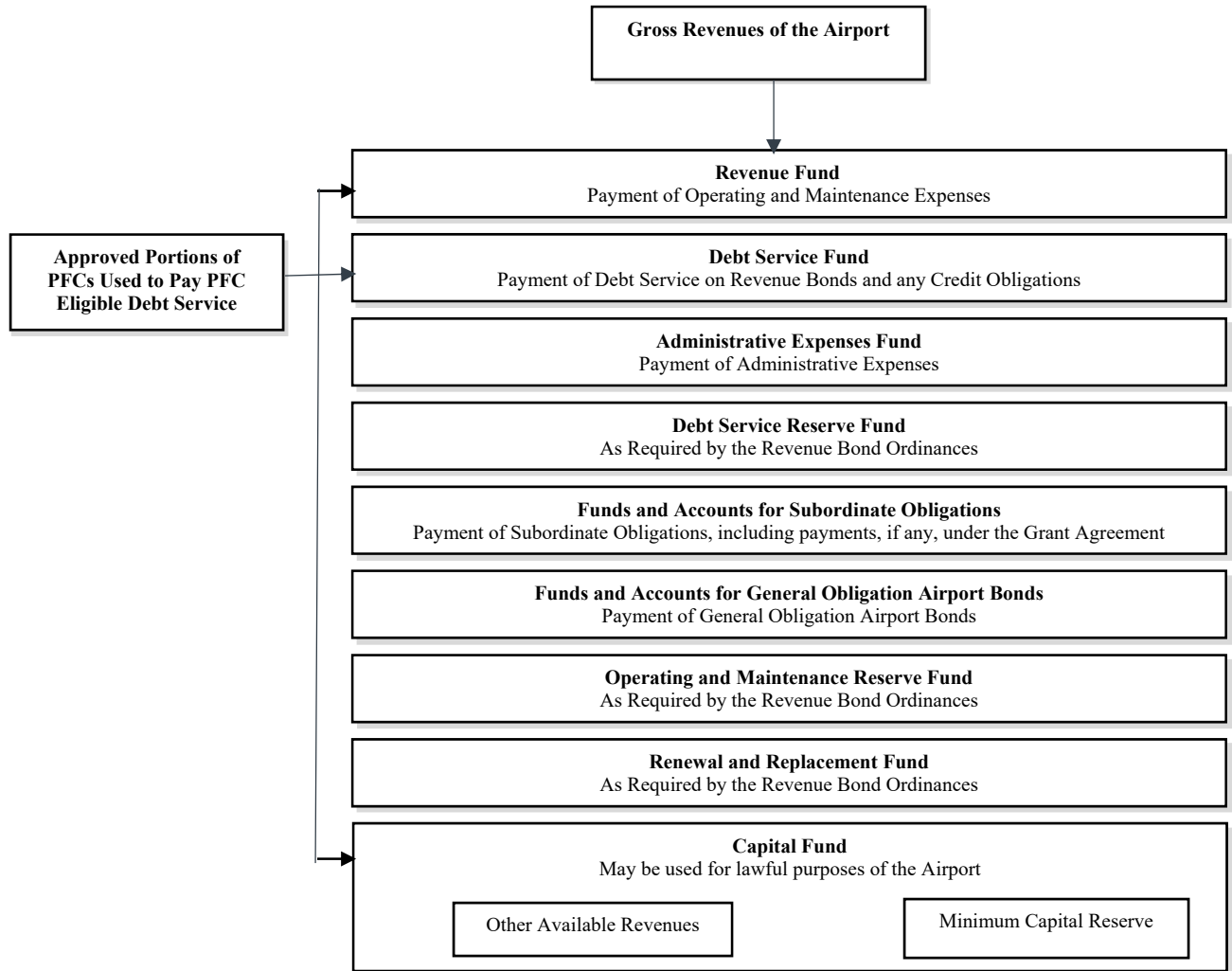
During each Fiscal Year the City sets aside from any passenger facility charges imposed by the City on enplaned passengers the lesser of (i) such passenger facility charges imposed and collected by the City or (ii) \$4.50 derived from each passenger facility charge (“PFC”) so imposed and collected by the City for the payment of PFC-eligible debt service on the Revenue Bonds in the following Fiscal Year, unless the City receives a report from an Airport Consultant showing that an alternative use of all or a portion of the PFCs will not reduce the forecast coverage of Debt Service Requirements with respect to the Revenue Bonds by forecast Airport Net Revenues during the following Fiscal Year (or such longer forecast period as may be covered in the Airport Consultant's Report) to less than 125%. PFCs are currently being used to pay debt service on Revenue Bonds for PFC-eligible projects that have been approved by the Federal Aviation Administration. The proceeds of the PFCs are not part of the Net Revenues pledged by the City to the payment of Revenue Bonds.

Flow of Airport Funds

The Revenue Bond Ordinances confirm special funds and accounts previously established, including the Revenue Fund and the other special funds and accounts described below, and provide that such special funds and accounts are to be maintained and accounted for so long as any Revenue Bond and related Credit Agreement Obligation remains Outstanding and Administrative Expenses remain unpaid. The Revenue Bond Ordinances require the City to deposit Gross Revenues as received into the Revenue Fund, and moneys in the Revenue Fund are required to be applied in the manner and order of priority set forth in the Revenue Bond Ordinances and described below. The Revenue Fund (including the Operation and Maintenance Reserve Fund), the Renewal and Replacement Fund, the Capital Fund and the Construction Fund (other than any Capitalized Interest Account in the Construction Fund) are maintained as separate funds or accounts on the books of the City and all amounts credited to the Funds and Accounts are maintained in an official depository bank of the City. The Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund are maintained at an official depository bank of the City or in a trustee bank designated by the City separate and apart from all other funds and accounts of the City. Any Grant pursuant to the Grant Agreement will constitute a Subordinate Obligation of the City and any corresponding deposit of Surplus Airport System Revenues into the Senior Debt Service Reserve Fund shall be in accordance with the flow of Airport funds set forth herein. For descriptions of the special funds and accounts confirmed by the Revenue Bond Ordinances and application of moneys in the Revenue Fund, see “APPENDIX H – SUMMARY OF CERTAIN PROVISIONS OF THE REVENUE BOND ORDINANCES – Funds and Flow of Funds” in this Official Statement.

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Flow of Airport Funds Chart



See "APPENDIX H – SUMMARY OF CERTAIN PROVISIONS OF THE REVENUE BOND ORDINANCES – Funds and Flow of Funds" in this Official Statement.

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Historical Debt Service Coverage of the Airport

The information set forth in Table Four was derived from financial information maintained by the City. The following table presents the historical debt service coverage information for the Outstanding Revenue Bonds for Fiscal Years 2012 through 2016. The amounts shown in Table Four were determined in conformity with the requirements of the Revenue Bond Ordinances. Pursuant to the terms of the Revenue Bond Ordinances, “Gross Revenues,” “Operation and Maintenance Expenses,” “Administrative Expenses” and certain other amounts specified therein are not measured according to generally accepted accounting principles for purposes of the rate covenant and other provisions of the Revenue Bond Ordinances. See the definitions of such terms in “APPENDIX H – SUMMARY OF CERTAIN PROVISIONS OF THE REVENUE BOND ORDINANCES” in this Official Statement.

TABLE FOUR
(Corresponds to Table Eight of the Airport’s Continuing Disclosure
Undertaking pursuant to the Revenue Bond Ordinances)
Historical Debt Service Coverage
(Fiscal Year Ended September 30)

(in thousands)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Gross Revenues	\$96,344	\$103,705	\$109,263	\$120,780	\$137,826
Other Available Funds ⁽¹⁾	3,594	3,805	3,620	3,551	3,700
Funds Available to Pay Debt Service	<u>\$99,938</u>	<u>\$107,510</u>	<u>\$112,883</u>	<u>\$124,331</u>	<u>\$141,526</u>
Operating Expenses ⁽²⁾	<u>(65,689)</u>	<u>(69,338)</u>	<u>(73,822)</u>	<u>(76,995)</u>	<u>(82,330)</u>
Net Available Revenue	\$34,249	\$38,172	\$39,061	\$47,336	\$59,196
Debt Service ⁽³⁾	\$14,375	\$15,221	\$14,480	\$14,205	\$14,800
Coverage	2.38	2.51	2.70	3.33	4.00

Source: The City of Austin.

- (1) Pursuant to the terms of the Revenue Bond Ordinances, for purposes of showing compliance with the rate covenant and meeting the conditions for the issuance of Additional Revenue Bonds, transfers of Other Available Funds to the Revenue Fund at the beginning of any Fiscal Year may not exceed 25% of the Debt Service Requirements for the Revenue Bonds for such Fiscal Year. See the definition of “Other Available Funds” in “APPENDIX H – SUMMARY OF CERTAIN PROVISIONS OF THE REVENUE BOND ORDINANCES” in this Official Statement.
- (2) Amounts shown include “Operation and Maintenance Expenses” and “Administrative Expenses” (as such terms are defined in the Revenue Bond Ordinances), and exclude depreciation and other unfunded post-employment benefits and pension obligation accruals. Pursuant to the terms of the Revenue Bond Ordinances, Administrative Expenses are included in the coverage calculations for the purpose of determining compliance with the City’s rate covenant, and Administrative Expenses are not included in the coverage calculations for the purpose of issuing Additional Revenue Bonds.
- (3) Amounts are net of PFCs used to pay debt service.

As described above, the amounts shown in Table Four were determined in conformity with the requirements of the Revenue Bond Ordinances. The City’s audited financial statements for the Fiscal Year ended September 30, 2016, included as APPENDIX G, also contain historical debt service coverage information for the Outstanding Revenue Bonds. The debt service coverage reported in Note 6.d. on page 85 and in Table 17 of the statistical section of the audited financial statements include Other Available Funds as being 25% of the net debt service on the Revenue Bonds, after deducting the amount of PFCs used to pay debt service. Pursuant to the terms of the Revenue Bond Ordinances, for purposes of showing compliance with the rate covenant and meeting the conditions for the issuance of Additional Revenue Bonds, transfers of Other Available Funds to the Revenue Fund at the beginning of any Fiscal Year may not exceed 25% of the Debt Service Requirements for the Revenue Bonds for such Fiscal Year. See the definition of “Other Available Funds” in “APPENDIX H – SUMMARY OF CERTAIN PROVISIONS OF THE REVENUE BOND ORDINANCES” and “APPENDIX G – AUDITED FINANCIAL STATEMENTS OF THE CITY OF AUSTIN, TEXAS” in this Official Statement.

THE CITY

Administration

Incorporated in 1839, the City operates under a Council-Manager form of government under its home rule charter. As a result of an amendment to the Austin City Charter approved at an election held in November, 2012, the configuration of the City Council has changed from a 7-member council, comprised of a Mayor and six council members elected at large, to an 11-member council, with the Mayor elected at large, and the remaining members elected from 10 single-member districts. The first council election held in accordance with the 2012 amendment to the City Charter was held November 4, 2014.

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. Elaine Hart was appointed Interim City Manager as of October 1, 2016.

Interim City Manager – Elaine Hart, CPA

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

Interim Chief Financial Officer – Greg Canally

Mr. Greg Canally is currently the Interim Chief Financial Officer for the City of Austin. Prior to this appointment, Mr. Canally served as the Deputy Chief Financial Officer over the Treasury Office, Purchasing Office & Capital Contract Office, and worked as the Finance lead on economic development, transportation initiatives, facility master planning, and a variety of information technology issues for the City. Mr. Canally has been with the City of Austin for 17 years, entirely in the Finance Department. From 2004 thru 2008, he was the City's Budget Officer. He is 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 in Economics from Villanova University and a Master of Science in Economics from the University of Texas at Austin.

Services Provided by the City

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

Employees

Municipal employees are prohibited from engaging in strikes and collective bargaining under State law. An exception allows fire and police employees to engage in collective bargaining (but not the right to strike) after a favorable vote of the electorate. The voters have approved collective bargaining for fire fighters but not for police

officers. Approximately 15% of the City's employees are members of the American Federation of State, County and Municipal Employees, 8% are members of the American Police Association and 7% are members of the International Association of Fire Fighters.

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

Pension Plans

The City has three contributory defined benefit retirement plans for the Municipal, Fire, and Police employees. These plans are single employer funded plans each with a fiscal year end of December 31. The three retirement plans cover substantially all full-time employees. State law requires the City to make contributions to the plans in an amount at least equal to the contribution of the employee group.

The following describes the contributions in place as of October 1, 2016. Municipal employees contribute 8.0% and the City contributes 18.0% of payroll. The Firefighters (who are not members of the Social Security System) contribute 18.7% of payroll, and the City contributes 22.05%. The Police Officers contribute 13.0% and the City contributes 21.313% of payroll.

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

The City's net pension liability was measured as of December 31, 2015 for all three systems. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date for the COAERS plan. For the Fire and Police systems, the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 using the final 2015 assumptions and then was rolled forward to the plan's year ending December 31, 2015.

The COAERS, as of December 31, 2015, had a net pension liability of \$1.2 billion with a plan fiduciary net position as a percentage of the total pension liability of 63.2%. The Police Officers plan, as of December 31, 2015, had a net pension liability of \$384.7 million with a plan fiduciary net position as a percentage of the total pension liability of 62.6%. The Fire Fighters plan, as of December 31, 2015 had a net pension liability of \$128.4 million with a plan fiduciary net position as a percentage of the total pension liability of 86.0%.

The financial statements for each plan are accessible on their respective websites. See APPENDIX G – "AUDITED FINANCIAL STATEMENTS OF THE CITY OF AUSTIN, TEXAS – Note 7" in this Official Statement for additional information on the City's Pension Plans. Also, see Note 7 of the City's Comprehensive Annual Financial Report ("CAFR") for their web addresses.

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability. As of December 31, 2015, the amortization period of the unfunded actuarial accrued liability for the COAERS was 33 years, for the Police Officers' Fund was 31.3 years and the Firefighters' Fund was 12.29 years.

As of December 31, 2015, the actuarial accrued liability for the COAERS was \$3,391,796,116 and the funded ratio was 68.0%. The actuarial accrued liability for the Police Officers' Fund was \$1,036,118,138 and the funded ratio was 66.6%. The actuarial accrued liability for the Firefighters' Fund was \$921,875,579 and the funded ratio was 89.9%.

Although the COAERS funding period had been infinite since December 31, 2002, investment losses in 2008 of 25.9% led to a significant decrease in the actuarial funded ratio and a significant increase to the unfunded actuarial accrued liability. In 2005, a Supplemental Funding Plan (“SFP”) was approved that increased the City’s annual contribution rate to a maximum of 12%, but even this additional funding was not sufficient to restore the long-term financial health of the COAERS. In FY 2011, City Council approved an amendment to the SFP that increased the City contribution rate to a maximum rate of 18% of pay to be contributed by 2013. The City contributed an additional 6% in FY 2011, an additional 8% in FY 2012 and an additional 10% in FY 2013 pursuant to the terms of the SFP, which brought the City’s contribution rate to the maximum of 18%. In addition, a new benefit tier for new employees hired on or after January 1, 2012, was approved by the COAERS Board of Trustees, the City Council and the Texas Legislature. The new benefit tier increases the age and service criteria necessary to reach retirement eligibility. It also decreases the pension multiplier, which is used to determine the final pension amount paid to future retirees. These two actions are expected to substantially improve the long-term financial health of the COAERS over time.

See APPENDIX G – “AUDITED FINANCIAL STATEMENTS OF THE CITY OF AUSTIN, TEXAS – Note 7” in this Official Statement for additional information on the City’s Pension Plans.

Other Post-Employment Benefits (“OPEB”)

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

The City is under no obligation to pay any portion of the cost of other post-employment benefits for retirees or their dependents. Allocation of City funds to pay other post-employment benefits is determined on an annual basis by the City Council as part of the budget approval process on a pay-as-you-go basis.

The City recognizes the cost of providing these benefits to active employees as an expense and corresponding revenue in the Employee Benefits Fund; no separate plan report is available. The City pays actual claims for medical and 100% of the retiree’s life insurance premium. Group dental and vision coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental and vision premium. The estimated pay-as-you-go cost of providing medical and life benefits was \$39.3 million for 4,644 retirees in 2016 and \$39.5 million for 4,431 retirees in 2015. As of September 30, 2016, the net OPEB obligation is \$863.6 million.

See APPENDIX G – “AUDITED FINANCIAL STATEMENTS OF THE CITY OF AUSTIN, TEXAS – Note 8” in this Official Statement for additional information on the City’s OPEB.

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to third party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately \$9.36 million for claims and damages at the end of fiscal year 2016. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Employee Benefits Fund.

RISK FACTORS

THE PURCHASE OF THE BONDS IS SUBJECT TO CERTAIN RISKS. EACH PROSPECTIVE INVESTOR IN THE BONDS SHOULD READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY,

INCLUDING ALL APPENDICES HERETO. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE FACTORS DESCRIBED BELOW THAT, AMONG OTHERS, COULD AFFECT THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS AND THAT COULD ALSO AFFECT THE MARKET PRICE AND MARKETABILITY OF THE BONDS TO AN EXTENT THAT CANNOT BE DETERMINED.

General

The foregoing is intended only as a summary of certain risk factors attendant to an investment in the Bonds, and is not intended to be exhaustive of all potential risks. In order to allow potential investors to identify risk factors and make an informed investment decision, a potential investor should be thoroughly familiar with the entire Official Statement and the appendices hereto and should have accessed whatever additional financial and other information it has deemed necessary to make its decision to invest in the Bonds.

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

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

Prior Failure to Make Debt Service Payments

Since 2004, the operation of the Hotel has not generated sufficient cash flow to pay debt service on the Series 1999 Bonds when due. The failure to pay debt service when due on the Series 1999 Bonds is an event of default under the Prior Indenture. Principal of \$37,935,000 and interest of \$142,256 on the Series 1999A Bonds is due and owing as of August 1, 2017. Approximately \$24,600,000 of principal and accreted interest is due and owing as of August 1, 2017, on the Series 1999B Bonds despite their stated maturity of April 1, 2016.

Based on the Market Study Report, the Issuer expects to generate sufficient Revenues to pay Debt Service on the Bonds; however, payment of Debt Service on the Bonds is dependent upon occupancy rates and the successful operation of the Hotel.

Operational Risks

Special Limited Obligations of the Issuer

The Bonds are special limited obligations of the Issuer payable from the Trust Estate under the Indenture. Any factor that adversely affects the receipt of Revenues, therefore, creates a risk that Debt Service on the Bonds will not be paid when due.

Risks Associated with the Hotel Industry

A number of factors, many of which may be beyond the control of the Issuer or the Manager, could have an adverse impact on the Revenues and value of the Hotel, including adverse changes in the national or state economy and levels of tourism, terrorist attacks, competition from other hotels, sales taxes, energy costs, governmental rules and policies (including environmental restrictions and changes in zoning and land use), potential environmental and other liabilities, interest rate levels, and tax laws affecting real estate. Levels of tourism are highly dependent upon gasoline and other fuel prices, airline fares, and the national economy. In addition, the revenues and value of the Hotel are dependent upon airport business in the City. Because hotel rooms are rented for a relatively short period of

time compared to most commercial properties, hotels more readily subject to adverse economic conditions and competition than are other commercial properties that are rented for longer periods of time.

Occupancy and Room Rate Risks

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

Marketing; Failure to Attract Guests

The Manager will market the Hotel pursuant to the Management Agreement. See "APPENDIX C - THE MANAGEMENT AGREEMENT". There can be no assurances that the Manager's efforts will be successful in attracting guests in sufficient numbers who pay room rates sufficient to pay debt service on the Bonds.

Pledge and Assignment of Future Revenues

Pursuant to the Indenture, the Issuer has assigned and pledged to the Trustee the Revenues in order to make all payments due under the Indenture, all of which are pledged and assigned to the Trustee for the benefit of the owners of the Bonds under the Indenture. Nevertheless, certain interests and claims of others may be on a parity with or prior to the pledge of the Revenues, and certain statutes and other provisions may limit the Issuer's right to make such pledges and assignments. Examples of such claims, interests and provisions are:

- (1) statutory liens;
- (2) applicable Texas laws may not recognize a security interest in future Revenues derived from the Hotel;
- (3) rights arising in favor of the United States of America or any agency thereof upon failure of the Trustee, the Manager or the Issuer to comply with federal or state statutes regarding the assignment of certain claims;
- (4) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction;
- (5) federal bankruptcy laws as they affect amounts earned with respect to the Hotel within ninety (90) days preceding and at all times after any effectual institution of bankruptcy proceedings by or against the Issuer;
- (6) as to those items in which a security interest, lien or pledge can be perfected only by possession, including items converted to cash, the rights of third parties in such items not in the possession of the Trustee;
- (7) prohibitions against assignment contained in federal or state statutes;
- (8) the security interest of third party creditors in "proceeds" of property subject to a Permitted Encumbrance, which "proceeds" may be deemed to constitute revenues;
- (9) items not in possession of the Trustee, the records to which are located or moved outside the State of Texas, which are therefore not subject to or are removed from the operation of Texas law; and

(10) the requirement that appropriate notices be filed in accordance with applicable Texas law as from time to time in effect.

Reliance on Airport

The Airport's ability to generate Surplus Airport System Revenues, depends upon sufficient levels of aviation activity and passenger traffic at the Airport. The achievement of increased passenger traffic will depend partly on the profitability of the airline industry and the ability of individual airlines to provide sufficient capacity to meet demand. A weak economy, international hostilities and the threat of terrorist activity, among other events, reduce demand for air travel and could cause resulting revenue shortfalls at the Airport. To the extent the Airport is unable to make up for such revenue shortfalls, the City's ability to deposit Surplus Airport System Revenues into Senior Debt Service Reserve Fund may be adversely effected.

Enforceability of Remedies and Bankruptcy of the Issuer

The practical realization of value from the Hotel upon any default will depend upon the exercise of various remedies specified by the security documents securing the Bonds. These and other remedies may, in many respects, require judicial actions, which are often subject to discretion and delay. Under existing law (including particularly federal bankruptcy law), the remedies specified by such documents may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in the security documents. In addition, federal bankruptcy law permits the adoption of a reorganization plan even though the plan has not been accepted by the owners of a majority in aggregate principal amount of the Bonds, if such owners are provided with the benefit of their original lien or the "indubitable equivalent" thereof. If a bankruptcy court concludes that the owners of the Bonds have "adequate protection," it may (1) substitute other security subject to the lien of the owners of the Bonds and (2) subordinate the lien of the owners of the Bonds (a) to claims by persons supplying goods and services to the Issuer after bankruptcy and (b) to the administrative expenses of the bankruptcy proceeding. In the event of bankruptcy of the Issuer, the amount realized by the owners of the Bonds might depend on a federal bankruptcy court's interpretation of "indubitable equivalent" and "adequate protection" under the then existing circumstances. A bankruptcy court may also have the power to invalidate certain provisions of the security documents which make bankruptcy and related proceedings by the Issuer an event of default thereunder. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings, and decisions affecting remedies and by bankruptcy, reorganization, or other laws affecting the enforcement of creditors' rights generally.

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

The owners of the Bonds are dependent entirely upon the success of the Hotel and the value of its assets for the payment of the principal of, premium, if any, and interest on the Bonds. In the event the Revenues from the Hotel are insufficient to pay the amounts due on the Bonds, and other security for the Bonds has been exhausted, the owners of the Bonds will have no person or entity to pursue for any deficiency which may exist. The Trustee has a lien on the Issuer's leasehold interest in the Hotel, but the practical use of the Hotel is limited to a hotel.

Normal Risks Attending Any Investment in Real Estate

There are many diverse risks attending any investment in real estate, not within the Issuer's control, which may have a substantial bearing on the profitability and financial feasibility of the Hotel. Such risks include, without limitation, possible adverse use of adjoining land, fire or other casualty, condemnation, increased taxes, changes in demand for such facilities, decline in the neighborhood and general economic conditions, and changing governmental regulations.

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

The owners of the Bonds must look primarily to the Trust Estate to pay and satisfy the Bonds in accordance with their terms. See "SECURITY FOR AND SOURCES OF PAYMENT FOR THE BONDS." The Indenture

requires that in the event of damage to, destruction of, condemnation of, or a title defect relating to the Hotel, if the conditions set forth in the Indenture for such application have been met, the Issuer will apply the proceeds of an insurance or condemnation award, together with other amounts available therefor, to repair or replace the property damaged, destroyed, or taken, as applicable, and apply any proceeds not used for repair or replacement to the payment of any reimbursement obligations then due and owing and then to the redemption of the Bonds. In addition, in the event the damage to, destruction of, condemnation of, or a title defect relating to the Hotel, in which there are not sufficient proceeds to repair or replace the Hotel, then the proceeds will be applied to redeem the Bonds in accordance with the provisions set forth under the caption “DESCRIPTION OF THE BONDS – Redemption Provisions – Extraordinary Mandatory Redemption” herein.

Risks Arising Under Facilities Lease Agreement

Pursuant to the Facilities Lease Agreement, after a default the City may exercise any and all remedies available to it under the law, including termination of the Facilities Lease Agreement and retaking possession of the Hotel. Pursuant to the Facilities Lease Agreement, the City may terminate the Facilities Lease Agreement upon nonpayment of the Lease Payments thereunder and failure to cure such nonpayment for a period of 30 days after receipt of notice of such nonpayment by the Issuer. If the City elects retaking possession and to operate the Hotel, it may then have no alternative but to continue to operate the Hotel under circumstances in which the Hotel may not generate sufficient Revenues to pay all debt service on the Bonds as and when due or to pay other obligations related to the Hotel.

Risk of Income-Producing Property

The timely payment of the Bonds is secured by income-producing properties and, therefore, is dependent upon occupancy rates and the successful operation of the Hotel, rather than upon the liquidation value of the Hotel. If the Revenue from the Hotel is reduced (for example, if occupancy rates decline or operating expenses increase), the Issuer’s ability to make Debt Service payments may be impaired. Furthermore, the liquidation value of the Hotel may be adversely affected by risks generally incident to interests in real property, including changes in economic conditions or tourism; declines in real estate values; declines in rental or occupancy rates; increases in interest rates; and other operating expenses including energy costs; changes in governmental rules, regulations, and fiscal policies, including environmental legislation; acts of God; “terrorist attacks” and other factors which are beyond the Issuer’s or the Manager’s control.

Change of Management

While the Issuer has entered into the agreements with the Manager and Hilton, such agreements will expire prior to the final maturity of the Bonds and also are subject to termination upon occurrence of certain events. It is the responsibility of the Issuer to arrange for new management who has the ability and the experience to manage the Hotel within the constraints of the Bond issue. There can be no assurances given that such a manager could be found, and if found, would be able to manage the Hotel as currently contemplated.

Termination of the Facilities Lease Agreement

In The Facilities Lease Agreement expires on the date that the Bonds are released and extinguished. Accordingly, should there be a default on the Bonds, the ability of the Trustee to provide for the operation of the Hotel in such a manner that the Bonds are paid is dependent, in part, on the remaining Lease Term.

Insurance

The Manager is obligated to obtain insurance providing coverage in the amount required by the Facilities Lease Agreement, the Management Agreement, and the Indenture. An unanticipated volume of claims under these insurance policies, however, could cause the payment of unforeseen amounts as deductibles and increase premiums, thereby adversely affecting the Manager’s finances.

Actual Results May Differ from Forecasts

The financial forecast contained herein is based upon assumptions made by the Hotel Market Consultant. There will usually be differences between forecasted and actual results, since events and circumstances frequently do not occur as expected, and those differences may be material. In particular, any substantial decrease in occupancy or average daily rate will reduce Revenues available for debt service on the Bonds. See “FORWARD-LOOKING STATEMENT DISCLAIMER.”

Additional Debt

The Indenture provides that the Issuer may only issue other bonds secured by Revenues and the Hotel as described herein under “SECURITY FOR AND SOURCES OF PAYMENT FOR THE BONDS - Additional Bonds”. The Issuer is not obligated to issue Additional Bonds and currently has no intention of issuing Additional Bonds. The City may choose to limit its obligations to fund additional requirements to maintain the Senior Debt Service Reserve Fund with respect to the Bonds.

Environmental Risks

The Manager, as the Manager and operator of the Hotel, has potential liability under most state and federal environmental statutes, laws and regulations. The Manager could be held liable for releases of hazardous substances at the Hotel by either the Issuer or a guest.

Airline Industry Factors

The factors affecting aviation activity at the Airport include: the growth of population and of the economy in Airport service area; airline service and route networks; airline economics, competition and airfares; national and international economic and political conditions; the availability and price of aviation fuel; and the capacity of the national air traffic control system.

Loss of Tax Exemption

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

Pending Tax Legislation

The opinions expressed by Bond Counsel as to compliance with the provisions of the Code described under “TAX MATTERS” are based upon existing law as of the delivery date of the Bonds. No opinion is expressed as of any subsequent date nor is any opinion expressed with respect to any pending or proposed legislation.

LITIGATION

It is the opinion of the City Attorney and Issuer that, as of the date of this Official Statement, there is no pending litigation, or to their knowledge any threatened litigation, against the City or the Issuer that would have a material adverse financial impact upon the Issuer or its operations or challenge or adversely affect the validity of the Bonds.

TAX MATTERS

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Bond Counsel to the Issuer, will render their opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”), for federal income tax purposes (i) interest on the Bonds will be

excludable from the “gross income” of the holders thereof, and (ii) the Bonds are not treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Code. Except as stated above, Bond Counsel to the Issuer will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See “APPENDIX I – FORM OF BOND COUNSEL’S OPINION.”

In rendering its opinions, Bond Counsel (a) will rely upon information furnished by the Issuer, and particularly written representations of officers and agents of the Issuer with respect to certain material facts that are solely within their knowledge relating to the use of the proceeds of the Bonds, and the construction, use and management of the facilities financed or refinanced with the proceeds of the Bonds and (b) will assume continuing compliance with covenants of the Issuer with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Although it is expected that the Bonds will qualify as tax-exempt obligations for federal income tax purpose as of the date of issuance, the tax-exempt status of the Bonds could be affected by future events. However, future events beyond the control of the Issuer, as well as the failure to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance. The opinions of Bond Counsel are conditioned on compliance by the Issuer with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

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

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

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

A ruling was not sought from the Internal Revenue Service (the “IRS”) by the Issuer with respect to the Bonds or the facilities financed or refinanced with the proceeds of the Bonds. No assurances can be given as to whether the IRS will commence an audit of the Bonds, or as to whether the IRS would agree with the opinions of Bond Counsel. If an audit is commenced, under current procedures the IRS is likely to treat the Issuer as the taxpayer and the Owners may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the bonds may not be equal to the accrual period or be in excess of one year (the “Original Issue Discount Bonds”). In such event, the difference between (i) the “stated redemption price at maturity” of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The

“stated redemption price at maturity” means the sum of all payments to be made on the bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any Owner who has purchased a Bond as an Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below. In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such holder in excess of the basis of such Original Issue Discount Bond in the hands of such Owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

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

All holders of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

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

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

Interest on the Bonds may be includable as an adjustment for “adjusted current earnings” to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

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

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

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

Future and Proposed Legislation

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered owner and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish the payor such owner’s social security number or other taxpayer identification number (“TIN”), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient’s federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances and in respect to investors who are not United States persons, certification as to foreign status, and other matters may be required to be provided by partners and beneficiaries thereof.

RATINGS

The Bonds have received a rating of “A-” by S&P Global Ratings (“S&P”), and a rating of “A3” by Moody’s Investors Service, Inc. (“Moody’s”). An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the Issuer 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 one or all of such rating agencies furnishing the same, if in the judgment of one or more such agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price or the availability of a secondary market for the Bonds.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase all of the Bonds from the Issuer at an Underwriter's discount of \$199,601.24 from the initial offering prices set forth on the inside cover hereof. The Underwriter is obligated to purchase all of the Bonds, if any are purchased, such obligations being subject to certain terms and conditions set forth in a Purchase Agreement between the Underwriter and the Issuer; the approval of certain legal matters by counsel; and certain other conditions. The initial offering prices for the Bonds may be changed from time to time by the Underwriter.

The Underwriter and its affiliates are full services financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriter and its affiliates have, from time to time, performed and may in the future perform, various investment banking services for the Issuer for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer.

The Underwriter and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should require, long and/or short positions in such assets, securities and instruments.

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.

LEGAL MATTERS

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 obligations of the Issuer payable from sources and in the manner described in this Official Statement. Issuance of the Bonds is also subject to receipt of the approving opinion of Bond Counsel. The form of Bond Counsel's opinion is included hereto as APPENDIX I.

Bond Counsel was engaged by, and only represents, the Issuer. Except as noted below, Bond Counsel did not take part in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained in this Official Statement except that in its capacity as Bond Counsel, such firm has reviewed the information appearing in this Official Statement under the captions "DESCRIPTION OF THE BONDS" (except the information contained under the heading Book-Entry-Only System), "SECURITY FOR AND SOURCES OF PAYMENT FOR THE BONDS," "AUSTIN-BERGSTROM INTERNATIONAL AIRPORT – Flow of Airport Funds," "AUSTIN-BERGSTROM INTERNATIONAL AIRPORT – Flow of Airport Funds Chart," "TAX MATTERS," "LEGAL MATTERS," "CONTINUING DISCLOSURE" (except the information contained under the heading "Compliance with Prior Undertakings"), "APPENDIX B - SUMMARY OF CERTAIN PROVISIONS OF THE BOND DOCUMENTS," "APPENDIX H - SUMMARY OF CERTAIN PROVISIONS OF THE REVENUE BOND ORDINANCES," and "APPENDIX I – FORM OF BOND COUNSEL'S OPINION," and such firm is of the opinion that such descriptions

present a fair and accurate summary of the provisions of the laws and instruments therein described, and such information conforms to the Bonds. In addition, certain legal matters will be passed upon (i) for the Underwriter by Orrick, Herrington & Sutcliffe LLP, counsel to the Underwriter, and (ii) for the Issuer by Norton Rose Fulbright US LLP, as Disclosure Counsel for the Issuer. Any opinion of Underwriter's Counsel will be rendered solely to the Underwriter, and any opinion of Underwriter's Counsel or Disclosure Counsel will be limited in scope and cannot be relied upon by investors. The payment of legal fees to Bond Counsel, counsel to the Underwriter and Disclosure Counsel in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues expressly addressed in those opinions. In rendering legal opinions, 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.

CONTINUING DISCLOSURE

The Issuer has covenanted for the benefit of the holders of the Bonds, pursuant to a Continuing Disclosure Agreement, the form of which is attached as APPENDIX E (the "Disclosure Undertaking"), to be executed and delivered by the Issuer, at the closing, to provide or cause to be provided, among other things (i) each year, certain financial information and operating data relating to the Hotel (the "Annual Report") by not later than six months after the fiscal year end of the Issuer, commencing with the Annual Report for the fiscal year ending December 31, 2017; provided, however, that if the audited financial statements of the Issuer are not available by such date, unaudited financial statements will be included in the Annual Report, and audited financial statements will be provided when and if available, (ii) operations report prepared by the Manager and unaudited quarterly reports of the Manager (which will include income and cash flow statements and balance sheets) to be provided within forty-five (45) days of the end of each quarter; and (iii) timely notices of the occurrence of certain enumerated events. Pursuant to the Disclosure Undertaking, the City will provide to the Issuer within nine (9) months after the end of each fiscal year of the City, beginning with the City's fiscal year ending September 30, 2017, the financial information and operating data with respect to the City and the Airport of the general type included in the Official Statement in tables 2 through 4 under the caption "AUSTIN-BERGSTROM INTERNATIONAL AIRPORT" and in APPENDIX G so that the Issuer can file such information in accordance with the Disclosure Undertaking.

Compliance with Prior Undertakings

The Issuer did not file its unaudited or audited financial statements for the Fiscal Year ending December 31, 2015 by the required deadline of June 30, 2016. The audited financial statements of the Issuer for such Fiscal Year were filed on July 19, 2016. The Issuer has implemented procedures to ensure timely filing of all future financial information and event notices.

FORWARD-LOOKING STATEMENT DISCLAIMER

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

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherent subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, regulatory circumstances, and conditions and actions taken or omitted to

be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions of future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Issuer and the other parties to the transaction described herein. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

MISCELLANEOUS INFORMATION

The financial data and other information contained herein concerning the Airport have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes and documents contained in this Official Statement are made subject to all of the provisions of such statutes and documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects. This Official Statement, and the execution and delivery of this Official Statement, were authorized by the Issuer.

/s/ Gregory S. Milligan

President

Austin-Bergstrom Landhost Enterprises, Inc.

APPENDIX A
MARKET STUDY REPORT

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MARKET STUDY

Hilton Austin Airport

9515 HOTEL DRIVE
AUSTIN, TEXAS



SUBMITTED TO:

Mr. David Arthur
City of Austin
3600 Presidential Boulevard
Austin, Texas, 78719

+1 (512) 530-6688

PREPARED BY:

HVS Consulting & Valuation
Division of TS Worldwide, LLC
3000 Wesleyan Street, Suite 385
Houston, Texas, 77027

+1 (713) 252-5995



September 18, 2017

Mr. David Arthur
City of Austin
3600 Presidential Boulevard
Austin, Texas, 78719

Re: Hilton Austin Airport
9515 Hotel Drive
Austin, Texas
HVS Reference: 2017021571

Dear Mr. Arthur:

Pursuant to your request, we herewith submit our market study report pertaining to the above-captioned hotel. We have inspected the real estate and analyzed the market conditions in the Austin, Texas area.

We hereby certify that we have no undisclosed interest in the property, and our employment and compensation are not contingent upon our findings. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

Sincerely,
TS Worldwide, LLC

A handwritten signature in cursive script that reads 'J. Carter Allen'.

J. Carter Allen, MAI, Managing Director
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1. Summary of Salient Data and Conclusions

Property: Hilton Austin Airport
Location: 9515 Hotel Drive
Austin, Texas 78719
Travis County
Date of Inspection: March 3, 2017
Date of Report: August 31, 2017

LAND DESCRIPTION

Area: 10.61 acres, or 462,019 square feet
Zoning: AV - Aviation Services
Assessor's Parcel Number(s): 855896
FEMA Flood Zone: Zone X

IMPROVEMENTS DESCRIPTION

Year Building Constructed: 1968
Year Hotel Opened: 2001
Property Type: Full-service lodging facility
Building Area: 206,608 square feet
Guestrooms: 262
Number of Stories: Four
Food and Beverage Facilities: A restaurant and lounge
Meeting Space: 17,505 square feet
Additional Facilities: An outdoor pool, an outdoor whirlpool, a fitness center, a sundries counter/coffee shop, lobby workstations, a guest laundry room, and vending areas
Parking Spaces: 278 (Surface)



SUBJECT PROPERTY



LOBBY



RESTAURANT



MEETING ROOM



GUESTROOM



POOL





Market Performance

Both occupancy and average rate first peaked for this selected set of hotels in 2008, resulting in a RevPAR of more than \$76.00, before declining to a low point of roughly \$65.00 the following year because of the recession. The fact that occupancy and average rate declined only one year during the Great Recession is significant, as most major markets experienced declines for two or more years before entering into a recovery phase. A rapid recovery began in 2010 that extended through year-end 2015; as illustrated, the 2007 peak in RevPAR was exceeded in 2012. Furthermore, RevPAR surpassed \$100.00 for this selected set of competitive hotels in 2015. In Austin, demand growth has been influenced by the two primary anchors in the market, government and higher education; a massive transformation in the landscape of the Central Business District, including new office and residential towers; and the re-emergence of the technology industry. Occupancy softened in 2016, while average rate remained relatively stable. The entrance of ancillary new supply in the airport and south submarkets contributed to this weakening trend for 2016. This trend has continued in the year-to-date period for 2017 given the entrance of new select-service supply. Nonetheless, the outlook for the remainder of the year is positive, as this submarket is maintaining the vast majority of any displaced demand lost to the ancillary new supply; furthermore, increasing demand at the airport is anticipated to mitigate any lost demand to lower-rated new supply, similar to historical trends. The following tables summarize market-wide supply, demand, occupancy, average rate, and RevPAR trends for this market.

FIGURE 1-1 HISTORICAL SUPPLY AND DEMAND TRENDS (STR)

Year	Average Daily Room	Available Room	Occupied Room		Average			RevPAR	Change	
	Count	Nights	Change	Nights	Change	Occupancy	Rate			Change
2000	1,855	677,075	—	515,916	—	76.2 %	\$90.09	—	\$68.65	—
2001	2,200	803,152	18.6 %	501,846	(2.7) %	62.5	88.56	(1.7) %	55.34	(19.4) %
2002	2,319	846,444	5.4	503,624	0.4	59.5	84.21	(4.9)	50.10	(9.5)
2003	2,328	849,720	0.4	494,557	(1.8)	58.2	81.05	(3.8)	47.17	(5.8)
2004	2,328	849,720	0.0	498,399	0.8	58.7	79.03	(2.5)	46.36	(1.7)
2005	2,328	849,720	0.0	566,945	13.8	66.7	84.41	6.8	56.32	21.5
2006	2,333	851,695	0.2	595,578	5.1	69.9	97.31	15.3	68.05	20.8
2007	2,466	900,093	5.7	619,309	4.0	68.8	105.74	8.7	72.75	6.9
2008	2,478	904,470	0.5	627,490	1.3	69.4	110.06	4.1	76.36	5.0
2009	2,478	904,470	0.0	600,562	(4.3)	66.4	98.32	(10.7)	65.28	(14.5)
2010	2,478	904,470	0.0	610,481	1.7	67.5	99.28	1.0	67.01	2.6
2011	2,477	904,105	(0.0)	637,041	4.4	70.5	105.48	6.2	74.32	10.9
2012	2,480	905,023	0.1	671,510	5.4	74.2	111.69	5.9	82.87	11.5
2013	2,480	905,200	0.0	704,550	4.9	77.8	116.93	4.7	91.01	9.8
2014	2,596	947,428	4.7	738,953	4.9	78.0	123.85	5.9	96.60	6.1
2015	2,618	955,570	0.9	754,633	2.1	79.0	131.26	6.0	103.66	7.3
2016	2,618	955,570	0.0	737,393	(2.3)	77.2	131.50	0.2	101.48	(2.1)
Year-to-Date Through June										
2016	2,618	473,858	—	383,626	—	81.0 %	\$136.65	—	\$110.63	—
2017	2,665	482,337	1.8 %	380,057	(0.9) %	78.8	136.08	(0.4) %	107.22	(3.1) %
Average Annual Compounded Change:										
2000 - 2016			2.2 %		2.3 %			2.4 %		2.5 %
2000 - 2007			4.2		2.6			2.3		0.8
2007 - 2010			0.2		(0.5)			(2.1)		(2.7)
2010 - 2016			0.9		3.2			4.8		7.2
Hotels Included in Sample										
	Class	Competitive Status	Number of Rooms	Year Affiliated	Year Opened					
Holiday Inn Austin Town Lake	Upper Midscale Class	Primary	322	Dec 1967	Dec 1967					
Crowne Plaza Austin	Upscale Class	Secondary	293	Jun 2006	Mar 1978					
Doubletree Austin	Upscale Class	Secondary	350	Jan 1988	Apr 1983					
Omni Austin Hotel @ Southpark	Upper Upscale Class	Primary	312	Aug 1996	Jul 1983					
Embassy Suites Austin Central	Upper Upscale Class	Secondary	260	Oct 1986	Mar 1984					
Wyndham Garden Hotel Austin	Upper Midscale Class	Secondary	210	Dec 2006	Jun 1985					
Courtyard Austin South	Upscale Class	Secondary	110	Dec 1996	Dec 1996					
Hilton Austin Airport	Upper Upscale Class	Subject Property	262	Jan 2001	Jan 2001					
Marriott Austin South	Upper Upscale Class	Primary	211	Aug 2001	Aug 2001					
Courtyard Austin Airport	Upscale Class	Secondary	150	Oct 2006	Oct 2006					
Holiday Inn Austin Airport	Upper Midscale Class	Primary	138	Mar 2014	Mar 2014					
Hyatt Place Austin Airport	Upscale Class	Primary	139	May 2017	May 2017					
			Total	2,757						

Source: STR

FIGURE 1-2 PRIMARY COMPETITORS – OPERATING PERFORMANCE

Property	Number of Rooms	Est. Segmentation			Weighted Annual Room Count	Estimated 2015			Weighted Annual Room Count	Estimated 2016				
		Transient	Meeting and Group	Contract		Occ.	Average Rate	RevPAR		Occ.	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Hilton Austin Airport	262	60 %	25 %	15 %	262	88.9 %	\$136.54	\$121.42	262	83.5 %	\$139.90	\$116.86	107.8 %	113.3 %
Omni Austin Southpark	312	40	50	10	312	80 - 85	130 - 140	110 - 115	312	80 - 85	130 - 140	105 - 110	100 - 110	100 - 110
Marriott Austin Airport South	211	50	35	15	211	75 - 80	160 - 170	125 - 130	211	75 - 80	160 - 170	125 - 130	100 - 110	120 - 130
Holiday Inn Austin Town Lake	323	70	15	15	323	75 - 80	115 - 120	90 - 95	323	70 - 75	125 - 130	90 - 95	90 - 95	85 - 90
Holiday Inn Austin Airport	138	70	15	15	138	75 - 80	120 - 125	90 - 95	138	75 - 80	120 - 125	90 - 95	95 - 100	90 - 95
Sub-Totals/Averages	1,246	57 %	30 %	14 %	1,246	81.3 %	\$134.23	\$109.18	1,246	78.4 %	\$136.73	\$107.18	101.2 %	103.9 %
Secondary Competitors	1,373	59 %	33 %	7 %	737	75.9 %	\$127.98	\$97.17	737	75.9 %	\$126.88	\$96.33	98.0 %	93.4 %
Totals/Averages	2,619	58 %	31 %	11 %	1,983	79.3 %	\$132.01	\$104.72	1,983	77.5 %	\$133.14	\$103.15	100.0 %	100.0 %

* Specific occupancy and average rate data were utilized in our analysis, but are presented in ranges in the above table for the purposes of confidentiality.

FIGURE 1-3 SECONDARY COMPETITOR(S) – OPERATING PERFORMANCE

Property	Number of Rooms	Est. Segmentation			Total Competitive Level	Estimated 2015				Estimated 2016			
		Transient	Meeting and Group	Contract		Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR
Courtyard by Marriott Austin Airport	150	75 %	10 %	15 %	75 %	113	75 - 80 %	\$130 - \$140	\$105 - \$110	113	75 - 80 %	\$130 - \$140	\$100 - \$105
Courtyard Austin South	110	80	10	10	75	83	80 - 85	140 - 150	110 - 115	83	80 - 85	130 - 140	110 - 115
DoubleTree by Hilton Hotel Austin	350	45	50	5	60	210	65 - 70	125 - 130	85 - 90	210	65 - 70	125 - 130	85 - 90
Crowne Plaza Austin North Central	293	50	45	5	50	147	75 - 80	105 - 110	85 - 90	147	75 - 80	105 - 110	80 - 85
Wyndham Garden Hotel Austin	210	55	40	5	45	95	70 - 75	120 - 125	90 - 95	95	70 - 75	120 - 125	90 - 95
Embassy Suites Austin Central	260	70	25	5	35	91	80 - 85	140 - 150	120 - 125	91	80 - 85	140 - 150	120 - 125
Totals/Averages	1,373	59 %	33 %	7 %	54 %	737	75.9 %	\$127.98	\$97.17	737	75.9 %	\$126.88	\$96.33

* Specific occupancy and average rate data was utilized in our analysis, but is presented in ranges in the above table for the purposes of confidentiality.



As illustrated in the previous table, the market comprises a variety of hotels with which the subject property is expected to compete. Our forecast of income and expense is based on these current performance levels, as well as market changes expected to occur. These changes are discussed in depth in the market area and hotel demand trends chapters of this report.

Forecast Results

Our forecast of income and expense is presented in the following table.

FIGURE 1-5 TEN-YEAR FORECAST OF INCOME AND EXPENSE

	2017/18		2018/19		2019/20		2020/21		2021/22		2022/23		2023/24		2024/25		2025/26		2026/27	
Number of Rooms:	262		262		262		262		262		262		262		262		262		262	
Occupied Rooms:	77,460		77,460		79,373		80,329		80,329		80,329		80,329		80,329		80,329		80,329	
Occupancy:	81%		81%		83%		84%		84%		84%		84%		84%		84%		84%	
Average Rate:	\$145.60	% of	\$151.56	% of	\$157.48	% of	\$162.53	% of	\$167.40	% of	\$172.43	% of	\$177.60	% of	\$182.93	% of	\$188.41	% of	\$194.07	% of
RevPAR:	\$117.94	Gross	\$122.76	Gross	\$130.71	Gross	\$136.52	Gross	\$140.62	Gross	\$144.84	Gross	\$149.18	Gross	\$153.66	Gross	\$158.27	Gross	\$163.02	Gross
OPERATING REVENUE																				
Rooms	\$11,278	73.8 %	\$11,740	73.9 %	\$12,500	74.2 %	\$13,056	74.3 %	\$13,447	74.3 %	\$13,851	74.3 %	\$14,266	74.3 %	\$14,694	74.3 %	\$15,135	74.3 %	\$15,589	74.3 %
Food	2,960	19.4	3,063	19.3	3,213	19.1	3,340	19.0	3,440	19.0	3,543	19.0	3,649	19.0	3,759	19.0	3,871	19.0	3,988	19.0
Beverage	603	3.9	621	3.9	649	3.9	673	3.8	693	3.8	714	3.8	735	3.8	757	3.8	780	3.8	803	3.8
Other Operated Departments	294	1.9	301	1.9	312	1.9	323	1.8	333	1.8	343	1.8	353	1.8	363	1.8	374	1.8	385	1.8
Miscellaneous Income	154	1.0	158	1.0	164	1.0	169	1.0	174	1.0	179	1.0	185	1.0	190	1.0	196	1.0	202	1.0
Total Operating Revenue	15,288	100.0	15,883	100.0	16,838	100.0	17,560	100.0	18,086	100.0	18,630	100.0	19,188	100.0	19,764	100.0	20,357	100.0	20,967	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	2,383	21.1	2,443	20.8	2,541	20.3	2,629	20.1	2,708	20.1	2,790	20.1	2,873	20.1	2,960	20.1	3,048	20.1	3,140	20.1
Food & Beverage	2,208	62.0	2,286	62.0	2,373	61.4	2,453	61.1	2,527	61.1	2,603	61.1	2,681	61.1	2,761	61.1	2,844	61.1	2,930	61.1
Other Operated Departments	138	47.1	142	47.1	146	46.8	151	46.7	155	46.7	160	46.7	165	46.7	170	46.7	175	46.7	180	46.7
Total	4,730	30.9	4,870	30.7	5,060	30.0	5,234	29.8	5,391	29.8	5,553	29.8	5,719	29.8	5,891	29.8	6,067	29.8	6,249	29.8
DEPARTMENTAL INCOME	10,559	69.1	11,013	69.3	11,778	70.0	12,327	70.2	12,696	70.2	13,077	70.2	13,469	70.2	13,873	70.2	14,289	70.2	14,718	70.2
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	1,419	9.3	1,458	9.2	1,513	9.0	1,563	8.9	1,610	8.9	1,658	8.9	1,708	8.9	1,759	8.9	1,812	8.9	1,867	8.9
Info. and Telecom. Systems	245	1.6	252	1.6	261	1.6	270	1.5	278	1.5	286	1.5	295	1.5	304	1.5	313	1.5	322	1.5
Marketing	951	6.2	978	6.2	1,015	6.0	1,048	6.0	1,080	6.0	1,112	6.0	1,146	6.0	1,180	6.0	1,215	6.0	1,252	6.0
Franchise Fee	785	5.1	915	5.8	1,075	6.4	1,135	6.5	1,203	6.7	1,273	6.8	1,325	6.9	1,366	6.9	1,407	6.9	1,449	6.9
Prop. Operations & Maint.	647	4.2	665	4.2	690	4.1	713	4.1	735	4.1	757	4.1	780	4.1	803	4.1	827	4.1	852	4.1
Utilities	745	4.9	766	4.8	795	4.7	821	4.7	846	4.7	871	4.7	897	4.7	924	4.7	952	4.7	981	4.7
Total	4,793	31.3	5,035	31.8	5,349	31.8	5,551	31.7	5,752	31.9	5,958	32.0	6,150	32.1	6,336	32.1	6,526	32.1	6,722	32.1
GROSS HOUSE PROFIT	5,766	37.8	5,978	37.5	6,429	38.2	6,776	38.5	6,944	38.3	7,119	38.2	7,319	38.1	7,537	38.1	7,763	38.1	7,996	38.1
Management Fee	459	3.0	476	3.0	505	3.0	527	3.0	543	3.0	559	3.0	576	3.0	593	3.0	611	3.0	629	3.0
INCOME BEFORE NON-OPER. INC. & EXP.	5,307	34.8	5,502	34.5	5,924	35.2	6,249	35.5	6,401	35.3	6,560	35.2	6,743	35.1	6,944	35.1	7,152	35.1	7,367	35.1
NON-OPERATING INCOME AND EXPENSE																				
Insurance	224	1.5	229	1.4	236	1.4	243	1.4	251	1.4	258	1.4	266	1.4	274	1.4	282	1.4	291	1.4
Ground Lease	711	4.7	729	4.6	751	4.5	773	4.4	797	4.4	821	4.4	845	4.4	871	4.4	897	4.4	924	4.4
Other Income/Expense	168	1.1	172	1.1	177	1.1	183	1.0	188	1.0	194	1.0	200	1.0	206	1.0	212	1.0	218	1.0
Administrative Fee	120	0.8	120	0.8	120	0.7	120	0.7	120	0.7	120	0.6	120	0.6	120	0.6	120	0.6	120	0.6
Reserve for Replacement	612	4.0	635	4.0	674	4.0	702	4.0	723	4.0	745	4.0	768	4.0	791	4.0	814	4.0	839	4.0
Total	1,835	12.1	1,886	11.9	1,958	11.7	2,022	11.5	2,079	11.5	2,138	11.4	2,198	11.4	2,260	11.4	2,325	11.4	2,391	11.4
EBITDA LESS RESERVE	\$3,472	22.7 %	\$3,616	22.6 %	\$3,966	23.5 %	\$4,227	24.0 %	\$4,322	23.8 %	\$4,423	23.8 %	\$4,545	23.7 %	\$4,684	23.7 %	\$4,828	23.7 %	\$4,976	23.7 %

*Departmental expenses are expressed as a percentage of departmental revenues.



As illustrated, the hotel is expected to stabilize at a profitable level. Our positioning of each revenue and expense level is supported by comparable operations or trends specific to this market.



2. Nature of the Assignment

Subject of the Market Study

The subject of the study is the leasehold ground interest in a 10.61-acre (462,019-square-foot) parcel improved with a full-service lodging facility known as the Hilton Austin Airport. The property, which opened as a hotel in 2001, features 262 rooms, a restaurant and lounge, 17,505 square feet of meeting space, an outdoor pool, an outdoor whirlpool, a fitness center, a sundries counter/coffee shop, lobby workstations, a guest laundry room, and vending areas. The hotel also contains all necessary back-of-the-house space. The hotel's civic address is 9515 Hotel Drive, Austin, Texas, 78719.

Pertinent Dates

The effective date of the report is August 31, 2017. The subject property was inspected by Michael Handy on March 3, 2017.

Ownership, Franchise, and Management and Assumptions

The subject property is currently owned by the City of Austin. No transfers of the property have reportedly occurred since its redevelopment sixteen years ago. The hotel is neither listed nor under contract for sale; furthermore, we have no knowledge of any recent listings.

The hotel is managed by Prospera Hospitality. Details pertaining to management terms were not available for our review. Our study assumes that the management agreement can be terminated upon sale and that the subject hotel will be managed by a professional hotel-operating company throughout the assumed holding period, with fees deducted at rates consistent with current market standards. We have assumed a market-appropriate total management fee of 3.0% of total revenues in our study. Please refer to the forecast of income and expense chapter for additional discussion pertaining to our management fee assumptions.

The hotel currently operates as a Hilton under a license agreement with Hilton, Inc.; the existing agreement has been renewed through December 31, 2032. The property's new terms call for a ramp up in monthly royalty fees as follows: \$27,862 for the first year, \$37,150 for the second year, and \$47,916 (increasing at CPI annually) for the remainder of the term. A marketing assessment of 4.0% of rooms revenue is also due. A monthly food and beverage fee will be due beginning in February 2021. This fee ramps up from \$2,917 per month for the twelve months beginning February 1, 2021 to \$5,833 per month for the next twelve months. Following the second increase, this fee increases to \$8,750 per month for the remainder of the term, increasing annually based on CPI. We note that the current franchise agreement cannot automatically be transferred to a new owner upon the sale of the property. We have assumed that a buyer would elect to continue to



operate the hotel as a Hilton Hotel and would enter into a license agreement that would reflect terms consistent with the current agreement. The costs of the Hilton affiliation, which are reflected in our forecast, comprise a flat monthly fee as well as a program fee 4% of gross rooms revenue. Other charges related to the affiliation, such as frequent guest programs, are reflected in the appropriate departmental expenses, consistent with the Uniform System of Accounts for the Lodging Industry (USALI).

The brand has issued a product improvement plan (PIP) in order for the property to comply with prevailing brand standards, which will necessitate additional investment. We have assumed that a hypothetical buyer would elect to complete this PIP in order to maintain the hotel's current brand affiliation; as such, a capital deduction has been considered in our analysis.

Hilton Hotels & Resorts, commonly known as simply Hilton, is the signature/flagship brand of Hilton Worldwide (formerly Hilton Hotels Corporation), recognized internationally as a preeminent hospitality company. With over 90 years of history, the Hilton brand is one of the largest hotel brands in the world, with locations in major city centers, near airports and convention centers, and in popular vacation destinations. Hilton hotels cater to business, group, and leisure travelers, with most properties featuring swimming pools and whirlpools, fitness centers, business centers, restaurant facilities, and meeting space, among other amenities. In addition, guests benefit from Hilton's worldwide reservations system and its highly acclaimed guest loyalty program, Hilton Honors. As of year-end 2016, there were 570 hotels (208,762 rooms) operating under the Hilton brand in the U.S. In 2016, the brand operated at an average occupancy level of 74.5%, with an average daily rate of \$167.05 and an average RevPAR of \$124.47 (worldwide).

We assume that the hotel will retain its current brand affiliation throughout the holding period. Inherent in this assumption is the expectation that the property will be operated in accordance with brand standards, including requirements for services and cleanliness; that the hotel will be maintained in good condition, with all building systems in good working order; and that any necessary refurbishments or renovations will be completed in a timely manner and in accordance with the requirements of the brand. A copy of the franchise inspection report was not provided for our review. We assume that any deficiencies in the property noted by the brand will be addressed in a timely manner and that the hotel will pass all future franchise inspections.



Scope of Work

The methodology used to develop this study is based on the market research and valuation techniques set forth in the textbooks authored by Hospitality Valuation Services for the American Institute of Real Estate Appraisers and the Appraisal Institute, entitled *The Valuation of Hotels and Motels*,¹ *Hotels, Motels and Restaurants: Valuations and Market Studies*,² *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*,³ *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*,⁴ and *Hotels and Motels – Valuations and Market Studies*,⁵ as well as in accordance with the Uniform System of Accounts for the Lodging Industry (USALI).

1. All information was collected and analyzed by the staff of TS Worldwide, LLC. Information such as historical operating statements, franchise and/or management agreements, site plans, floor plans, and leases, as applicable, were supplied by the client or property management.
2. The subject site was evaluated from the viewpoint of its utility for the development and operation of a hotel. The potential existence of surplus or excess land was investigated. We have reviewed adjacent uses, regional and local accessibility attributes, and visibility characteristics. A study of the local neighborhood was undertaken to determine its boundaries, land uses, recent developments, and life-cycle stage. Other aspects of the land, such as soil and subsoil conditions, nuisances, hazards, easements, encroachments, zoning, and the current flood zone of the property, have been evaluated.
3. The subject property's improvements were inspected to evaluate their current condition, quality of construction, and design and layout, including any items of physical deterioration or functional obsolescence. A list of facilities and amenities that the property offers has been compiled, and past upgrades of each area of the hotel have been investigated. Recent capital expenditures, as well as planned future upgrades, have been reviewed. The remaining economic life of the hotel has been estimated.

¹ Stephen Rushmore, *The Valuation of Hotels and Motels*. (Chicago: American Institute of Real Estate Appraisers, 1978).

² Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies*. (Chicago: American Institute of Real Estate Appraisers, 1983).

³ Stephen Rushmore, *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*. (Chicago: American Institute of Real Estate Appraisers, 1990).

⁴ Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations* (Chicago: Appraisal Institute, 1992).

⁵ Stephen Rushmore and Erich Baum, *Hotels and Motels – Valuations and Market Studies*. (Chicago: Appraisal Institute, 2001).



4. Economic and demographic statistics for the subject property's market have been reviewed to identify specific hostelry-related trends that may affect future demand for hotels. Workforce characteristics have been evaluated, including employment trends by sector and unemployment rates. Major businesses and industries operating in the local area were investigated, and local area office statistics and trends were reviewed, as available. Passenger levels and recent changes at the area's pertinent airport have been researched, and visitor demand generators have been identified and evaluated.
5. An STR Trend Report pertaining to historical trends in room-night supply, demand, occupancy, average rate, and RevPAR for the subject property and a group of selected competitors has been ordered and analyzed. Performance levels for each of the competitive hotels have been researched and/or estimated. Ownership, management, facilities, renovations, and other pertinent factors for the competitive properties have been investigated. Potential new hotel supply was researched and quantified. Occupancy levels of the subject property and its existing competition provide a basis for quantifying current accommodated demand in the market. The market for hotel accommodations is segmented based on the specific characteristics of the types of travelers utilizing the area's hotels. By segmenting the demand accommodated by each hotel, the total demand by market segment is quantified. The demand generated by each market segment is then projected by year up through a point of hypothetical market stabilization. Latent demand, if applicable, is estimated and added to the base demand forecast, resulting in a forecast of overall occupancy for the competitive market.
6. Based on the physical, economic, financial, and legal factors influencing the subject property, a conclusion regarding the property's highest and best use, as currently improved, was developed. The highest and best use of the subject land, as if vacant, was also evaluated based on current real estate trends and market conditions.
7. Occupancy of the subject property was projected based on a forecast of overall market penetration, or penetration by market segment. Average rate was projected based on competitive positioning, through the application of an overall ADR penetration rate, or penetration by each market segment's average rate.



8. Historical income and expense statements for the subject hotel have been reviewed, analyzed, and compared to the financial performance of comparable hotels. Inflation forecasts were researched, forming the basis for our own forecast of inflation. A projection of income and expense was prepared in accordance with the USALI, setting forth the anticipated economic benefits of the subject property. All projections are expressed in inflated dollars. Each line item has been reviewed individually. Amounts are forecast based on past performance, expected changes at the property in the future, and comparable hotel performance levels. Property taxes are forecast based on a review of past assessment levels, comparable hotel assessments, and historical tax rates.



3. Real Estate Overview

LAND

The suitability of the land for the operation of a lodging facility is an important consideration affecting the economic viability of a property and its ultimate marketability. Factors such as size, topography, access, visibility, and the availability of utilities have a direct impact on the desirability of a particular site.

The subject property is located on the grounds of the Austin-Bergstrom International Airport, to the west of the intersection formed by Hotel Drive and Employee Avenue. The street address of the Hilton Austin Airport is 9515 Hotel Drive, Austin, Texas, 78719.

Physical Characteristics

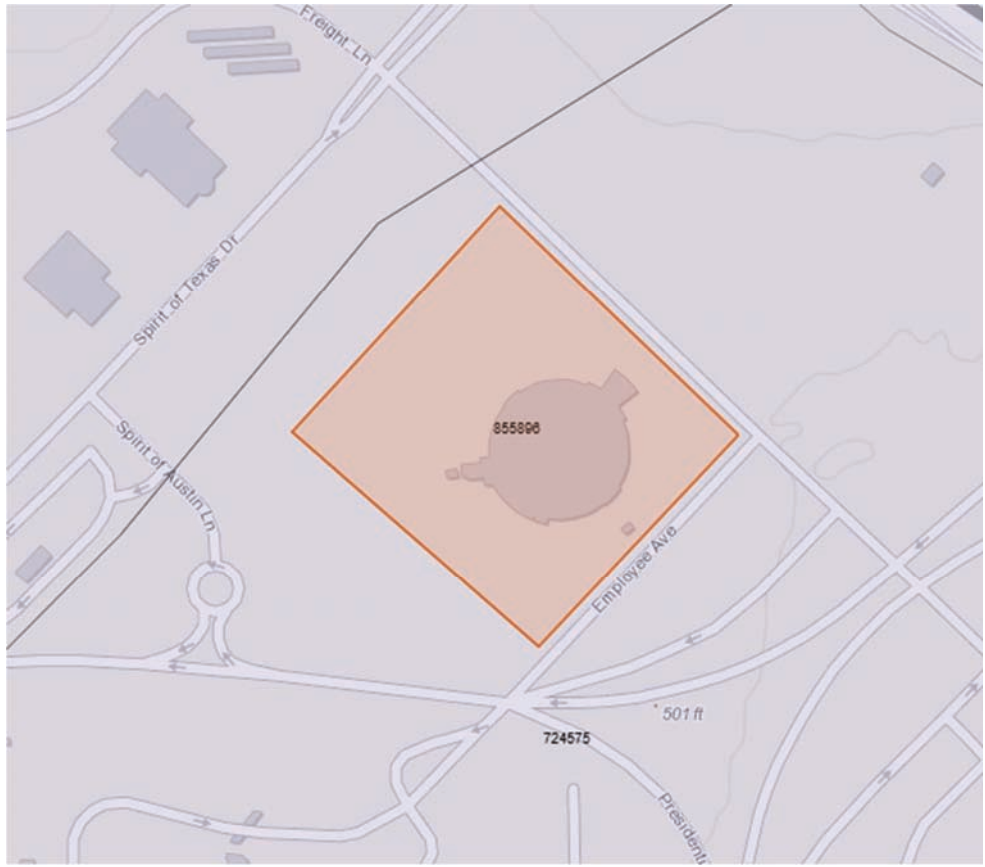
The subject site measures approximately 10.61 acres, or 462,019 square feet. The parcel's adjacent uses are set forth in the following table.

FIGURE 3-1 SUBJECT PARCEL'S ADJACENT USES

<u>Direction</u>	<u>Adjacent Use</u>
Northwest	Spirit of Texas Drive
Southwest	Hyatt Place
Southeast	Employee Avenue
Northeast	Hotel Drive



PLAT MAP



AERIAL PHOTOGRAPH





Site Utility

The topography of the parcel is generally flat. As illustrated in the following exhibit, the shape of the subject site permits efficient use of the site for building and site improvements, including ingress and egress. The subject site contains approximately four acres of surplus land in the northwestern portion of the site. However, this land cannot be sold, entitled, or developed for alternate use because of the ground lease in place.

VIEW FROM SITE TO THE NORTH



VIEW FROM SITE TO THE SOUTH



VIEW FROM SITE TO THE EAST



VIEW FROM SITE TO THE WEST

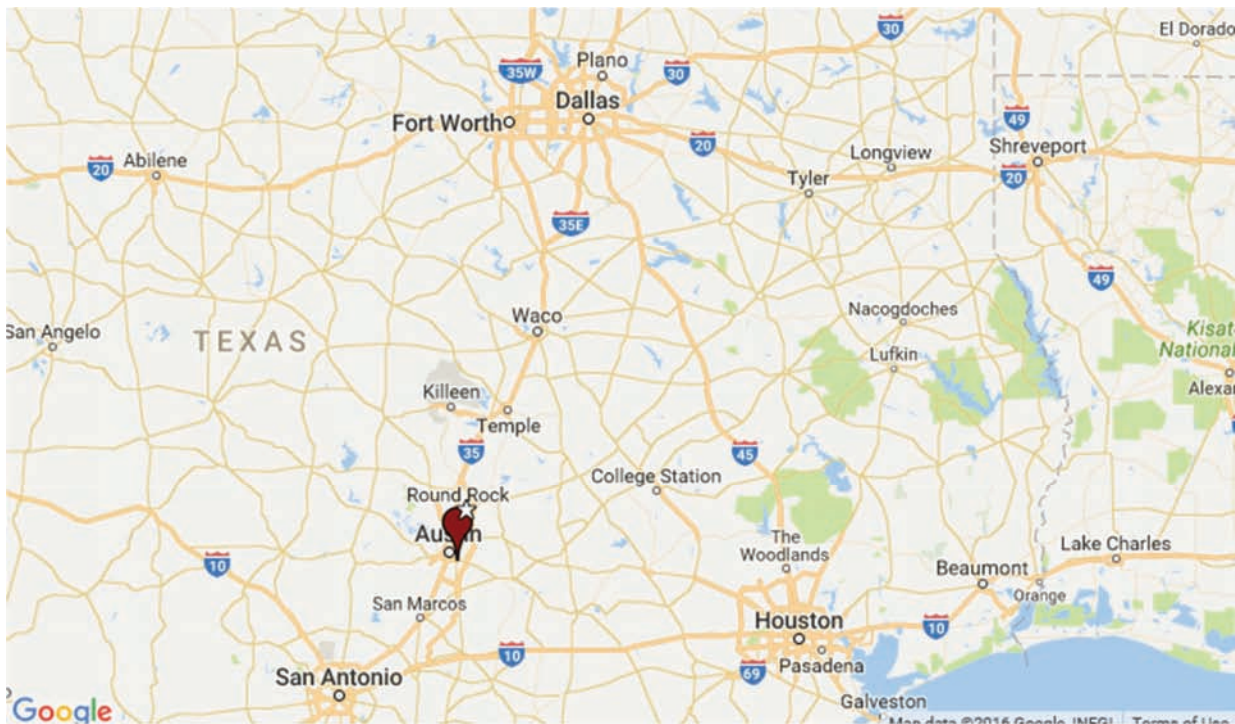




Access and Visibility

It is important to analyze the site with respect to regional and local transportation routes and demand generators, including ease of access. The subject site is readily accessible to a variety of local and county roads, as well as state and interstate highways.

MAP OF REGIONAL ACCESS ROUTES



Regional access to/from the city of Austin and the subject property, in particular, is considered excellent. The subject property's market is served by a variety of additional local routes, which are illustrated on the map.

Primary vehicular access to the subject property is provided by Hotel Drive. Access is also available from Employee Avenue. The subject property is located just off an airport exit along State Highway 71, which is the nearest major highway. The height of the hotel building enhances already unobstructed visibility from State Highway 71. Overall, the subject property benefits from excellent accessibility and visibility attributes.



Airport Access

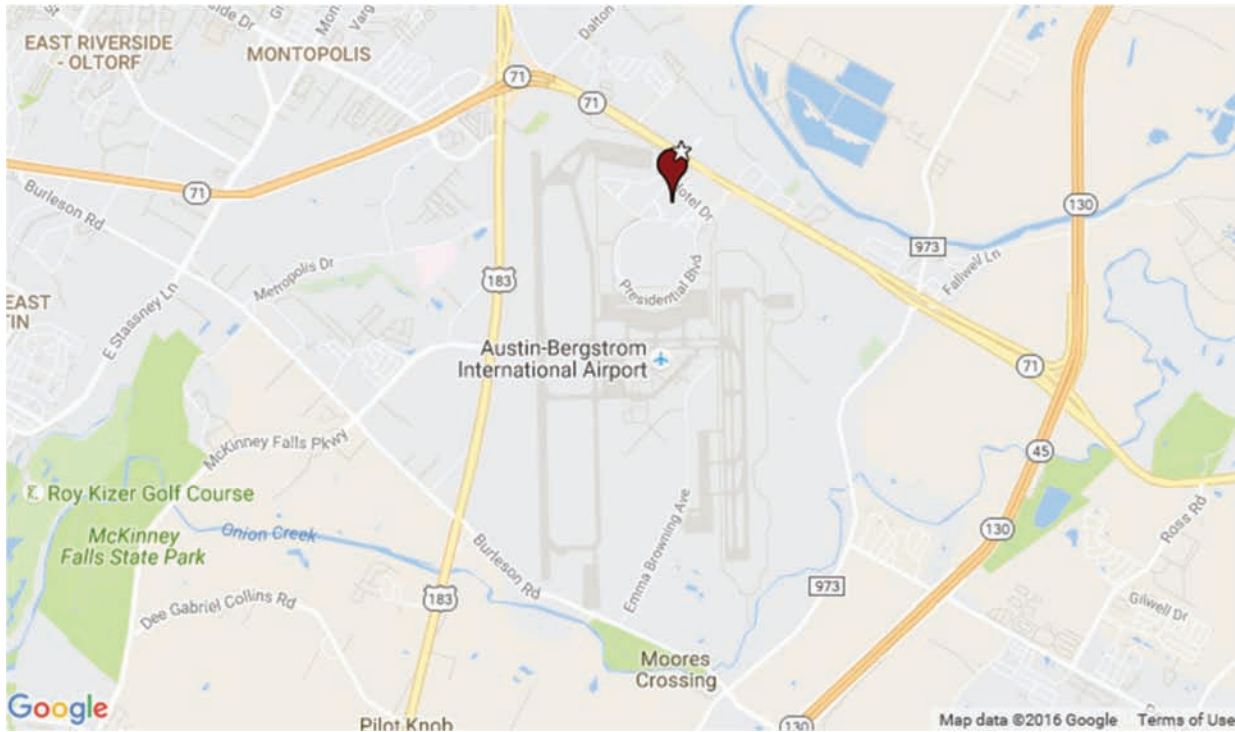
The subject property is served by the Austin-Bergstrom International Airport.

Neighborhood

The neighborhood surrounding a lodging facility often has an impact on a hotel's status, image, class, style of operation, and sometimes its ability to attract and properly serve a particular market segment.

The subject property's neighborhood is particular to the hotel's location within the Austin-Bergstrom International Airport (ABIA) grounds. In essence, the airport represents a neighborhood in itself, comprising formal airport uses and land dedicated for airport operations and ancillary facilities from airport-related companies. The airport grounds are surrounded by typical airport-adjacent uses, such as hotels, off-site parking lots, service stations, restaurants, and light-industrial facilities.

MAP OF NEIGHBORHOOD

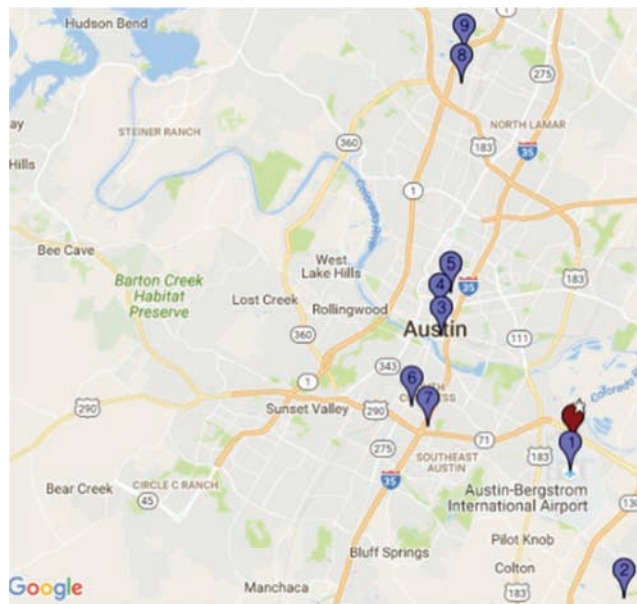




Proximity to Local Demand Generators and Attractions

The subject property is located near the area's primary generators of lodging demand. A sample of these demand generators is reflected on the following map, including respective distances from and drive times to the subject property. Overall, the subject property is well situated with respect to demand generators.

ACCESS TO DEMAND GENERATORS AND ATTRACTIONS



Demand Generator	Approx. Driving Time/Distance from Subject Property
Subject Property	
Austin-Bergstrom International Airport	11 minutes / 1 mile
Circuit of The Americas	11 minutes / 14 miles
Austin Convention Center	13 minutes / 15 miles
Texas Capitol	15 minutes / 11 miles
The University of Texas at Austin	15 minutes / 12 miles
St. Edward's University	10 minutes / 12 miles
US Internal Revenue Service	9 minutes / 10 miles
J. J. Pickle Research Campus, The University of Texas at Austin	20 minutes / 24 miles
The Domain	23 minutes / 28 miles



Utilities

According to property ownership, the subject site is served by all necessary utilities.

**Soil and
Subsoil Conditions**

Geological and soil reports were not provided to us or made available for our review during the preparation of this report. We are not qualified to evaluate soil conditions other than by a visual inspection of the surface; no extraordinary conditions were apparent.

**Nuisances
and Hazards**

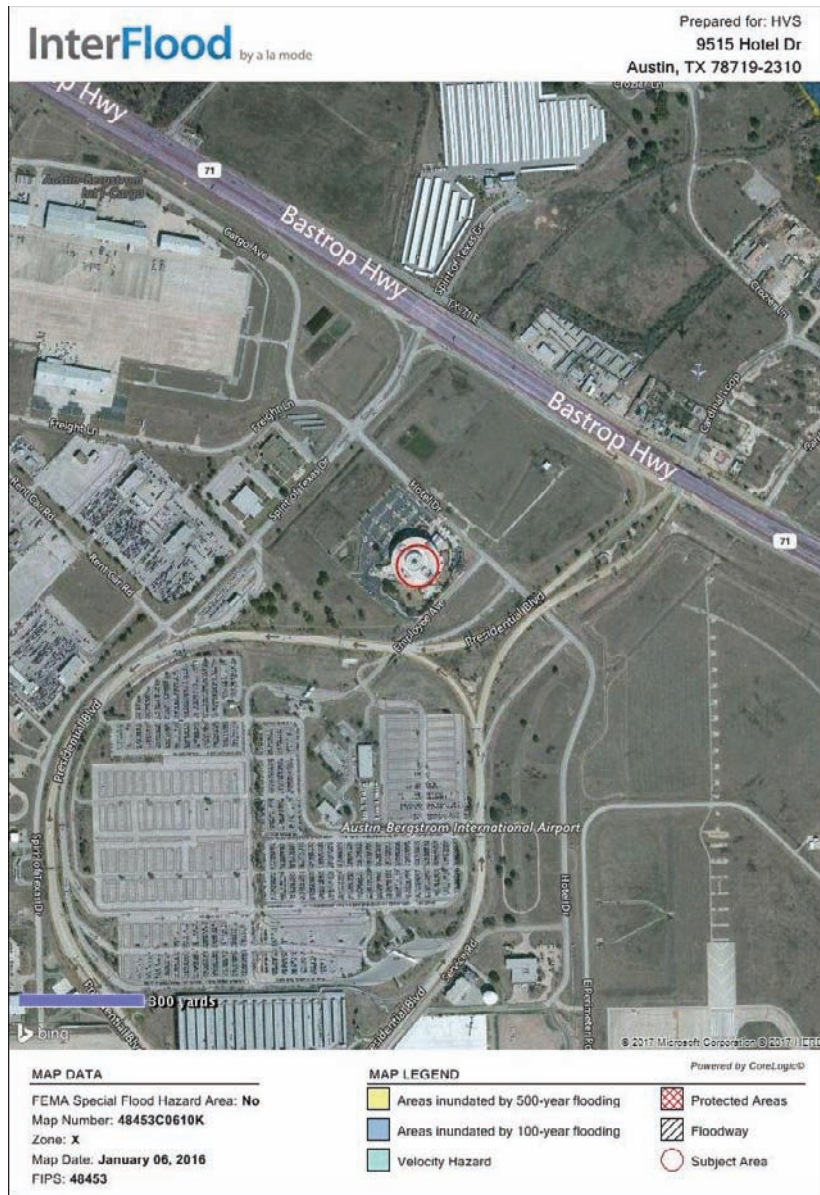
We were not informed of any site-specific nuisances or hazards, and there were no visible signs of toxic ground contaminants at the time of our inspection. Because we are not experts in this field, we do not warrant the absence of hazardous waste and urge the reader to obtain an independent analysis of these factors.



Flood Zone

According to the Federal Emergency Management Agency map illustrated below, the subject site is located in Zone X.

COPY OF FLOOD MAP AND COVER





The flood zone definition for the Zone X designation is as follows: areas outside the 500-year flood plain; areas of the 500-year flood; areas of the 100-year flood with average depths of less than one foot or with drainage areas less than one square mile and areas protected by levees from the 100-year flood.

Zoning

According to the local planning office, the subject property is zoned as follows: AV - Aviation Services. Additional details pertaining to the subject property’s zoning regulations are summarized in the following table.

ZONING	
Current Zoning	Aviation Services
Current Use	Hotel
Is Current Use Permitted	Yes
Is Change in Zoning Likely	No
Permitted Uses	Parking Facilities, Hotels, Airport related uses
Hotel Allowed	Yes
Legally Non-Conforming	Not Applicable

Easements and Encroachments

We are not aware of any easements or encroachments encumbering the property that would significantly affect its utility or marketability.

Conclusion

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities. In general, the airport location is well suited for hotel use, with acceptable access, visibility, and topography for an effective operation.

IMPROVEMENTS

The quality of a lodging facility's physical improvements has a direct influence on its marketability and attainable occupancy and average rate. The design and functionality of the structure can also affect operating efficiency and overall profitability.

The descriptions and pictures presented in this section reflect the hotel as observed at the time of our inspection on March 3, 2017.

Property Overview

The Hilton Austin Airport is a full-service lodging facility containing 262 rentable units. Building 2900 was once the headquarters building for Bergstrom Air Force Base. The three-story building opened in September 1968 and included a massive underground bunker intended to serve as a protective facility for the President of the United States in the event of a nuclear attack during the Cold War. Known locally as "The Donut," the building's configuration is similar to the Pentagon, with a circular structure enclosing an outdoor courtyard; this configuration provided other nicknames for this strategic headquarters, such as "The Little Pentagon" and



"The Roundagon." Once the Air Force base was converted to the city's new commercial airport, the City contracted a local company to redevelop Building 2900 into a full-service hotel. The result was a four-story Hilton with an additional below-grade level that was configured into meeting space. The courtyard was enclosed to create a four-story center atrium for the hotel.

The hotel's capital expenditures have been limited in the past five years. The hotel is currently in overall good condition; however, many areas are showing signs of wear and tear and/or appearing somewhat dated by prevailing standards. We are of the opinion that a renovation would be required in order to maintain its competitive position in the market, as well as the Hilton flag. Current ownership has prepared a renovation program that is scheduled to occur over the course of the next two years. These upgrades are noted in the following section; furthermore, the cost of these renovations forms the basis for the capital deduction assumed in our analysis.

SUBJECT PROPERTY – FRONT OF HOTEL



SUBJECT PROPERTY – BACK OF HOTEL



Summary of the Facilities

Based on our inspection and information provided by the subject property's management representatives, the following table summarizes the facilities available at the subject property.



FIGURE 3-2 FACILITIES SUMMARY

Guestroom Configuration		Number of Units
Standard		251
Parlour Suite		10
Presidential Suite		1
Total		262
Food & Beverage Facilities		Seating Capacity
Creeks Restaurant		75
Creeks Lounge		50
Meeting & Banquet Facilities		Square Footage
Bergstrom Ballroom		7,380
Chennault		1,944
Blackbirds Boardroom		513
Vin Fiz Boardroom		513
Del Valle		1,728
Longhorn		816
Wildflower		816
Bluebonnet		332
Wine Cup		483
Red Bud		550
Lantana		550
Mountain Laurel		550
Golden Rod		550
Live Oak		780
Total		17,505
Amenities & Services		
Outdoor Swimming Pool	Sundries Counter	
Outdoor Whirlpool	Guest Laundry Area	
Fitness Center	Vending Area(s)	
Lobby Workstations	Airport/Local Shuttle	
Infrastructure		
Parking Spaces	278	
Elevators	6 Guest	
Life-Safety Systems	Sprinklers, Smoke Detectors	
Construction Details	Steel, Reinforced Concrete	



Site Improvements and Hotel Structure

The hotel comprises one four-story building that is positioned in the center of the site. Surface parking is located around the building. Other site improvements include signage, located at the entrance to the hotel property, and well-kept landscaping and sidewalks; an outdoor pool and whirlpool area is situated to the southeast of the hotel structure. The hotel's main entrance, located on the northeast side of the building, leads directly into the lobby. The first floor houses the public areas, some meeting space, the restaurant and lounge, and the back-of-the-house space, while the guestrooms are located on the second through fourth floors. The ballroom and other breakout rooms are located on the lower level. The site and the structure appeared to be in good condition upon inspection. No recent changes were noted by management.

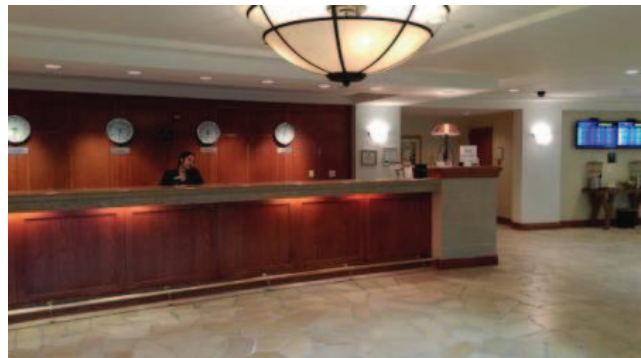
Lobby

The subject hotel features Creeks Restaurant, located on the lobby level, where breakfast, lunch, and dinner are served daily. Creeks Lounge is located in the center of the atrium. The hotel offers ten meeting rooms on the lobby level; portions of the atrium can be used for events as well. The ballroom, pre-function space, and three meeting rooms are located on the lower level. Recreational facilities consist of an outdoor pool, an outdoor whirlpool, and a fitness center. Additional amenities include two computer workstations in the atrium, a sundries counter/coffee shop, a guest laundry room, and vending areas. No major improvements to these areas have been performed in the past three years. The public areas of the hotel are functional, appearing to be well kept upon inspection and considered to be in good condition.

LOBBY SEATING AREA



FRONT DESK





Guestrooms

The hotel features standard and suite-style guestroom configurations, which offer typical amenities for this hotel's asset class. Overall, the guestrooms were in good condition although somewhat dated in appearance and showing some evidence of wear and tear. A comprehensive guestroom renovation is scheduled to occur in 2018. The guest bathrooms were in similar condition to the guestrooms. The bathrooms are scheduled to be upgraded at the same time as the guestrooms. The interior guestroom corridors were in good condition upon inspection.

FIGURE 3-3 SUMMARY OF ROOM TYPES

Guestroom Configuration	Number of Units
Standard	251
Parlour Suite	10
Presidential Suite	1
Total	262

TYPICAL GUESTROOM – SLEEPING AREA



TYPICAL GUESTROOM – LIVING AREA





TYPICAL GUESTROOM BATHROOM – SINK



TYPICAL GUESTROOM BATHROOM – BATH



FIGURE 3-4 SUMMARY OF FOOD AND BEVERAGE OUTLETS

<u>Food & Beverage Facilities</u>	<u>Seating Capacity</u>
Creeks Restaurant	75
Creeks Lounge	50

RESTAURANT



BAR





FIGURE 3-5 SUMMARY OF MEETING SPACE

<u>Meeting & Banquet Facilities</u>	<u>Square Footage</u>
Bergstrom Ballroom	7,380
Chennault	1,944
Blackbirds Boardroom	513
Vin Fiz Boardroom	513
Del Valle	1,728
Longhorn	816
Wildflower	816
Bluebonnet	332
Wine Cup	483
Red Bud	550
Lantana	550
Mountain Laurel	550
Golden Rod	550
Live Oak	780
Total	17,505

PREFUNCTION SPACE



MEETING ROOM



FIGURE 3-6 SUMMARY OF AMENITIES AND SERVICES

<u>Amenities & Services</u>	
Outdoor Swimming Pool	Sundries Counter
Outdoor Whirlpool	Guest Laundry Area
Fitness Center	Vending Area(s)
Lobby Workstations	Airport/Local Shuttle

FITNESS ROOM



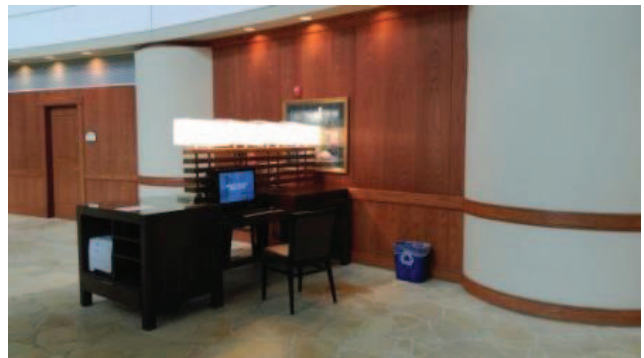
POOL



RETAIL



BUSINESS CENTER





ADA and Environmental

According to information provided by management representatives, there was mold located around the hotel's central catwalk/ceiling area related to the HVAC systems issue. This issue is expected to be remediated upon the completion of the repairs to the HVAC systems. No other environmental hazards were reported regarding the subject property's improvements, nor did we observe any. The property reportedly complies with the Americans with Disabilities Act; furthermore, the ADA-mandated pool lift was added in 2013.

LAUNDRY



KITCHEN/FOOD PREP AREA



Back-of-the-House

The subject property is served by the necessary back-of-the-house space, including an in-house laundry facility, administrative offices, and a full-service kitchen. The kitchen is located adjacent to the restaurant. The kitchen facilities are appropriate for the scope of service provided, appearing to be in good condition; no significant or persistent problems were reported by hotel management. The in-house laundry facility contains three large-capacity washers, three dryers, and one ironer. The hotel's back-of-the-house equipment and appliances were reported to be operational at the time of inspection, appearing to be in good condition.



Capital Expenditures

Historical capital expenditures are presented in the following table.

FIGURE 3-7 CAPITAL EXPENDITURE SUMMARY

	<u>Capital Expenditure</u>	<u>Per Room</u>
	<u>Amount</u>	<u>Amount</u>
2013	\$245,460	\$937
2014	182,084	695
2015	74,528	284
2016	116,525	445
Totals:	\$618,597	\$2,361

In order to fund planned renovations, we have assumed approximately \$15,000,000 will be reinvested into the property over the next three years to bring the hotel to brand and market standards. Our study also assumes an ongoing preventive maintenance program and appropriate management and ownership oversight. The reserve for replacement is consistent with accepted industry norms for a property of this type. The renovation of the property is an important consideration to achieving the occupancy and average rate forecast in this market study.



FIGURE 3-8 CAPITAL PLAN SUMMARY

Item	2017	2018	2019
	Amount	Amount	Amount
Guest Areas			
Design Fees/Model Room	\$90,000	\$0	\$0
Guestroom Softgoods	0	969,400	0
Guestroom Case Goods	0	1,572,000	
Additional Guestroom FF&E	0	567,900	
Guestroom Bathrooms	0	2,837,500	
Guestroom Corridors	0	111,400	0
Total	\$90,000	\$6,058,200	\$0
Per Room	\$344	\$23,123	\$0
Public Areas			
Design Fees	72,800	0	0
Meeting Rooms	200,300	0	161,800
Restaurant/Bar	47,700	0	284,100
Recreational Facilities	62,000	0	0
Lobby	0	0	420,300
Total	\$382,800	\$0	\$866,200
Per Room	\$1,461	\$0	\$3,306
Back of House			
Kitchen	64,500	103,900	47,400
Laundry	0	182,400	77,400
Total	\$64,500	\$286,300	\$124,800
Per Room	\$246	\$1,093	\$476
Structure and Site			
Building Exterior	12,700	0	210,800
Parking Lot	32,000	134,800	54,100
Mechanical Systems	2,054,300	111,200	78,800
Roof	35,700	0	0
Total	\$2,134,700	\$246,000	\$343,700
Per Room	\$8,148	\$939	\$1,312
Mold Remediation	1,999,800	2,000,000	0
Miscellaneous	149,500	265,300	107,300
Totals:	\$4,821,300	\$8,855,800	\$1,442,063
Per Room:	\$18,402	\$33,801	\$5,504

Source: Ownership

Conclusion

Overall, the subject property offers a well-designed, functional layout of support areas and guestrooms. Strengths of the physical asset include its unique design and well-maintained physical plant, while the only significant weaknesses noted were the need for HVAC repairs and the dated furniture and finishes.



4. Market Area Analysis

The economic vitality of the market area and neighborhood surrounding the subject property is an important consideration in forecasting lodging demand and income potential. Economic and demographic trends that reflect the amount of visitation provide a basis from which to project lodging demand. The purpose of the market area analysis is to review available economic and demographic data to determine whether the local market will undergo economic growth, stabilize, or decline. In addition to predicting the direction of the economy, the rate of change must be quantified. These trends are then correlated based on their propensity to reflect variations in lodging demand, with the objective of forecasting the amount of growth or decline in visitation by individual market segment (e.g., commercial, meeting and group, and leisure).

Market Area Definition

The market area for a lodging facility is the geographical region where the sources of demand and the competitive supply are located. The subject property is located in the city of Austin, the county of Travis, and the state of Texas. As the capital of Texas, Austin's diversity of businesses, government agencies, entertainment venues, historical attractions, and universities characterize the city as the cultural and political heart of Texas. Government jobs and investments related to state, city, county, and federal entities provide a solid economic base for the Austin area. Additionally, Austin is home to the state's flagship university, The University of Texas, which has continually supplied the local labor pool with young, well-educated, and relatively inexpensive workers. Furthermore, technology and multimedia platforms have grown into primary industries in this market. Austin's desirable location, diverse population, and committed government agencies have increased the city's attractiveness as one of the premier corporate-relocation sites in the country.

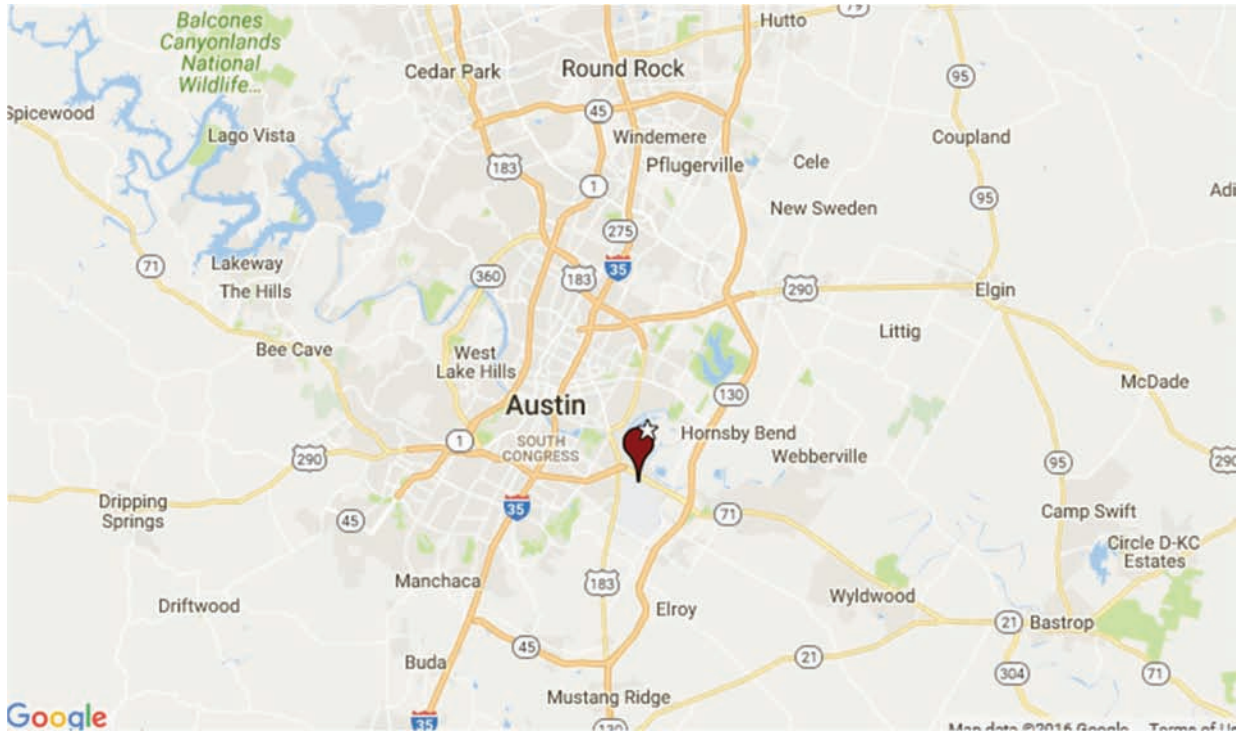


AUSTIN



The subject property's market area can be defined by its Combined Statistical Area (CSA): New York-Newark, NY-NJ-CT-PA. The CSA represents adjacent metropolitan and micropolitan statistical areas that have a moderate degree of employment interchange. Micropolitan statistical areas represent urban areas in the United States based around a core city or town with a population of 10,000 to 49,999; the MSA requires the presence of a core city of at least 50,000 people and a total population of at least 100,000 (75,000 in New England). The following exhibit illustrates the market area.

MAP OF MARKET AREA



Economic and Demographic Review

A primary source of economic and demographic statistics used in this analysis is the *Complete Economic and Demographic Data Source* published by Woods & Poole Economics, Inc.—a well-regarded forecasting service based in Washington, D.C. Using a database containing more than 900 variables for each county in the nation, Woods & Poole employs a sophisticated regional model to forecast economic and demographic trends. Historical statistics are based on census data and information published by the Bureau of Economic Analysis. Projections are formulated by Woods & Poole, and all dollar amounts have been adjusted for inflation, thus reflecting real change.

These data are summarized in the following table.

FIGURE 4-1 ECONOMIC AND DEMOGRAPHIC DATA SUMMARY

	2000	2010	2016	2020	Average Annual Compounded Change		
					2000-10	2010-16	2016-20
Resident Population (Thousands)							
Travis County	819.7	1,030.4	1,192.5	1,281.1	2.3 %	2.5 %	1.8 %
Austin-Round Rock, TX MSA	1,265.0	1,727.7	2,024.3	2,199.8	3.2	2.7	2.1
State of Texas	20,944.5	25,245.7	27,811.3	29,649.5	1.9	1.6	1.6
United States	282,162.4	309,347.1	324,506.9	336,690.4	0.9	0.8	0.9
Per-Capita Personal Income*							
Travis County	\$43,432	\$43,679	\$51,493	\$54,981	0.1	2.8	1.7
Austin-Round Rock, TX MSA	39,777	39,358	44,696	47,464	(0.1)	2.1	1.5
State of Texas	34,121	37,659	43,342	46,183	1.0	2.4	1.6
United States	36,812	39,622	43,613	46,375	0.7	1.6	1.5
W&P Wealth Index							
Travis County	124.4	118.2	126.5	126.8	(0.5)	1.1	0.1
Austin-Round Rock, TX MSA	113.6	105.9	109.1	108.9	(0.7)	0.5	(0.1)
State of Texas	94.0	96.2	100.0	100.1	0.2	0.6	0.0
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Food and Beverage Sales (Millions)*							
Travis County	\$1,890	\$2,139	\$2,842	\$3,152	1.2	4.9	2.6
Austin-Round Rock, TX MSA	2,440	3,100	4,231	4,736	2.4	5.3	2.9
State of Texas	27,748	37,635	50,564	55,656	3.1	5.0	2.4
United States	368,829	447,728	562,999	602,635	2.0	3.9	1.7
Total Retail Sales (Millions)*							
Travis County	\$19,118	\$15,359	\$19,435	\$21,494	(2.2)	4.0	2.5
Austin-Round Rock, TX MSA	28,047	27,692	34,462	38,659	(0.1)	3.7	2.9
State of Texas	291,221	341,775	423,158	464,763	1.6	3.6	2.4
United States	3,902,830	4,130,414	4,846,834	5,181,433	0.6	2.7	1.7

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.



The U.S. population grew at an average annual compounded rate of 0.8% from 2010 to 2016; the state's population changed by 0.4% during that period. The county's population grown more slowly than the nation's population; the average annual growth rate of 0.3% between 2010 and 2016 reflects a gradually expanding area. In 2016, the county's population was approximately 1,364,000; it is forecast to be roughly 1,377,000 by 2020.

Following this population trend, per-capita personal income increased slowly, at 1.7% on average annually for the county between 2010 and 2016. The county's annual per-capita personal income level was approximately \$70,000 in 2016; it is expected to be \$75,000 by 2020. This compares to respective state and U.S. levels of \$53,000 and \$44,000 in 2016, and \$56,000 and \$46,000 by 2020. The county's local wealth index in 2016 was a relatively high 153.9, higher than the state's 2016 wealth index of 117.0. The county's wealth index is anticipated to be 154.8 by 2020, while the state's wealth index is forecast to be 117.5.

Food and beverage sales totaled \$2,842 million in the county in 2016, versus \$2,139 million in 2010. This reflects a 3.1% average annual change, which is stronger than the 1.4% pace recorded in the prior decade, the latter years of which were adversely affected by the recession. The pace of growth is anticipated to moderate to a more sustainable level of 1.0% through 2020. The retail sales sector demonstrated an annual decline of -0.5% from 2000 to 2010, followed by an increase of 4.0% during the period from 2010 to 2016. An increase of 1.0% average annual change in county retail sales is forecast through 2020.

Workforce Characteristics

The characteristics of an area's workforce provide an indication of the type and amount of transient visitation likely to be generated by local businesses. Sectors such as finance, insurance, and real estate (FIRE); wholesale trade; and services produce a considerable number of visitors who are not particularly rate-sensitive. The government sector often generates transient room nights, but per-diem reimbursement allowances often limit the accommodations selection to budget and mid-priced lodging facilities. Contributions from manufacturing, construction, transportation, communications, and public utilities (TCPU) employers can also be important, depending on the company type.

The following table sets forth the county workforce distribution by business sector in 2000, 2010, and 2016, as well as a forecast for 2020.

FIGURE 4-2 HISTORICAL AND PROJECTED EMPLOYMENT (000s)

Industry	2000	Percent of Total	2010	Percent of Total	2016	Percent of Total	2020	Percent of Total	Average Annual Compounded Change		
									2000- 2010	2010- 2016	2016- 2020
Farm	1.4	0.2 %	1.2	0.2 %	1.3	0.1 %	1.3	0.1 %	(1.3) %	0.6 %	0.8 %
Forestry, Fishing, Related Activities And Other	0.4	0.1	0.5	0.1	0.5	0.1	0.6	0.1	2.6	2.9	1.5
Mining	3.9	0.6	9.0	1.1	13.6	1.4	14.5	1.4	8.6	7.1	1.6
Utilities	0.7	0.1	1.1	0.1	1.0	0.1	1.1	0.1	4.2	(1.4)	1.3
Construction	39.9	6.0	40.6	5.2	52.4	5.4	59.1	5.6	0.2	4.4	3.0
Manufacturing	67.8	10.2	39.1	5.0	44.8	4.7	46.2	4.4	(5.4)	2.3	0.8
Total Trade	87.4	13.1	88.7	11.3	112.7	11.7	121.7	11.5	0.1	4.1	1.9
Wholesale Trade	26.2	3.9	26.0	3.3	35.1	3.6	38.1	3.6	(0.1)	5.2	2.0
Retail Trade	61.2	9.2	62.7	8.0	77.5	8.0	83.6	7.9	0.2	3.6	1.9
Transportation And Warehousing	11.2	1.7	12.0	1.5	15.3	1.6	16.4	1.6	0.7	4.1	1.8
Information	25.0	3.8	22.6	2.9	28.7	3.0	30.2	2.9	(1.0)	4.1	1.3
Finance And Insurance	32.8	4.9	47.2	6.0	59.7	6.2	67.7	6.4	3.7	4.0	3.2
Real Estate And Rental And Lease	27.1	4.1	46.2	5.9	57.0	5.9	64.5	6.1	5.5	3.6	3.1
Total Services	257.3	38.6	343.5	43.7	445.0	46.2	493.1	46.7	2.9	4.4	2.6
Professional And Technical Services	61.9	9.3	85.3	10.8	113.5	11.8	123.6	11.7	3.3	4.9	2.2
Management Of Companies And Enterprises	2.9	0.4	4.5	0.6	7.5	0.8	8.5	0.8	4.4	9.1	3.1
Administrative And Waste Services	44.9	6.7	51.4	6.5	66.5	6.9	72.8	6.9	1.4	4.4	2.3
Educational Services	8.7	1.3	15.2	1.9	18.9	2.0	21.1	2.0	5.8	3.7	2.8
Health Care And Social Assistance	46.6	7.0	65.5	8.3	81.6	8.5	93.0	8.8	3.5	3.7	3.3
Arts, Entertainment, And Recreation	14.2	2.1	21.0	2.7	24.7	2.6	27.0	2.6	4.0	2.8	2.3
Accommodation And Food Services	43.7	6.6	58.4	7.4	77.6	8.1	85.7	8.1	2.9	4.8	2.5
Other Services, Except Public Administration	34.5	5.2	42.2	5.4	54.8	5.7	61.3	5.8	2.0	4.4	2.9
Total Government	111.3	16.7	134.6	17.1	131.3	13.6	139.6	13.2	1.9	(0.4)	1.5
Federal Civilian Government	9.3	1.4	10.1	1.3	10.7	1.1	10.8	1.0	0.8	0.9	0.2
Federal Military	2.3	0.3	2.6	0.3	2.5	0.3	2.5	0.2	1.3	(0.6)	0.1
State And Local Government	99.7	15.0	121.9	15.5	118.1	12.3	126.3	12.0	2.0	(0.5)	1.7
TOTAL	666.4	100.0 %	786.3	100.0 %	963.4	100.0 %	1,055.9	100.0 %	1.7 %	3.4 %	2.3 %
MSA	849.8	—	1,076.9	—	1,317.7	—	1,448.4	—	2.4 %	3.4 %	2.4 %
U.S.	165,370.9	—	173,034.7	—	191,870.8	—	203,418.4	—	0.9	1.7	1.5

Source: Woods & Poole Economics, Inc.



Woods & Poole Economics, Inc. reports that during the period from 2000 to 2010, total employment in the county grew at an average annual rate of 0.6%. This trend was below the growth rate recorded by the MSA and also lagged the national average, reflecting the stable nature of the local economy throughout most of the decade until the recession in the latter years. More recently, the pace of total employment growth in the county accelerated to 1.5% on an annual average from 2010 to 2016, reflecting the initial years of the recovery.

Of the primary employment sectors, Total Services recorded the highest increase in number of employees during the period from 2010 to 2016, increasing by 42,646 people, or 11.1%, and transitioning from 47.7% to 48.4% of total employment. Of the various service sub-sectors, Health Care And Social Assistance and Professional And Technical Services were the largest employers. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 1.2% on average annually through 2020. The trend is below the forecast rate of change for the U.S. as a whole during the same period.

The following table illustrates historical and projected employment, households, population and average household income data as provided by REIS for the overall Austin market.

FIGURE 4-3 HISTORICAL & PROJECTED EMPLOYMENT, HOUSEHOLDS, POPULATION, AND HOUSEHOLD INCOME STATISTICS

Year	Total		Office		Industrial		Households	% Chg	Population	% Chg	Household	
	Employment	% Chg	Employment	% Chg	Employment	% Chg					Avg. Income	% Chg
2004	688,430	—	226,895	—	104,818	—	545,740	—	1,429,740	—	\$88,453	—
2005	713,070	3.6 %	234,762	3.5 %	105,784	0.9 %	570,950	4.6 %	1,493,410	4.5 %	94,162	6.5 %
2006	752,970	5.6	247,322	5.4	111,613	5.5	593,430	3.9	1,547,210	3.6	100,517	6.7
2007	781,500	3.8	255,944	3.5	112,342	0.7	617,870	4.1	1,606,820	3.9	102,507	2.0
2008	791,400	1.3	263,131	2.8	110,704	(1.5)	636,380	3.0	1,659,010	3.2	106,626	4.0
2009	770,800	(2.6)	259,805	(1.3)	99,665	(10.0)	650,560	2.2	1,704,550	2.7	101,832	(4.5)
2010	795,370	3.2	266,697	2.7	104,358	4.7	663,420	2.0	1,753,390	2.9	106,799	4.9
2011	820,730	3.2	274,201	2.8	109,771	5.2	686,930	3.5	1,808,330	3.1	114,032	6.8
2012	860,600	4.9	287,373	4.8	113,294	3.2	709,720	3.3	1,858,110	2.8	123,667	8.4
2013	898,900	4.5	300,251	4.5	117,328	3.6	733,860	3.4	1,911,370	2.9	121,282	(1.9)
2014	936,370	4.2	313,415	4.4	117,996	0.6	759,520	3.5	1,970,160	3.1	128,737	6.1
2015	978,330	4.5	326,922	4.3	119,630	1.4	780,100	2.7	2,026,450	2.9	133,192	3.5
2016	1,014,170	3.7	338,867	3.7	121,566	1.6	802,870	2.9	2,086,040	2.9	135,493	1.7
Forecasts												
2017	1,037,160	2.3 %	345,060	1.8 %	123,540	1.6 %	828,100	3.1 %	2,146,290	2.9 %	\$139,046	2.6 %
2018	1,063,140	2.5	352,983	2.3	125,127	1.3	854,640	3.2	2,207,030	2.8	144,739	4.1
2019	1,085,920	2.1	360,262	2.1	126,518	1.1	879,970	3.0	2,266,350	2.7	150,278	3.8
2020	1,102,380	1.5	365,631	1.5	127,450	0.7	905,320	2.9	2,325,610	2.6	154,257	2.6
2021	1,123,750	1.9	373,078	2.0	128,475	0.8	931,700	2.9	2,387,920	2.7	158,739	2.9
Average Annual Compound Change												
2004 - 2016		3.3 %		3.4 %		1.2 %		3.3 %		3.2 %		3.6 %
2004 - 2007		4.3		4.1		2.3		4.2		4.0		5.0
2007 - 2010		0.6		1.4		(2.4)		2.4		3.0		1.4
2010 - 2016		4.1		4.1		2.6		3.2		2.9		4.0
Forecast 2017 - 2021		2.0 %		2.0 %		1.0 %		3.0 %		2.7 %		3.4 %

Source: REIS Report, 2nd Quarter, 2017



For the Austin market, of the roughly 1,000,000 persons employed, 33% are categorized as office employees, while 12% are categorized as industrial employees. Total employment increased by an average annual compound rate of 0.6% during the recession of 2008 to 2011, followed by an increase of 4.1% from 2011 to 2016. By comparison, office employment reflected compound change rates of 1.4% and 4.1%, during the same respective periods. Total employment is expected to expand by 2.3% in 2017, while office employment is forecast to expand by 1.8% in 2017. From 2016 through 2021, REIS anticipates that total employment will increase at an average annual compound rate of 2.0%, while office employment will increase by 2.0% on average annually during the same period.

The number of households is forecast to increase by 3.0% on average annually between 2016 and 2021. Population is forecast to expand during this same period, at an average annual compounded rate of 2.7%. Household average income is forecast to grow by 3.4% on average annually from 2016 through 2021.

**Radial Demographic
Snapshot**

The following table reflects radial demographic trends for our market area measured by three points of distance from the subject property.



FIGURE 4-4 DEMOGRAPHICS BY RADIUS

	0.00 - 1.00 miles	0.00 - 3.00 miles	0.00 - 5.00 miles
Population			
2022 Projection	4,809	44,931	79,424
2017 Estimate	4,705	44,181	77,498
2010 Census	4,603	43,807	75,765
2000 Census	4,391	40,749	68,575
Percent Change: 2017 to 2022	2.2%	1.7%	2.5%
Percent Change: 2010 to 2017	2.2%	0.9%	2.3%
Percent Change: 2000 to 2010	4.8%	7.5%	10.5%
Households			
2022 Projection	2,352	19,878	35,050
2017 Estimate	2,278	19,320	33,949
2010 Census	2,178	18,674	32,639
2000 Census	2,049	17,459	29,259
Percent Change: 2017 to 2022	3.3%	2.9%	3.2%
Percent Change: 2010 to 2017	4.6%	3.5%	4.0%
Percent Change: 2000 to 2010	6.3%	7.0%	11.6%
Income			
2017 Est. Average Household Income	\$79,608	\$56,766	\$58,202
2017 Est. Median Household Income	52,953	36,622	38,445
2017 Est. Civ. Employed Pop 16+ by Occupation			
Architecture/Engineering	28	294	454
Arts/Design/Entertainment/Sports/Media	31	333	488
Building/Grounds Cleaning/Maintenance	36	847	1,407
Business/Financial Operations	145	822	1,261
Community/Social Services	113	570	1,002
Computer/Mathematical	103	441	732
Construction/Extraction	44	723	1,441
Education/Training/Library	147	1,568	2,805
Farming/Fishing/Forestry	1	11	25
Food Preparation/Serving Related	114	1,769	2,924
Healthcare Practitioner/Technician	424	2,232	3,945
Healthcare Support	41	422	755
Installation/Maintenance/Repair	40	404	901
Legal	20	91	158
Life/Physical/Social Science	11	208	349
Management	278	1,566	2,716
Office/Administrative Support	238	2,489	4,657
Production	64	968	1,759
Protective Services	21	336	630
Sales/Related	221	2,339	4,466
Personal Care/Service	85	897	1,509
Transportation/Material Moving	43	727	1,503

Source: Environics Analytics



**Unemployment
Statistics**

This source reports a population of 77,498 within a five-mile radius of the subject property, and 33,949 households within this same radius. Average household income within a five-mile radius of the subject property is currently reported at \$58,202, while the median is \$38,445.

The following table presents historical unemployment rates for the subject property’s market area, the state, and the nation.

FIGURE 4-5 UNEMPLOYMENT STATISTICS

<u>Year</u>	<u>City</u>	<u>MSA</u>	<u>State</u>	<u>U.S.</u>
2007	3.5 %	3.6 %	4.3 %	4.6 %
2008	4.0	4.3	4.8	5.8
2009	6.3	6.9	7.6	9.3
2010	6.2(r)	7.0(r)	8.1	9.6
2011	5.8(r)	6.6(r)	7.8	8.9
2012	5.1(r)	5.7(r)	6.7(d)	8.1
2013	4.6(r)	5.2(r)	6.2(d)	7.4
2014	3.7(r)	4.2(r)	5.1(d)	6.2
2015	3.0(r)	3.4(r)	4.5(d)	5.3
2016	3.0(r)	3.2(r)	4.6(d)	4.9
<i>Recent Month - Jun</i>				
2016	3.2 %	3.5 %	5.0 %	4.9 %
2017	3.1	3.4	4.7	4.4

* Letters shown next to data points (if any) reflect revised population controls and/or model re-estimation implemented by the BLS.

Source: U.S. Bureau of Labor Statistics

After the U.S. unemployment rate declined to an annual average of 4.6% in 2006 and 2007, the Great Recession, which spanned December 2007 through June 2009, resulted in heightened unemployment rates. The unemployment rate peaked at 10.0% in October 2009, after which job growth resumed; the national unemployment rate has steadily declined since 2010. Total nonfarm payroll employment increased by 135,000, 231,000, and 209,000 jobs in May, June, and July 2017, respectively. The strongest gains in July were recorded in the food services and drinking places, professional and business services, and health care sectors. The national unemployment rate remains low, registering at 4.3% in May, 4.4% in June, and 4.3% in July; it has remained under the 5.0% mark since May 2016, reflecting a trend of relative stability and the overall strength of the U.S. economy.



Major Business and Industry

Locally, the unemployment rate was 3.0(r)% in 2016; for this same area in 2017, the most recent month's unemployment rate was registered at 3.1%, versus 3.2% for the same month in 2016. Unemployment rose in 2008, concurrent with the onset of the recession. Unemployment for the city increased further in 2009 and remained near that level in 2010; however, it is important to note that local unemployment was considerably lower than the state and national levels during that time. Unemployment began to fall in 2011, and this trend continued through 2015; in 2016, unemployment remained at the low 3.0% mark achieved in 2015. The most recent comparative period indicates an increase in unemployment as of the latest available data for 2017; however, the local unemployment rate remains significantly below state and national levels. Local employment remains stable within the government and education sectors, and high-tech job growth has continued since 2011; moreover, Apple's new campus has brought 6,000 new jobs to the city. According to economic development officials, local employment is expected to continue to climb as area businesses increase spending in line with the strong economic growth in Austin.

Providing additional context for understanding the nature of the regional economy, the following table presents a list of the major employers in the subject property's market.

FIGURE 4-6 MAJOR EMPLOYERS

Rank	Firm	Number of Employees
1	State of Texas	70,863
2	The University of Texas at Austin	25,924
3	City of Austin/Austin Independent School District	14,059
4	Dell	14,000
5	Seton Healthcare Family	12,770
6	St. David's HealthCare	8,100
7	IBM	6,000
8	Apple, Inc.	6,000
9	NXP Semiconductors (Formerly Freescale)	4,000
10	AT&T	2,800

Source: Austin Business Journal, 2016

Government jobs and investments related to state, city, county, and federal entities provide a solid economic base for the Austin area, especially considering Austin's position as the state capital and home to all but one state agency headquarters. In



addition, technology and multimedia platforms have grown into primary industries in this market; major technology companies such as Apple, Google, Facebook, Cirrus Logic, Samsung, and Cisco Systems either maintain a significant presence or are expanding operations in the city. Additionally, Dell Inc., Austin’s largest private employer, maintains its world headquarters in the area. Austin also boasts a robust entertainment industry, inclusive of diverse media-related jobs and investments, particularly in the music, gaming, and filmmaking industries. Sony, Midway, Austin Studios, and Nintendo all maintain a presence in the market, with research, development, and production facilities located throughout the city. Furthermore, Austin is home to the state’s flagship university, The University of Texas, which has continually supplied the local labor pool with young, well-educated, and relatively inexpensive workers. Phase I for the Dell Medical School at UT was completed in the summer of 2016; this phase included the construction of a research building, a medical office, a parking garage, and an education and administration building. The new medical school opened to its first class for the Fall 2016 semester. The breadth of economic anchors in Austin, the significant presence of the high-tech industry, and the continued development throughout the city should bolster the area’s economy and support growth in the near future.

Office Space Statistics

Trends in occupied office space are typically among the most reliable indicators of lodging demand, as firms that occupy office space often exhibit a strong propensity to attract commercial visitors. Thus, trends that cause changes in vacancy rates or occupied office space may have a proportional impact on commercial lodging demand and a less direct effect on meeting demand. The following table details office space statistics for the pertinent market area.

FIGURE 4-7 OFFICE SPACE STATISTICS – MARKET OVERVIEW

Submarket	Inventory		Occupied Office Space	Vacancy Rate	Average Asking Lease Rate
	Buildings	Square Feet			
1 Central Business District	83	10,541,000	9,486,900	10.0 %	\$39.90
2 Round Rock/Georgetown	61	4,070,000	3,654,900	10.2	26.83
3 North Central	97	7,460,000	6,579,700	11.8	26.74
4 Northeast	32	2,110,000	1,827,300	13.4	20.42
5 Southeast	34	1,972,000	1,810,300	8.2	21.44
6 Southwest	66	4,894,000	4,155,000	15.1	29.23
7 South	40	2,118,000	1,827,800	13.7	33.76
8 Northwest	176	12,672,000	10,821,900	14.6	29.88
Totals and Averages	589	45,837,000	40,163,800	12.4 %	\$30.71

Source: REIS Report, 2nd Quarter, 2017



The greater Austin market comprises a total of 45.8 million square feet of office space. For the 2nd Quarter of 2017, the market reported a vacancy rate of 12.4% and an average asking rent of \$30.71. The subject property is located in the Southeast submarket, which houses 1,972,000 square feet of office space. The submarket's vacancy rate of 8.2% is below the overall market average. The average asking lease rate of \$21.44 is below the average for the broader market.

The following table illustrates a trend of office space statistics for the overall Austin market and the Southeast submarket.

FIGURE 4-8 HISTORICAL AND PROJECTED OFFICE SPACE STATISTICS – GREATER MARKET VS. SUBMARKET

Year	Austin Market							Southeast Submarket						
	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg
2004	36,857,000	—	29,260,000	—	20.6 %	\$19.32	—	2,082,000	—	1,797,000	—	13.7 %	\$13.44	—
2005	36,427,000	(1.2) %	30,391,000	3.9 %	16.6	20.09	4.0 %	2,082,000	0.0 %	1,813,000	0.9 %	12.9	13.26	(1.3) %
2006	36,594,000	0.5	31,236,000	2.8	14.6	22.15	10.3	2,082,000	0.0	1,759,000	(3.0)	15.5	14.19	7.0
2007	37,596,000	2.7	32,168,000	3.0	14.4	25.40	14.7	1,949,000	(6.4)	1,664,000	(5.4)	14.6	15.39	8.5
2008	40,463,000	7.6	32,845,000	2.1	18.8	26.35	3.7	1,954,000	0.3	1,643,000	(1.3)	15.9	14.63	(4.9)
2009	40,432,000	(0.1)	32,263,000	(1.8)	20.2	25.68	(2.5)	1,722,000	(11.9)	1,514,000	(7.9)	12.1	14.43	(1.4)
2010	40,247,000	(0.5)	31,859,000	(1.3)	20.8	25.20	(1.9)	1,722,000	0.0	1,539,000	1.7	10.6	14.59	1.1
2011	40,247,000	0.0	32,670,000	2.5	18.8	25.66	1.8	1,722,000	0.0	1,531,000	(0.5)	11.1	14.66	0.5
2012	40,247,000	0.0	33,491,000	2.5	16.8	26.10	1.7	1,722,000	0.0	1,570,000	2.5	8.8	15.06	2.7
2013	40,476,000	0.6	34,019,000	1.6	16.0	26.88	3.0	1,752,000	1.7	1,598,000	1.8	8.8	16.45	9.2
2014	41,391,000	2.3	35,019,000	2.9	15.4	28.05	4.4	1,752,000	0.0	1,607,000	0.6	8.3	17.48	6.3
2015	43,792,000	5.8	38,224,000	9.2	12.7	29.22	4.2	1,752,000	0.0	1,607,000	0.0	8.3	18.69	6.9
2016	45,167,000	3.1	39,718,000	3.9	12.1	30.10	3.0	1,972,000	12.6	1,826,000	13.6	7.4	20.98	12.3
Forecasts														
2017	46,426,000	2.8 %	40,654,000	2.4 %	12.4 %	\$30.94	2.8 %	1,972,000	0.0 %	1,813,000	(0.7) %	8.1 %	\$21.59	2.9 %
2018	47,034,000	1.3	41,236,000	1.4	12.3	31.68	2.4	1,991,000	1.0	1,839,000	1.4	7.7	22.28	3.2
2019	47,315,000	0.6	41,600,000	0.9	12.1	32.47	2.5	2,020,000	1.5	1,874,000	1.9	7.3	23.04	3.4
2020	47,708,000	0.8	42,220,000	1.5	11.5	33.21	2.3	2,063,000	2.1	1,918,000	2.3	7.0	23.94	3.9
2021	48,184,000	1.0	42,873,000	1.5	11.0	34.05	2.5	2,113,000	2.4	1,973,000	2.9	6.6	24.90	4.0
Average Annual Compound Change														
2004 - 2016		1.7 %		2.6 %			3.8 %		(0.5) %		0.1 %			3.8 %
2004 - 2007		0.7		3.2			9.5		(2.2)		(2.5)			4.6
2007 - 2010		2.3		(0.3)			(0.3)		(4.0)		(2.6)			(1.8)
2010 - 2016		1.9		3.7			3.0		2.3		2.9			6.2
Forecast 2017 - 2021		0.9 %		1.3 %			2.4 %		1.7 %		2.1 %			3.6 %

Source: REIS Report, 2nd Quarter, 2017



The inventory of office space in the Austin market increased at an average annual compound rate of 1.7% from 2004 through 2016, while occupied office space expanded at an average annual rate of 2.6% over the same period. During the period of 2004 through 2008, occupied office space expanded at an average annual compound rate of 3.2%. From 2008 through 2011, occupied office space contracted at an average annual compound rate of -0.3%, reflecting the impact of the recession. The onset of the recovery is evident in the 3.7% average annual change in occupied office space from 2011 to 2016. From 2016 through 2021, the inventory of occupied office space is forecast to increase at an average annual compound rate of 1.3%, with available office space expected to increase 0.9%, thus resulting in an anticipated vacancy rate of 11.0% as of 2021.

Convention Activity

A convention center serves as a gauge of visitation trends to a particular market. Convention centers also generate significant levels of demand for area hotels and serve as a focal point for community activity. Typically, hotels within the closest proximity to a convention center—up to three miles away—will benefit the most. Hotels serving as headquarters for an event benefit the most by way of premium rates and hosting related banquet events. During the largest of conventions, peripheral hotels may benefit from compression within the city as a whole.

The Austin Convention Center (ACC) underwent a \$110-million expansion in 2002 that brought the size of the facility to roughly 881,400 gross square feet, encompassing six city blocks. The ACC currently features roughly 247,052 square feet of contiguous and column-free exhibition space within five exhibit halls. The expansion included the addition of the Grand Ballroom, measuring approximately 43,300 square feet. Located in tech-heavy Austin, the ACC's telecommunications infrastructure enables the facility to support gigabit Ethernet over its fiber optic network, making exhibitions and trade shows a more "hands-on" experience for both attendees and exhibitors. This LEED Gold-certified facility, in conjunction with the 800-room Austin Hilton Hotel and 1,012-room JW Marriott, provides a highly competitive and attractive convention package for this market.

CONVENTION CENTER



The following table illustrates recent use statistics for this facility.

FIGURE 4-9 CONVENTION CENTER STATISTICS

Year	Number of Events	Percent Change	Total Room Nights	Percent Change
2009	61	—	198,810	—
2010	50	(18.0) %	233,201	17.3 %
2011	60	20.0	249,826	7.1
2012	58	(3.3)	265,500	6.3
2013	64	10.3	242,304	(8.7)
2014	58	(9.4)	261,178	7.8
2015	67	15.5	295,406	13.1
2016	59	(11.9)	298,394	1.0

Source: Austin Convention Center

Based on the presented data, it is evident that Austin has emerged as a popular, important convention destination in the South Central United States. Over time, it is



expected that destination convention facilities in Austin and additional convention-oriented hotels, such as the 1,012-room JW Marriott that opened on February 12, 2015, and the 1,066-room Fairmont Hotel that is under construction, will allow the market to penetrate tier-two and some tier-one markets more effectively, from the standpoint of capturing convention-type meeting and group demand. Furthermore, increasing demand among event planners has prompted the City to investigate the possibility of expanding the convention center to accommodate both demand growth and the ability to host larger and more numerous events with the addition of two new convention hotels totaling more than 2,000 hotel rooms.

Airport Traffic

Airport passenger counts are important indicators of lodging demand. Depending on the type of service provided by a particular airfield, a sizable percentage of arriving passengers may require hotel accommodations. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of the area.

The Austin-Bergstrom International Airport (AUS) is a multi-use facility that serves general aviation, commercial aviation, the State Aircraft Pooling Board, and the Texas Army National Guard. Many major commercial airlines and regional partners serve the airport. In 2015, Airports Council International ranked AUS as the third-best airport in North America for airport service quality. The \$72-million Terminal East Infill project, which began in 2014, was completed in July 2015. This project added approximately 55,000 square feet of space to the terminal; additionally, about 17,000 square feet of existing space was renovated. Furthermore, a new parking garage and car-rental facility opened in October 2015; this project consolidated the car-rental facility and added roughly 800 parking spaces. An additional parking facility, known as Park&Zoom, opened in 2016, and a combination pet-boarding and parking facility, known as Bark&Zoom, opened in May 2017. To support the airport's growth, construction began on an additional 6,000-space parking structure in 2017, which is expected to open in 2018. Due to significant increases in passenger traffic, construction on a \$378-million expansion project began in 2016; this project will add nine gates, replace three gates, add nearly 175,000 square feet of terminal space, and expand the terminal apron. The expansion, scheduled for completion in 2019, will enable the airport to accommodate an additional four million passengers, bringing total annual capacity to fifteen million.

The following table illustrates recent operating statistics for the Austin-Bergstrom International Airport, which is the primary airport facility serving the subject property's submarket.



FIGURE 4-10 AIRPORT STATISTICS - AUSTIN-BERGSTROM INTERNATIONAL AIRPORT

Year	Passenger Traffic	Percent Change*	Percent Change**
2007	8,885,391	—	—
2008	9,039,075	1.7 %	1.7 %
2009	8,220,898	(9.1)	(3.8)
2010	8,693,708	5.8	(0.7)
2011	9,080,875	4.5	0.5
2012	9,430,314	3.8	1.2
2013	10,017,958	6.2	2.0
2014	10,718,854	7.0	2.7
2015	11,897,959	11.0	3.7
2016	12,436,849	4.5	3.8
<i>Year-to-date, June</i>			
2016	6,024,502	—	—
2017	6,584,852	9.3 %	—

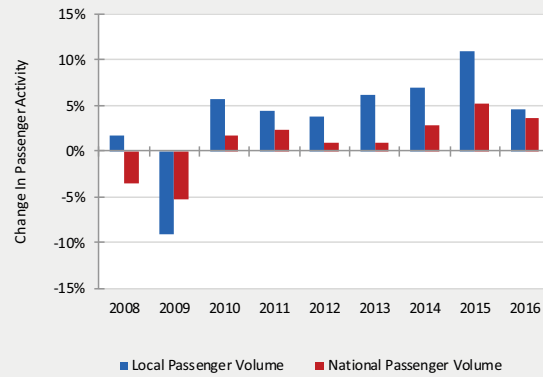
*Annual average compounded percentage change from the previous year

**Annual average compounded percentage change from first year of data

Source: Austin-Bergstrom International Airport



FIGURE 4-11 LOCAL PASSENGER TRAFFIC VS. NATIONAL TREND



Source: HVS, Local Airport Authority

This facility recorded 12,436,849 passengers in 2016. The change in passenger traffic between 2015 and 2016 was 4.5%. The average annual change during the period shown was 3.8%. The notable increase in passenger traffic can be attributed in large part to increased service by major air carriers in response to stronger economic conditions and a rise in demand, including the use of larger aircrafts. Additionally, in 2016, Volaris Airlines began offering flights to Guadalajara, and Condor Airlines began nonstop service to Frankfurt, Germany.

Tourist Attractions

The subject market benefits from a variety of tourism and leisure attractions in the area. Leisure demand generators include the State Capitol, Downtown Austin, Circuit of The Americas F1 track, and Lady Bird Lake. Special events also play a role during key weekends, such as Austin City Limits, SXSW Festival, and events at the University of Texas, such as football games and graduation. No major changes related to these attributes of the market are expected in the near future.

CIRCUIT OF THE AMERICAS



Conclusion

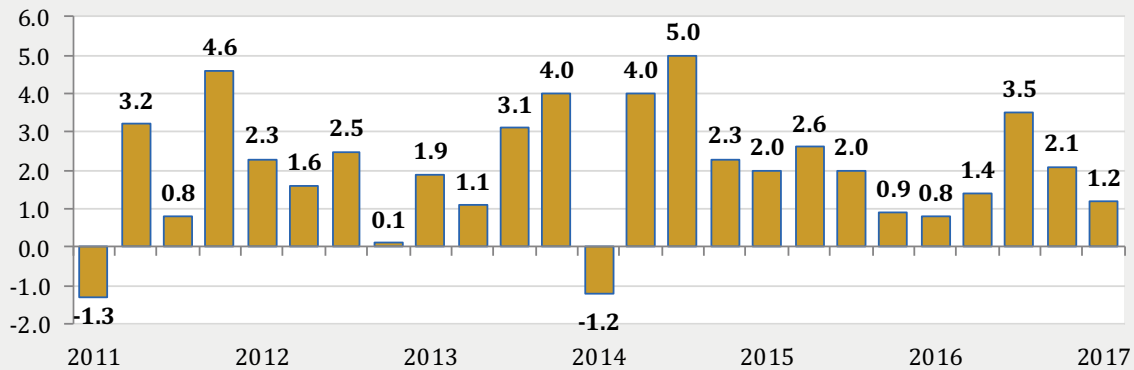
This section discussed a wide variety of economic indicators for the pertinent market area. Austin is experiencing a period of economic strength and expansion, led by the education, government, and information-technology sectors. Our market interviews and research revealed that expansion continues at many private-sector employers, particularly in the technology field. Furthermore, the addition of the Dell Medical School is expected to spur a rapid expansion of growth in the healthcare field, especially in the Central Business District. Austin took the top spot in the 2017 edition of the U.S. News and World Report's "Best Places to Live in the U.S. List" after placing second the year before; this list considers indicators such as unemployment levels, household income, cost of living, education, and healthcare, as well as population changes, when ranking the major metropolitan areas in the country. These factors, coupled with the diversity of this market's economic and employment base, bode well for the Austin area economy in the coming years.

Our analysis of the outlook for this specific market also considers the broader context of the national economy. The U.S. economy expanded during the last three years, with a relatively low point in growth occurring during the fourth quarter of 2015 and the first quarter of 2016, as well as the first quarter of 2017. Most recently, the economy expanded by 2.1% and 1.2% in the fourth quarter of 2016 and first quarter of 2017, respectively. The recent deceleration reflected a downturn in personal consumption expenditures, private inventory investments, and state and



local government spending. These declines were partly offset by an upturn in exports and accelerations in both non-residential and residential fixed investments.

FIGURE 4-12 UNITED STATES GDP GROWTH RATE



Source: tradingeconomics.com, Bureau of Economic Analysis

U.S. economic growth continues to support expansion of lodging demand; however, demand growth was not as robust in 2016 as in the last several years. As will be reflected in the following chapter, nationwide demand growth just slightly surpassed supply growth in 2016. Nevertheless, the stability in the U.S. economy is maintaining strong interest in hotel investments by a diverse array of market participants.



5. Supply and Demand Analysis

In the lodging industry, supply is measured by the number of guestrooms available, and demand is measured by the number of rooms occupied; the net effect of supply and demand toward equilibrium results in a prevailing price, or average rate. The purpose of this section is to investigate current supply and demand trends as indicated by the current competitive market, resulting in a forecast of market-wide occupancy.

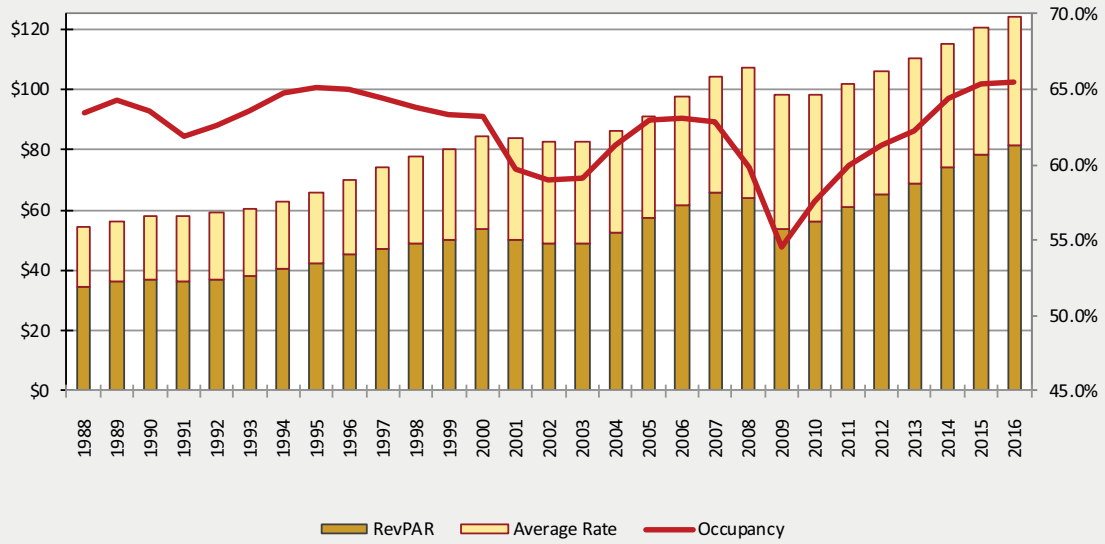
National Trends Overview

The subject property and local lodging market are most directly affected by the supply and demand trends within the immediate area. However, individual markets are also influenced by conditions in the national lodging market. We have reviewed national lodging trends to provide a context for the forecast of the supply and demand for the subject property's competitive set.

STR is an independent research firm that compiles data on the lodging industry, and this information is routinely used by typical hotel buyers. The following STR diagram presents annual hotel occupancy and average rate data since 1987. The next two tables contain information that is more recent; the data are categorized by geographical region, price point, type of location, and chain scale, and the statistics include occupancy, average rate, and rooms revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate and provides an indication of how well rooms revenue is being maximized.



FIGURE 5-1 NATIONAL OCCUPANCY, AVERAGE RATE, AND REVPAR TRENDS



Source: STR

FIGURE 5-2 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS – YEAR-TO-DATE DATA

	Occupancy - YTD June			Average Rate - YTD June			RevPAR - YTD June			Percent Change	
	2016	2017	% Change	2016	2017	% Change	2016	2017	% Change	Rms. Avail.	Rms. Sold
United States	64.9 %	65.4 %	0.7 %	\$123.13	\$126.01	2.3 %	\$79.92	\$82.35	3.0 %	1.8 %	2.5 %
Region											
New England	59.6 %	60.2 %	1.0 %	\$141.89	\$144.98	2.2 %	\$84.62	\$87.32	3.2 %	1.6 %	2.6 %
Middle Atlantic	63.8	64.5	1.1	154.08	153.62	(0.3)	98.33	99.07	0.8	3.1	4.2
South Atlantic	68.2	69.1	1.4	124.53	127.79	2.6	84.89	88.34	4.1	1.5	2.9
East North Central	58.8	59.1	0.6	104.62	106.55	1.8	61.49	63.02	2.5	1.9	2.5
East South Central	61.5	61.3	(0.4)	94.42	97.23	3.0	58.10	59.58	2.5	1.8	1.4
West North Central	56.9	56.3	(1.0)	94.21	95.82	1.7	53.62	53.98	0.7	1.3	0.2
West South Central	63.1	62.7	(0.5)	100.91	101.96	1.0	63.63	63.96	0.5	3.1	2.5
Mountain	65.4	66.5	1.7	115.25	121.13	5.1	75.40	80.58	6.9	1.1	2.8
Pacific	73.1	73.6	0.7	155.72	159.63	2.5	113.77	117.48	3.3	1.4	2.2
Class											
Luxury	70.8 %	71.0 %	0.2 %	\$281.15	\$286.69	2.0 %	\$199.33	\$203.51	2.2 %	2.7 %	2.9 %
Upper Upscale	72.9	73.0	0.2	178.17	181.81	2.0	129.84	132.81	2.3	1.7	1.9
Upscale	72.0	72.2	0.2	138.37	140.74	1.7	99.65	101.58	1.9	4.0	4.2
Upper Midscale	66.6	66.8	0.2	112.32	114.31	1.8	74.81	76.32	2.0	4.0	4.3
Midscale	58.7	59.3	1.1	90.58	92.73	2.4	53.15	55.03	3.5	0.3	1.4
Economy	57.5	58.1	1.0	68.16	70.34	3.2	39.17	40.84	4.2	(0.3)	0.7
Location											
Urban	72.8 %	73.3 %	0.7 %	\$173.26	\$175.52	1.3 %	\$126.15	\$128.69	2.0 %	3.1 %	3.8 %
Suburban	66.7	66.7	0.1	105.20	107.59	2.3	70.13	71.78	2.4	1.8	1.8
Airport	74.3	74.3	0.1	114.36	116.54	1.9	84.92	86.63	2.0	1.5	1.6
Interstate	55.1	55.7	1.0	81.42	82.97	1.9	44.90	46.20	2.9	1.5	2.4
Resort	69.2	70.4	1.8	173.28	179.03	3.3	119.93	126.11	5.2	1.2	3.0
Small Metro/Town	54.5	55.1	1.1	95.18	97.46	2.4	51.88	53.73	3.6	1.6	2.7
Chain Scale											
Luxury	74.4 %	74.4 %	0.0 %	\$317.51	\$324.68	2.3 %	\$236.24	\$241.54	2.2 %	2.1 %	2.1 %
Upper Upscale	74.9	74.9	0.0	180.22	183.34	1.7	134.94	137.24	1.7	2.0	2.0
Upscale	74.3	73.8	(0.7)	138.14	140.19	1.5	102.64	103.44	0.8	6.0	5.3
Upper Midscale	67.0	67.1	0.2	110.20	111.92	1.6	73.88	75.14	1.7	3.1	3.2
Midscale	58.4	59.0	1.0	83.89	85.52	1.9	48.99	50.42	2.9	1.1	2.0
Economy	56.8	57.3	0.8	59.41	60.83	2.4	33.76	34.84	3.2	0.2	1.0
Independents	60.9	61.9	1.6	120.16	124.38	3.5	73.23	77.00	5.1	0.2	1.7

Source: STR - June 2017 Lodging Review

FIGURE 5-3 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS – CALENDAR YEAR DATA

	Occupancy			Average Rate			RevPAR			Percent Change	
	2015	2016	%	2015	2016	%	2015	2016	%	Rms.	Rms. Sold
			Change			Change			Change	Avail.	
United States	65.4 %	65.5 %	0.1 %	\$120.30	\$123.97	3.1 %	\$78.68	\$81.19	3.2 %	1.6 %	1.7 %
Region											
New England	64.5 %	64.3 %	(0.4) %	\$146.41	\$150.70	2.9 %	\$94.49	\$96.89	2.5 %	1.3 %	1.0 %
Middle Atlantic	67.3	67.3	0.0	162.29	163.41	0.7	109.22	109.99	0.7	2.8	2.8
South Atlantic	66.5	67.2	1.1	116.65	119.77	2.7	77.53	80.44	3.8	1.3	1.3
East North Central	61.3	61.2	(0.2)	105.20	108.09	2.7	64.45	66.10	2.6	1.6	1.4
East South Central	61.0	61.4	0.7	90.91	94.87	4.4	55.43	58.26	5.1	1.7	2.5
West North Central	59.6	59.1	(0.8)	93.28	95.91	2.8	55.58	56.68	2.0	1.5	0.7
West South Central	62.9	61.5	(2.3)	98.43	98.66	0.2	61.93	60.63	(2.1)	2.7	0.3
Mountain	65.0	65.5	0.7	108.77	114.24	5.0	70.68	74.79	5.8	0.8	1.5
Pacific	73.2	73.9	0.9	151.10	158.44	4.9	110.57	117.04	5.8	0.9	1.9
Class											
Luxury	70.8 %	71.0 %	0.3 %	\$278.39	\$283.05	1.7 %	\$196.98	\$200.95	2.0 %	2.8 %	3.1 %
Upper Upscale	72.7	72.6	(0.1)	173.53	177.77	2.4	126.08	129.07	2.4	1.2	1.2
Upscale	72.0	72.0	0.1	135.70	139.47	2.8	97.72	100.49	2.8	3.9	3.9
Upper Midscale	67.1	67.1	0.0	110.95	113.84	2.6	74.48	76.38	2.6	3.3	3.2
Midscale	59.9	59.9	0.1	90.13	92.61	2.7	53.96	55.50	2.9	0.4	0.6
Economy	58.6	58.6	0.0	67.60	70.17	3.8	39.63	41.13	3.8	(0.4)	(0.4)
Location											
Urban	73.0 %	73.1 %	0.1 %	\$173.99	\$177.37	1.9 %	\$127.04	\$129.69	2.1 %	2.9 %	3.0 %
Suburban	66.7	66.8	0.2	101.91	105.70	3.7	67.97	70.63	3.9	1.4	1.6
Airport	73.6	73.4	(0.2)	109.78	113.56	3.4	80.78	83.40	3.3	1.0	0.8
Interstate	57.2	56.6	(1.1)	81.35	83.04	2.1	46.53	46.97	0.9	1.5	0.4
Resort	67.9	68.6	0.9	164.10	168.76	2.8	111.51	115.76	3.8	0.9	1.8
Small Metro/Town	56.9	56.9	0.1	96.63	99.45	2.9	54.95	56.64	3.1	1.4	1.5
Chain Scale											
Luxury	75.2 %	74.9 %	(0.3) %	\$317.58	\$322.84	1.7 %	\$238.70	\$241.82	1.3 %	2.8 %	2.4 %
Upper Upscale	74.3	74.2	(0.2)	174.98	178.82	2.2	130.08	132.63	2.0	1.6	1.4
Upscale	74.3	73.8	(0.6)	134.82	138.50	2.7	100.13	102.27	2.1	5.6	5.0
Upper Midscale	67.5	67.4	(0.2)	108.75	111.43	2.5	73.46	75.14	2.3	2.1	1.9
Midscale	59.4	59.4	(0.1)	83.32	85.43	2.5	49.52	50.74	2.5	1.2	1.1
Economy	58.1	57.9	(0.4)	58.82	60.84	3.4	34.16	35.20	3.1	0.3	(0.1)
Independents	61.8	62.3	0.8	118.73	123.22	3.8	73.36	76.75	4.6	0.2	1.0

Source: STR - December 2016 Lodging Review



Following the significant RevPAR decline experienced during the last recession, demand growth resumed in 2010, led by select markets that had recorded growth trends in the fourth quarter of 2009. A return of business travel and some group activity contributed to these positive trends. The resurgence in demand was partly fueled by the significant price discounts that were widely available in the first half of 2010. These discounting policies were largely phased out in the latter half of the year, balancing much of the early rate loss. Demand growth remained strong, but decelerated from 2011 through 2013, increasing at rates of 4.7%, 2.8%, and 2.0%, respectively. Demand growth then surged to 4.0% in 2014, driven by a strong economy, a robust oil and gas sector, and limited new supply, among other factors. By 2014, occupancy had surpassed the 64% mark. Average rate rebounded similarly during this time, bracketing 4.0% annual gains from 2011 through 2014.

In 2015, demand growth continued to outpace supply growth, a relationship that has been in place since 2010. With a 2.9% increase in room nights, the nation's occupancy level reached a record high of 65.4% in 2015. Supply growth intensified modestly in 2015 (at 1.1%), following annual supply growth levels of 0.7% and 0.9% in 2013 and 2014, respectively. Average rate posted another strong year of growth, at 4.4% in 2015, in pace with the annual growth of the last four years. Robust job growth, heightened group and leisure travel, and waning price-sensitivity all contributed to the gains. In 2016, occupancy increased minimally (by 0.1%) to 65.5%, as demand growth modestly exceeded supply growth. Average rate increased 3.1% for the year, and the net change in RevPAR was 3.2%, reflecting a healthy lodging market overall. Year-to-date June 2017 data illustrate that occupancy increased by 0.5%, while average rate increased by just under \$3.00, resulting in RevPAR growth of 3.0% for the first half of the year.

**Definition of Subject
Hotel Market**

The subject property is located in the greater Austin lodging market. Within this greater market, the subject hotel competes with a smaller set of hotels based on proximity, price point, age, and product type, among other factors. We have reviewed these pertinent attributes and established a competitive set based upon this review.

**Historical Supply
and Demand Data**

STR is an independent research firm that compiles and publishes data on the lodging industry, routinely used by typical hotel buyers. HVS has ordered and analyzed an STR Trend Report of historical supply and demand data for the subject property and its competitors. This information is presented in the following table, along with the market-wide occupancy, average rate, and rooms revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate and provides an indication of how well rooms revenue is being maximized.

FIGURE 5-4 HISTORICAL SUPPLY AND DEMAND TRENDS (STR)

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2000	1,855	677,075	—	515,916	—	76.2 %	\$90.09	—	\$68.65	—
2001	2,200	803,152	18.6 %	501,846	(2.7) %	62.5	88.56	(1.7) %	55.34	(19.4) %
2002	2,319	846,444	5.4	503,624	0.4	59.5	84.21	(4.9)	50.10	(9.5)
2003	2,328	849,720	0.4	494,557	(1.8)	58.2	81.05	(3.8)	47.17	(5.8)
2004	2,328	849,720	0.0	498,399	0.8	58.7	79.03	(2.5)	46.36	(1.7)
2005	2,328	849,720	0.0	566,945	13.8	66.7	84.41	6.8	56.32	21.5
2006	2,333	851,695	0.2	595,578	5.1	69.9	97.31	15.3	68.05	20.8
2007	2,466	900,093	5.7	619,309	4.0	68.8	105.74	8.7	72.75	6.9
2008	2,478	904,470	0.5	627,490	1.3	69.4	110.06	4.1	76.36	5.0
2009	2,478	904,470	0.0	600,562	(4.3)	66.4	98.32	(10.7)	65.28	(14.5)
2010	2,478	904,470	0.0	610,481	1.7	67.5	99.28	1.0	67.01	2.6
2011	2,477	904,105	(0.0)	637,041	4.4	70.5	105.48	6.2	74.32	10.9
2012	2,480	905,023	0.1	671,510	5.4	74.2	111.69	5.9	82.87	11.5
2013	2,480	905,200	0.0	704,550	4.9	77.8	116.93	4.7	91.01	9.8
2014	2,596	947,428	4.7	738,953	4.9	78.0	123.85	5.9	96.60	6.1
2015	2,618	955,570	0.9	754,633	2.1	79.0	131.26	6.0	103.66	7.3
2016	2,618	955,570	0.0	737,393	(2.3)	77.2	131.50	0.2	101.48	(2.1)
Year-to-Date Through June										
2016	2,618	473,858	—	383,626	—	81.0 %	\$136.65	—	\$110.63	—
2017	2,665	482,337	1.8 %	380,057	(0.9) %	78.8	136.08	(0.4) %	107.22	(3.1) %
Average Annual Compounded Change:										
2000 - 2016			2.2 %		2.3 %			2.4 %		2.5 %
2000 - 2007			4.2		2.6			2.3		0.8
2007 - 2010			0.2		(0.5)			(2.1)		(2.7)
2010 - 2016			0.9		3.2			4.8		7.2
Hotels Included in Sample										
Hotels Included in Sample	Class	Competitive Status	Number of Rooms	Year Affiliated	Year Opened					
Holiday Inn Austin Town Lake	Upper Midscale Class	Primary	322	Dec 1967	Dec 1967					
Crowne Plaza Austin	Upscale Class	Secondary	293	Jun 2006	Mar 1978					
Doubletree Austin	Upscale Class	Secondary	350	Jan 1988	Apr 1983					
Omni Austin Hotel @ Southpark	Upper Upscale Class	Primary	312	Aug 1996	Jul 1983					
Embassy Suites Austin Central	Upper Upscale Class	Secondary	260	Oct 1986	Mar 1984					
Wyndham Garden Hotel Austin	Upper Midscale Class	Secondary	210	Dec 2006	Jun 1985					
Courtyard Austin South	Upscale Class	Secondary	110	Dec 1996	Dec 1996					
Hilton Austin Airport	Upper Upscale Class	Subject Property	262	Jan 2001	Jan 2001					
Marriott Austin South	Upper Upscale Class	Primary	211	Aug 2001	Aug 2001					
Courtyard Austin Airport	Upscale Class	Secondary	150	Oct 2006	Oct 2006					
Holiday Inn Austin Airport	Upper Midscale Class	Primary	138	Mar 2014	Mar 2014					
Hyatt Place Austin Airport	Upscale Class	Primary	139	May 2017	May 2017					
			Total	2,757						

Source: STR



It is important to note some limitations of the STR data. Hotels are occasionally added to or removed from the sample; furthermore, not every property reports data in a consistent and timely manner. These factors can influence the overall quality of the information by skewing the results, and these inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nonetheless, STR data provide the best indication of aggregate growth or decline in existing supply and demand; thus, these trends have been considered in our analysis. Opening dates, as available, are presented for each reporting hotel in the previous table.

The STR data for the competitive set reflect a market-wide occupancy level of 77.2% in 2016, which compares to 79.0% for 2015. The STR data for the competitive set reflect a market-wide average rate level of \$131.50 in 2016, which compares to \$131.26 for 2015. These occupancy and average rate trends resulted in a RevPAR level of \$101.48 in 2016.

Both occupancy and average rate first peaked for this selected set of hotels in 2008, resulting in a RevPAR of more than \$76.00, before declining to a low point of roughly \$65.00 the following year because of the recession. The fact that occupancy and average rate declined only one year during the Great Recession is significant, as most major markets experienced declines for two or more years before entering into a recovery phase. A rapid recovery began in 2010 that extended through year-end 2015; as illustrated, the 2007 peak in RevPAR was exceeded in 2012. Furthermore, RevPAR surpassed \$100.00 for this selected set of competitive hotels in 2015. In Austin, demand growth has been influenced by the two primary anchors in the market, government and higher education; a massive transformation in the landscape of the Central Business District, including new office and residential towers; and the re-emergence of the technology industry. Occupancy softened in 2016, while average rate remained relatively stable. The entrance of ancillary new supply in the airport and south submarkets contributed to this weakening trend for 2016. This trend has continued in the year-to-date period for 2017 given the entrance of new select-service supply. Nonetheless, the outlook for the remainder of the year is positive, as this submarket is maintaining the vast majority of any displaced demand lost to the ancillary new supply; furthermore, increasing demand at the airport is anticipated to mitigate any lost demand to lower-rated new supply, similar to historical trends.

Seasonality

Monthly occupancy and average rate trends are presented in the following tables.

FIGURE 5-5 MONTHLY OCCUPANCY TRENDS

Month	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
January	52.5 %	63.7 %	62.3 %	56.1 %	57.1 %	55.0 %	59.2 %	63.1 %	66.5 %	64.5 %	69.4 %	65.2 %	65.9 %
February	70.3	72.0	78.8	75.1	73.7	73.3	76.9	75.5	81.6	82.3	84.9	80.2	81.0
March	73.4	78.0	83.6	79.0	78.6	78.8	83.2	86.3	87.0	84.8	88.4	85.5	86.7
April	76.1	75.2	77.8	80.4	70.5	70.0	75.7	77.0	86.0	83.3	88.0	90.4	83.5
May	65.1	77.2	75.3	73.2	63.7	71.7	73.7	78.2	82.5	80.7	83.3	83.1	80.6
June	69.2	71.6	72.3	72.1	72.9	68.2	71.9	76.8	80.3	80.3	85.1	81.5	75.4
July	66.5	69.8	61.7	65.9	70.2	66.2	67.4	71.8	76.8	81.5	79.8	75.6	—
August	56.5	65.1	65.0	68.4	61.8	67.4	63.7	73.4	74.8	76.3	75.8	72.5	—
September	73.3	75.9	70.5	75.8	63.0	67.0	76.2	71.7	76.8	77.1	76.7	79.5	—
October	80.9	74.2	70.7	75.8	77.7	75.4	79.8	82.7	84.8	90.1	86.9	84.4	—
November	68.8	67.2	63.7	65.5	61.1	68.0	68.3	74.8	78.1	75.4	73.7	74.9	—
December	49.1	50.7	45.3	46.3	47.4	49.6	50.4	59.2	59.5	59.5	56.5	53.9	—
Annual Occupancy	66.7 %	69.9 %	68.8 %	69.4 %	66.4 %	67.5 %	70.5 %	74.2 %	77.8 %	78.0 %	79.0 %	77.2 %	—
Year-to-Date	67.7 %	73.0 %	75.0 %	72.6 %	69.3 %	69.5 %	73.4 %	76.2 %	80.6 %	79.4 %	83.1 %	81.0 %	78.8 %

Source: STR

FIGURE 5-6 MONTHLY AVERAGE RATE TRENDS

Month	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
January	\$78.83	\$89.57	\$100.96	\$103.70	\$102.45	\$91.89	\$95.62	\$99.61	\$103.24	\$106.16	\$115.85	\$117.23	\$119.33
February	84.22	96.29	107.29	112.78	106.29	99.89	109.47	105.70	113.14	120.74	132.11	133.16	133.00
March	89.32	103.06	115.84	119.12	111.09	113.95	132.00	143.36	150.62	162.98	169.30	162.74	164.08
April	85.95	98.77	106.15	112.43	100.68	98.39	105.07	105.47	117.90	123.70	133.55	140.28	138.28
May	83.28	99.02	107.96	111.05	95.77	102.27	104.93	110.64	116.44	120.34	129.99	135.43	136.18
June	85.10	97.59	103.80	109.85	96.64	98.44	99.42	101.77	105.00	117.10	127.10	124.92	119.34
July	78.69	91.48	97.38	98.89	90.33	91.32	93.93	95.14	97.56	107.17	114.92	112.55	—
August	79.46	92.42	99.12	99.84	89.70	92.80	94.69	96.15	98.41	104.33	115.40	111.64	—
September	88.77	104.73	110.10	124.94	98.28	101.42	108.27	106.33	120.27	125.15	132.38	133.12	—
October	89.69	100.30	112.97	112.45	103.09	105.48	114.68	117.97	120.91	146.25	153.69	150.30	—
November	85.83	100.33	105.13	111.67	92.52	99.18	103.90	148.74	149.72	135.49	129.12	135.28	—
December	77.99	89.76	93.62	94.45	85.95	88.63	90.05	98.51	99.27	101.82	105.18	102.84	—
Annual Average Rate	\$84.41	\$97.31	\$105.74	\$110.06	\$98.32	\$99.28	\$105.48	\$111.69	\$116.93	\$123.85	\$131.26	\$131.50	—
Year-to-Date	\$84.77	\$97.65	\$107.40	\$111.91	\$102.40	\$101.47	\$108.76	\$112.32	\$118.75	\$126.49	\$135.60	\$136.65	\$136.08

Source: STR

FIGURE 5-7 SEASONALITY

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
High Season - April, October												
Occupancy	78.5 %	74.7 %	74.2 %	78.0 %	74.1 %	72.7 %	77.8 %	79.9 %	85.4 %	86.8 %	87.4 %	87.3 %
Average Rate	\$87.91	\$99.57	\$109.46	\$112.44	\$101.96	\$102.13	\$110.08	\$112.04	\$119.41	\$135.60	\$143.72	\$145.20
RevPAR	69.03	74.37	81.22	87.76	75.59	74.28	85.67	89.53	101.99	117.69	125.62	126.83
Shoulder Season - February, May, June, July, August, September, November												
Occupancy	67.0 %	71.2 %	69.5 %	70.8 %	66.5 %	68.8 %	71.1 %	74.6 %	78.7 %	79.1 %	79.9 %	78.2 %
Average Rate	\$83.76	\$97.54	\$104.59	\$110.06	\$95.69	\$97.93	\$102.28	\$109.24	\$114.33	\$118.37	\$125.82	\$126.71
RevPAR	56.13	69.46	72.66	77.91	63.66	67.35	72.68	81.48	89.93	93.58	100.49	99.05
Low Season - January, March, December												
Occupancy	58.3 %	64.0 %	63.7 %	60.5 %	61.1 %	61.2 %	64.3 %	69.6 %	71.0 %	69.7 %	71.4 %	68.2 %
Average Rate	\$83.00	\$95.03	\$105.73	\$108.06	\$101.89	\$100.48	\$109.86	\$117.40	\$121.49	\$128.37	\$135.09	\$132.44
RevPAR	48.41	60.77	67.38	65.36	62.21	61.47	70.59	81.67	86.25	89.46	96.46	90.35

Source: Smith Travel Research



The illustrated monthly occupancy and average rates patterns reflect important seasonal characteristics. We have reviewed these trends in developing our forthcoming forecast of market-wide demand and average rate.

Patterns of Demand

A review of the trends in occupancy and average rate by day of the week provides some insight into the impact that the current economic conditions have had on the competitive lodging market. The data, as provided by STR, are illustrated in the following table(s).



FIGURE 5-8 OCCUPANCY BY DAY OF WEEK (TRAILING 12 MONTHS)

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Jul - 16	57.5 %	69.3 %	78.1 %	82.8 %	76.5 %	79.6 %	86.3 %	75.6 %
Aug - 16	46.8	67.1	76.2	75.0	75.4	82.4	84.5	72.5
Sep - 16	67.2	67.0	82.2	87.9	78.2	83.1	90.3	79.5
Oct - 16	68.2	74.2	89.2	93.3	88.2	89.4	92.6	84.4
Nov - 16	55.5	71.0	75.6	80.0	80.7	83.2	77.2	74.9
Dec - 16	38.1	52.6	59.0	56.7	55.6	55.6	58.2	53.9
Jan - 17	47.6	66.0	76.5	74.8	69.9	63.8	64.3	65.9
Feb - 17	61.6	83.3	90.7	91.1	86.6	75.1	78.3	81.0
Mar - 17	68.1	86.1	94.6	91.6	88.4	89.1	87.1	86.7
Apr - 17	59.6	82.5	93.5	91.9	85.9	90.4	86.2	83.5
May - 17	61.8	70.7	83.3	84.1	86.2	89.8	89.4	80.6
Jun - 17	51.7	73.9	85.5	87.7	76.1	74.1	78.9	75.4
Average	57.1 %	71.8 %	81.7 %	83.0 %	78.7 %	79.3 %	81.1 %	76.1 %

Source : STR

FIGURE 5-9 AVERAGE RATE BY DAY OF WEEK (TRAILING 12 MONTHS)

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Jul - 16	\$105.53	\$115.42	\$121.38	\$118.62	\$113.88	\$107.90	\$107.66	\$112.55
Aug - 16	101.77	115.86	119.06	120.56	115.20	102.42	100.44	111.64
Sep - 16	133.94	127.31	135.37	136.33	131.68	130.75	135.90	133.12
Oct - 16	143.22	135.12	148.47	151.35	148.29	159.02	163.01	150.30
Nov - 16	123.74	141.58	142.90	143.43	137.94	125.93	125.19	135.28
Dec - 16	96.06	108.03	110.49	108.05	105.56	96.39	95.95	102.84
Jan - 17	109.18	124.50	131.98	129.99	120.65	105.80	102.86	119.33
Feb - 17	120.51	138.20	151.49	147.21	137.00	114.93	112.26	133.00
Mar - 17	172.72	170.39	165.38	157.68	156.49	162.32	169.97	164.08
Apr - 17	123.25	133.68	146.28	148.87	142.98	137.36	133.21	138.28
May - 17	116.74	130.61	138.81	137.80	140.13	142.38	140.14	136.18
Jun - 17	108.73	122.61	130.96	129.43	119.48	109.55	110.76	119.34
Average	\$123.63	\$131.34	\$137.93	\$137.43	\$132.16	\$126.50	\$126.85	\$131.18

Source : STR

FIGURE 5-10 OCCUPANCY, AVERAGE RATE, AND REVPAR BY DAY OF WEEK (MULTIPLE YEARS)

<u>Occupancy (%)</u>	<u>Sunday</u>	<u>Monday</u>	<u>Tuesday</u>	<u>Wednesday</u>	<u>Thursday</u>	<u>Friday</u>	<u>Saturday</u>	<u>Total Year</u>
Jul 14 - Jun 15	58.9 %	75.4 %	84.8 %	86.9 %	82.3 %	84.0 %	86.7 %	79.9 %
Jul 15 - Jun 16	59.0	74.2	83.2	83.8	80.1	81.7	83.2	77.9
Jul 16 - Jun 17	57.1	71.8	81.7	83.0	78.7	79.3	81.1	76.1
<u>Change (Occupancy Points)</u>								
FY 15 - FY 16	0.0	(1.2)	(1.6)	(3.1)	(2.2)	(2.3)	(3.5)	(2.0)
FY 16 - FY 17	(1.9)	(2.4)	(1.4)	(0.8)	(1.4)	(2.4)	(2.1)	(1.8)
<u>ADR (\$)</u>	<u>Sunday</u>	<u>Monday</u>	<u>Tuesday</u>	<u>Wednesday</u>	<u>Thursday</u>	<u>Friday</u>	<u>Saturday</u>	<u>Total Year</u>
Jul 14 - Jun 15	\$122.31	\$125.37	\$130.91	\$130.73	\$129.50	\$129.29	\$129.98	\$128.64
Jul 15 - Jun 16	123.70	130.20	136.16	135.21	132.22	131.30	130.84	131.75
Jul 16 - Jun 17	123.63	131.34	137.93	137.43	132.16	126.50	126.85	131.18
<u>Change (Dollars)</u>								
FY 15 - FY 16	\$1.39	\$4.83	\$5.24	\$4.48	\$2.72	\$2.01	\$0.85	\$3.11
FY 16 - FY 17	(0.07)	1.13	1.77	2.23	(0.06)	(4.80)	(3.99)	(0.57)
<u>Change (Percent)</u>								
FY 15 - FY 16	1.1 %	3.9 %	4.0 %	3.4 %	2.1 %	1.6 %	0.7 %	2.4 %
FY 16 - FY 17	(0.1)	0.9	1.3	1.6	(0.0)	(3.7)	(3.0)	(0.4)
<u>RevPAR (\$)</u>	<u>Sunday</u>	<u>Monday</u>	<u>Tuesday</u>	<u>Wednesday</u>	<u>Thursday</u>	<u>Friday</u>	<u>Saturday</u>	<u>Total Year</u>
Jul 14 - Jun 15	\$72.08	\$94.53	\$110.96	\$113.64	\$106.60	\$108.60	\$112.68	\$102.75
Jul 15 - Jun 16	72.92	96.61	113.25	113.32	105.91	107.27	108.87	102.63
Jul 16 - Jun 17	70.55	94.29	112.73	114.14	103.97	100.36	102.89	99.85
<u>Change (Dollars)</u>								
FY 15 - FY 16	\$0.84	\$2.08	\$2.29	(\$0.31)	(\$0.69)	(\$1.33)	(\$3.80)	(\$0.12)
FY 16 - FY 17	(2.37)	(2.32)	(0.52)	0.82	(1.94)	(6.90)	(5.98)	(2.78)
<u>Change (Percent)</u>								
FY 15 - FY 16	1.2 %	2.2 %	2.1 %	(0.3) %	(0.6) %	(1.2) %	(3.4) %	(0.1) %
FY 16 - FY 17	(3.3)	(2.4)	(0.5)	0.7	(1.8)	(6.4)	(5.5)	(2.7)

Source: STR

In most markets, business travel, including individual commercial travelers and corporate groups, is the predominant source of demand on Monday through Thursday nights. Leisure travelers and non-business-related groups generate a majority of demand on Friday and Saturday nights. A review of the local STR data indicates that demand is strong Tuesdays through Thursdays, typical of an urban market. However, occupancy and average rate levels among this competitive set of



hotels on Friday and Saturday remain similar to those on weekdays, which illustrates the popularity of the music venues, festivals, and sporting events, as well as other special events held in the city.

SUPPLY

Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of each area hotel, as well as the comments of management representatives, we have identified several properties that are considered primarily competitive with the subject property. If applicable, additional lodging facilities may be judged only secondarily competitive; although the facilities, rate structures, or market orientations of these hotels prevent their inclusion among the primary competitive supply, they do compete with the subject property to some extent.

Primary Competitors

The following table summarizes the important operating characteristics of the primary competitors and the aggregate secondary competitors (if applicable). This information was compiled from personal interviews, inspections, online resources, and our in-house database of operating and hotel facility data.

FIGURE 5-11 PRIMARY COMPETITORS – OPERATING PERFORMANCE

Property	Number of Rooms	Est. Segmentation			Estimated 2015				Estimated 2016					
		Transient	Meeting and Group	Contract	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Hilton Austin Airport	262	60 %	25 %	15 %	262	88.9 %	\$136.54	\$121.42	262	83.5 %	\$139.90	\$116.86	107.8 %	113.3 %
Omni Austin Southpark	312	40	50	10	312	80 - 85	130 - 140	110 - 115	312	80 - 85	130 - 140	105 - 110	100 - 110	100 - 110
Marriott Austin Airport South	211	50	35	15	211	75 - 80	160 - 170	125 - 130	211	75 - 80	160 - 170	125 - 130	100 - 110	120 - 130
Holiday Inn Austin Town Lake	323	70	15	15	323	75 - 80	115 - 120	90 - 95	323	70 - 75	125 - 130	90 - 95	90 - 95	85 - 90
Holiday Inn Austin Airport	138	70	15	15	138	75 - 80	120 - 125	90 - 95	138	75 - 80	120 - 125	90 - 95	95 - 100	90 - 95
Sub-Totals/Averages	1,246	57 %	30 %	14 %	1,246	81.3 %	\$134.23	\$109.18	1,246	78.4 %	\$136.73	\$107.18	101.2 %	103.9 %
Secondary Competitors	1,373	59 %	33 %	7 %	737	75.9 %	\$127.98	\$97.17	737	75.9 %	\$126.88	\$96.33	98.0 %	93.4 %
Totals/Averages	2,619	58 %	31 %	11 %	1,983	79.3 %	\$132.01	\$104.72	1,983	77.5 %	\$133.14	\$103.15	100.0 %	100.0 %

** Specific occupancy and average rate data were utilized in our analysis, but are presented in ranges in the above table for the purposes of confidentiality.*

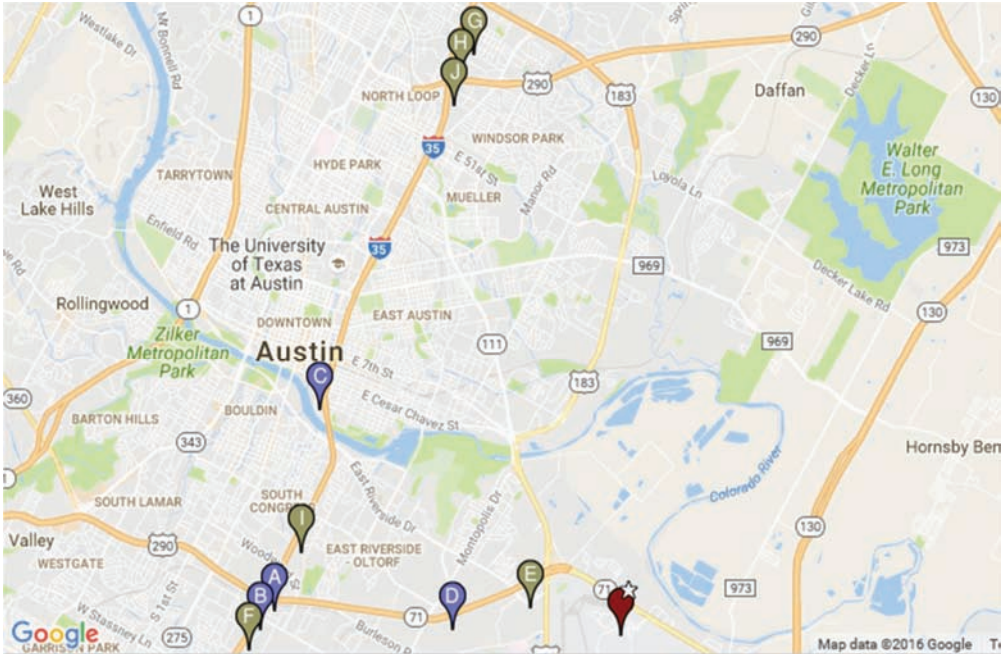
FIGURE 5-12 PRIMARY COMPETITORS – FACILITY SUMMARY

Property	Number of Rooms	Year Opened	Last Major Renovation(s)	Approx. Miles To Subject Property	Food and Beverage Outlets	Facilities & Amenities
Hilton Austin Airport 9515 Hotel Drive	262	2001	—	—	2	Outdoor Swimming Pool; Outdoor Whirlpool; Fitness Center; Lobby Workstation; Room Service; Guest Laundry Area; Courtyard; Airport/Local Shuttle; Concierge;
Omni Austin Southpark 4140 Governor's Row	312	1983	—	5.1	3	Business Center; Airport/Local Shuttle; Guest Laundry Area; Concierge; Room Service; Gift Shop; Full-Service Spa; Indoor Swimming Pool; Outdoor Swimming Pool; Fitness Center
Marriott Austin Airport South 4415 South Interstate 35	211	2001	—	5.3	2	Business Center; Airport/Local Shuttle; Guest Laundry Area; Concierge; Room Service; Gift Shop; Indoor Swimming Pool; Fitness Center; Indoor Whirlpool
Holiday Inn Austin Town Lake 20 North Interstate 35	323	1967	2015/16	5.1	2	Airport/Local Shuttle; Guest Laundry Area; Room Service; Outdoor Swimming Pool; Indoor Whirlpool; Fitness Room; Lobby Workstation; Vending Area(s); Outdoor Sundeck
Holiday Inn Austin Airport 6711 East Ben White Boulevard	138	2014	—	2.4	2	Business Center; Guest Laundry Area; Gift Shop; Outdoor Swimming Pool; Fitness Center



The following map illustrates the locations of the subject property and its competitors.

MAP OF COMPETITION



- Hilton Austin Airport
- Omni Austin Southpark (Primary)
- Marriott Austin Airport South (Primary)
- Holiday Inn Austin Town Lake (Primary)
- Holiday Inn Austin Airport (Primary)
- Courtyard by Marriott Austin Airport (Secondary)
- Courtyard Austin South (Secondary)
- DoubleTree by Hilton Hotel Austin (Secondary)
- Crowne Plaza Austin North Central (Secondary)
- Wyndham Garden Hotel Austin (Secondary)
- Embassy Suites Austin Central (Secondary)

Our survey of the primarily competitive hotels in the local market shows a range of lodging types and facilities. Each primary competitor was inspected and evaluated. Descriptions of our findings are presented below.



PRIMARY COMPETITOR #1 - OMNI AUSTIN SOUTHPARK



Omni Austin Southpark
4140 Governor's Row
Austin, TX

FIGURE 5-13 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2012	312	80 - 85 %	\$105 - \$110	\$85 - \$90	100 - 110 %	100 - 110 %
Est. 2013	312	80 - 85	115 - 120	90 - 95	100 - 110	100 - 110
Est. 2014	312	80 - 85	125 - 130	100 - 105	100 - 110	100 - 110
Est. 2015	312	80 - 85	130 - 140	110 - 115	100 - 110	100 - 110
Est. 2016	312	80 - 85	130 - 140	105 - 110	100 - 110	100 - 110

Overall, the property appeared to be in good condition, similar to the subject property's condition. Its accessibility is similar to that of the subject hotel, and its visibility is superior to the Hilton Austin Airport.



PRIMARY COMPETITOR #2 - MARRIOTT AUSTIN AIRPORT SOUTH



Marriott Austin Airport South
4415 South Interstate 35
Austin, TX

FIGURE 5-14 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2012	211	70 - 75 %	\$130 - \$140	\$95 - \$100	90 - 95 %	110 - 120 %
Est. 2013	211	70 - 75	140 - 150	105 - 110	90 - 95	110 - 120
Est. 2014	211	70 - 75	150 - 160	115 - 120	90 - 95	110 - 120
Est. 2015	211	75 - 80	160 - 170	125 - 130	95 - 100	120 - 130
Est. 2016	211	75 - 80	160 - 170	125 - 130	95 - 100	120 - 130

Overall, the property appeared to be in good condition, similar to the subject property's condition. Its accessibility is similar to that of the subject hotel, and its visibility is similar to the Hilton Austin Airport.

PRIMARY COMPETITOR #3 - HOLIDAY INN AUSTIN TOWN LAKE



**Holiday Inn Austin
Town Lake**
20 North Interstate 35
Austin, TX

FIGURE 5-15 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2012	321	75 - 80 %	\$100 - \$105	\$80 - \$85	100 - 110 %	90 - 95 %
Est. 2013	321	75 - 80	105 - 110	80 - 85	100 - 110	90 - 95
Est. 2014	321	80 - 85	110 - 115	90 - 95	100 - 110	90 - 95
Est. 2015	323	75 - 80	115 - 120	90 - 95	95 - 100	85 - 90
Est. 2016	323	70 - 75	125 - 130	90 - 95	90 - 95	85 - 90

Overall, the property appeared to be in excellent condition, superior to the subject property's condition. Its accessibility is superior to that of the subject hotel, and its visibility is superior to the Hilton Austin Airport.



PRIMARY COMPETITOR #4 - HOLIDAY INN AUSTIN AIRPORT



**Holiday Inn Austin
Airport**
6711 East Ben White
Boulevard
Austin, TX

FIGURE 5-16 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2014	116	50 - 55	115 - 120	60 - 65	65 - 70	60 - 65
Est. 2015	138	75 - 80	120 - 125	90 - 95	90 - 95	85 - 90
Est. 2016	138	75 - 80	120 - 125	90 - 95	95 - 100	90 - 95

Overall, the property appeared to be in excellent condition, superior to the subject property's condition. Its accessibility is similar to that of the subject hotel, and its visibility is similar to the Hilton Austin Airport.



Secondary Competitors

We have also reviewed other area lodging facilities to determine whether any may compete with the subject property on a secondary basis. The room count of each secondary competitor has been weighted based on its assumed degree of competitiveness with the subject property. By assigning degrees of competitiveness, we can assess how the subject property and its competitors may react to various changes in the market, including new supply, changes to demand generators, and renovations or franchise changes of existing supply. The following table sets forth the pertinent operating characteristics of the secondary competitors.

FIGURE 5-17 SECONDARY COMPETITOR(S) – OPERATING PERFORMANCE

Property	Number of Rooms	Est. Segmentation			Total Competitive Level	Estimated 2015				Estimated 2016			
		Transient	Meeting and Group	Contract		Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR
Courtyard by Marriott Austin Airport	150	75 %	10 %	15 %	75 %	113	75 - 80 %	\$130 - \$140	\$105 - \$110	113	75 - 80 %	\$130 - \$140	\$100 - \$105
Courtyard Austin South	110	80	10	10	75	83	80 - 85	140 - 150	110 - 115	83	80 - 85	130 - 140	110 - 115
DoubleTree by Hilton Hotel Austin	350	45	50	5	60	210	65 - 70	125 - 130	85 - 90	210	65 - 70	125 - 130	85 - 90
Crowne Plaza Austin North Central	293	50	45	5	50	147	75 - 80	105 - 110	85 - 90	147	75 - 80	105 - 110	80 - 85
Wyndham Garden Hotel Austin	210	55	40	5	45	95	70 - 75	120 - 125	90 - 95	95	70 - 75	120 - 125	90 - 95
Embassy Suites Austin Central	260	70	25	5	35	91	80 - 85	140 - 150	120 - 125	91	80 - 85	140 - 150	120 - 125
Totals/Averages	1,373	59 %	33 %	7 %	54 %	737	75.9 %	\$127.98	\$97.17	737	75.9 %	\$126.88	\$96.33

* Specific occupancy and average rate data was utilized in our analysis, but is presented in ranges in the above table for the purposes of confidentiality.



We have identified six hotels that compete with the subject property on a secondary level. The Courtyard by Marriott Airport and Courtyard by Marriott South are competitive based on location and contract business; however, these select-service hotels house less extensive meeting space and offer limited food and beverage services. The DoubleTree by Hilton, the Crowne Plaza, the Wyndham, and the Embassy Suites by Hilton are competitive based on their full-service products and focus on group business. However, these hotels are located in the nearby highway corridor submarket.

Supply Changes

It is important to consider any new hotels that may have an impact on the subject property’s operating performance. The following chart sets forth the hotels that have recently opened, are under construction, or are in the stages of early development in the Austin market.

FIGURE 5-18 AREA DEVELOPMENT ACTIVITY

Proposed Hotel Name	Estimated		Development Stage	Expected	
	Number of Rooms	Hotel Product Tier		Qtr. & Year of Opening	Address
Downtown					
JW Marriott	1012	Luxury	Recently Opened	Q1 '15	110 East 2nd Street
Westin	366	Upper-Upscale	Recently Opened	Q3 '15	310 East 5th Street
South Congress Hotel	88	Upper-Upscale	Recently Opened	Q3 '15	1603 South Congress Street
Kimpton Van Zandt	322	Upper-Upscale	Recently Opened	Q4 '15	605 Davis Street
Hotel Indigo	134	Upscale	Recently Opened	Q1 '16	810 Red River Street
Holiday Inn Express & Suites	171	Upper-Midscale	Recently Opened	Q1 '16	810 Red River Street
Hyatt House	190	Upscale	Recently Opened	Q1 '17	901 Red River Street
Aloft	278	Upscale	Under Construction	Q3 '17	Congress and 7th Street
Element	144	Upscale	Under Construction	Q3 '17	Congress and 7th Street
Fairmont	1048	Luxury	Under Construction	Q3 '17	101 Red River Street
Hotel Proper	243	Luxury	Under Construction	Q3 '18	208 Colorado
Hotel ZaZa	160	Luxury	Under Construction	Q1 '19	401 Guadalupe
Marriott	615	Upper-Upscale	Seeking Entitlements	Q3 '19	Cesar Chavez and Trinity Streets
South/Airport					
Hyatt Place	139	Upscale	Recently Opened	Q2 '17	ABIA Airport Grounds
Home2 Suites	84	Upper-Midscale	Recently Opened	Q1 '17	Airport Commerce Drive
Residence Inn	120	Upscale	Recently Opened	Q3 '16	Airport Commerce Drive
Staybridge Suites	79	Upscale	Recently Opened	Q1 '17	Little Texas Avenue and Stassney
Holiday Inn Express & Suites	86	Upper-Midscale	Recently Opened	Q2 '15	Stassney
Residence Inn 290	100	Upscale	Recently Opened	Q3 '16	6000 U.S. Highway 290

Of the hotels listed in the preceding chart, we have identified the following new supply that is expected to have some degree of competitive interaction with the subject hotel, based on their location, anticipated market orientation and price point, and/or operating profile.



FIGURE 5-19 NEW SUPPLY

Proposed Property	Number of Rooms	Property Type	Address/Location	Total Competitive Level	Weighted Room Count	Estimated Opening Date	Developer	Development Stage
Hyatt Place	139	Select-Service	ABIA Airport Grounds	100 %	139	June 1, 2017	JCI Hospitality LLC	Recently Opened
Totals/Averages	139				139			

The Hyatt Place recently opened adjacent to the subject site. Despite its select-service product, this hotel has been weighted as fully competitive new supply in our analysis due to its location at ABIA. Furthermore, we note that a Home2 Suites by Hilton and a Residence Inn by Marriott recently opened among the off-site hotels located just outside the airport grounds. However, these extended-stay hotels target different customer bases and operate at lower price points than the subject hotel. Therefore, these hotels have only been considered qualitatively in our positioning of the subject property's stabilized occupancy level.

While we have taken reasonable steps to investigate proposed hotel projects and their status, due to the nature of real estate development, it is impossible to determine with certainty every hotel that will be opened in the future, or what their marketing strategies and effect in the market will be. Depending on the outcome of current and future projects, the future operating potential of the subject property may be affected. Future improvement in market conditions will raise the risk of increased competition. Our forthcoming forecast of stabilized occupancy and average rate is intended to reflect such risk.

Supply Conclusion

We have identified various properties that are competitive to some degree with the subject property. We have also investigated potential increases in competitive supply in this Austin submarket. The Hilton Austin Airport will continue to operate in a dynamic market of varying product types and price points. Next, we will present our forecast for demand change, using the historical supply data presented as a starting point.

DEMAND

The following table presents the most recent trends for the subject hotel market as tracked by HVS. These data pertain to the subject and competitors discussed previously in this section; performance results are estimated, rounded for the competition, and in some cases weighted if there are secondary competitors present. In this respect, the information in the table differs from the previously presented STR data and is consistent with the supply and demand analysis developed for this report.



FIGURE 5-20 HISTORICAL MARKET TRENDS

Year	Accommodated		Room Nights		Market			Market	
	Room Nights	% Change	Available	% Change	Occupancy	Market ADR	% Change	RevPAR	% Change
Est. 2012	504,768	—	672,695	—	75.0 %	\$111.97	—	\$84.02	—
Est. 2013	526,235	4.3 %	672,695	0.0 %	78.2	117.62	5.0 %	92.01	9.5 %
Est. 2014	562,807	6.9	714,923	6.3	78.7	123.96	5.4	97.58	6.1
Est. 2015	574,160	2.0	723,795	1.2	79.3	132.01	6.5	104.72	7.3
Est. 2016	560,742	(2.3)	723,795	0.0	77.5	133.14	0.9	103.15	(1.5)
Avg. Annual Compounded Chg., Est. 2012-Est. 2016:		2.7 %		1.8 %			4.4 %		5.3 %

Demand Analysis Using Market Segmentation

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2016 distribution of accommodated-room-night demand as follows.

FIGURE 5-21 ACCOMMODATED ROOM-NIGHT DEMAND

Market Segment	Marketwide		Subject Property	
	Accommodated Demand	Percentage of Total	Accommodated Demand	Percentage of Total
Transient	322,972	58 %	47,926	60 %
Meeting and Group	174,371	31	19,969	25
Contract	63,399	11	11,981	15
Total	560,742	100 %	79,876	100 %

The market’s demand mix comprises transient demand, with this segment representing roughly 58% of the accommodated room nights in this Austin submarket. The remaining portion comprises meeting and group at 31%, with the final portion contract in nature, reflecting 11%.

Using the distribution of accommodated hotel demand as a starting point, we will analyze the characteristics of each market segment in an effort to determine future trends in room-night demand.

Transient Segment

Transient demand consists of individuals and families spending time in an area or passing through en route to other destinations; this segment represents travelers that are not associated with a group or room-night contract. Travel purposes include business, sightseeing, recreation, or visiting friends and relatives. Transient demand also includes room nights booked through Internet sites such as Expedia,



Hotels.com, and Priceline; however, this demand may include group and convention attendees who use these channels to take advantage of any discounts that may be available on these sites. In resort destinations, transient demand is strongest Friday and Saturday nights, and all week during holiday periods and the summer months. In urban and suburban destinations, transient demand is typically strongest on Tuesday, Wednesday, and Thursday nights. The typical length of stay ranges from one to four days, depending on the destination and travel purpose. The rate of double occupancy normally ranges from 1.0 to 3.0 people per room, with higher double occupancy occurring in resort destinations. Price sensitivity tends to vary with product type. All-suite properties with inclusive food and beverage or luxury destination properties tend to drive strong transient room rates, with discounted rates offered at older or value-oriented hotels with limited amenities. For destination locations, future transient demand is related to the overall economic health of the primary source cities for visitation; the overall economic health of the surrounding neighborhood is considered for urban and suburban locations. Primary transient demand generators for this market include the technology industry; professional firms, companies, and government entities located along the Interstate 35 corridor; and the myriad of leisure venues and festivals held in the city.

Meeting and Group Segment

The meeting and group market includes meetings, seminars, conventions, trade association shows, and similar gatherings of ten or more people. Peak convention demand typically occurs in the spring and fall. Although there are numerous classifications within the meeting and group segment, the primary categories considered in this analysis are corporate groups, associations, and SMERFE (social, military, ethnic, religious, fraternal, and educational) groups. Corporate groups typically meet during the business week, most commonly in the spring and fall months. These groups tend to be the most profitable for hotels, as they typically pay higher rates and usually generate ancillary revenues including food and beverage and/or banquet revenue. SMERFE groups are typically price-sensitive and tend to meet on weekends and during the summer months or holiday season, when greater discounts are usually available; these groups generate limited ancillary revenues. Association demand is generally divided on a geographical basis, with national, regional, and state associations representing the most common sources. Professional associations and/or those supported by members' employers often meet on weekdays, while other associations prefer to hold events on weekends. The profile and revenue potential of associations varies depending on the group and the purpose of the meeting or event. The convention center and state associations generate meeting demand for local hotels; furthermore, social groups represent primary sources of demand during weekend and holiday periods.



Contract Segment

Contract demand is generated by large-scale users of hotels, such as airlines and transportation companies, which contract rooms in nearby lodging facilities for extended periods to ensure the availability of accommodations as needed. These companies can usually negotiate deeply discounted room rates by guaranteeing a specific number of room nights sold for a given period. Contract demand is advantageous because it provides a base level of occupancy over a long period that normally includes weekends and slow seasons. The occupancy benefit is offset by low contract room rates, which have an adverse impact on overall average rate. Skilled hotel operators use contract patronage to fill rooms during periods of low occupancy, displacing this demand when higher-rated market segments are available. Changes in future contract demand levels are directly related to the expected expansion or contraction of the companies and industries generating contract room nights in the subject market. Contract demand for this market is primarily generated by airline crews, displaced travelers, and other negotiated contracts that provide guaranteed room nights on a monthly basis.

Base Demand Growth Rates

The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. Starting with an analysis of the local area, three segments were defined as representing the subject property’s lodging market. Various types of economic and demographic data were then evaluated to determine their propensity to reflect changes in hotel demand. Based on this procedure, we forecast the following annual growth rates for each demand segment.

FIGURE 5-22 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES

Market Segment	Annual Growth Rate				
	2017	2018	2019	2020	2021
Transient	1.5 %	2.0 %	1.0 %	0.5 %	0.0 %
Meeting and Group	0.5	1.0	0.5	0.5	0.0
Contract	0.5	1.0	0.5	0.5	0.0
Base Demand Growth	1.1 %	1.6 %	0.8 %	0.5 %	0.0 %

Latent Demand

A table presented earlier in this section illustrated the accommodated-room-night demand in the subject property’s competitive market. Because this estimate is based on historical occupancy levels, it includes only those hotel rooms that were used by guests. Latent demand reflects potential room-night demand that has not been realized by the existing competitive supply, further classified as either unaccommodated demand or induced demand.



Unaccommodated Demand

Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Because this demand did not yield occupied room nights, it is not included in the estimate of historical accommodated-room-night demand. If additional lodging facilities are expected to enter the market, it is reasonable to assume that these guests will be able to secure hotel rooms in the future, and it is therefore necessary to quantify this demand.

Unaccommodated demand is further indicated if the market is at all seasonal, with distinct high and low seasons; such seasonality indicates that although year-end occupancy may not average in excess of 70%, the market may sell out certain nights during the year. To evaluate the incidence of unaccommodated demand in the market, we have reviewed the average occupancy by the night of the week for the past twelve months for the competitive set, as reflected in the STR data. This is set forth in the following table.

FIGURE 5-23 OCCUPANCY BY NIGHT OF THE WEEK

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Jul - 16	57.5 %	69.3 %	78.1 %	82.8 %	76.5 %	79.6 %	86.3 %	75.6 %
Aug - 16	46.8	67.1	76.2	75.0	75.4	82.4	84.5	72.5
Sep - 16	67.2	67.0	82.2	87.9	78.2	83.1	90.3	79.5
Oct - 16	68.2	74.2	89.2	93.3	88.2	89.4	92.6	84.4
Nov - 16	55.5	71.0	75.6	80.0	80.7	83.2	77.2	74.9
Dec - 16	38.1	52.6	59.0	56.7	55.6	55.6	58.2	53.9
Jan - 17	47.6	66.0	76.5	74.8	69.9	63.8	64.3	65.9
Feb - 17	61.6	83.3	90.7	91.1	86.6	75.1	78.3	81.0
Mar - 17	68.1	86.1	94.6	91.6	88.4	89.1	87.1	86.7
Apr - 17	59.6	82.5	93.5	91.9	85.9	90.4	86.2	83.5
May - 17	61.8	70.7	83.3	84.1	86.2	89.8	89.4	80.6
Jun - 17	51.7	73.9	85.5	87.7	76.1	74.1	78.9	75.4
Average	57.1 %	71.8 %	81.7 %	83.0 %	78.7 %	79.3 %	81.1 %	76.1 %

Source: STR

The following table presents our estimate of unaccommodated demand in the subject market.



FIGURE 5-24 UNACCOMMODATED DEMAND ESTIMATE

Market Segment	Accommodated Room Night Demand	Unaccommodated Demand Percentage	Unaccommodated Room Night Demand
Transient	322,972	1.3 %	4,078
Meeting and Group	174,371	0.6	1,102
Contract	63,399	0.0	0
Total	560,742	0.9 %	5,180

Accordingly, we have forecast unaccommodated demand equivalent to 0.9% of the base-year demand, resulting from our analysis of monthly and weekly peak demand and sell-out trends.

Accommodated Demand and Market-wide Occupancy

Based upon a review of the market dynamics in the subject property’s competitive environment, we have forecast growth rates for each market segment. Using the calculated potential demand for the market, we have determined market-wide accommodated demand based on the inherent limitations of demand fluctuations and other factors in the market area. The following table details our projection of lodging demand growth for the subject market, including the total number of occupied room nights and any residual unaccommodated demand in the market.



FIGURE 5-25 ACCOMMODATED DEMAND

	2016	2017	2018	2019	2020	2021
Transient						
Base Demand	322,972	327,816	334,372	337,716	339,405	339,405
Unaccommodated Demand		4,139	4,222	4,264	4,285	4,285
Total Demand		331,955	338,594	341,980	343,690	343,690
Growth Rate		2.8 %	2.0 %	1.0 %	0.5 %	0.0 %
Meeting and Group						
Base Demand	174,371	175,243	176,995	177,880	178,770	178,770
Unaccommodated Demand		1,108	1,119	1,124	1,130	1,130
Total Demand		176,351	178,114	179,005	179,900	179,900
Growth Rate		1.1 %	1.0 %	0.5 %	0.5 %	0.0 %
Contract						
Base Demand	63,399	63,716	64,353	64,675	64,998	64,998
Total Demand		63,716	64,353	64,675	64,998	64,998
Growth Rate		0.5 %	1.0 %	0.5 %	0.5 %	0.0 %
Totals						
Base Demand	560,742	566,775	575,721	580,271	583,173	583,173
Unaccommodated Demand		5,246	5,340	5,388	5,415	5,415
Total Demand		572,021	581,061	585,660	588,588	588,588
less: Residual Demand		4,110	0	0	0	0
Total Accommodated Demand		567,912	581,061	585,660	588,588	588,588
Overall Demand Growth		1.3 %	2.3 %	0.8 %	0.5 %	0.0 %
Market Mix						
Transient	57.6 %	58.0 %	58.3 %	58.4 %	58.4 %	58.4 %
Meeting and Group	31.1	30.8	30.7	30.6	30.6	30.6
Contract	11.3	11.1	11.1	11.0	11.0	11.0
Existing Hotel Supply						
Existing Hotel Supply	1,983	1,983	1,983	1,983	1,983	1,983
Proposed Hotels						
Hyatt Place	¹	81	139	139	139	139
Available Room Nights per Year	723,795	753,541	774,530	774,530	774,530	774,530
Nights per Year	365	365	365	365	365	365
Total Supply	1,983	2,064	2,122	2,122	2,122	2,122
Rooms Supply Growth	—	4.1 %	2.8 %	0.0 %	0.0 %	0.0 %
Marketwide Occupancy	77.5 %	75.4 %	75.0 %	75.6 %	76.0 %	76.0 %

¹ Opening in June 2017 of the 100% competitive, 139-room Hyatt Place



The defined competitive market of hotels should experience modest occupancy declines over the next two years. As shown, this market appears to have hit a peak in 2015 after consistent growth patterns realized since 2010. This peak has resulted in the entry of both direct and ancillary new supply in the local submarket; while strong demand levels in Austin are expected to readily absorb the entry of new supply, these increases in room inventory should result in an occupancy level just below the peak realized in 2015. Based on historical occupancy levels in this market, and taking into consideration typical supply and demand cyclicalities, market occupancy is forecast to stabilize in the mid-70s.



6. Projection of Occupancy and Average Rate

Along with average rate results, the occupancy levels achieved by a hotel are the foundation of the property's financial performance. Most of a lodging facility's other revenue sources (such as food, beverages, other operated departments, and miscellaneous income) are driven by the number of guests, and many expense levels vary with occupancy. To a certain degree, occupancy attainment can be manipulated by management. For example, hotel operators may choose to lower rates in an effort to maximize occupancy. Our forecasts reflect an operating strategy that we believe would be implemented by a typical, professional hotel management team to achieve an optimal mix of occupancy and average rate.

Historical Operating Performance

The following table sets forth the subject property's historical occupancy, average rate, and RevPAR results. For the purpose of comparison, we have presented corresponding data (as provided by STR) for the competitive hotels described in the previous section. In addition to the annual percent change calculations, we have determined the subject property's occupancy, average rate, and RevPAR penetration rates.

FIGURE 6-1 HISTORICAL TRENDS

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Year-to-Date Through June	
												2016	2017
Hilton Austin Airport													
Occupancy	81.0 %	76.0 %	75.0 %	74.0 %	78.0 %	83.0 %	80.5 %	84.8 %	86.9 %	88.9 %	83.5 %	87.0 %	85.9 %
Change	—	(6.2) %	(1.3) %	(1.3) %	5.4 %	6.4 %	(3.0) %	5.4 %	2.4 %	2.4 %	(6.1) %	—	(1.2) %
Occupancy Penetration	115.8 %	110.5 %	108.1 %	111.4 %	115.6 %	117.8 %	108.5 %	109.0 %	111.4 %	112.6 %	108.2 %	107.5 %	109.1 %
Average Rate	\$99.00	\$114.00	\$118.00	\$101.00	\$98.00	\$102.00	\$114.99	\$121.84	\$126.14	\$136.54	\$139.90	\$143.05	\$145.65
Change	—	15.2 %	3.5 %	(14.4) %	(3.0) %	4.1 %	12.7 %	6.0 %	3.5 %	8.2 %	2.5 %	—	1.8 %
Average Rate Penetration	101.7 %	107.8 %	107.2 %	102.7 %	98.7 %	96.7 %	103.0 %	104.2 %	101.8 %	104.0 %	106.4 %	104.7 %	107.0 %
RevPAR	\$80.19	\$86.64	\$88.50	\$74.74	\$76.44	\$84.66	\$92.56	\$103.34	\$109.56	\$121.42	\$116.86	\$124.46	\$125.16
Change	—	8.0 %	2.1 %	(15.5) %	2.3 %	10.8 %	9.3 %	11.6 %	6.0 %	10.8 %	(3.8) %	—	0.6 %
RevPAR Penetration	117.8 %	119.1 %	115.9 %	114.5 %	114.1 %	113.9 %	111.7 %	113.5 %	113.4 %	117.1 %	115.2 %	112.5 %	116.7 %
Competitive Set													
Occupancy	69.9 %	68.8 %	69.4 %	66.4 %	67.5 %	70.5 %	74.2 %	77.8 %	78.0 %	79.0 %	77.2 %	81.0 %	78.8 %
Change	4.8 %	(1.6) %	0.8 %	(4.3) %	1.7 %	4.4 %	5.3 %	4.9 %	0.2 %	1.3 %	(2.3) %	—	(2.7) %
Average Rate	\$97.31	\$105.74	\$110.06	\$98.32	\$99.28	\$105.48	\$111.69	\$116.93	\$123.85	\$131.26	\$131.50	\$136.65	\$136.08
Change	15.3 %	8.7 %	4.1 %	(10.7) %	1.0 %	6.2 %	5.9 %	4.7 %	5.9 %	6.0 %	0.2 %	—	(0.4) %
RevPAR	\$68.05	\$72.75	\$76.36	\$65.28	\$67.01	\$74.32	\$82.87	\$91.01	\$96.60	\$103.66	\$101.48	\$110.63	\$107.22
Change	20.8 %	6.9 %	5.0 %	(14.5) %	2.6 %	10.9 %	11.5 %	9.8 %	6.1 %	7.3 %	(2.1) %	—	(3.1) %

Source: STR



The Hilton Austin Airport experienced a -5.4-point occupancy change in 2016, decreasing from 88.9% in 2015 to 83.5% in 2016. As a result of this change, occupancy penetration relative to the STR set of reporting hotels equaled 108.2% in 2016. Average rate penetration for the Hilton Austin Airport equated to 106.4% in 2016, contributing to the overall RevPAR penetration level of 115.2% in the same year.

The subject hotel has performed well from an occupancy standpoint, with the Hilton's occupancy penetration averaging over 111.0% between 2004 and 2015. More notably, occupancy remained in the 80s from 2011 through 2015. However, in 2016 occupancy declined slightly, as management began to focus on rate increases. Recent data illustrate a continuation of this trend. Meanwhile, average rate at the subject property has increased since 2010, largely attributed to strong overall rate growth in Austin, as well as the hotel's ability to increase airline contract rates.

Penetration Rate Analysis

The subject property's forecasted market share and occupancy levels are based upon its anticipated competitive position within the market, as quantified by its penetration rate. The penetration rate is the ratio of a property's market share to its fair share.

Historical Penetration Rates by Market Segment

In the following table, the penetration rates attained by the primary competitors and the aggregate secondary competitors are set forth for each segment for the base year, 2016.

FIGURE 6-2 HISTORICAL PENETRATION RATES

Property	Transient	Meeting and Group	Contract	Overall
Hilton Austin Airport	112 %	87 %	143 %	108 %
Omni Austin Southpark	74	170	94	106
Marriott Austin Airport South	87	113	134	101
Holiday Inn Austin Town Lake	113	45	123	93
Holiday Inn Austin Airport	119	47	130	98
Secondary Competition	101	105	62	98

Because of its varying levels of penetration among the three market demand segments, the Hilton Austin Airport achieved an overall penetration rate of 108% in 2016. Overall, the subject property's occupancy penetration level was ranked first among the illustrated averages. The subject property achieved its highest segment



Forecast of Subject Property's Occupancy

penetration rate in the contract segment, at 143%, due to the hotel's popularity with guests staying as part of a negotiated contract.

Among all properties listed, the Holiday Inn Austin Airport achieved the highest penetration rate within the transient segment. The highest penetration rate in the meeting and group segment was achieved by the Omni Austin Southpark, while the Hilton Austin Airport led the market with the highest contract penetration rate.

Because the supply and demand balance for the competitive market is dynamic, there is a circular relationship between the penetration factors of each hotel in the market. The performance of individual new hotels has a direct effect upon the aggregate performance of the market, and consequently upon the calculated penetration factor for each hotel in each market segment. The same is true when the performance of existing hotels changes, either positively (following a refurbishment, for example) or negatively (when a poorly maintained or marketed hotel loses market share).

A hotel's penetration factor is calculated as its achieved market share of demand divided by its fair share of demand. Thus, if one hotel's penetration performance increases, thereby increasing its achieved market share, this leaves less demand available in the market for the other hotels to capture and the penetration performance of one or more of those other hotels consequently declines (other things remaining equal). This type of market share adjustment takes place every time there is a change in supply, or a change in the relative penetration performance of one or more hotels in the competitive market.

Our projections of penetration, demand capture, and occupancy performance for the subject property account for these types of adjustments to market share within the defined competitive market. Consequently, the actual penetration factors applicable to the subject property and its competitors for each market segment in each projection year may vary somewhat from the penetration factors delineated in the previous table.

The subject property's occupancy forecast is set forth as follows, with the adjusted projected penetration rates used as a basis for calculating the amount of captured market demand.



FIGURE 6-3 FORECAST OF SUBJECT PROPERTY'S OCCUPANCY

Market Segment	2016	2017	2018	2019	2020	2021
Transient						
Demand	322,972	329,117	338,594	341,980	343,690	343,690
Market Share	14.8 %	14.4 %	13.6 %	13.9 %	14.1 %	14.1 %
Capture	47,926	47,437	45,989	47,374	48,327	48,327
Penetration	112 %	114 %	110 %	112 %	114 %	114 %
Meeting and Group						
Demand	174,371	175,295	178,114	179,005	179,900	179,900
Market Share	11.5 %	11.5 %	11.0 %	11.1 %	11.4 %	11.4 %
Capture	19,969	20,153	19,504	19,941	20,446	20,446
Penetration	87 %	91 %	89 %	90 %	92 %	92 %
Contract						
Demand	63,399	63,500	64,353	64,675	64,998	64,998
Market Share	18.9 %	18.1 %	17.5 %	17.4 %	17.4 %	17.4 %
Capture	11,981	11,504	11,254	11,274	11,331	11,331
Penetration	143 %	143 %	142 %	141 %	141 %	141 %
Total Room Nights Captured	79,876	79,095	76,748	78,589	80,103	80,103
Available Room Nights	95,630	95,630	95,630	95,630	95,630	95,630
Subject Occupancy	84 %	83 %	80 %	82 %	84 %	84 %
Market-wide Available Room Nights	723,795	753,541	774,530	774,530	774,530	774,530
Fair Share	13 %	13 %	12 %	12 %	12 %	12 %
Market-wide Occupied Room Nights	560,742	567,912	581,061	585,660	588,588	588,588
Market Share	14 %	14 %	13 %	13 %	14 %	14 %
Market-wide Occupancy	77 %	75 %	75 %	76 %	76 %	76 %
Total Penetration	108 %	110 %	107 %	109 %	110 %	110 %

The subject hotel's occupancy penetration in the first projection year is forecast to increase as management actively pursues more transient demand; however, penetration in the second and third projection years is forecast to slightly decline because of the disruptions that will be caused by the anticipated renovations and the impact of the Hyatt Place opening. Thereafter, its occupancy penetration is forecast to stabilize at 110%, similar to historical levels.

These positioned segment penetration rates result in the following market segmentation forecast.



FIGURE 6-4 MARKET SEGMENTATION FORECAST – SUBJECT PROPERTY

	2016	2017	2018	2019	2020	2021
Transient	60 %	60 %	60 %	60 %	60 %	60 %
Meeting and Group	25	25	25	25	26	26
Contract	15	15	15	14	14	14
Total	100 %	100 %	100 %	100 %	100 %	100 %

Based on our analysis of the subject property and market area, we have selected a stabilized occupancy level of 84% in 2020/21. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the subject property may operate at occupancies above this stabilized level, we believe it equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability.

Average Rate Analysis

One of the most important considerations in estimating the operating potential of a lodging facility is a supportable forecast of its attainable average rate, which is more formally defined as the average rate per occupied room. Average rate can be calculated by dividing the total rooms revenue achieved during a specified period by the number of rooms sold during the same period. The projected average rate and the anticipated occupancy percentage are used to forecast rooms revenue, which in turn provides the basis for estimating most other income and expense categories.

Competitive Position

Although the average rate analysis presented here follows the occupancy projection, these two statistics are highly correlated; in reality, one cannot project occupancy without making specific assumptions regarding average rate. This relationship is best illustrated by revenue per available room (RevPAR), which reflects a property's ability to maximize rooms revenue. The following table summarizes the historical average rate and the RevPAR of the subject property and its competitors.



FIGURE 6-5 BASE-YEAR AVERAGE RATE AND REVPAR OF THE SUBJECT AND ITS COMPETITORS

Property	Estimated 2016 Average Room Rate	Average Rate Penetration	Rooms Revenue Per Available Room (RevPAR)	RevPAR Penetration
Hilton Austin Airport	\$139.90	105.1 %	\$116.86	113.3 %
Omni Austin Southpark	130 - 140	95 - 100	105 - 110	100 - 110
Marriott Austin Airport South	160 - 170	120 - 130	125 - 130	120 - 130
Holiday Inn Austin Town Lake	125 - 130	90 - 95	90 - 95	85 - 90
Holiday Inn Austin Airport	120 - 125	90 - 95	90 - 95	90 - 95
Average - Subject & Primary Competitors	\$136.73	102.7 %	\$107.18	103.9 %
Average - Secondary Competitors	126.88	95.3	96.33	93.4
Overall Average	\$133.14		\$103.15	

The defined primarily competitive market realized an overall average rate of \$136.73 in the 2016 base year, improving from the 2015 level of \$134.23. The rate of change for this Austin area primary set was 1.9% between 2015 and 2016. The subject property’s base-year rate position was \$139.90. Market-wide rates began to trend upward in 2010, although, rate growth has stalled given the increase in supply, which has created a more competitive rate environment. We expect average rates to remain relatively stable as new supply is absorbed. As occupancy strengthens, we anticipate continued growth due to stronger demand levels in this submarket. Strong demand levels have enabled the Austin lodging market to command rate premiums both during the week and on the weekends, as occupancy levels are consistently high during both periods because of a diverse commercial base and an abundance of leisure activities and festivals.

Based on these considerations, the following table illustrates the projected average rate and the growth rates assumed. As a context for the average rate growth factors, note that we have applied an underlying inflation rate of 2.5% in 2017/18, 2.5% in 2018/19, and 3.0% in 2019/20 and thereafter.



FIGURE 6-6 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST

Year	Areawide (Calendar Year)			Subject Property (Calendar Year)			
	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	77.5 %	—	\$133.14	84.0 %	—	\$139.90	105.1 %
2017	75.4	0.0 %	133.14	83.0	2.0 %	142.70	107.2
2018	75.0	4.0	138.47	80.0	3.5	147.70	106.7
2019	75.6	4.0	144.01	82.0	4.5	154.34	107.2
2020	76.0	3.0	148.33	84.0	3.5	159.74	107.7
2021	76.0	3.0	152.78	84.0	3.0	164.54	107.7

As illustrated above, a 2.0% rate of change is expected for the subject property's room rate in 2017. As illustrated at the beginning of this chapter, the subject property's rate changed by 1.8% in the most recent historical period. This is followed by rates of 3.5% and 4.5% in 2018 and 2019, respectively. The subject hotel's room rate is anticipated to increase at a faster rate than the market given year to date trends. The average-rate penetration level is expected to increase by the stabilized year due to the scheduled renovations, which should enable management to command higher rates once the renovations are complete. Anticipated future economic strength in this market should also support longer-term rate improvements for the subject hotel.

The following table provides a comparison of the historical performance and forecasts for the subject property and competitive set.

FIGURE 6-7 COMPARISON OF HISTORICAL AND PROJECTED OCCUPANCY, AVERAGE RATE, AND REVPAR – SUBJECT PROPERTY AND MARKET

	Historical					Projected					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Hilton Austin Airport											
Occupancy	80.5 %	84.8 %	86.9 %	88.9 %	83.5 %	82.7 %	80.3 %	82.2 %	83.8 %	83.8 %	83.8 %
Change in Points	—	4.3	2.0	2.1	(5.4)	(0.8)	(2.5)	1.9	1.6	0.0	0.0
Occupancy Penetration	107.3	108.4	110.3 %	112.1 %	107.8 %	109.7 %	107.0 %	108.7 %	110.2 %	110.2 %	110.2 %
Average Rate	\$114.99	\$121.84	\$126.14	\$136.54	\$139.90	\$142.70	\$147.70	\$154.34	\$159.74	\$164.54	\$169.47
Change	—	6.0 %	3.5 %	8.2 %	2.5 %	2.0 %	3.5 %	4.5 %	3.5 %	3.0 %	3.0 %
Average Rate Penetration	102.7	103.6	101.8 %	103.4 %	105.1 %	107.2 %	106.7 %	107.2 %	107.7 %	107.7 %	107.7 %
RevPAR	\$92.56	\$103.34	\$109.56	\$121.42	\$116.86	\$118.03	\$118.53	\$126.84	\$133.81	\$137.82	\$141.96
Change	—	11.6 %	6.0 %	10.8 %	(3.8) %	1.0 %	0.4 %	7.0 %	5.5 %	3.0 %	3.0 %
RevPAR Penetration	110.2	112.3	112.3 %	116.0 %	113.3 %	117.6 %	114.1 %	116.5 %	118.7 %	118.7 %	118.7 %
Austin Submarket											
	Historical (Estimated)					Projected					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Occupancy	75.0 %	78.2 %	78.7 %	79.3 %	77.5 %	75.4 %	75.0 %	75.6 %	76.0 %	76.0 %	76.0 %
Change in Points	—	3.2	0.5	0.6	(1.9)	(2.1)	(0.3)	0.6	0.4	0.0	0.0
Average Rate	\$111.97	\$117.62	\$123.96	\$132.01	\$133.14	\$133.14	\$138.47	\$144.01	\$148.33	\$152.78	\$157.36
Change	—	5.0 %	5.4 %	6.5 %	0.9 %	0.0 %	4.0 %	4.0 %	3.0 %	3.0 %	3.0 %
RevPAR	\$84.02	\$92.01	\$97.58	\$104.72	\$103.15	\$100.34	\$103.88	\$108.89	\$112.72	\$116.10	\$119.58
Change	—	9.5 %	6.1 %	7.3 %	(1.5) %	(2.7) %	3.5 %	4.8 %	3.5 %	3.0 %	3.0 %



The following occupancies and average rates will be used to project the subject property's rooms revenue; this forecast begins on August 1, 2017, and corresponds with our financial projections.

FIGURE 6-8 FORECASTS OF OCCUPANCY, AVERAGE RATE, AND REVPAR

<u>Year</u>	<u>Occupancy</u>	<u>Average Rate</u>	<u>RevPAR</u>
2017/18	81 %	\$145.60	\$117.94
2018/19	81	151.56	122.76
2019/20	83	157.48	130.71
2020/21	84	162.53	136.52
2021/22	84	167.40	140.62



7. Forecast of Income and Expense

In this chapter of our report, we have compiled a forecast of income and expense for the subject property. This forecast is based on all assumptions set forth previously, as well as the occupancy and average rate forecast presented.

The forecast of income and expense is expressed in current dollars for each year. The stabilized year is intended to reflect the anticipated operating results of the property over its remaining economic life, given any or all applicable stages of build-up, plateau, and decline in the life cycle of the hotel. Thus, income and expense estimates from the stabilized year forward exclude from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusual revenues or expenses. The ten-year period reflects the typical holding period of large real estate assets such as hotels. In addition, the ten-year period provides for the stabilization of income streams and comparison of yields with alternate types of real estate. The forecasted income streams reflect the future benefits of owning specific rights in income-producing real estate.

Review of Operating History

Because the subject property is an existing hotel with an established operating performance, its historical income and expense experience can serve as a basis for projections. The following income and expense statements were provided by current ownership. Where applicable, we have reorganized the statements in accordance with the appropriate Uniform System of Accounts for the Lodging Industry (USALI) edition. The 11th edition of the USALI, which was issued in 2014, became effective on January 1, 2015; however, the hospitality industry is still in the process of converting to the new reporting standards. The historical financial statements for calendar years 2012 through 2014 are consistent with the 10th edition of the USALI. However, the data reflected in calendar 2015 and 2016 were allocated in conformance with the 11th edition of the USALI. The provided year-to-date 2016 and 2017 conform to current standards. We note that numerous changes in the standards affect revenue and expense levels, limiting the direct comparability. Therefore, we have placed the greatest emphasis on the data that conform with the 11th edition of USALI in our forecasts of revenues and expenses for the subject hotel.

FIGURE 7-1 HISTORICAL OPERATING PERFORMANCE

	2016/17 Fiscal Year Ending June				2016 Calendar Year				2015 Calendar Year				2014 Calendar Year				
Number of Rooms:	262				262				262				262				
Paid Occupied Rooms:	79,137				79,876				85,042				83,060				
Complimentary Rooms:	455				696				676				769				
Days Open:	365				365				365				365				
Paid Occupancy:	82.8%				83.5%				88.9%				86.9%				
Average Rate:	\$141.22	Percentage	Available	Amount	\$139.90	Percentage	Available	Amount	\$136.54	Percentage	Available	Amount	\$126.14	Percentage	Available	Amount	
RevPAR:	\$116.86	of Revenue	Room	Room	\$116.86	of Revenue	Room	Room	\$121.42	of Revenue	Room	Room	\$109.56	of Revenue	Room	Room	
OPERATING REVENUE																	
Rooms	\$11,175	74.0 %	\$42,654	\$141.22	\$11,175	74.1 %	\$42,652	\$139.90	\$11,612	74.2 %	\$44,320	\$136.54	\$10,477	71.5 %	\$39,988	\$126.14	
Food	2,897	19.2	11,059	36.61	2,962	19.6	11,306	37.09	3,143	20.1	11,994	36.95	3,354	22.9	12,802	40.38	
Beverage	591	3.9	2,257	7.47	559	3.7	2,135	7.00	521	3.3	1,988	6.12	463	3.2	1,765	5.57	
Other Operated Departments	288	1.9	1,098	3.64	230	1.5	876	2.87	243	1.6	926	2.85	274	1.9	1,045	3.30	
Miscellaneous Income	151	1.0	575	1.90	154	1.0	587	1.92	127	0.8	486	1.50	79	0.5	303	0.95	
Total Operating Revenue	15,103	100.0	57,644	190.84	15,080	100.0	57,556	188.79	15,645	100.0	59,714	183.97	14,647	100.0	55,903	176.34	
DEPARTMENTAL EXPENSES*																	
Rooms	2,228	19.9	8,505	28.16	2,233	20.0	8,521	27.95	2,224	19.2	8,488	26.15	2,104	20.1	8,029	25.33	
Food & Beverage	2,090	59.9	7,977	26.41	2,062	58.6	7,872	25.82	2,111	57.6	8,057	24.82	2,271	59.5	8,667	27.34	
Other Operated Departments	135	46.9	515	1.70	124	54.2	475	1.56	141	58.3	540	1.66	253	92.3	965	3.04	
Total	4,453	29.5	16,997	56.27	4,419	29.3	16,868	55.33	4,476	28.6	17,084	52.63	4,627	31.6	17,661	55.71	
DEPARTMENTAL INCOME	10,649	70.5	40,647	134.57	10,660	70.7	40,689	133.46	11,169	71.4	42,630	131.33	10,019	68.4	38,242	120.63	
UNDISTRIBUTED OPERATING EXPENSES																	
Administrative & General	1,387	9.2	5,294	17.53	1,373	9.1	5,240	17.19	1,289	8.2	4,920	15.16	1,367	9.3	5,217	16.46	
Info. and Telecom. Systems	239	1.6	914	3.02	256	1.7	978	3.21	284	1.8	1,082	3.33	0	0.0	0	0.00	
Marketing	930	6.2	3,550	11.75	965	6.4	3,684	12.08	995	6.4	3,797	11.70	971	6.6	3,706	11.69	
Franchise Fee	976	6.5	3,726	12.34	977	6.5	3,728	12.23	969	6.2	3,700	11.40	902	6.2	3,443	10.86	
Prop. Operations & Maint.	659	4.4	2,516	8.33	756	5.0	2,885	9.46	736	4.7	2,808	8.65	795	5.4	3,036	9.58	
Utilities	729	4.8	2,781	9.21	748	5.0	2,854	9.36	821	5.2	3,133	9.65	752	5.1	2,870	9.05	
Total	4,921	32.6	18,781	62.18	5,075	33.7	19,369	63.53	5,093	32.6	19,440	59.89	4,788	32.7	18,273	57.64	
GROSS HOUSE PROFIT	5,729	37.9	21,866	72.39	5,586	37.0	21,320	69.93	6,076	38.8	23,190	71.44	5,232	35.7	19,969	62.99	
Management Fee	411	2.7	1,568	5.19	407	2.7	1,552	5.09	399	2.5	1,522	4.69	391	2.7	1,492	4.71	
INCOME BEFORE NON-OPER. INC. & EXP.	5,318	35.2	20,299	67.20	5,179	34.3	19,767	64.84	5,677	36.3	21,668	66.76	4,841	33.1	18,477	58.28	
NON-OPERATING INCOME AND EXPENSE																	
Insurance	218	1.4	832	2.75	214	1.4	819	2.68	183	1.2	700	2.16	243	1.7	927	2.92	
Ground Lease	692	4.6	2,643	8.75	693	4.6	2,644	8.67	746	4.8	2,849	8.78	698	4.8	2,663	8.40	
Other Income/Expense	163	1.1	624	2.07	146	1.0	558	1.83	337	2.2	1,288	3.97	61	0.4	233	0.73	
Administrative Fee	25	0.2	95	0.32	25	0.2	95	0.31	25	0.2	95	0.29	25	0.2	95	0.30	
Total	1,099	7.3	4,194	13.89	1,078	7.2	4,116	13.50	1,292	8.3	4,932	15.20	1,027	7.0	3,918	12.36	
EBITDA LESS RESERVE	\$4,219	27.9 %	\$16,105	\$53.31	\$4,101	27.2 %	\$15,651	\$51.34	\$4,385	28.0 %	\$16,736	\$51.56	\$3,815	26.0 %	\$14,559	\$45.92	
NOI adjusted to reflect a																	
3.0% mgmt fee and a 4.0% reserve	\$3,573	23.7 %			\$3,452	22.9 %			\$3,688	23.6 %			\$3,180	21.7 %			
*Departmental expenses are expressed as a percentage of departmental revenues.																	

FIGURE 7-2 HISTORICAL OPERATING PERFORMANCE (CONTINUED)

	2013 Calendar Year				2012 Calendar Year				
Number of Rooms:	262				262				
Paid Occupied Rooms:	81,108				76,973				
Complimentary Rooms:	418				595				
Days Open:	365				365				
Paid Occupancy:	84.8%				80.5%				
Average Rate:	\$121.84	Percentage	Available	Amount	\$114.99	Percentage	Available	Amount	
RevPAR:	\$103.34	of Revenue	Room	Occupied	\$92.56	of Revenue	Room	Occupied	
				Room				Room	
OPERATING REVENUE									
Rooms	\$9,882	71.6 %	\$37,718	\$121.84	\$8,851	69.4 %	\$33,783	\$114.99	
Food	3,160	22.9	12,061	38.96	3,160	24.8	12,062	41.06	
Beverage	403	2.9	1,540	4.97	375	2.9	1,430	4.87	
Other Operated Departments	260	1.9	991	3.20	270	2.1	1,030	3.51	
Miscellaneous Income	96	0.7	365	1.18	100	0.8	380	1.29	
Total Operating Revenue	13,801	100.0	52,675	170.15	12,756	100.0	48,686	165.72	
DEPARTMENTAL EXPENSES*									
Rooms	2,071	21.0	7,906	25.54	1,911	21.6	7,294	24.83	
Food & Beverage	2,256	63.3	8,611	27.81	2,163	61.2	8,254	28.10	
Other Operated Departments	244	94.0	932	3.01	243	90.1	928	3.16	
Total	4,572	33.1	17,449	56.36	4,317	33.8	16,477	56.08	
DEPARTMENTAL INCOME									
	9,229	66.9	35,226	113.79	8,439	66.2	32,209	109.63	
UNDISTRIBUTED OPERATING EXPENSES									
Administrative & General	1,511	11.0	5,768	18.63	1,338	10.5	5,106	17.38	
Info. and Telecom. Systems	0	0.0	0	0.00	0	0.0	0	0.00	
Marketing	910	6.6	3,474	11.22	836	6.6	3,192	10.86	
Franchise Fee	813	5.9	3,103	10.02	700	5.5	2,673	9.10	
Prop. Operations & Maint.	724	5.2	2,763	8.93	678	5.3	2,588	8.81	
Utilities	748	5.4	2,854	9.22	752	5.9	2,869	9.77	
Total	4,706	34.1	17,962	58.02	4,304	33.7	16,429	55.92	
GROSS HOUSE PROFIT									
	4,523	32.8	17,264	55.77	4,134	32.4	15,780	53.71	
Management Fee	383	2.8	1,462	4.72	376	2.9	1,434	4.88	
INCOME BEFORE NON-OPER. INC. & EXP.									
	4,140	30.0	15,801	51.04	3,759	29.5	14,346	48.83	
NON-OPERATING INCOME AND EXPENSE									
Insurance	215	1.6	821	2.65	208	1.6	795	2.71	
Ground Lease	659	4.8	2,515	8.12	571	4.5	2,179	7.42	
Other Income/Expense	21	0.2	82	0.26	443	3.5	1,691	5.76	
Administrative Fee	25	0.2	95	0.31	25	0.2	95	0.32	
Total	920	6.7	3,513	11.35	1,247	9.8	4,760	16.20	
EBITDA LESS RESERVE									
	\$3,220	23.3 %	\$12,288	\$39.69	\$2,512	19.7 %	\$9,586	\$32.63	
NOI adjusted to reflect a									
3.0% mgmt fee and a 4.0% reserve	\$2,637	19.1 %			\$1,994	15.6 %			

*Departmental expenses are expressed as a percentage of departmental revenues.

FIGURE 7-3 HISTORICAL OPERATING PERFORMANCE (CONTINUED)

	2017 Year-to-Date Ending June				2016 Year-to-Date Ending June				
	Number of Rooms:	262			262				
	Paid Occupied Rooms:	40,749			41,488				
	Complimentary Rooms:	147			388				
	Days Open:	181			182				
	Paid Occupancy:	85.9%			87.0%				
	Average Rate:	\$145.65	Percentage	Available	Amount	\$143.05	Percentage	Available	Amount
	RevPAR:	\$125.16	of Revenue	Room	Occupied	\$124.46	of Revenue	Room	Occupied
				Room	Room			Room	Room
OPERATING REVENUE									
Rooms	\$5,935	74.6 %	\$22,654	\$145.65	\$5,935	74.8 %	\$22,652	\$143.05	
Food	1,514	19.0	5,779	37.16	1,579	19.9	6,027	38.06	
Beverage	311	3.9	1,188	7.64	279	3.5	1,065	6.73	
Other Operated Departments	154	1.9	589	3.79	96	1.2	367	2.32	
Miscellaneous Income	40	0.5	152	0.97	43	0.5	163	1.03	
Total Operating Revenue	7,955	100.0	30,362	195.21	7,932	100.0	30,274	191.19	
DEPARTMENTAL EXPENSES*									
Rooms	1,048	17.7	3,999	25.71	1,052	17.7	4,014	25.35	
Food & Beverage	1,077	59.0	4,110	26.42	1,049	56.5	4,005	25.29	
Other Operated Departments	65	42.2	249	1.60	55	56.8	209	1.32	
Total	2,190	27.5	8,357	53.73	2,156	27.2	8,228	51.96	
DEPARTMENTAL INCOME									
	5,765	72.5	22,005	141.48	5,776	72.8	22,046	139.22	
UNDISTRIBUTED OPERATING EXPENSES									
Administrative & General	679	8.5	2,592	16.66	665	8.4	2,538	16.03	
Info. and Telecom. Systems	120	1.5	460	2.96	137	1.7	524	3.31	
Marketing	624	7.8	2,381	15.31	659	8.3	2,514	15.88	
Franchise Fee	492	6.2	1,879	12.08	493	6.2	1,881	11.88	
Prop. Operations & Maint.	341	4.3	1,301	8.36	437	5.5	1,670	10.55	
Utilities	351	4.4	1,341	8.62	370	4.7	1,414	8.93	
Total	2,608	32.8	9,953	63.99	2,762	34.8	10,541	66.57	
GROSS HOUSE PROFIT									
	3,158	39.7	12,052	77.49	3,014	38.0	11,505	72.66	
Management Fee	207	2.6	792	5.09	203	2.6	776	4.90	
INCOME BEFORE NON-OPER. INC. & EXP.									
	2,950	37.1	11,260	72.40	2,811	35.4	10,729	67.75	
NON-OPERATING INCOME AND EXPENSE									
Insurance	86	1.1	327	2.10	82	1.0	314	1.98	
Ground Lease	378	4.8	1,443	9.28	378	4.8	1,443	9.12	
Other Income/Expense	51	0.6	197	1.26	34	0.4	130	0.82	
Administrative Fee	13	0.2	48	0.31	13	0.2	48	0.30	
Total	528	6.6	2,014	12.95	507	6.4	1,936	12.22	
EBITDA LESS RESERVE									
	\$2,422	30.5 %	\$9,246	\$59.45	\$2,304	29.0 %	\$8,793	\$55.53	
NOI adjusted to reflect a									
3.0% mgmt fee and a 4.0% reserve	\$2,073	26.1 %			\$1,952	24.6 %			

*Departmental expenses are expressed as a percentage of departmental revenues.



In our review of the trailing-twelve-month statement (ending June 2017), the subject hotel's operating performance illustrates an overall stable trend in profitability. Over the last several years, the trend in revenue and profitability has shown improvement. In the food and beverage department, revenue increases were influenced primarily by banquet operations. Revenues associated with telephone charges, parking, guest laundry, and other minor departments are included in the other operated departments line. Miscellaneous income sources include the hotel's cancellation and attrition charges, as well as other minor collections. Overall, expenses have generally been streamlined since the current management company assumed the hotel's operations.

Comparable Operating Statements

In order to gauge the subject property's profitability, we have reviewed the following individual income and expense statements from comparable hotels, derived from our database of hotel income and expense statements. All financial data are presented according to the three most common measures of industry performance: ratio to sales (RTS), amounts per available room (PAR), and amounts per occupied room night (POR). These historical income and expense statements will be used as benchmarks in our forthcoming forecast of income and expense. The subject property's 2016/17 operating history has been included to facilitate a comparison. The stabilized statement of income and expense, in 2016/17 dollars, is presented as well.



FIGURE 7-4 COMPARABLE OPERATING STATEMENTS: RATIO TO SALES

	Subject	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
	2016/17	2015/16	2014	2014	2013/14	2013	Stabilized \$ 2016/17
Year:	2016/17	2015/16	2014	2014	2013/14	2013	
Number of Rooms:	262	230 to 290	170 to 220	240 to 310	260 to 330	180 to 220	262
Days Open:	365	365	365	365	365	365	365
Occupancy:	82.8%	88%	78%	81%	78%	82%	84%
Average Rate:	\$141.22	\$140	\$135	\$146	\$145	\$154	\$146
RevPAR:	\$116.86	\$122	\$106	\$119	\$114	\$126	\$122
REVENUE							
Rooms	74.0 %	74.4 %	68.8 %	76.8 %	66.1 %	70.4 %	74.3 %
Food & Beverage	23.1	22.9	30.0	20.3	32.4	26.0	22.9
Other Operated Departments	1.9	1.9	0.5	1.1	1.0	2.8	1.8
Miscellaneous Income	1.0	0.9	0.8	1.8	0.5	0.9	1.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*							
Rooms	19.9	19.5	20.9	20.4	17.8	19.0	20.1
Food & Beverage	59.9	56.7	54.3	71.7	59.6	62.6	61.1
Other Operated Departments	46.9	64.1	146.1	101.0	122.5	80.0	46.7
Total	29.5	28.6	31.4	31.3	32.2	31.9	29.8
DEPARTMENTAL INCOME							
	70.5	71.4	68.6	68.7	67.8	68.1	70.2
OPERATING EXPENSES							
Administrative & General	9.2	8.6	7.9	8.2	9.1	9.4	8.9
Info. and Telecom. Systems	1.6	1.7	0.0	0.0	0.0	0.0	1.5
Marketing	6.2	6.3	8.9	8.2	6.8	8.1	6.0
Franchise Fee	6.5	6.3	4.3	5.0	5.9	4.2	6.5
Property Operations & Maintenance	4.4	4.7	5.0	3.3	3.9	3.9	4.1
Utilities	4.8	5.0	3.1	2.5	3.3	2.6	4.7
Total	32.6	32.7	29.2	27.2	29.0	28.2	31.6
HOUSE PROFIT							
	37.9	38.7	39.4	41.5	38.8	39.9	38.6
Management Fee	2.7	2.6	2.5	3.5	3.2	4.0	3.0
INCOME BEFORE FIXED CHARGES							
	35.2	36.1	37.0	38.0	35.5	36.0	35.6

* Departmental expense ratios are expressed as a percentage of departmental revenues

FIGURE 7-5 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER AVAILABLE ROOM

	Subject	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
	2016/17	2015/16	2014	2014	2013/14	2013	Stabilized \$ 2016/17
Year:	2016/17	2015/16	2014	2014	2013/14	2013	2016/17
Number of Rooms:	262	230 to 290	170 to 220	240 to 310	260 to 330	180 to 220	262
Days Open:	365	365	365	365	365	365	365
Occupancy:	82.8%	88%	78%	81%	78%	82%	84%
Average Rate:	\$141.22	\$140	\$135	\$146	\$145	\$154	\$146
RevPAR:	\$116.86	\$122	\$106	\$119	\$114	\$126	\$122
REVENUE							
Rooms	\$42,654	\$44,659	\$38,754	\$43,534	\$41,511	\$45,900	\$44,707
Food & Beverage	13,316	13,716	16,894	11,537	20,336	16,947	13,740
Other Operated Departments	1,098	1,119	282	613	608	1,833	1,106
Miscellaneous Income	575	528	430	1,037	308	560	579
Total	57,644	60,022	56,360	56,721	62,763	65,239	60,132
DEPARTMENTAL EXPENSES							
Rooms	8,505	8,687	8,085	8,878	7,374	8,719	9,004
Food & Beverage	7,977	7,779	9,181	8,277	12,119	10,603	8,401
Other Operated Departments	515	718	412	620	744	1,467	517
Total	16,997	17,184	17,677	17,775	20,238	20,789	17,922
DEPARTMENTAL INCOME	40,647	42,838	38,682	38,947	42,525	44,450	42,209
OPERATING EXPENSES							
Administrative & General	5,294	5,182	4,442	4,646	5,724	6,135	5,353
Info. and Telecom. Systems	914	1,041	0	0	0	0	924
Marketing	3,550	3,788	5,017	4,637	4,255	5,256	3,590
Franchise Fee	3,726	3,798	2,395	2,809	3,710	2,755	3,886
Property Operations & Maintenance	2,516	2,806	2,809	1,895	2,425	2,512	2,443
Utilities	2,781	3,026	1,773	1,430	2,081	1,721	2,812
Total	18,781	19,642	16,436	15,417	18,195	18,379	19,009
HOUSE PROFIT	21,866	23,196	22,246	23,530	24,330	26,071	23,201
Management Fee	1,568	1,537	1,409	1,985	2,028	2,610	1,804
INCOME BEFORE FIXED CHARGES	20,299	21,659	20,837	21,545	22,303	23,462	21,397



FIGURE 7-6 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER OCCUPIED ROOM

	Subject	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
							Stabilized \$
Year:	2016/17	2015/16	2014	2014	2013/14	2013	2016/17
Number of Rooms:	262	230 to 290	170 to 220	240 to 310	260 to 330	180 to 220	262
Days Open:	365	365	365	365	365	365	365
Occupancy:	82.8%	88%	78%	81%	78%	82%	84%
Average Rate:	\$141.22	\$140	\$135	\$146	\$145	\$154	\$146
RevPAR:	\$116.86	\$122	\$106	\$119	\$114	\$126	\$122
REVENUE							
Rooms	\$140.41	\$139.77	\$135.33	\$146.46	\$145.03	\$153.90	\$145.82
Food & Beverage	43.83	42.93	58.99	38.81	71.05	56.82	44.81
Other Operated Departments	3.62	3.50	0.98	2.06	2.12	6.15	3.61
Miscellaneous Income	1.89	1.65	1.50	3.49	1.07	1.88	1.89
Total	189.75	187.85	196.81	190.82	219.28	218.75	196.12
DEPARTMENTAL EXPENSES							
Rooms	28.00	27.19	28.23	29.87	25.76	29.23	29.37
Food & Beverage	26.26	24.35	32.06	27.85	42.34	35.55	27.40
Other Operated Departments	1.69	2.25	1.44	2.08	2.60	4.92	1.68
Total	55.95	53.78	61.73	59.80	70.71	69.71	58.45
DEPARTMENTAL INCOME	133.80	134.07	135.08	131.02	148.57	149.04	137.67
OPERATING EXPENSES							
Administrative & General	17.43	16.22	15.51	15.63	20.00	20.57	17.46
Info. and Telecom. Systems	3.01	3.26	0.00	0.00	0.00	0.00	3.01
Marketing	11.69	11.86	17.52	15.60	14.87	17.62	11.71
Franchise Fee	12.26	11.89	8.36	9.45	12.96	9.24	12.68
Property Operations & Maintenance	8.28	8.78	9.81	6.37	8.47	8.42	7.97
Utilities	9.16	9.47	6.19	4.81	7.27	5.77	9.17
Total	61.82	61.48	57.40	51.87	63.57	61.63	62.00
HOUSE PROFIT	71.98	72.60	77.68	79.16	85.01	87.42	75.67
Management Fee	5.16	4.81	4.92	6.68	7.09	8.75	5.88
INCOME BEFORE FIXED CHARGES	66.82	67.79	72.76	72.48	77.92	78.67	69.79

The departmental income for the comparable statements ranged from 67.8% to 71.4% of total revenue. The 2016/17 departmental income ratio of 70.5% for the subject property is within this range. The comparable properties achieved a house profit ranging from 38.7% to 41.5% of total revenue. The 2016/17 house profit percentage of 37.9% of total revenue for the subject property falls below this range, indicating room for improvement. The subject hotel is projected to stabilize at a house-profit ratio similar to what has been achieved historically. We will refer to the comparable operating data in our discussion of each line item, which follows later in this section of the report.



Fixed and Variable Component Analysis

HVS uses a fixed and variable component model to project a lodging facility's revenue and expense levels. This model is based on the premise that hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy and facility usage. A projection can be made by taking a known level of revenue or expense and calculating its fixed and variable components. The fixed component is then increased in tandem with the underlying rate of inflation, while the variable component is adjusted for a specific measure of volume such as total revenue.

The actual forecast is derived by adjusting each year's revenue and expense by the amount fixed (the fixed expense multiplied by the inflated base-year amount) plus the variable amount (the variable expense multiplied by the inflated base-year amount) multiplied by the ratio of the projection year's occupancy to the base-year occupancy (in the case of departmental revenue and expense) or the ratio of the projection year's revenue to the base year's revenue (in the case of undistributed operating expenses). Fixed expenses remain fixed, increasing only with inflation. Our discussion of the revenue and expense forecast in this report is based upon the output derived from the fixed and variable model. This forecast of revenue and expense is accomplished through a systematic approach, following the format of the USALI. Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

Inflation Assumption

In consideration of the most recent trends, the projections set forth previously, and our assessment of probable property appreciation levels, we have applied an underlying inflation rate of 2.5% in 2017, 2.5% in 2018, and 3.0% in 2019 and thereafter. This stabilized inflation rate takes into account normal, recurring inflation cycles. Inflation is likely to fluctuate above and below this level during the projection period. Any exceptions to the application of the assumed underlying inflation rate are discussed in our write-up of individual income and expense items.

Forecast of Revenue and Expense

Based on an analysis that will be detailed throughout this section, we have formulated a forecast of revenue and expense. The following table presents a forecast through the first several projection years, including amounts per available room and per occupied room. The second table illustrates our ten-year forecast of income and expense, presented with a lesser degree of detail. The forecasts pertain to years that begin on August 1, 2017, expressed in inflated dollars for each year.

FIGURE 7-7 FORECAST OF REVENUE AND EXPENSE AND TRAILING-12-MONTH OPERATING HISTORY

	Historical Operating Results																											
	2016/17 Fiscal Year Ending June				2017/18				2018/19				2019/20				Stabilized				2021/22							
Number of Rooms:	262				262				262				262				262				262							
Occupancy (Paid Rooms):	83%				81%				81%				83%				84%				84%							
Average Rate:	\$141.22				\$145.60				\$151.56				\$157.48				\$162.53				\$167.40							
RevPAR:	\$116.86				\$117.94				\$122.76				\$130.71				\$136.52				\$140.62							
Days Open:	365				365				365				365				365				365							
Occupied Rooms (Paid):	79,137	%Gross	PAR	POR	77,460	%Gross	PAR	POR	77,460	%Gross	PAR	POR	79,373	%Gross	PAR	POR	80,329	%Gross	PAR	POR	80,329	%Gross	PAR	POR	80,329	%Gross	PAR	POR
OPERATING REVENUE																												
Rooms	\$11,175	74.0 %	\$42,654	\$141.22	\$11,278	73.8 %	\$43,046	\$145.60	\$11,740	73.9 %	\$44,809	\$151.56	\$12,500	74.2 %	\$47,710	\$157.48	\$13,056	74.3 %	\$49,832	\$162.53	\$13,447	74.3 %	\$51,324	\$167.40	\$13,447	74.3 %	\$51,324	\$167.40
Food	2,897	19.2	11,059	36.61	2,960	19.4	11,296	38.21	3,063	19.3	11,692	39.55	3,213	19.1	12,264	40.48	3,340	19.0	12,747	41.57	3,440	19.0	13,129	42.82	3,440	19.0	13,129	42.82
Beverage	591	3.9	2,257	7.47	603	3.9	2,303	7.79	621	3.9	2,372	8.02	649	3.9	2,477	8.17	673	3.8	2,568	8.38	693	3.8	2,645	8.63	693	3.8	2,645	8.63
Other Operated Departments	288	1.9	1,098	3.64	294	1.9	1,121	3.79	301	1.9	1,149	3.89	312	1.9	1,192	3.93	323	1.8	1,232	4.02	333	1.8	1,269	4.14	333	1.8	1,269	4.14
Miscellaneous Income	151	1.0	575	1.90	154	1.0	587	1.99	158	1.0	602	2.03	164	1.0	624	2.06	169	1.0	645	2.10	174	1.0	665	2.17	174	1.0	665	2.17
Total Operating Revenues	15,103	100.0	57,644	190.84	15,288	100.0	58,353	197.37	15,883	100.0	60,623	205.05	16,838	100.0	64,267	212.14	17,560	100.0	67,024	218.60	18,086	100.0	69,032	225.15	18,086	100.0	69,032	225.15
DEPARTMENTAL EXPENSES *																												
Rooms	2,228	19.9	8,505	28.16	2,383	21.1	9,096	30.77	2,443	20.8	9,324	31.54	2,541	20.3	9,697	32.01	2,629	20.1	10,036	32.73	2,708	20.1	10,337	33.72	2,708	20.1	10,337	33.72
Food & Beverage	2,090	59.9	7,977	26.41	2,208	62.0	8,429	28.51	2,286	62.0	8,724	29.51	2,373	61.4	9,056	29.89	2,453	61.1	9,364	30.54	2,527	61.1	9,645	31.46	2,527	61.1	9,645	31.46
Other Operated Departments	135	46.9	515	1.70	138	47.1	528	1.79	142	47.1	541	1.83	146	46.8	558	1.84	151	46.7	576	1.88	155	46.7	593	1.93	155	46.7	593	1.93
Total	4,453	29.5	16,997	56.27	4,730	30.9	18,053	61.06	4,870	30.7	18,588	62.87	5,060	30.0	19,312	63.75	5,234	29.8	19,976	65.15	5,391	29.8	20,575	67.11	5,391	29.8	20,575	67.11
DEPARTMENTAL INCOME	10,649	70.5	40,647	134.57	10,559	69.1	40,300	136.31	11,013	69.3	42,035	142.18	11,778	70.0	44,955	148.39	12,327	70.2	47,048	153.45	12,696	70.2	48,457	158.05	12,696	70.2	48,457	158.05
UNDISTRIBUTED OPERATING EXPENSES																												
Administrative & General	1,387	9.2	5,294	17.53	1,419	9.3	5,415	18.31	1,458	9.2	5,566	18.83	1,513	9.0	5,774	19.06	1,563	8.9	5,967	19.46	1,610	8.9	6,145	20.04	1,610	8.9	6,145	20.04
Info. and Telecom. Systems	239	1.6	914	3.02	245	1.6	934	3.16	252	1.6	960	3.25	261	1.6	996	3.29	270	1.5	1,030	3.36	278	1.5	1,061	3.46	278	1.5	1,061	3.46
Marketing	930	6.2	3,550	11.75	951	6.2	3,631	12.28	978	6.2	3,733	12.63	1,015	6.0	3,873	12.78	1,048	6.0	4,002	13.05	1,080	6.0	4,122	13.44	1,080	6.0	4,122	13.44
Franchise Fee	976	6.5	3,726	12.34	785	5.1	2,998	10.14	915	5.8	3,494	11.82	1,075	6.4	4,103	13.54	1,135	6.5	4,332	14.13	1,203	6.7	4,593	14.98	1,203	6.7	4,593	14.98
Prop. Operations & Maint.	659	4.4	2,516	8.33	647	4.2	2,471	8.36	665	4.2	2,540	8.59	690	4.1	2,635	8.70	713	4.1	2,723	8.88	735	4.1	2,805	9.15	735	4.1	2,805	9.15
Utilities	729	4.8	2,781	9.21	745	4.9	2,845	9.62	766	4.8	2,924	9.89	795	4.7	3,034	10.01	821	4.7	3,135	10.22	846	4.7	3,229	10.53	846	4.7	3,229	10.53
Total	4,921	32.6	18,781	62.18	4,793	31.3	18,294	61.88	5,035	31.8	19,217	65.00	5,349	31.8	20,416	67.39	5,551	31.7	21,187	69.10	5,752	31.9	21,954	71.60	5,752	31.9	21,954	71.60
GROSS HOUSE PROFIT	5,729	37.9	21,866	72.39	5,766	37.8	22,006	74.43	5,978	37.5	22,818	77.18	6,429	38.2	24,540	81.00	6,776	38.5	25,861	84.35	6,944	38.3	26,503	86.44	6,944	38.3	26,503	86.44
Management Fee	411	2.7	1,568	5.19	459	3.0	1,751	5.92	476	3.0	1,819	6.15	505	3.0	1,928	6.36	527	3.0	2,011	6.56	543	3.0	2,071	6.75	543	3.0	2,071	6.75
INCOME BEFORE NON-OPER. INC. & EXP.	5,318	35.2	20,299	67.20	5,307	34.8	20,255	68.51	5,502	34.5	20,999	71.03	5,924	35.2	22,612	74.64	6,249	35.5	23,850	77.79	6,401	35.3	24,432	79.69	6,401	35.3	24,432	79.69
NON-OPERATING INCOME AND EXPENSE																												
Insurance	218	1.4	832	2.75	224	1.5	854	2.89	229	1.4	875	2.96	236	1.4	902	2.98	243	1.4	929	3.03	251	1.4	957	3.12	251	1.4	957	3.12
Ground Lease	692	4.6	2,643	8.75	711	4.7	2,715	9.18	729	4.6	2,783	9.41	751	4.5	2,866	9.46	773	4.4	2,952	9.63	797	4.4	3,041	9.92	797	4.4	3,041	9.92
Other Income/Expense	163	1.1	624	2.07	168	1.1	641	2.17	172	1.1	657	2.22	177	1.1	677	2.23	183	1.0	697	2.27	188	1.0	718	2.34	188	1.0	718	2.34
Administrative Fee	25	0.2	95	0.32	120	0.8	458	1.55	120	0.8	458	1.55	120	0.7	458	1.51	120	0.7	458	1.49	120	0.7	458	1.49	120	0.7	458	1.49
Reserve for Replacement	0	0.0	0	0.00	612	4.0	2,334	7.89	635	4.0	2,425	8.20	674	4.0	2,571	8.49	702	4.0	2,681	8.74	723	4.0	2,761	9.01	723	4.0	2,761	9.01
Total	1,099	7.3	4,194	13.89	1,835	12.1	7,002	23.68	1,886	11.9	7,198	24.35	1,958	11.7	7,473	24.67	2,022	11.5	7,717	25.17	2,079	11.5	7,935	25.88	2,079	11.5	7,935	25.88
EBITDA LESS RESERVE	\$4,219	27.9 %	\$16,105	\$53.32	\$3,472	22.7 %	\$13,253	\$44.83	\$3,616	22.6 %	\$13,801	\$46.68	\$3,966	23.5 %	\$15,139	\$49.97	\$4,227	24.0 %	\$16,133	\$52.62	\$4,322	23.8 %	\$16,498	\$53.81	\$4,322	23.8 %	\$16,498	\$53.81

*Departmental expenses are expressed as a percentage of departmental revenues.

NOI adjusted to reflect a

3.0% mgmt fee and a 4.0% reserve \$3,573 23.7 %

FIGURE 7-8 TEN-YEAR FORECAST OF REVENUE AND EXPENSE

	2017/18		2018/19		2019/20		2020/21		2021/22		2022/23		2023/24		2024/25		2025/26		2026/27			
Number of Rooms:	262		262		262		262		262		262		262		262		262		262		262	
Occupied Rooms:	77,460		77,460		79,373		80,329		80,329		80,329		80,329		80,329		80,329		80,329		80,329	
Occupancy:	81%		81%		83%		84%		84%		84%		84%		84%		84%		84%		84%	
Average Rate:	\$145.60	% of	\$151.56	% of	\$157.48	% of	\$162.53	% of	\$167.40	% of	\$172.43	% of	\$177.60	% of	\$182.93	% of	\$188.41	% of	\$194.07	% of	\$194.07	
RevPAR:	\$117.94	Gross	\$122.76	Gross	\$130.71	Gross	\$136.52	Gross	\$140.62	Gross	\$144.84	Gross	\$149.18	Gross	\$153.66	Gross	\$158.27	Gross	\$163.02	Gross	\$163.02	
OPERATING REVENUE																						
Rooms	\$11,278	73.8 %	\$11,740	73.9 %	\$12,500	74.2 %	\$13,056	74.3 %	\$13,447	74.3 %	\$13,851	74.3 %	\$14,266	74.3 %	\$14,694	74.3 %	\$15,135	74.3 %	\$15,589	74.3 %	\$15,589	74.3 %
Food	2,960	19.4	3,063	19.3	3,213	19.1	3,340	19.0	3,440	19.0	3,543	19.0	3,649	19.0	3,759	19.0	3,871	19.0	3,988	19.0	3,988	19.0
Beverage	603	3.9	621	3.9	649	3.9	673	3.8	693	3.8	714	3.8	735	3.8	757	3.8	780	3.8	803	3.8	803	3.8
Other Operated Departments	294	1.9	301	1.9	312	1.9	323	1.8	333	1.8	343	1.8	353	1.8	363	1.8	374	1.8	385	1.8	385	1.8
Miscellaneous Income	154	1.0	158	1.0	164	1.0	169	1.0	174	1.0	179	1.0	185	1.0	190	1.0	196	1.0	202	1.0	202	1.0
Total Operating Revenue	15,288	100.0	15,883	100.0	16,838	100.0	17,560	100.0	18,086	100.0	18,630	100.0	19,188	100.0	19,764	100.0	20,357	100.0	20,967	100.0	20,967	100.0
DEPARTMENTAL EXPENSES*																						
Rooms	2,383	21.1	2,443	20.8	2,541	20.3	2,629	20.1	2,708	20.1	2,790	20.1	2,873	20.1	2,960	20.1	3,048	20.1	3,140	20.1	3,140	20.1
Food & Beverage	2,208	62.0	2,286	62.0	2,373	61.4	2,453	61.1	2,527	61.1	2,603	61.1	2,681	61.1	2,761	61.1	2,844	61.1	2,930	61.1	2,930	61.1
Other Operated Departments	138	47.1	142	47.1	146	46.8	151	46.7	155	46.7	160	46.7	165	46.7	170	46.7	175	46.7	180	46.7	180	46.7
Total	4,730	30.9	4,870	30.7	5,060	30.0	5,234	29.8	5,391	29.8	5,553	29.8	5,719	29.8	5,891	29.8	6,067	29.8	6,249	29.8	6,249	29.8
DEPARTMENTAL INCOME	10,559	69.1	11,013	69.3	11,778	70.0	12,327	70.2	12,696	70.2	13,077	70.2	13,469	70.2	13,873	70.2	14,289	70.2	14,718	70.2	14,718	70.2
UNDISTRIBUTED OPERATING EXPENSES																						
Administrative & General	1,419	9.3	1,458	9.2	1,513	9.0	1,563	8.9	1,610	8.9	1,658	8.9	1,708	8.9	1,759	8.9	1,812	8.9	1,867	8.9	1,867	8.9
Info. and Telecom. Systems	245	1.6	252	1.6	261	1.6	270	1.5	278	1.5	286	1.5	295	1.5	304	1.5	313	1.5	322	1.5	322	1.5
Marketing	951	6.2	978	6.2	1,015	6.0	1,048	6.0	1,080	6.0	1,112	6.0	1,146	6.0	1,180	6.0	1,215	6.0	1,252	6.0	1,252	6.0
Franchise Fee	785	5.1	915	5.8	1,075	6.4	1,135	6.5	1,203	6.7	1,273	6.8	1,325	6.9	1,366	6.9	1,407	6.9	1,449	6.9	1,449	6.9
Prop. Operations & Maint.	647	4.2	665	4.2	690	4.1	713	4.1	735	4.1	757	4.1	780	4.1	803	4.1	827	4.1	852	4.1	852	4.1
Utilities	745	4.9	766	4.8	795	4.7	821	4.7	846	4.7	871	4.7	897	4.7	924	4.7	952	4.7	981	4.7	981	4.7
Total	4,793	31.3	5,035	31.8	5,349	31.8	5,551	31.7	5,752	31.9	5,958	32.0	6,150	32.1	6,336	32.1	6,526	32.1	6,722	32.1	6,722	32.1
GROSS HOUSE PROFIT	5,766	37.8	5,978	37.5	6,429	38.2	6,776	38.5	6,944	38.3	7,119	38.2	7,319	38.1	7,537	38.1	7,763	38.1	7,996	38.1	7,996	38.1
Management Fee	459	3.0	476	3.0	505	3.0	527	3.0	543	3.0	559	3.0	576	3.0	593	3.0	611	3.0	629	3.0	629	3.0
INCOME BEFORE NON-OPER. INC. & EXP.	5,307	34.8	5,502	34.5	5,924	35.2	6,249	35.5	6,401	35.3	6,560	35.2	6,743	35.1	6,944	35.1	7,152	35.1	7,367	35.1	7,367	35.1
NON-OPERATING INCOME AND EXPENSE																						
Insurance	224	1.5	229	1.4	236	1.4	243	1.4	251	1.4	258	1.4	266	1.4	274	1.4	282	1.4	291	1.4	291	1.4
Ground Lease	711	4.7	729	4.6	751	4.5	773	4.4	797	4.4	821	4.4	845	4.4	871	4.4	897	4.4	924	4.4	924	4.4
Other Income/Expense	168	1.1	172	1.1	177	1.1	183	1.0	188	1.0	194	1.0	200	1.0	206	1.0	212	1.0	218	1.0	218	1.0
Administrative Fee	120	0.8	120	0.8	120	0.7	120	0.7	120	0.7	120	0.6	120	0.6	120	0.6	120	0.6	120	0.6	120	0.6
Reserve for Replacement	612	4.0	635	4.0	674	4.0	702	4.0	723	4.0	745	4.0	768	4.0	791	4.0	814	4.0	839	4.0	839	4.0
Total	1,835	12.1	1,886	11.9	1,958	11.7	2,022	11.5	2,079	11.5	2,138	11.4	2,198	11.4	2,260	11.4	2,325	11.4	2,391	11.4	2,391	11.4
EBITDA LESS RESERVE	\$3,472	22.7 %	\$3,616	22.6 %	\$3,966	23.5 %	\$4,227	24.0 %	\$4,322	23.8 %	\$4,423	23.8 %	\$4,545	23.7 %	\$4,684	23.7 %	\$4,828	23.7 %	\$4,976	23.7 %	\$4,976	23.7 %

*Departmental expenses are expressed as a percentage of departmental revenues.



The following description sets forth the basis for the forecast of revenue and expense. We anticipate that it will take four years for the subject property to reach a stabilized level of operation. Each revenue and expense item has been forecast based upon our review of the subject property's operating history, operating budget, and comparable revenue and expense statements. The forecast begins on August 1, 2017, expressed in inflated dollars for each year.

Rooms Revenue

Rooms revenue is determined by two variables: occupancy and average rate. We projected occupancy and average rate in a previous section of this report. The subject property is expected to stabilize at 84.0% with an average rate of \$162.53 in 2020/21. Following the stabilized year, the subject property's average rate is projected to increase along with the underlying rate of inflation.

Food and Beverage Revenue

In the case of the Hilton Austin Airport, the outlet offerings (a restaurant and lounge) serve as a source of revenue as well as an amenity that assists in the sale of guestrooms. In addition to this offering, banquet space at the subject property spans 17,505 square feet.

FIGURE 7-9 FOOD AND BEVERAGE REVENUE

	Subject Property	Comparable Operating Statements					Subject Property Forecast	
	2016/17	#1	#2	#3	#4	#5	2017/18	Deflated Stabilized
Food Revenue								
Percentage of Revenue	19.2 %	19.5 %	25.3 %	17.5 %	28.5 %	21.2 %	19.4 %	19.0 %
Per Available Room	\$11,059	\$11,695	\$14,276	\$9,919	\$17,901	\$13,860	\$11,296	\$11,436
Per Occupied Room	\$36.61	\$36.60	\$49.85	\$33.37	\$62.54	\$46.47	\$38.21	\$37.30
Beverage Revenue								
Percentage of Revenue	3.9 %	3.4 %	4.6 %	2.9 %	3.9 %	4.7 %	3.9 %	3.8 %
Per Available Room	\$2,257	\$2,021	\$2,617	\$1,617	\$2,436	\$3,086	\$2,303	\$2,304
Per Occupied Room	\$7.47	\$6.33	\$9.14	\$5.44	\$8.51	\$10.35	\$7.79	\$7.52
Food & Beverage Revenue								
Percentage of Revenue	23.1 %	22.9 %	30.0 %	20.3 %	32.4 %	26.0 %	23.3 %	22.9 %
Per Available Room	\$13,316	\$13,716	\$16,894	\$11,537	\$20,336	\$16,947	\$13,599	\$13,740
Per Occupied Room	\$36.61	\$42.93	\$58.99	\$38.81	\$71.05	\$56.82	\$46.00	\$44.81

Other Operated Departments Revenue

According to the USALI, other operated departments include any major or minor operated department other than rooms and food and beverage. Revenues that are collected from telephone charges, parking fees, guest laundry services, and other minor departments are reflected in this line item.



FIGURE 7-10 OTHER OPERATED DEPARTMENTS REVENUE

	Subject Property 2016/17	Comparable Operating Statements					Subject Property Forecast	
		#1	#2	#3	#4	#5	2017/18	Deflated Stabilized
Percentage of Revenue	1.9 %	1.9 %	0.5 %	1.1 %	1.0 %	2.8 %	1.9 %	1.8 %
Per Available Room	\$1,098	\$1,119	\$282	\$613	\$608	\$1,833	\$1,121	\$1,106
Per Occupied Room	\$3.64	\$3.50	\$0.98	\$2.06	\$2.12	\$6.15	\$3.79	\$3.61

Miscellaneous Income

According to the USALI, miscellaneous income includes attrition fees, cancellation fees, outside agreement commissions, and interest income, among other items. Revenues that are collected from vending commissions, cancellation fees, and other miscellaneous charges are reflected in this line item.

FIGURE 7-11 MISCELLANEOUS INCOME

	Subject Property 2016/17	Comparable Operating Statements					Subject Property Forecast	
		#1	#2	#3	#4	#5	2017/18	Deflated Stabilized
Percentage of Revenue	1.0 %	0.9 %	0.8 %	1.8 %	0.5 %	0.9 %	1.0 %	1.0 %
Per Available Room	\$575	\$528	\$430	\$1,037	\$308	\$560	\$587	\$579
Per Occupied Room	\$1.90	\$1.65	\$1.50	\$3.49	\$1.07	\$1.88	\$1.99	\$1.89

Rooms Expense

Rooms expense consists of items related to the sale and upkeep of guestrooms and public space. Salaries, wages, and employee benefits account for a substantial portion of this category. Although payroll varies somewhat with occupancy and managers can generally scale the level of service staff on hand to meet an expected occupancy level, a base level of front desk personnel, housekeepers, and supervisors must be maintained at all times. As a result, salaries, wages, and employee benefits are moderately sensitive to changes in occupancy.

Commissions and reservations are usually based on room sales and, thus, are highly sensitive to changes in occupancy and average rate. While guest supplies vary 100% with occupancy, linens and other operating expenses are only slightly affected by volume.



FIGURE 7-12 ROOMS EXPENSE

	Subject Property 2016/17	Comparable Operating Statements					Subject Property Forecast	
		#1	#2	#3	#4	#5	2017/18	Deflated Stabilized
Percentage of Revenue	19.9 %	19.5 %	20.9 %	20.4 %	17.8 %	19.0 %	21.1 %	20.1 %
Per Available Room	\$8,505	\$8,687	\$8,085	\$8,878	\$7,374	\$8,719	\$9,096	\$9,004
Per Occupied Room	\$28.16	\$27.19	\$28.23	\$29.87	\$25.76	\$29.23	\$30.77	\$29.37

Food and Beverage Expense

Food and beverage expense is associated with the generation of food and beverage revenue within the restaurant and lounge outlets, as well as the banquet and meeting facilities. The cost of food and beverage is directly correlated to food and beverage revenue, while food and beverage payroll expense is moderately fixed. The cost of items such as china, linens, and uniforms are less dependent on volume.

FIGURE 7-13 FOOD AND BEVERAGE EXPENSE

	Subject Property 2016/17	Comparable Operating Statements					Subject Property Forecast	
		#1	#2	#3	#4	#5	2017/18	Deflated Stabilized
Percentage of Revenue	59.9 %	56.7 %	54.3 %	71.7 %	59.6 %	62.6 %	62.0 %	61.1 %
Per Available Room	\$7,977	\$7,779	\$9,181	\$8,277	\$12,119	\$10,603	\$8,429	\$8,401
Per Occupied Room	\$26.41	\$24.35	\$32.06	\$27.85	\$42.34	\$35.55	\$28.51	\$27.40

Other Operated Departments Expense

Other operated departments expense comprises expenses associated with the hotel's various other and minor operated departments.

FIGURE 7-14 OTHER OPERATED DEPARTMENTS EXPENSE

	Subject Property 2016/17	Comparable Operating Statements					Subject Property Forecast	
		#1	#2	#3	#4	#5	2017/18	Deflated Stabilized
Percentage of Revenue	46.9 %	64.1 %	146.1 %	101.0 %	122.5 %	80.0 %	47.1 %	46.7 %
Per Available Room	\$515	\$718	\$412	\$620	\$744	\$1,467	\$528	\$517
Per Occupied Room	\$1.70	\$2.25	\$1.44	\$2.08	\$2.60	\$4.92	\$1.79	\$1.68

Administrative and General Expense

Administrative and general expense includes the salaries and wages of all administrative personnel who are not directly associated with a particular department. Expense items related to the management and operation of the property are also allocated to this category.

Most administrative and general expenses are relatively fixed. The exceptions are cash overages and shortages; commissions on credit card charges; provision for



doubtful accounts, which are moderately affected by the number of transactions or total revenue; and salaries, wages, and benefits, which are very slightly influenced by volume.

FIGURE 7-15 ADMINISTRATIVE AND GENERAL EXPENSE

	Subject Property	Comparable Operating Statements					Subject Property Forecast	
	2016/17	#1	#2	#3	#4	#5	2017/18	Deflated Stabilized
Percentage of Revenue	9.2 %	8.6 %	7.9 %	8.2 %	9.1 %	9.4 %	9.3 %	8.9 %
Per Available Room	\$5,294	\$5,182	\$4,442	\$4,646	\$5,724	\$6,135	\$5,415	\$5,353
Per Occupied Room	\$17.53	\$16.22	\$15.51	\$15.63	\$20.00	\$20.57	\$18.31	\$17.46

Information and Telecommunications Systems Expense

Information and telecommunications systems expense consists of all costs associated with a hotel’s technology infrastructure. This includes the costs of cell phones, administrative call and Internet services, and complimentary call and Internet services. Expenses in this category are typically organized by type of technology, or the area benefitting from the technology solution. We expect the subject hotel's information and telecommunications systems to be well managed. Expense levels should stabilize at a typical level for a property of this type. Per the 11th edition of the USALI, information and telecommunications systems expenses are required to be reported within the undistributed operating expenses. The comparable operating statements reviewed that do not show this line item, however, are consistent with the 10th edition of the USALI, with these expenses allocated to the other operated departments, room expense, and undistributed operating expense line items.

Marketing Expense

Marketing expense consists of all costs associated with advertising, sales, and promotion; these activities are intended to attract and retain customers. Marketing can be used to create an image, develop customer awareness, and stimulate patronage of a property's various facilities.

The marketing category is unique in that all expense items, with the exception of fees and commissions, are totally controlled by management. Most hotel operators establish an annual marketing budget that sets forth all planned expenditures. If the budget is followed, total marketing expenses can be projected accurately.

Marketing expenditures are unusual because although there is a lag period before results are realized, the benefits are often extended over a long period. Depending on the type and scope of the advertising and promotion program implemented, the lag time can be as short as a few weeks or as long as several years. However, the favorable results of an effective marketing campaign tend to linger, and a property often enjoys the benefits of concentrated sales efforts for many months.



FIGURE 7-16 MARKETING EXPENSE

	Subject Property	Comparable Operating Statements					Subject Property Forecast	
	2016/17	#1	#2	#3	#4	#5	2017/18	Deflated Stabilized
Percentage of Revenue	6.2 %	6.3 %	8.9 %	8.2 %	6.8 %	8.1 %	6.2 %	6.0 %
Per Available Room	\$3,550	\$3,788	\$5,017	\$4,637	\$4,255	\$5,256	\$3,631	\$3,590
Per Occupied Room	\$11.75	\$11.86	\$17.52	\$15.60	\$14.87	\$17.62	\$12.28	\$11.71

Franchise Fee

The costs of the Hilton affiliation, which are reflected in our forecast, comprise a flat monthly fee as well as a program fee 4% of gross rooms revenue. Other charges related to the affiliation, such as frequent guest programs, are reflected in the appropriate departmental expenses, consistent with the Uniform System of Accounts for the Lodging Industry (USALI).

Marketing expense and franchise fees are often analyzed in total because hotels may account for some components of franchise expense in the marketing expense category. The subject property’s total marketing and franchise expense has been forecast at 12.5% of total revenue on a stabilized basis, which compares with a total for the comparables ranging from 12.3% to 13.2% of total revenue.

Property Operations and Maintenance

Property operations and maintenance expense is another expense category that is largely controlled by management. Except for repairs that are necessary to keep the facility open and prevent damage (e.g., plumbing, heating, and electrical items), most maintenance can be deferred for varying lengths of time.

The age of a lodging facility has a strong influence on the required level of maintenance. A new or thoroughly renovated property is protected for several years by modern equipment and manufacturers’ warranties. However, as a hostelry grows older, maintenance expenses escalate. A well-organized preventive maintenance system often helps delay deterioration, but most facilities face higher property operations and maintenance costs each year, regardless of the occupancy trend. The quality of initial construction can also have a direct impact on future maintenance requirements. The use of high-quality building materials and construction methods generally reduces the need for maintenance expenditures over the long term.

Maintenance is an accumulating expense. If management elects to postpone performing a required repair, they have not eliminated or saved the expenditure; they have only deferred payment until a later date. A lodging facility that operates with a lower-than-normal maintenance budget is likely to accumulate a considerable amount of deferred maintenance. Based upon our review of comparable operating statements and the operating history of the subject hotel, we



have adjusted the property operations and maintenance line item downward. Specifically, we note that once the HVAC systems are repaired and the renovations are complete, ongoing preventative maintenance of the hotel would be reduced.

FIGURE 7-17 PROPERTY OPERATIONS AND MAINTENANCE EXPENSE

	Subject Property	Comparable Operating Statements					Subject Property Forecast	
	2016/17	#1	#2	#3	#4	#5	2017/18	Deflated Stabilized
Percentage of Revenue	4.4 %	4.7 %	5.0 %	3.3 %	3.9 %	3.9 %	4.2 %	4.1 %
Per Available Room	\$2,516	\$2,806	\$2,809	\$1,895	\$2,425	\$2,512	\$2,471	\$2,443
Per Occupied Room	\$8.33	\$8.78	\$9.81	\$6.37	\$8.47	\$8.42	\$8.36	\$7.97

Utilities Expense

The utilities consumption of a lodging facility takes several forms, including water and space heating, air conditioning, lighting, cooking fuel, and other miscellaneous power requirements. The most common sources of hotel utilities are electricity, natural gas, fuel oil, and steam. This category also includes the cost of water service.

Total energy cost depends on the source and quantity of fuel used. Electricity tends to be the most expensive source, followed by oil and gas. Although all hotels consume a sizable amount of electricity, many properties supplement their utility requirements with less expensive sources, such as gas and oil, for heating and cooking. Utility expenses are highly tied to local utility rates in the Austin market; therefore, we have given primary consideration to the hotel’s operating history.

FIGURE 7-18 UTILITIES EXPENSE

	Subject Property	Comparable Operating Statements					Subject Property Forecast	
	2016/17	#1	#2	#3	#4	#5	2017/18	Deflated Stabilized
Percentage of Revenue	4.8 %	5.0 %	3.1 %	2.5 %	3.3 %	2.6 %	4.9 %	4.7 %
Per Available Room	\$2,781	\$3,026	\$1,773	\$1,430	\$2,081	\$1,721	\$2,845	\$2,812
Per Occupied Room	\$9.21	\$9.47	\$6.19	\$4.81	\$7.27	\$5.77	\$9.62	\$9.17

Management Fee

Management expense consists of the fees paid to the managing agent contracted to operate the property. Some companies provide management services and a brand-name affiliation (first-tier management company), while others provide management services alone (second-tier management company). Some management contracts specify only a base fee (usually a percentage of total revenue), while others call for both a base fee and an incentive fee (usually a percentage of defined profit). Basic hotel management fees are often based on a percentage of total revenue, which means they have no fixed component. While base fees typically range from 2% to 4% of total revenue, incentive fees are deal-specific



and often are calculated as a percentage of income available after debt service and, in some cases, after a preferred return on equity. Total management fees for the subject property have been forecast at a market rate fee of 3.0% of total revenue.

Property Taxes

As the subject hotel and subject site are owned by the City of Austin, the subject property does not carry a property tax burden.

Insurance Expense

The insurance expense category consists of the cost of insuring the hotel and its contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, and so forth. General insurance costs also include premiums relating to liability, fidelity, and theft coverage.

Insurance rates are based on many factors, including building design and construction, fire detection and extinguishing equipment, fire district, distance from the firehouse, and the area's fire experience. Insurance expenses do not vary with occupancy.

FIGURE 7-19 INSURANCE EXPENSE

	Subject Property	Comparable Operating Statements					Subject Property Forecast	
	2016/17	#1	#2	#3	#4	#5	2017/18	Deflated Stabilized
Percentage of Revenue	1.4 %	1.1 %	0.8 %	0.7 %	0.5 %	0.5 %	1.5 %	1.4 %
Per Available Room	\$832	\$662	\$458	\$411	\$295	\$328	\$854	\$833
Per Occupied Room	\$2.75	\$2.07	\$1.60	\$1.38	\$1.03	\$1.10	\$2.89	\$2.72

Other Fixed Items

The subject hotel generates minimal interest income, which is included in the Other Income/Expense line item. Also in this line item, are expenses incurred for professional fees that are necessary to the ownership of the property, such as bank fees and trustee fees. We expect these expenses to continue and increase at the underlying inflationary rate.

Reserve for Replacement

Furniture, fixtures, and equipment are essential to the operation of a lodging facility, and their quality often influences a property's class. This category includes all non-real estate items that are capitalized, rather than expensed. The furniture, fixtures, and equipment of a hotel are exposed to heavy use and must be replaced at regular intervals. The useful life of these items is determined by their quality, durability, and the amount of guest traffic and use.

Periodic replacement of furniture, fixtures, and equipment is essential to maintain the quality, image, and income-producing potential of a lodging facility. Because capitalized expenditures are not included in the operating statement but affect an



owner's cash flow, a forecast of income and expense should reflect these expenses in the form of an appropriate reserve for replacement.

The International Society of Hospitality Consultants (ISHC) oversees a major industry-sponsored study of the capital expenditure requirements for full-service/luxury, select-service, and extended-stay hotels. The most recent study was published in 2014.⁶ Historical capital expenditures of well-maintained hotels were investigated through the compilation of data provided by most of the major hotel companies in the United States. A prospective analysis of future capital expenditure requirements was also performed based upon the cost to replace short- and long-lived building components over a hotel's economic life. The study showed that the capital expenditure requirements for hotels vary significantly from year to year and depend upon both the actual and effective ages of a property. The results of this study showed that hotel lenders and investors are requiring reserves for replacement ranging from 4% to 5% of total revenue.

Based on the results of our analysis and on our review of the subject asset and comparable lodging facilities, as well as on our industry expertise, we estimate that a reserve for replacement of 4% of total revenues is sufficient to provide for the timely and periodic replacement of the subject property's furniture, fixtures, and equipment.

⁶ The International Society of Hotel Consultants, *CapEx 2014, A Study of Capital Expenditure in the U.S. Hotel Industry*.



Forecast of Revenue and Expense Conclusion

Historical and projected total revenue and net operating income are set forth in the following chart.

FIGURE 7-20 FORECAST OF REVENUE AND EXPENSE CONCLUSION

	Year	Total Revenue		House Profit		House Profit Ratio	EBITDA Less Replacement Reserve		
		Total	% Change	Total	% Change		Total	% Change	As a % of Ttl Rev
Historical	2012	\$12,756,000	—	\$4,134,000	—	32.4 %	\$1,994,000	—	15.6 %
	2013	13,801,000	8.2 %	4,523,000	9.4 %	32.8	2,637,000	32.2 %	19.1
	2014	14,647,000	6.1	5,232,000	15.7	35.7	3,180,000	20.6	21.7
	2015	15,645,000	6.8	6,076,000	16.1	38.8	3,688,000	16.0	23.6
	Fiscal Year Ending June	2016	15,080,000	(3.6)	5,586,000	(8.1)	37.0	3,452,000	(6.4)
	2016/17	15,103,000	0.2	5,729,000	2.6	37.9	3,573,000	3.5	23.7
Projected	2017/18	\$15,288,000	1.2 %	\$5,766,000	0.6 %	37.8 %	\$3,472,000	(2.8) %	22.7 %
	2018/19	15,883,000	3.9	5,978,000	3.7	37.5	3,616,000	4.1	22.6
	2019/20	16,838,000	6.0	6,429,000	7.5	38.2	3,966,000	9.7	23.5
	2020/21	17,560,000	4.3	6,776,000	5.4	38.5	4,227,000	6.6	24.0
	2021/22	18,086,000	3.0	6,944,000	2.5	38.3	4,322,000	2.2	23.8

The forecast of revenue and expense anticipates the net operating income ratio to improve from 23.7% of gross revenues in the base year to 23.8% of gross revenues by the fifth projection year.



8. Statement of Assumptions and Limiting Conditions

1. This report is set forth as a market study of the subject property; this is not an appraisal report.
2. This report is to be used in whole and not in part.
3. No responsibility is assumed for matters of a legal nature, nor do we render any opinion as to title, which is assumed marketable and free of any deed restrictions and easements. The property is evaluated as though free and clear unless otherwise stated.
4. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would render the property more or less valuable. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.
5. We have not considered the presence of potentially hazardous materials such as asbestos, urea-formaldehyde foam insulation, polychlorinated biphenyls (PCBs), any form of toxic waste, pesticides, mold, or lead-based paints. We are not qualified to detect hazardous substances and urge the client to retain an expert in this field if desired.
6. The Americans with Disabilities Act (ADA) became effective on January 26, 1992. We have conducted no specific compliance survey to determine whether the subject property has been designed in accordance with the various detailed requirements of the ADA. It is possible that the design does not conform to the requirements of the act, and this could have an unfavorable effect on operations. Because we have no direct evidence regarding this issue, our estimates do not consider possible non-compliance with the ADA.
7. We have made no survey of the property, and we assume no responsibility in connection with such matters. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property. It is assumed that the use of the described real estate is within the boundaries of the property described, and that there is no encroachment or trespass unless noted.
8. All information, financial operating statements, estimates, and opinions obtained from parties not employed by TS Worldwide, LLC are assumed true and correct. We can assume no liability resulting from misinformation.



9. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
10. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including the appropriate liquor license if applicable), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.
11. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
12. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
13. We are not required to give testimony or attendance in court because of this analysis without previous arrangements, and shall do so only when our standard per-diem fees and travel costs have been paid prior to the appearance.
14. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
15. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
16. The quality of a lodging facility's onsite management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.
17. The financial analysis presented in this report is based upon assumptions, estimates, and evaluations of the market conditions in the local and national economy, which may be subject to sharp rises and declines. Over the projection period considered in our analysis, wages and other operating expenses may increase or decrease because of market volatility and economic forces outside the control of the hotel's management. We assume that the price of hotel rooms, food, beverages, and other sources of revenue to the hotel will be adjusted to offset any increases or decreases in related costs. We do not warrant that our estimates will be attained, but they have been developed based upon information obtained during the course of our market research and are intended to reflect the expectations of a typical hotel investor as of the stated date of the report.



18. This analysis assumes continuation of all provisions of the Internal Revenue Code of 1986, as amended to date.
19. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.
20. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.
21. Evaluating hotels is both a science and an art. Although this analysis employs various mathematical calculations to provide operating result indications, the final estimates is subjective and may be influenced by our experience and other factors not specifically set forth in this report.
22. This study was prepared by TS Worldwide, LLC. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of TS Worldwide, LLC as employees, rather than as individuals.



J. Carter Allen, MAI

EMPLOYMENT

2011 to present	HVS CONSULTING AND VALUATION SERVICES Houston, Texas
2010 – 2011	PI KAPPA PHI PROPERTIES, INC. Charlotte, North Carolina
2009	CENTERPOINTE HOTELS Houston, Texas
2008	THE HOUSTONIAN Houston, Texas

EDUCATION AND OTHER TRAINING

BS –Hilton College of Hotel and Restaurant Management, University of Houston

Other Specialized Training Classes Completed:

Uniform Standards of Professional Appraisal Practice – 15 hours
Basic Appraisal Procedures – 30 hours
Basic Appraisal Principles – 30 hours
General Appraiser Income Approach (Parts I and II) – 60 hours
General Appraiser Market Analysis and HBU – 30 hours
General Appraiser Site Valuation and Cost Approach – 30 hours
General Appraiser Sales Comparison Approach – 30 hours
Statistics, Modeling and Finance – 15 hours
Business Practices and Ethics – 7 hours
General Appraiser Report Writing and Case Studies – 30 hours
Advanced Income Capitalization – 30 hours
Advanced Market Analysis and HBU – 35 hours
Advanced Concepts & Case Studies – 40 hours
Quantitative Analysis – 35 hours
General Comp Writing – 7 hours
General Demonstration Report – Capstone Program
FL Law – 3 hours
Appraiser as an Expert Witness – 15 hours
USPAP Update – 2014, 2016

STATE CERTIFICATION

Arkansas, Colorado, Georgia, Indiana, Kentucky, Louisiana, Ohio, Tennessee, Texas



PUBLISHED ARTICLES

<i>HVS Journal</i>	“Four Key Takeaways: 2015 Hotel Data Conference,” August 2015
<i>HVS Journal</i>	“In Focus: Nashville, TN,” co-authored with Jai Patel, September 2014
<i>HVS Journal</i>	“In Focus: Galveston, TX,” co-authored with Priscilla Huynh, May 2014
<i>HVS Journal</i>	“Eagle Ford Shale Brings Hotel Demand, Development to South Texas,” April 2013
<i>HVS Journal</i>	“HVS Market Intelligence Report: Frisco, Texas,” January 2012

**PROFESSIONAL
AFFILIATIONS**

Appraisal Institute – Designated Member (MAI)
Urban Land Institute



**EXAMPLES OF PROPERTIES APPRAISED
OR EVALUATED**

ALABAMA

Hampton Inn by Hilton Mobile,
Daphne
Hilton Garden Inn, Daphne
Homewood Suites by Hilton, Daphne
Hampton Inn by Hilton Bellingrath
Gardens, Mobile
Comfort Inn & Suites, Montgomery
Wingate Inn, Montgomery
Proposed Home2 Suites by Hilton,
Oxford

ARIZONA

Desert Rose Inn, Benson
Proposed Home2 Suites, Tempe
Best Western Tombstone
Western Inn, Tucson
Motel 6, Tucson
Windemere Hotel, Tucson

CALIFORNIA

La Quinta Inn & Suites, Fresno
Proposed Hotel, Merced
Best Western Ivy, Napa
River Terrace Inn, Napa
Holiday Inn Airport, San Francisco
Motel 6, Yreka

COLORADO

Proposed Gaylord Rockies Hotel &
Convention Center, Aurora
Element by Westin, Basalt
Quality Inn & Suites, Denver
Inverness Resort and Conference
Center, Englewood
Hampton Inn & Suites by Hilton,
Silverthorne

CONNECTICUT

Proposed Steelpointe Harbor Hotel,
Bridgeport

DISTRICT OF COLUMBIA

Proposed Courtyard by Marriott
Proposed Residence Inn by Marriott
Residence Inn by Marriott Washington
DC Vermont Avenue

FLORIDA

Tween Waters Inn, Captiva
JW Marriott (Redevelopment of the
Wyndham Garden), Clearwater
Beach
Proposed Dual-Branded Residence
Inn/SpringHill Suites, Clearwater
Beach
Value Place, Clermont
Hyatt Place, Fort Lauderdale
Renaissance Fort Lauderdale Cruise
Port Hotel, Fort Lauderdale
Crestwood Suites, Fort Myers
Holiday Inn Express, Fort Myers
Proposed Hilton, Miami Beach
Fairfield Inn & Suites by Marriott,
Ocoee
Crestwood Suites of Orlando Disney,
Orlando
Crestwood Suites of Orlando UCF,
Orlando
Value Place Clarcona, Orlando
Days Inn, Pensacola
Proposed Hotel, St. Petersburg
Beachview Cottages, Sanibel Island
Castaways Beach & Bay Cottages,
Sanibel Island
West Wind Inn, Sanibel Island
Comfort Inn, Sarasota
Days Inn, Sarasota
Holiday Inn Express, Sarasota
Proposed Extended-Stay Hotel,
Surfside
Courtyard by Marriott North, Tampa
Marriott Waterside Hotel & Marina,
Tampa

Staybridge Suites, Tampa
Wingate by Wyndham, Tampa
Marriott, West Palm Beach

GEORGIA

Proposed Hampton Inn & Suites,
Kennesaw
Best Western, Union City

ILLINOIS

Proposed Extended-Stay Hotel,
Bolingbrook
Proposed Residence Inn by Marriott,
Bolingbrook
Proposed Holiday Inn Express,
Bridgeview

KANSAS

Baymont Inn & Suites, Lawrence
Value Place, Lenexa

KENTUCKY

Holiday Inn Express, Campbellsville
Value Place, Fairdale
Home Towne Suites, Bowling Green
Proposed Home2 Suites by Hilton,
Bowling Green
Galt House Hotel, Louisville
Hilton Garden Inn Northeast,
Louisville
Proposed Dual-Branded Hampton
Inn/Home2 Suites by Hilton,
Louisville
Proposed Home2 Suites by Hilton,
Louisville

LOUISIANA

Comfort Suites, Baton Rouge
Holiday Inn, Houma
Hilton New Orleans Airport, Kenner
Best Suites, Lake Charles
Holiday Inn & Suites, Lake Charles



Holiday Inn Express Hotel & Suites,
LaPlace
Hilton Garden Inn French
Quarter/CBD, New Orleans
Knights Inn, New Orleans
Candlewood Suites, Sulphur

MARYLAND

Proposed Hotel Sorella, Rockville

MASSACHUSETTS

Hotel Commonwealth, Boston

MICHIGAN

Marriott Detroit Troy, Troy

MISSISSIPPI

Proposed SpringHill Suites, Biloxi
South Beach Biloxi Beach Hotel, Biloxi
Best Western, Canton
Comfort Inn, Columbia
Comfort Inn, Hattiesburg
Comfort Suites, Hattiesburg
Holiday Inn & Suites, Hattiesburg
Hampton Inn by Hilton, Meridian
Hilton Garden Inn, Meridian
Proposed TownePlace Suites by
Marriott, Southaven
Hampton Inn & Suites by Hilton,
Vicksburg

MISSOURI

Hilton Branson Convention Center,
Branson
Hilton Kansas City Airport, Kansas City
Super 8, Kansas City
Proposed Homewood Suites,
Springfield

NEVADA

Motel 6, Las Vegas

NEW MEXICO

Proposed Boutique Hotel, Santa Fe

NEW YORK

Days Inn, Batavia
Super 8, Batavia
Proposed Hampton Inn, Dewitt
Microtel Inn, East Syracuse
Motel 6, Niagara Falls
Econo Lodge, Tonawanda

NORTH CAROLINA

Marriott Charlotte SouthPark,
Charlotte
Renaissance Charlotte SouthPark,
Charlotte

OHIO

Hampton Inn, Athens
Embassy Suites, Blue Ash
Wingate by Wyndham, Blue Ash
Comfort Inn & Suites, Cincinnati
Fairfield Inn, Cincinnati
Renaissance, Columbus
Residence Inn, Dayton
DoubleTree Guest Suites, Sharonville

TENNESSEE

Homewood Suites Brentwood-
Nashville, Brentwood
Hyatt Place, Brentwood
Home Towne Suites, Clarksville
Comfort Inn & Suites, Germantown
Hyatt Place, Germantown
Courtyard by Marriott, Jackson
Value Place, Lebanon
Crestwood Suites, Madison
Courtyard by Marriott, Memphis
Marriott Memphis East, Memphis
Country Inn & Suites, Murfreesboro
Crestwood Suites, Murfreesboro

Courtyard by Marriott Nashville
Airport, Nashville
Courtyard by Marriott Nashville
Downtown, Nashville
DoubleTree by Hilton, Nashville
Embassy Suites, Nashville
Hampton Inn & Suites Nashville
Vanderbilt, Nashville
Hampton Inn Nashville Vanderbilt,
Nashville
Homewood Suites Nashville Airport,
Nashville
Hotel Indigo, Nashville
Hotel Preston, Nashville
Hyatt Place Opryland, Nashville
Land Appraisal, Nashville
Marriott Vanderbilt, Nashville
Proposed Aloft, Nashville
Proposed Element, Nashville
Proposed Embassy Suites, Nashville
Proposed Hyatt Collection, Nashville
Proposed Lifestyle Hotel, Nashville
Holiday Inn Express, White House

TEXAS

Hilton Garden Inn, Austin
Proposed 21c Hotel, Austin
Holiday Inn, Beaumont
Hilton Garden Inn, Bryan
Holiday Inn Downtown, Houston
Holiday Inn Express Northwest,
Houston
Proposed Hampton/Homewood
Downtown, Houston
Proposed Hampton Inn, Houston
Proposed Hotel Granduca, Austin
Proposed Luxury Boutique Hotel,
Austin
Quality Inn & Suites, Beaumont
Sleep Inn, Center
Courtyard by Marriott, Corpus Christi
Proposed Schlitterbahn Resort, Corpus
Christi
Best Western, Cuero
Proposed Hall Arts Hotel, Dallas



Renaissance Dallas Market Center,
Dallas

Best Western, Deer Park

Candlewood Suites, Deer Park

Embassy Suites, El Paso

Holiday Inn Express, Frisco

Proposed NYLO Hotel, Frisco

Westin Stonebriar, Frisco

Courtyard by Marriott, Galveston

TownePlace Suites by Marriott,
Galveston

Deluxe Inn, Houston

Americas Best Value Inn, Houston

Comfort Suites, Houston

Crowne Plaza, Houston

Hilton Garden Inn Galleria, Houston

Proposed Aloft, Houston

Proposed Hampton Inn/Homewood
Suites Downtown, Houston

Proposed Hotel Alessandra, Houston

Proposed Hyatt Place, Houston

Proposed JW Marriott, Houston

Proposed Marriott Marquis, Houston

Proposed SpringHill Suites, Houston

Sheraton Houston West, Houston

Marriott DFW Airport, Irving

Holiday Inn Express, Kingwood

La Quinta, Port Arthur

Proposed Hotel, Roanoke

Sleep Inn, Roanoke

Homewood Suites San Antonio

Riverwalk, San Antonio

Schlitterbahn Resort, South Padre
Island

Proposed Home2 Suites, Stafford

Econo Lodge, Stephenville

Baymont Inn & Suites, Victoria

Western Inn, West Columbia

INTERNATIONAL

Proposed Hotel Carepa, Carepa,
Colombia

Proposed Hotel Monteria, Monteria,
Colombia

Proposed Hotel Medellin, Medellin,
Colombia

Proposed Hotel Quibdo, Quibdo,
Colombia

Proposed Hyatt Place, Lima, Peru

UTAH

Holiday Inn Express & Suites, Sandy

WISCONSIN

Holiday Inn, Milwaukee

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE BOND DOCUMENTS

The following provisions of the Indenture and all references to the Indenture in this Official Statement are, separately and in whole, qualified by reference to the full text of the Indenture. The provisions below, including the portions of the Table of Contents of the Indenture are excerpts from the Indenture and the section numbers and cross references have been retained to reflect such section numbers and cross references as they exist in the Indenture. A full copy of the Indenture may be obtained from the Issuer or its financial advisor upon request.

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ARTICLE I - DEFINITIONS AND INTERPRETATION

Section 1.01. Definitions. For purposes of this Indenture capitalized terms defined in the recitals hereto have the meanings set forth therein and, except as otherwise expressly provided or unless the context otherwise requires, additional capitalized terms have the meanings assigned below:

"2017 Project Account" means the Account within the Construction Fund established and designated as such in Section 5.02 hereof.

"Account" or "Accounts" means any one or more of the accounts from time to time created in any of the Funds established hereby or by any Supplemental Indenture.

"Accountant" means any nationally recognized certified public accountant or firm of certified public accountants or accounting corporation of recognized experience and qualifications, selected by the Issuer, and may be the accountants or firm of accountants that regularly audits the books of the Issuer.

"Act" means Chapter 303, Texas Local Government Code, as amended.

"Additional Bonds" means any additional Bonds issued by the Issuer pursuant to Section 3.02 hereto to refund any Bonds previously issued hereunder or to add additional improvements and/or renovations to the Project.

"Administrative Fees and Expenses" means the reasonable and necessary expenses of the Issuer related to the Bonds, the reasonable and necessary fees and expenses of the Trustee, any Consultant including without limitation the Consulting Engineer, any Bond Registrar and any Paying Agent, and all other administrative costs and expenses, including legal and financial advisory fees, incurred in connection with the administration of the Bonds under this Indenture.

"Administrative Fee Fund" means the Airport Hotel Revenue Bond Administrative Fee Fund of that name established pursuant to Section 5.02 herein.

"Aggregate Debt Service" means, for any Fiscal Year or other 12-month period, as of the date of calculation, the sum of the amounts of Debt Service for such Fiscal Year or other 12-month period.

"Authorized Denominations" means \$5,000 principal amount and integral multiples of \$5,000.

"Authorized Issuer Representative" means (a) the President of the Issuer; (b) any Vice President of the Issuer; or (c) any other officer or employee of the Issuer authorized by resolution of the Board to act as an Authorized Issuer Representative under this Indenture or any Supplemental Indenture or otherwise with respect to the Bonds or the Project.

"Beneficial Owner" or "beneficial owner" shall mean any Person who acquires a beneficial ownership interest in a Bond held by DTC or any successor Securities Depository hereunder. In determining the Beneficial Owner of the Bond, the Trustee may rely conclusively upon written representations made and written information given to the Trustee by DTC or any successor Securities Depository hereunder or their respective participants with respect to any Bond held by DTC or any successor Securities Depository hereunder in which a beneficial interest is claimed.

"Board" means the board of directors of the Issuer, or any successor in function.

"Bond" or "Bonds" means the Series 2017 Bonds and any Additional Bonds of the Issuer, authenticated and delivered under and pursuant to this Indenture or under any Supplemental Indenture.

"Bond Counsel" means McCall, Parkhurst & Horton L.L.P., or another firm of attorneys, selected by the Issuer and approved by the City, whose experience in matters relating to the issuance of obligations by states and their political subdivisions is nationally recognized.

"Bond Documents" means this Indenture, the Grant Agreement and the Management Agreement.

"Bondowner", "Owner of Bonds" or "Owner" means, when used with respect to the Bonds, the registered owner of any Bond.

"Bond Purchase Agreement" means the Bond Purchase Agreement dated September 21, 2017 pursuant to which the Underwriters have agreed to purchase the Series 2017 Bonds from the Issuer.

"Business Day" means any day other than a Saturday, Sunday or other day on which The New York Stock Exchange or banks are authorized or required to close in New York, New York or Austin, Texas.

"Calculation Date" means October 1, 2022, and each fifth anniversary thereafter while the Senior Bonds are Outstanding.

"City" means the City of Austin, Texas, acting through its Department of Aviation, and its successors.

"City Fee" means the amount of \$120,000 per calendar year.

"Closing Date" means November 1, 2017.

"Code" means the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations proposed or in effect with respect thereto.

"Construction Fund" means the Airport Hotel Revenue Bond Construction Fund established by Section 5.02 hereof, and includes any separate Accounts or Subaccounts established pursuant thereto.

"Consultant" means any Person at the time employed by or on behalf of the Issuer (or, to the extent specifically provided herein or in any Supplemental Indenture, by or on behalf of the Trustee) to carry out the duties imposed by or pursuant to this Indenture or a Supplemental Indenture, which Person shall be experienced, have a national and favorable reputation in the matters for which such Person is so employed, and be independent of the Issuer and the City.

"Consulting Engineer" means any Consultant with expertise in engineering approved by the City.

"Continuing Disclosure Agreement" means the Continuing Disclosure Agreement, dated as of October 1, 2017, by and between the Trustee and the Issuer relating to the obligation of the Issuer to provide certain continuing disclosure information as required pursuant to Rule 15c2-12 promulgated by the United States Securities and Exchange Commission.

"Costs" or "Costs of the Project" means all costs of acquisition, design, construction and equipping of the Project. Such costs shall include, without limitation:

(a) contractors' fees and charges, the cost of labor, services, materials and supplies used or furnished in site improvement and construction, training and testing costs, the cost of purchasing and installing machinery, equipment, facilities, rolling stock and ancillary items, and the cost of utility services;

(b) the cost of acquiring by purchase, and the amount of any deposit in court or award or final judgment in, or any settlement or compromise of, any proceeding to acquire by eminent domain, such lands, property, property rights, rights of way, easements, franchises and other interest as may be deemed necessary or convenient, options and partial payments thereon, the cost of demolishing or removing or relocating any buildings or structures or land so acquired, including the cost of acquiring any lands to which such buildings or structures may be moved, the amount of any incidental or consequent damages and the amount of any legal costs associated with such acquisition;

(c) the costs of preparing surveys, cost estimates, appraisals, plans and specifications (including any preliminary study or planning or any aspect thereof), fees for architectural, engineering, supervisory and consulting services, planning and development costs, the costs of obtaining governmental or regulatory permits, licenses, franchises and approvals, and any other fees or expenses necessary to establishing feasibility or practicability;

(d) to the extent not paid by the Manager, premiums of all insurance and surety and payment bonds required to be maintained, all claims and expenses relating to injury and damage, and casualty and liability insurance premiums in connection with insurance against loss from such claims;

(e) interest to accrue on the Bonds during construction of the Project and for a reasonable start-up period of the Project after the completion date of the construction (but in no event later than one year thereafter) to the extent such amounts are on deposit in any capitalized interest account created within the Senior Debt Service Fund;

(f) any amount required to fund the Senior Debt Service Reserve Fund;

(g) repayment of all temporary borrowings incurred by or on behalf of, or advances made by or on behalf of, the Issuer in connection with the Project;

(h) Costs of Issuance, to the extent not otherwise described in this definition;

(i) all items of expense relating to any guarantee or bond insurance policy, to the extent not otherwise described in this definition; and

(j) all other costs and expenses relating to the acquisition, design, construction and equipping of the Project, including, but not limited to, costs of environmental mitigation and remediation.

"Costs of Issuance" means the items of expense relating to the authorization, sale and issuance of Bonds, which items of expense may include, without limitation: travel expenses; printing costs; costs of reproducing documents; computer fees and expenses; filing and recording fees; initial fees and charges of the Trustee, Consultants, Registrar, and Paying Agent; initial fees and charges of banks, insurers or other parties pursuant to guarantees or bond insurance policies; bond discounts; legal fees and charges; consulting fees and charges; auditing fees and expense; financial advisor's fees and charges; costs of credit ratings; insurance premiums; fees and charges for the execution, transportation and safekeeping of Bonds; and any other administrative or other costs of issuing, carrying and repaying such Bonds and investing the Bond proceeds.

"Costs of Issuance Account" means the Account within the Construction Fund established and designated as such in Section 5.02 hereof.

"Debt Service" means, with respect to any particular Fiscal Year or other 12-month period, and as of any Calculation Date, an amount equal to the sum of (a) all principal of and interest on all Outstanding Bonds that is payable during such period; and (b) the Redemption Price of Outstanding Bonds payable during such period with respect to any Outstanding Bonds that are to be redeemed during such period pursuant to mandatory redemption provisions or pursuant to optional redemption provisions that have been exercised by the Issuer as of the calculation date.

For purposes of this definition Debt Service shall not include the principal and Redemption Price of and interest on Outstanding Bonds to the extent the same is to be paid from proceeds of Bonds or other funds held by the Trustee or an escrow agent for the benefit of the Owners of Outstanding Bonds and investment earnings on such proceeds or other funds.

"Defeasance Investment Securities" means, if and to the extent the same are, at the time acquired, (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Issuer adopts or approves proceedings authorizing the issuance of refunding bonds or, if such defeasance is not in connection with the issuance of refunding bonds, on the date the Issuer provides for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Issuer adopts or approves proceedings authorizing the issuance of refunding bonds or, if such defeasance is not in connection with the issuance of refunding bonds, on the date the Issuer provides for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

"DTC" means The Depository Trust Company, New York, New York.

"Event of Default" means an Event of Default as such term is defined in Section 9.02 hereof.

"Facilities Lease" means the Ground Lease Agreement dated as of October 1, 2017, between the Issuer and the City, and thereafter as may be amended from time to time.

"Fair Market Value" means, as of any particular time: (a) as to Investment Securities the bid and asked prices of which are published on a regular basis in a financial journal or publication of general circulation in the United States of America, the bid price for such Investment Securities so published on or most recently prior to the date of valuation by the Trustee, or (b) as to Investment Securities the bid and asked prices of which are not published on a regular basis in a financial journal or publication of general circulation in the United States of America, the average bid price for such Investment Securities at the date of valuation by the Trustee, as reported to the Trustee by any three nationally recognized dealers in such Investment Securities.

"Fiscal Year" means the fiscal year of the Issuer, currently the 12-month period ending December 31.

"Fitch" means Fitch Ratings, and its successors and assigns.

"Fund" or "Funds" means any one or more, as the case may be, of the separate special funds established hereby or by any Supplemental Indenture.

"Generally Accepted Accounting Principles" means such accepted accounting practice as, in the opinion of the Accountant, conforms at the time to a body of generally accepted accounting principles.

"Grant Agreement" means the Grant Agreement dated as of October 1, 2017, between the Issuer and the City.

"Indenture" means this Indenture of Trust dated as of October 1, 2017, by and between the Issuer and the Trustee, as it may be amended or supplemented from time to time by any Supplemental Indenture.

"Initial Bonds" means the Series 2017 Bonds initially registered by the State Comptroller of Public Accounts and delivered to the Underwriters.

"Interest Payment Date" means, with respect to the Series 2017 Bonds, April 1 and October 1 of each year, commencing April 1, 2018, and with respect to any other Series of Bonds, the date on which interest is due and payable thereon.

"Investment Security" or "Investment Securities" means any investment set forth below which is an authorized investment for the Issuer under State law, and which matures (or is redeemable at the option of the Trustee or is marketable prior to maturity) at such time or times as to enable disbursements to be made from the Fund in which such investment is held in accordance with the terms of this Indenture:

- (a) direct obligations of, or unconditionally guaranteed by, the United States;
- (b) FDIC-insured certificates of deposit issued by any bank or trust company (including the Trustee or any of its affiliates), organized under the laws of the United States of America which is a member of the Federal Reserve System, and which has combined capital, surplus and retained earnings as indicated on its most recent report of condition of not less than \$100,000,000;
- (c) commercial paper rated "A-1" or better by S&P and "P1" by Moody's (including variable rate demand notes);
- (d) banker's acceptances of any bank or trust company (including the Trustee or any of its affiliates) with a short-term credit rating of "A-1" or better by S&P and "P1" or better by Moody's which mature not later than 270 days;
- (e) any cash sweep or similar account arrangement of the Trustee, the entire investments of which are limited to investments described in (a), (b) and (c) of this definition;
- (f) any money market fund maintained by the Trustee or any of its affiliates or any money market fund, the entire investments of which are limited to investments described in (a), (b) and (c) of this definition;
- (g) obligations of states and their political subdivisions the interest on which is excluded from gross income for Federal income tax purposes under section 103(a) of the Code, which are within the two highest full (i.e., without regard to numerical qualifiers) rating categories of any Rating Agency and any funds or pooling arrangements consisting exclusively of such obligations;
- (h) any investment agreement that is collateralized with securities listed in (a) above and shall meet all of the requirements with respect to securities collateralizing repurchase agreements as provided in clause (i) below;
- (i) a repurchase agreement providing for the purchase of securities listed in (a) above with any bank, including an affiliate of the Trustee, and any primary securities dealer within or without the State having a combined capital, surplus and undivided profits of not less than \$100,000,000. Such repurchase agreement shall be considered a purchase of such securities even if title to and/or possession of such securities is not transferred to the Trustee so long as (i) the repurchase obligation of the bank is collateralized by the securities themselves, (ii) the securities have on the date of the repurchase agreement, and on each date such securities are revalued as provided in (v) below, a fair market value equal to at least 102% of the amount of the repurchase obligation of the bank, including principal and interest, (iii) (A) the securities are held by the Trustee or a third-party agent for the Trustee and segregated from securities owned generally by such third party or the bank or (B) a perfected security interest in such securities is created for the benefit of the Trustee on behalf of the Bondowners under the U.C.C. or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq., (iv) the agreement provides for repurchases whenever withdrawals are needed from the fund or account that is being invested in such agreement, (v) the agreement provides that the securities be marked to market no less frequently than weekly, (vi) the agreement provides that the Trustee will liquidate the repurchase agreement within two business days of the occurrence of an event of default by the provider, including without limitation a failure to collateralize the agreement at the required level, and (vii) the agreement has a defined termination date; and
- (j) any other investment authorized under Chapter 2256, Texas Government Code and approved by the City's investment policy adopted under said Chapter 2256.

"Issuer" means the Austin-Bergstrom Landhost Enterprises, Inc., a nonprofit public facilities corporation, its successors and permitted assigns.

"Lease Payment Fund" means the Airport Hotel Revenue Bond Lease Payment Fund established by Section 5.02 herein.

"Lease Payments" means all amounts payable by the Issuer to the City under the Facilities Lease as consideration for the lease of the Project by the City and the right granted by the City to operate, manage, and maintain the Project.

"Letter of Instructions" means a written directive and authorization executed by an Authorized Issuer Representative.

"License Agreement" means the agreement dated October 1, 2017 between Hilton Franchise Holding LLC and the Issuer.

"Management Agreement" means the Management Agreement dated October 1, 2017, by and between the Issuer and the Manager, and any other management agreement entered into by the Issuer with respect to the operation and management of the Project which, in the written opinion of Bond Counsel, meets the requirements of a Qualified Management Contract; provided that any amendment or extension of the Management Agreement shall require the written opinion of Bond Counsel that the Management Agreement, as amended or extended, meets the requirements of a Qualified Management Contract.

"Management Fee" means the amounts paid to the Manager pursuant to the Management Agreement.

"Manager" means the Person who enters into a Management Agreement with the Issuer.

"Moody's" means Moody's Investors Service, Inc., and its successors and assigns.

"MSRB" means the Municipal Securities Rulemaking Board.

"Net Revenues" means Total Revenues less (a) Operating and Maintenance Expenses, (b) Administrative Fees and Expenses and (c) R&R Fund Expenses.

"Operating and Maintenance Expenses" means the expenses incurred in connection with the operation and maintenance of the Project. Such expenses shall include, but shall not be limited to all amounts payable under the Management Agreements then in effect (but excluding all amounts any Manager is obligated to pay thereunder to third parties solely from its Management Fee or such Manager's own funds), accounting, auditing, advertising, franchise fees and fees payable to any Operator (to the extent any Manager is not otherwise obligated to pay for such fees from its Management Fee or such Manager's own funds), utilities, water, gas, sewer, electric, telephone or other communications charges, waste disposal charges, salaries, wages, bonuses, and other benefits for hotel personnel, insurance expenses, expenses for office equipment, furniture, fixtures, supplies, and materials, maintenance, repair and replacement of buildings, improvements, equipment, and fixtures which do not constitute capital expenditures or any administrative facilities, rents, vehicle expenses for authorized travel and similar expenses related to the operation of the Project. Such expenses shall exclude Lease Payments.

"Operator" means any Person who is contractually obligated (to the Manager if the Manager is not the Operator) to provide for the day-to-day operations and management of the Project.

"Outstanding" means, with respect to any Bonds as of any date, Bonds theretofore or thereupon being authenticated and delivered under this Indenture except:

- (a) Bonds canceled or delivered for cancellation at or prior to such date;
- (b) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to this Indenture; and
- (c) Bonds deemed to have been paid, redeemed, purchased or defeased as provided in this Indenture, in any Supplemental Indenture, as applicable, or as provided by law.

"Paying Agent" means initially the Trustee, and its successor or successors, appointed in accordance with and meeting the requirements of Article X hereof.

"Person" means any individual, public or private corporation, county, district, authority, municipality, political subdivision or other entity of the State or the United States of America, and any partnership, association, firm, trust, estate or any other entity whatsoever.

"Principal Installment" means as of any particular date of calculation and with respect to Bonds of a particular Series, an amount of money equal to the aggregate of (a) the principal amount of Outstanding Bonds of such Series which mature on a single future date, reduced by the aggregate principal amount of such Outstanding Bonds of such Series which would before said future date be retired as a result of Sinking Fund Installments applied in accordance with this Indenture or a Supplemental Indenture plus (b) the amount of any Sinking Fund Installment payable on said future date for the retirement of any Outstanding Bonds of such Series.

"Principal Office" with respect to the Trustee means the designated corporate trust office of the Trustee located at the address set forth in Section 13.10 hereof, or at such other place as the Trustee shall designate by notice given under said Section 13.10, or such other office designated by the Trustee from time to time.

"Project" means the 265-room, full service hotel located at Austin-Bergstrom International Airport on property being leased to the Issuer by the City pursuant to the Facilities Lease.

"Qualified Management Contract" shall have the meaning set forth in the Tax Certificate.

"R&R Fund Expenses" means amounts deposited in the Renewal and Replacement Fund pursuant to Section 5.05 hereof

"R&R Plan" has the meaning assigned to said term in Section 5.09 hereof.

"Rating Agency" means Fitch, Moody's or S&P.

"Rebate Analyst" means a certified public accountant, financial analyst or bond counsel, or any firm of the foregoing, or financial institution (which may include the Trustee) experienced in making the arbitrage and rebate calculations required pursuant to section 148 of the Code and retained by the Issuer to make the computations required under this Indenture or any Supplemental Indenture.

"Rebate Fund" means the Airport Hotel Revenue Bond Rebate Fund established by Section 5.02 hereof and includes any separate accounts or subaccounts established by the terms of any Supplemental Indentures or any agreement pursuant thereto.

"Record Date" means the close of business on the fifteenth day of the calendar month, with respect to the Series 2017 Bonds, and any date for any Series of Additional Bonds, if different, designated in any Supplemental Indenture as the record date for the payment of interest on such Series of Additional Bonds.

"Redemption Date" means the date upon which any Bonds are to be redeemed prior to their respective fixed maturities pursuant to the mandatory or optional redemption provision of this Indenture or any Supplemental Indenture.

"Redemption Price" means, with respect to any Bond, the amount, including any applicable premium, payable upon the mandatory or optional redemption thereof, as provided in this Indenture or any Supplemental Indenture.

"Refunding Bonds" means all Bonds, whether issued in one or more Series, issued for the purpose of refunding a like or different principal amount of Bonds, and hereafter authenticated and delivered pursuant to this Indenture.

"Register" means the register maintained by the Registrar for each Series of Bonds which shows ownership of Bonds in accordance with Section 3.08 hereof.

"Registrar" means, with respect to the Series 2017 Bonds, the Trustee, and the successor or successors appointed pursuant to and meeting the requirements of Article X hereof.

"Renewal and Replacement Fund" means the Airport Hotel Revenue Bond Renewal and Replacement Fund established by Section 5.02 hereof.

"Responsible Officer" means, when used with respect to the Trustee, the chairman or vice chairman of the board of directors of the Trustee, the chairman or vice chairman of the executive committee of said board, the president or any vice president, the secretary or any assistant secretary, the treasurer or any assistant treasurer, the cashier or any assistant cashier, any trust officer or assistant trust officer, the controller or any assistant controller or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer of the Trustee to whom such matter is referred because of that officer's knowledge of and familiarity with the particular subject.

"Revenue Covenant" means the revenue covenant set forth in Section 7.17 hereof

"Revenue Fund" means the Airport Hotel Revenue Bond Revenue Fund established by Section 5.02 hereof.

"Revenues" means all amounts received by or on behalf of the Issuer from (a) Total Revenues; (b) proceeds from insurance, condemnation awards with respect to the Issuer's interest in the Project, and liquidated damages under contracts to the extent the same relate to the Project; (c) all amounts payable to the Issuer as liquidated damages under contracts, in each case, to the extent the same relate to the Project; (d) all amounts derived from the sale or other disposition of the Issuer's interest in the Project; (e) amounts derived as grants, loans or otherwise from the United States of America, the State or any other Person which may be available for, and which the Issuer determines to, deposit in the Revenue Fund; (f) all investment earnings not included in Total Revenues that are transferred to or maintained in any Fund, Account or subaccount therein; (g) all moneys released from another Fund or Account and transferred to the Revenue Fund pursuant to subsection (b) of Section 5.05 hereof; and (h) all other amounts derived from or in respect of the operation of the Project which do not constitute Total Revenues but constitute revenues in accordance with Generally Accepted Accounting Principles.

"S&P" means S&P Global Ratings, a Standard & Poor's Financial Services LLC business, and its successors and assigns.

"Securities Depository" means DTC, and any other nationally recognized municipal securities depository selected by the Issuer.

"Senior Bonds" means the Series 2017 Bonds and all Additional Bonds issued on a parity with the Series 2017 Bonds.

"Senior Debt Service Fund" means the Airport Hotel Revenue Bond Senior Debt Service Fund established by Section 5.02 hereof.

"Senior Debt Service Reserve Fund" means the Airport Hotel Revenue Bond Senior Debt Service Reserve Fund established by Section 5.02 hereof.

"Senior Debt Service Reserve Fund Requirement" means (a) on the Closing Date, the average annual principal and interest requirements for the Series 2017 Bonds and (b) on each Calculation Date, the maximum annual principal and interest requirements for the Senior Bonds during the next five Fiscal Years following such Calculation Date.

"Series" means Bonds identified as a separate series which are authenticated and delivered on original issuance and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to this Indenture, or any Supplemental Indenture. All Bonds of a particular Series shall be of the same Tier.

"Series 1999 Bonds" has the meaning assigned to said term in the preamble to this Indenture.

"Series 2017 Bonds" means the \$45,600,000 aggregate principal amount of the Austin Bergstrom Landhost Enterprises, Inc. Airport Hotel Revenue Refunding and Improvement Bonds, Series 2017.

"Sinking Fund Installment" means, as of any particular date of calculation and with respect to any Series of Bonds, the amount of money to be applied as the Redemption Price of Bonds subject to mandatory sinking fund redemption in any Fiscal Year prior to maturity pursuant to this Indenture or the Supplemental Indenture for such Series, as such Sinking Fund Installment shall have been previously reduced by the principal amount of any Bonds of such Series of the maturity in respect of which such Sinking Fund Installment is payable which are purchased or redeemed by the Trustee in accordance with the provisions of Section 4.03 hereof or of any Supplemental Indenture, other than by the prior payment of a Sinking Fund Installment.

"State" means the State of Texas.

"Subaccount" means any one or more of the subaccounts from time to time created in any of the Accounts established by Section 5.02 of this Indenture or by any Supplemental Indenture.

"Subordinate Bonds" means bonds or other obligations secured by a lien on and pledge of Net Revenues inferior to the lien on and pledge of Net Revenues securing the Bonds.

"Surplus Airport System Revenues" has the meaning assigned to said term in Section 5.08(d) hereof.

"Supplemental Indenture" means any Indenture supplemental to or amendatory of this Indenture, entered into by the Issuer and the Trustee in accordance with Article XI hereof.

"Tax Certificate" means the Tax Compliance Certificate, dated as of November 1, 2017, executed by the Issuer, as such Tax Compliance Certificate may be amended from time to time.

"Tier" means all Bonds of one or more Series the principal and Redemption Price of and interest on which are payable from the same lien on, whether "senior" or "subordinate", and pledge of Net Revenues.

"Total Revenues" means "Gross Revenues" as defined in the Facilities Lease, including, but not limited to, all receipts, revenues, income, investment earnings on funds which are deposited in the Revenue Fund and other money received by or on behalf of the Issuer in respect of the operation of the Project, including, but without limiting the generality of the foregoing, the proceeds of any receipts from advertisements appearing in the right of way for the Project, all amounts paid in respect of the use of any portion of the facilities or rights in the Project, including, without limitation, lease payments for the use of real, personal or intangible property developed as a part of the Project, and all rights to receive the same, whether in the form of accounts, accounts receivable, chattel paper, contract rights or other rights, and the proceeds of such rights, and whether now owned or held or hereafter coming into existence; provided, however, that the following shall be excluded from Total Revenues: (i) gifts, grants, bequests, donations and contributions heretofore or hereafter made and designated or specified by the granting authority, donor or maker thereof as being for specified purposes (other than payment of debt service on Bonds) and the income derived therefrom to the extent required by such designation or specification; (ii) applicable excise, sales, occupancy and use taxes, or similar government taxes, duties, levies or charges collected directly from patrons or guests, or as a part of the sales price of any goods, services or displays; (iii) all gratuities collected for the benefit of and paid to any personnel of the Project; (iv) the value of any complementary rooms, goods or services; and (v) any sums or credit for lost or damaged items.

"Trust Estate" is defined in the Granting Clauses of this Indenture.

"Trustee" means U.S. Bank National Association, a national banking association organized and existing under and by virtue of the laws of the United States of America, or any successor as trustee hereunder as provided in Article X.

"Underwriters" means Citigroup Global Markets Inc., serving as senior managing underwriter and as representative of any other investment banking firm or firms named in the Bond Purchase Agreement for the Series 2017 Bonds.

ARTICLE II - SECURITY FOR THE BONDS

Section 2.01. Pledge of Trust Estate.

(a) In order to secure the payment of the principal and Redemption Price of and interest on the Bonds as the same become due and payable (whether at maturity, by prior redemption, or otherwise) and the performance and observance of all of the covenants and conditions herein contained, and in consideration of the premises, the purchase and acceptance of the Bonds by the Owners thereof, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Issuer does hereby grant to the Trustee and its successors in trust hereunder a pledge of and lien on the Trust Estate, with all rights and privileges appurtenant thereto, subject, however, to the terms and provisions hereof.

(b) Such pledge and lien shall be for the equal and proportionate benefit and security of the Owners from time to time of the Bonds issued and to be issued hereunder, or any of them, without preference, priority or distinction as to lien or otherwise of any Bond over any other Bond, except that, as further provided herein and subject to the further terms hereof, (i) the Owners of the Senior Bonds shall have an exclusive lien on all amounts held in the Senior Debt Service Fund, the Senior Capitalized Interest Account, the Senior Debt Service Reserve Fund, and all amounts held in any other funds and accounts established pursuant to a Supplemental Indenture which are for the sole benefit of such Senior Bonds, (ii) the lien on the Trust Estate of the Owners of the Bonds of each Tier is subordinate or superior, as the case may be, to the lien of the Owners of such Bonds of other Tiers, and (iii) there are various differences in the rights of, and priorities for the benefit of the Owners of the Bonds of different Tiers with respect to various other matters, including but not limited to remedies following Events of Default.

Section 2.02. Time of Pledge. The pledge of the Trust Estate pursuant to the provisions of this Indenture shall be effective from and after the payment for and delivery of any Bonds hereunder.

Section 2.03. Declaration. It is hereby expressly declared that the Trust Estate hereby pledged is to be applied, disbursed, dealt with and disposed of under, upon and subject to the terms, conditions, covenants, agreements, uses and purposes set forth in this Indenture.

Section 2.04. Special Limited Obligations. Notwithstanding any other provision hereof, Bonds issued hereunder and any other obligations of the Issuer under this Indenture shall be special, limited obligations of the Issuer payable solely from the Trust Estate in accordance with this Indenture and any applicable Supplemental Indenture. On each Bond there shall appear the following statement:

NONE OF THE STATE, THE CITY OR ANY POLITICAL CORPORATION, SUBDIVISION OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS,

OTHER THAN THE ISSUER BUT SOLELY FROM THE TRUST ESTATE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, THE CITY OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION OR AGENCY THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR PREMIUM, IF ANY, OR THE INTEREST ON SUCH BONDS. THE ISSUER HAS NO TAXING POWER.

ARTICLE III - AUTHORIZATION AND ISSUANCE OF BONDS, GENERAL TERMS AND PROVISIONS OF THE BONDS

Section 3.02. Provisions for Issuance of Bonds.

(a) All (but not less than all) the Bonds of each Series shall be executed by the Issuer for issuance under this Indenture and delivered to the Trustee and thereupon shall be authenticated by the Trustee or an Authenticating Agent and by it delivered upon the order of the Issuer, but only upon the receipt by the Trustee of:

(i) an opinion of Bond Counsel in customary form to the effect that, as of its date: (A) this Indenture and, with respect to Additional Bonds, the Supplemental Indenture authorizing the Additional Bonds of such Series have been duly authorized, executed and delivered by the Issuer, are in full force and effect and constitute legal, valid and binding special, limited obligations of the Issuer; (B) this Indenture and, with respect to Additional Bonds, such Supplemental Indenture create the valid pledge of and lien on the Trust Estate which they purport to create, subject only to the provisions of this Indenture and, with respect to Additional Bonds, such Supplemental Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in this Indenture and, with respect to Additional Bonds, such Supplemental Indenture; and (C) the Bonds of such Series are valid and binding special, limited obligations of the Issuer, payable solely from the sources provided therefor in this Indenture and, with respect to Additional Bonds, such Supplemental Indenture; provided, however, that such opinion may include exceptions for limitations imposed by or resulting from bankruptcy, insolvency, moratorium, reorganization, or other laws affecting creditors' rights generally, matters relating to equitable or governmental principles and other exceptions or qualifications appropriate in the circumstances;

(ii) a letter, signed by an Authorized Issuer Representative, instructing the Trustee as to the delivery of such Bonds;

(iii) in the case of each Series of Additional Bonds, an executed copy of the Supplemental Indenture authorizing such Bonds which shall specify;

(A) the authorized principal amount, designation, Tier (if applicable) and Series of such Bonds;

(B) the maturity date or dates of the Bonds of such Series;

(C) the interest rate or rates, if any, or the manner of determining such interest rate or rates, on the Bonds of such Series and the Interest Payment Date or Dates thereof;

(D) the denominations of and the manner of dating, numbering and lettering the Bonds of such Series;

(E) any capitalized interest requirements (or the method of determining the same) for the Bonds of such Series;

(F) any Paying Agent or Registrar required in respect of the Bonds of such Series;

(G) the Redemption Prices, if any, and the redemption or purchase terms, for the Bonds of such Series;

(H) the amount and due date of each Sinking Fund Installment, if any, for Bonds of like maturity of such Series;

(I) the form of the Bonds of such Series; and

(J) any other provisions deemed advisable by the Issuer and not in conflict with the provisions of this Indenture;

(iv) if required by State law on their date of issuance, the written opinion of the Attorney General of the State of Texas with respect to the validity of the Bonds of such Series;

(v) such further opinions and instruments as are required by or pursuant to the provisions of this Indenture or any Supplemental Indenture;

(vi) a certified copy of the resolution adopted by the Board of the Issuer authorizing the issuance and delivery of such Bonds; and

(vii) a certified copy of the resolution adopted by the City Council of the City approving the issuance of such Bonds by the Issuer.

(b) All Refunding Bonds of each Series shall be executed by the Issuer for issuance under this Indenture and delivered to the Trustee and thereupon shall be authenticated by the Trustee or any Authenticating Agent and by it delivered upon the order of the Issuer, but only upon the receipt by the Trustee of:

(i) the opinions and instruments referred to in subsection (a) of this Section 3.02;

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

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

(iv) evidence satisfactory to the Trustee that the deposit of moneys or Investment Securities required by Section 8.02 hereof has been made; and

(v) such further opinions and instruments as are required by the provisions of Articles XI or XII hereof or by the provisions of any Supplemental Indenture.

(c) No Additional Bonds (including Refunding Bonds) shall be issued unless the following additional requirements are satisfied by delivery to the Trustee:

(i) for all Additional Bonds not permitted pursuant to paragraph (ii) below, the following conditions are met:

(A) a certificate or report of an Accountant to the effect that:

(1) if such Additional Bonds (including Refunding Bonds) constitute Senior Bonds, the delivery of a certificate or report to the effect that Net Revenues will be generated such that (i) the ratio of such Net Revenues to the projected Aggregate Debt Service for the Senior Bonds, taking into account the Additional Bonds proposed to be issued and all Outstanding Bonds (other than the Bonds proposed to be refunded with proceeds of such Additional Bonds), is not less than 1.25:1.00 for each fiscal year of the Issuer succeeding the date of issuance of such Additional Bonds and (ii) the ratio of such Net Revenues to the projected Aggregate Debt Service for the Senior Bonds and the Subordinate Bonds, taking into account the Additional Bonds proposed to be issued and all Outstanding Bonds (other than Bonds proposed to be refunded with proceeds of such Additional Bonds), is not less than 1.10:1.00 for each fiscal year of the Issuer succeeding the date of issuance of such Additional Bonds; provided, however, that if the issuance of Refunding Bonds achieves a gross cash flow savings, the delivery of a certificate or report by an Accountant is not required as a condition to the issuance of such Refunding Bonds as Additional Bonds;

(2) if such Additional Bonds (including Refunding Bonds) constitute Subordinate Bonds, the delivery of a certificate or report to the effect that Net Revenues will be generated such that the ratio of such Net Revenues to the projected Aggregate Debt Service for the Senior Bonds and Subordinate Bonds is not less than 1.10:1.00 for each fiscal year of the Issuer following the date of issuance of such Additional Bonds; provided, however, that if the issuance of Refunding Bonds achieves a gross cash flow

savings, the delivery of a certificate or report by an Accountant is not required as a condition to the issuance of such Refunding Bonds as Additional Bonds; and

(B) a certificate of an Authorized Issuer Representative dated as of the date of issuance of such Series of Additional Bonds, stating that there exists no Event of Default hereunder; and

(ii) without regard to the limitations of clause (i) above for any Refunding Bonds, a certificate executed by an Authorized Issuer Representative, dated as of the date of issuance of such Refunding Bonds, that the annual Debt Service during each Fiscal Year on the Refunding Bonds will not exceed the annual Debt Service during each Fiscal Year on Bonds refunded by the Refunding Bonds prior to the issuance of such Refunding Bonds, unless otherwise approved by the City.

ARTICLE V - ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF

Section 5.01. Security for Bonds. The Bonds are payable from and secured by the Trust Estate in accordance with the terms hereof.

Section 5.02. Establishment of Funds and Accounts. The following Funds and Accounts are hereby established, all of which shall be held by the Trustee and, with the exception of the Rebate Fund, shall constitute a part of the Trust Estate:

- (a) "Airport Hotel Revenue Bond Construction Fund," and within such Fund the "Costs of Issuance Account" and the "2017 Project Account" (and such Construction Fund may include such additional special Accounts and Subaccounts therein to be held by the Trustee pursuant to Section 5.03 hereof);
- (b) "Airport Hotel Revenue Bond Revenue Fund";
- (c) "Airport Hotel Revenue Bond Senior Debt Service Fund";
- (d) "Airport Hotel Revenue Bond Senior Debt Service Reserve Fund";
- (e) "Airport Hotel Revenue Bond Renewal and Replacement Fund";
- (f) "Airport Hotel Revenue Bond Administrative Fee Fund";
- (g) "Airport Hotel Revenue Bond Lease Payment Fund"; and
- (h) "Airport Hotel Revenue Bond Rebate Fund."

Section 5.03. Construction Fund.

(a) There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of this Indenture and any Supplemental Indenture. There may also be paid into the Construction Fund, at the option of the Issuer, any moneys received by the Issuer from any source unless otherwise required to be applied by this Indenture or any Supplemental Indenture.

(b) Separate, segregated accounts and subaccounts may be created within the Construction Fund and held by the Trustee in the manner provided herein or in any Supplemental Indenture. Money held in such accounts and subaccounts shall be held separately from other moneys in the Construction Fund and shall be disposed of only in the manner provided herein or in the Supplemental Indenture pursuant to which such accounts and subaccounts are created. Without limiting the generality of the foregoing, such separate, segregated accounts and subaccounts, and all funds, investments thereof and investment income earned thereon, may be exclusively pledged to secure the payment of the Bonds under this Indenture.

(c) The Issuer hereby establishes, as a separate account within the Construction Fund, the "2017 Project Account". Except as otherwise provided herein, amounts in the 2017 Project Account of the Construction Fund shall be used to pay Costs of the Project, and shall be distributed to, or to the order of, the Issuer for such purpose at the written request of an Authorized Issuer Representative in the form of Exhibit A hereto, subject to the requirements of Section 5.13 hereof.

(d) Except as otherwise provided by Supplemental Indenture, amounts in the Construction Fund may, at the written direction of the Issuer, be transferred to the Senior Debt Service Fund for the Bonds and applied to the

payment of principal and Redemption Price of and interest on the Bonds when due, to the extent that other funds established for such purposes are insufficient, in accordance with the provisions of Section 5.06 hereof.

(e) The Issuer hereby establishes, as a separate account within the Construction Fund, the "Costs of Issuance Account". Amounts in the Costs of Issuance Account shall be used to pay the Costs of Issuance for the Series 2017 Bonds and shall be distributed to, or to the order of, the Issuer for such purpose at the written request of an Authorized Issuer Representative. Upon the earlier to occur of (i) written request of an Authorized Issuer Representative stating that all Costs of Issuance for the Series 2017 Bonds have been paid or duly provided for or (ii) November 1, 2020, the Costs of Issuance Account shall be closed and all amounts remaining therein shall be transferred to the Construction Fund.

Section 5.04. Revenue Fund. Except as otherwise provided by Supplemental Indenture, all Revenues shall be delivered to the Trustee immediately upon receipt by or on behalf of the Issuer and shall be deposited by the Trustee in the Revenue Fund immediately upon receipt by the Trustee and amounts in the Revenue Fund shall be used for the purposes and in the order of priority set forth in Section 5.05 hereof.

Section 5.05. Flow of Funds.

(a) Amounts in the Revenue Fund shall be applied for the following purposes in the priority in which listed:

First, on or before the fifteenth day of each month, to the extent not paid from other sources, Operating and Maintenance Expenses budgeted by the Issuer for the next succeeding month shall be distributed to, or to the order of, the Issuer;

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

Third, on or before the fifteenth day of each month, to the extent not paid from other sources, there shall be deposited into the Administrative Fee Fund the amount necessary to pay the Administrative Fees and Expenses due the following month, together with any accruals from prior periods, and the Trustee shall pay directly to the City an amount equal to \$10,000 each month as payment of one-twelfth of the City Fee;

Fourth, on or before the fifteenth day of each month there shall be transferred into the Renewal and Replacement Fund an amount equal to 4% of the Total Revenues received during such month, together with an amount necessary to replenish any draws therefrom to pay Debt Service on the Senior Bonds pursuant to Section 5.06 hereof or to pay a Lease Payment; provided that such percentage may be adjusted by the Issuer upon written notice to the Trustee after taking into consideration the amount set forth in each R&R Plan as provided in Section 5.09 herein; provided further that if the amount to be deposited therein is greater than 4% of Total Revenues during any month, then such excess amount over 4% shall be deposited into the Renewal and Replacement Fund only after any deposit required by clause *Eighth* below to any debt service fund hereafter created to secure the payment of Subordinate Bonds has been made;

Fifth, unless provision for such payments from the Construction Fund or otherwise has been made as contemplated by Section 5.03 hereof or otherwise, on or before the fifteenth day of each month, or at such other times as shall be set forth in any Supplemental Indenture, there shall be transferred to the Senior Debt Service Fund an amount equal to:

(A) one-sixth of any interest to become due and payable on each Series of Outstanding Senior Bonds on the next Interest Payment Date for such Series, plus an amount equal to any shortfall from a prior month to the extent not made up from another source; and

(B) one-twelfth of any Principal Installments to become due and payable on any Series of Outstanding Senior Bonds on or before the next date on which such Principal Installment is payable, plus an amount equal to any shortfall from a prior month.

Sixth, if the Senior Debt Service Reserve Fund contains less than the Senior Debt Service Reserve Fund Requirement due to (i) a withdrawal therefrom or (ii) a decrease therein due to a valuation of the investments on deposit therein pursuant to Section 6.04(b) herein, or (iii) an increase in the amount of the Senior Debt Service Reserve Fund Requirement, and the City DSRF Certificate required by Section 5.08(d) hereof provides that Surplus Airport System Revenues are insufficient to fund the deficiency in the Senior Debt Service Reserve Fund to the Senior Debt Service Reserve Fund Requirement, then on or before the

fifteenth day of the month next succeeding the receipt of such certificate, an amount equal to the amount needed to replenish the Senior Debt Service Reserve Fund to the Senior Debt Service Reserve Fund Requirement shall be deposited to the Senior Debt Service Reserve Fund, and if Revenues are insufficient at the time of such deposit to attain the Senior Debt Service Reserve Fund Requirement, such deposits shall continue each month from the next available Revenues until the Senior Debt Service Reserve Fund is funded at the Senior Debt Service Reserve Fund Requirement;

Seventh, on or before the fifteenth day of each month, to the extent not paid from other sources, there shall be deposited into the Lease Payment Fund the next Lease Payment estimated by the Manager to be due and owing to the City under the Facilities Lease, together with any shortfall from any prior month's deposit due to an adjustment in such estimate or an insufficiency during such prior month or months in the deposit made therein, which estimate and shortfall shall be provided in writing by the Manager to the Trustee each month;

Eighth, if Subordinate Bonds are issued and outstanding, there shall be transferred to the trustee or other agent holding the funds for the payment of debt service of Subordinate Bonds amounts to enable the timely payment of Subordinate Bonds in the manner described in the proceedings authorizing the issuance of Subordinate Bonds;

Ninth, any money remaining in the Revenue Fund at the end of any Fiscal Year after making the deposits required in clauses *First* through *Eighth* above shall be used to make or provide for all deposits, payments or transfers required by any agreement or other instrument creating or evidencing any obligation which is not a Senior Bond or Subordinate Bond, at the time and in the manner provided for in such instrument;

Tenth, any money remaining in the Revenue Fund at the end of any Fiscal Year after making the deposits required in clauses *First* through *Ninth* above may be transferred to the Issuer for any lawful purpose upon delivery of a certificate executed by an Authorized Issuer Representative and delivered to the City and the Trustee certifying that such transfer will not cause the Issuer to be in violation of the Revenue Covenant at the time such transfer is made.

(b) Whenever the amount on deposit in the Senior Debt Service Reserve Fund is in excess of the Senior Debt Service Reserve Fund Requirement and the other conditions set forth in Section 6.03(b)(ii) hereof have been complied with, the excess on deposit in such Fund shall be transferred to the Revenue Fund and applied as provided in subsection (a) of this Section.

Section 5.06. Other Transfers to Senior Debt Service Fund.

(a) Notwithstanding anything in this Article or elsewhere in this Indenture to the contrary, if on any Interest Payment Date there are not sufficient moneys in the Senior Debt Service Fund on such date to pay principal of and interest on the Senior Bonds then due and owing, moneys shall be transferred to the Senior Debt Service Fund from the following sources in an amount which, together with the amount then on deposit in the Senior Debt Service Fund, will result in the Senior Debt Service Fund having the balance required to be on deposit therein pursuant to Section 5.05 hereof:

First, from the Senior Capitalized Interest Account, if any, created for such Series of Senior Bonds;

Second, from the Senior Debt Service Reserve Fund;

Third, subject to subsection (b) of this Section, from the Construction Fund; and

Fourth, from the Renewal and Replacement Fund;

(b) Any moneys transferred to the Senior Debt Service Fund from the Construction Fund pursuant to this Section shall be transferred thereto only at the direction of the City.

Section 5.07. Senior Debt Service Fund.

(a) There shall be paid out of the Senior Debt Service Fund on or before each Interest Payment Date for any of the Bonds, the amount required for the interest payment on such date, and there shall be paid out of the Senior Debt Service Fund on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date; provided, however, that if any special fund, account or subaccount has been created for the payment of capitalized interest on the Bonds or any Series thereof (a "Senior Capitalized Interest

Account"); any amounts transferred to the Senior Debt Service Fund from a Senior Capitalized Interest Account shall be used to pay such interest prior to the use of any amounts in the Senior Debt Service Fund for such purpose. On or before any Redemption Date for Bonds to be redeemed, there shall also be paid out of the Senior Debt Service Fund, from available amounts deposited therein from time to time, the Redemption Price of and interest on the Bonds then to be redeemed.

(b) Amounts in the Senior Debt Service Fund with respect to any Sinking Fund Installment (together with amounts in the Senior Debt Service Fund with respect to interest on the Bonds for which such Sinking Fund Installment was established) shall be applied to the redemption of Bonds of the Series and maturity for which such Sinking Fund Installment was established in an amount not exceeding that necessary to complete the retirement of such Sinking Fund Installment as hereinafter provided. Unless otherwise provided in any Supplemental Indenture, as soon as practicable after the sixtieth day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption, by giving notice as provided in Section 4.05 hereof, on such due date Bonds of the Series and maturity for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment Date) in such amount as shall be necessary to complete the retirement of such Sinking Fund Installment; provided that for this purpose the principal amount of Bonds of such Series and maturity delivered by the Issuer to the Trustee for cancellation not less than 60 days prior to such due date, as provided in subsection (c) of this Section, shall be credited against the amount of such Sinking Fund Installment. Such notice shall be given regardless of whether moneys therefor shall have been deposited in the Senior Debt Service Fund and without any instructions from the Issuer.

(c) Upon any purchase pursuant to subsection (d) of this Section, or any redemption pursuant to any redemption provision, other than a mandatory or anticipated sinking fund redemption provision, of this Indenture or any Supplemental Indenture, of Bonds of any Series and maturity for which Sinking Fund Installments have been established, the principal amount of such Bonds so purchased or redeemed shall be credited toward the next Sinking Fund Installment or Installments.

(d) The Trustee shall, at any time at the direction of the Issuer, apply amounts available in the Senior Debt Service Fund for the payment of any Principal Installments to pay the principal portion of Bonds of any Series and maturity for which such Sinking Fund Installments has been established, which Bonds may be purchased on the open market at a price (excluding accrued interest to the purchase date but including any brokerage or other charges) no greater than the applicable Redemption Price of such Bonds.

(e) Notwithstanding any other provision of this Section or any other provision of this Indenture, amounts in the Senior Debt Service Fund shall be applied only to the payment of Debt Service on the Bonds of the same designation, in each case in the manner and at the times provided in subsections (a), (b), (c) and (d) of this Section.

Section 5.08. Senior Debt Service Reserve Fund.

(a) If on any date, after giving effect to all transfers pursuant to Section 5.05 and 5.06 hereof, and subject to the provisions of subsection (d) herein, the amount in the Senior Debt Service Fund shall be less than the amount required to make all payments of principal and Redemption Price of and interest on the Senior Bonds then due and payable, the Trustee shall transfer amounts from the Senior Debt Service Reserve Fund to the extent necessary to make such payments.

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

(c) Except as otherwise provided herein, whenever the amount in the Senior Debt Service Reserve Fund exceeds the Senior Debt Service Reserve Fund Requirement, the Trustee shall transfer such excess to the Revenue Fund.

(d) Notwithstanding any other provision of this Section or any other provisions of this Indenture, if there occurs a deficiency in the Senior Debt Service Reserve Fund resulting from the events described in clause *Sixth* of Section 5.05(a) herein, the Trustee shall immediately notify the Issuer and the City of such event and the amount of the deficiency that exists in the Senior Debt Service Fund (the "DSRF Deficiency Notice"). Upon being so notified by the Trustee, the City shall determine whether surplus revenues held by the City under the terms of its ordinances authorizing the issuance of City general airport revenue bonds ("Surplus Airport System Revenues") are sufficient to replenish the Senior Debt Service Reserve Fund to the Senior Debt Service Reserve Fund Requirement, and provide a

certificate to the Trustee (the "City DSRF Certificate") of such fact within 90 days of its receipt of the DSRF Deficiency Notice. If Surplus Airport System Revenues are sufficient, the City shall transfer Surplus Airport System Revenues to the Trustee within 120 days of its receipt of the DSRF Deficiency Notice, in accordance with the terms of the Grant Agreement, for deposit to the credit of the Senior Debt Service Reserve Fund in an amount equal to such deficiency. The Trustee agrees that immediately upon receipt of Surplus Airport System Revenues from the City delivered in accordance with the Grant Agreement, the Trustee shall deposit such amounts to the credit of the Senior Debt Service Reserve Fund, and will notify the City and the Issuer of such deposit. The parties recognize that the sole source of money available to the City to make such deposits is Surplus Airport System Revenues, and if the City delivers the City DSRF Certificate within 90 days of receipt of the DSRF Deficiency Notice, no Event of Default shall be deemed to have occurred under the terms of this Indenture. If the City DSRF Certificate provides that Surplus Airport System Revenues are insufficient to replenish the Senior Debt Service Reserve Fund to the Senior Debt Service Reserve Fund Requirement, the Senior Debt Service Reserve Fund deficiency will be funded with the next available Revenues pursuant to clause *Sixth* of Section 5.05(a) herein.

(e) Notwithstanding any other provision of this Section or any other provision of this Indenture, (i) the Senior Debt Service Reserve Fund shall be maintained and administered as a separate Fund for the purposes of securing, and shall be applied only to the payment of, the principal and Redemption Price of and interest on Senior Bonds and (ii) to the extent required to make such payments, moneys from such Fund shall be transferred to the Senior Debt Service Fund.

(f) Notwithstanding any other provision heretofore of any Supplemental Indenture, the Trustee, at the written direction of the Issuer at any time, and upon receipt of a written opinion of Bond Counsel to the effect that such substitution shall not cause the interest on the Bonds to become includable as gross income to the holders of such Bonds for federal income tax purposes, shall substitute for the cash deposit in the Senior Debt Service Reserve Fund or any Account or Subaccount thereof, a letter of credit, surety bond, insurance policy, agreement guaranteeing payment or other undertaking by a financial institution to insure that cash in the amount otherwise required to be maintained therein will be available to the Trustee as needed. Upon any such substitution, the cash deposit in such Fund, Account or Subaccount shall be transferred to the Construction Fund or the Revenue Fund, as directed by the Issuer.

Section 5.09. Renewal and Replacement Fund. Moneys held in the Renewal and Replacement Fund shall be transferred to the Senior Debt Service Fund to the extent required by Section 5.06(a) hereof (provided that such transfer shall not cure an Event of Default under Section 9.02 herein) and otherwise shall be distributed to, or to the order of, the Issuer at the written request of an Authorized Issuer Representative which shall be used to provide all or part of the cost of reconstruction, renewal and replacement of the Project, as provided in the schedule included in the renewal and replacement plan submitted by the Consulting Engineer, and the reconstruction, renewal and replacement of other components of the Project not covered by the Consulting Engineer which may be identified by the Issuer, including the replacement of furniture, fixtures and equipment (the "R&R Plan"). The Renewal and Replacement Fund shall be funded with Revenues in accordance with Section 5.05(a) until the balance therein equals the amounts required at the times needed as set forth in the R&R Plan, or in such other amounts at such times as the Consulting Engineer for the Issuer determines is reasonably necessary to carry out the activities described in the R&R Plan. With the consent of or at the direction of the City moneys in the Renewal and Replacement Fund may be transferred to the Lease Payment Fund if the amount on deposit therein is insufficient to make a Lease Payment when due. A Consulting Engineer shall be retained by the Issuer at least once every five years after the Closing Date to deliver a report with recommendations on the funding of the Renewal and Replacement Fund, and the Issuer shall comply with such recommendation. Copies of such report shall be provided by the Issuer to the Trustee, the City, each Owner of ten percent (10%) or more of the Outstanding Senior Bonds and any other Bond Owners requesting such report.

Section 5.10. Rebate Fund. Moneys shall be deposited into the Rebate Fund pursuant to Section 5.05 hereof in the amount required pursuant to the Tax Certificate and pursuant to any similar instrument or certificate delivered by the Issuer in connection with the issuance of any Additional Bonds (each, a "Tax Certificate," and collectively, the "Tax Certificates"). Notwithstanding any other provision hereof or of any other instrument, moneys on deposit in the Rebate Fund shall not be part of the Trust Estate and, except as otherwise provided in this Section, moneys on deposit in the Rebate Fund shall be used solely for the purpose of paying amounts due to the United States of America with respect to the Bonds pursuant to section 148(f) of the Code. Moneys on deposit in the Rebate Fund shall be forwarded to the United States Treasury at the times and in the amounts set forth in the Tax Certificates. If the moneys on deposit in the Rebate Fund are insufficient for the purpose thereof, the Issuer shall transfer moneys in the amount of the insufficiency to the Rebate Fund from moneys available therefor in the Trust Estate. Upon receipt by the Issuer of an opinion of Bond Counsel or a certificate of a Rebate Analyst to the effect that the amount in the Rebate Fund is in excess of the amount required to be contained therein, such excess shall be transferred to the Revenue Fund

Section 5.11. Administrative Fee Fund. There shall be deposited in the Administrative Fee Fund such amounts as are required to pay the Administrative Fees and Expenses related to the administration of the Bonds and the Project, including specifically, but without limitation, fees and expenses of the Consulting Engineer and any other Consultant. Upon the written requisition of an Authorized Issuer Representative, amounts deposited in the Administrative Fee Fund are to be withdrawn for payment for the Administrative Fees and Expenses of the Bonds then due and owing or to reimburse the Issuer for the payments

of any Administrative Fees and Expenses previously paid by the Issuer; provided that the Trustee may debit its annual fee only which is then due and owing directly against the amount on deposit in the Administrative Fee Fund without the need for such requisition.

Section 5.12. Lease Payment Fund. There shall be deposited into the Lease Payment Fund in accordance with Section 5.05 such amounts as are required to pay the Lease Payments to the City when due under the terms of the Facilities Lease.

Section 5.14. Modification by Supplemental Indenture. The provisions of this Article may be modified by any Supplemental Indenture in respect of any Series of Bonds authorized thereby, and in the event of any conflict with the provisions hereof, the provisions of such Supplemental Indenture shall control in respect of any Series of Bonds authorized thereby; provided, however, that no such modification may have the effect of creating a priority for payment of one Series of Bonds over any other Series of Bonds, subject to the terms and provisions hereof.

ARTICLE VI - MONEYS HELD IN TRUST, SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS

Section 6.01. Moneys Held in Trust. All moneys held by the Trustee under the provisions of this Indenture shall be deposited with the Trustee, and held in the name of the Trustee, in such capacity hereunder. All moneys deposited under the provisions of this Indenture with the Trustee shall be held in trust and applied only in accordance with the provisions of this Indenture, and each of the Funds and Accounts established by this Indenture shall be a trust fund for the purpose of this Indenture.

Section 6.02. Deposits and Transfers.

(a) All moneys held by the Trustee under this Indenture may be placed on demand or time deposit, if and as directed by the Issuer, provided that such deposits shall permit the moneys so held to be available for use at the time when needed.

(b) All moneys held under this Indenture by the Trustee shall be continuously and fully secured for the benefit of the Issuer and the Owners of the Bonds by securities or obligations that qualify and are eligible under both the laws of the State and the laws of the United States of America to secure and be pledged as collateral for public funds having a Fair Market Value (exclusive of accrued interest) not less than the amount of such moneys, which securities may be substituted for one another from time to time, provided, however, that it shall not be necessary for the Trustee to give security for any moneys (i) to the extent that such moneys are insured by or through the Federal Deposit Insurance Corporation or (ii) which are represented by Investment Securities purchased as an investment of such moneys.

(c) All moneys deposited with the Trustee shall be credited to the particular Fund or Account to which such moneys belong.

(d) Except as otherwise provided by Supplemental Indenture, any transfer required to be made from one Fund or Account to another Fund or Account held by the same Person may be made by book transfer of any moneys or investments or portions of investments without liquidating any investments in order to make such transfer unless the funds required to be transferred are needed to make payments out of the Fund or Account to which such funds were transferred at the time of transfer. Investments may also be exchanged between Funds and Accounts if the Issuer and the Trustee determine such transfer to be the best way to preserve the Trust Estate.

Section 6.03. Investment of Funds.

(a) Moneys held in any Fund or Account to be held by the Trustee shall be invested and reinvested by the Trustee as promptly as practicable, in accordance with a Letter of Instructions executed by an Authorized Issuer Representative, in Investment Securities; provided that investments of moneys on deposit in the Senior Debt Service Reserve Fund shall be invested solely in Investment Securities described in clauses (h) and (i) of the definition thereof or in Investment Securities described in clause (a) which mature in five years or less. Notwithstanding anything herein to the contrary, Investment Securities in all Funds and Accounts shall mature, or the principal of and accrued interest on such Investment Securities shall be available for withdrawal without penalty, not later than such times as shall be necessary to provide moneys when needed for payment to be made from such Funds and Accounts. The Trustee shall not be responsible for determining whether any Investment Securities are legal investments under the laws of the State.

(b) Except as otherwise provided in this subsection or by Supplemental Indenture, interest earned or profits realized from investing any moneys deposited in the Funds and Accounts or any Subaccount thereof shall be

transferred to the Revenue Fund and applied pursuant to subsection (a) of Section 5.05 hereof. Notwithstanding the foregoing:

(i) interest and profits from the Senior Debt Service Fund, Rebate Fund, Construction Fund (including specifically the Costs of Issuance Account and the 2017 Project Account) and the Renewal and Replacement Fund and any Account or Subaccount of any of such Funds, Accounts or Subaccounts shall be retained in such Fund, Account or Subaccount; and

(ii) interest and profits from the Senior Debt Service Reserve Fund shall be retained in the Senior Debt Service Reserve Fund if and to the extent the amount on deposit in the Senior Debt Service Reserve Fund is not equal to the Debt Service Reserve Fund Requirement.

Section 6.04. Valuation and Sale of Investments.

(a) Investment Securities acquired as an investment of moneys in any Fund or Account created under the provisions of this Indenture shall be at all times a part of such Fund or Account and any profit or loss realized from the liquidation of such investment shall be applied as provided in subsection (b) of Section 6.03 hereof.

(b) In computing the amount in the Senior Debt Service Reserve Fund and the Renewal and Replacement Fund, Investment Securities shall be valued on the date of deposit therein, not less than every six months thereafter upon the receipt by the Trustee of such request, at their Fair Market Value including accrued interest (and shall retain the previously determined value until such value is required to be redetermined); provided that Investment Securities described in clauses (h) and (i) of the definition thereof shall be valued at the amount available to be drawn thereunder.

(c) Except as otherwise provided in this Indenture, the Trustee shall sell, or present for redemption, any Investment Security so purchased as an investment whenever it shall be requested in writing by an Authorized Issuer Representative to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund or Account held by it. The Trustee shall not be liable or responsible for any loss resulting from any such investment.

ARTICLE VII - PARTICULAR COVENANTS OF THE ISSUER

Section 7.01. Payment of Bonds. The Issuer shall duly and punctually pay or cause to be paid, but solely from the Trust Estate pledged therefor by this Indenture, the principal and Redemption Price of and interest on the Bonds, at the date and places and in the manner mentioned in the Bonds, according to the true intent and meaning thereof.

Section 7.02. Deposits.

(a) The Issuer shall deposit or cause to be deposited, the amounts required to be deposited into the Senior Debt Service Fund each month as required by Section 5.05(a) *Fifth*.

(b) The Issuer shall cause the City to deposit with the Trustee, to the extent the City has funds available for such purpose, funds described in, and in accordance with the provisions of, the Grant Agreement.

Section 7.03. Money for Bond Payments to be Held in Trust.

(a) Except as otherwise provided by Supplemental Indenture, on or before each payment date of the principal and Redemption Price of or interest on any Bonds, the Issuer shall deposit with or cause the Trustee to make available to each Paying Agent a sum sufficient to pay the principal and Redemption Price of or interest on the Bonds so becoming due, such sum to be held in trust for the benefit of the Owners of the Bonds entitled to such principal, Redemption Price or interest.

(b) The Issuer will cause each Paying Agent other than the Trustee to execute and deliver an instrument in which such Paying Agent shall agree with the Issuer that, subject to the provisions of this Section, such Paying Agent will:

(i) hold all sums held by it for the payment of principal and Redemption Price, or interest on, Bonds in trust for the benefit of the Owners of the Bonds entitled thereto until such sums shall be paid to such Owners of the Bonds or otherwise disposed of as herein provided;

(ii) give the Trustee notice of any default in the making of any such payment of principal, Redemption Price, or interest; and

(iii) at any time during the continuance of any such default, upon the written request of the Trustee, immediately pay to the Trustee all sums so held in trust by such Paying Agent.

(c) The Issuer may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or direct any Paying Agent to pay, to the Trustee or an escrow agent all sums held in trust by the Issuer or such Paying Agent, such sums to be held by the Trustee or an escrow agent upon the same trusts as those upon which such sums were held by the Issuer or such Paying Agent; and upon such payment by any Paying Agent to the Trustee or an escrow agent, such Paying Agent shall be released from all further liabilities with respect to such money.

Section 7.04. Power to Enter Into Indenture, Issue Bonds and Pledge Trust Estate. The Issuer is duly authorized under all applicable laws to create and issue the Bonds, to enter into this Indenture, and to pledge the Trust Estate pledged by this Indenture in the manner and to the extent provided in this Indenture and no other authorization or consent is required thereof. The Trust Estate so pledged is and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto except the pledge granted by this Indenture to the extent provided in this Indenture and all action on the part of the Issuer to that end has been and will be duly and validly taken. This Indenture has been duly and lawfully entered into by the Issuer, is in full force and effect and is valid and binding upon the Issuer and enforceable in accordance with its terms. The Bonds and the provisions of this Indenture are and will be the valid and legally enforceable obligations of the Issuer in accordance with their terms and the terms of this Indenture subject only to the laws relating to bankruptcy, creditors' rights and principles of governmental law and equity. The Issuer shall at all times, to the extent permitted by law, defend, preserve and protect its title to the Trust Estate, the pledge of the Trust Estate under this Indenture and all the rights of the Bondowners under this Indenture against all claims and demands of all persons whomsoever.

Section 7.05. Construction Contracts. The Issuer covenants and agrees that the proceeds of any performance bond will immediately, upon receipt of such proceeds, be deposited in the Construction Fund and applied toward the completion of the contract in connection with which such performance bond and a payment shall have been furnished.

Notwithstanding any other provisions of this Indenture or any Supplemental Indenture, all contracts of the Issuer for the Project shall be made, awarded and entered into in accordance with applicable law and the Facilities Lease.

Section 7.06. Tax Covenants.

(a) For the purpose of maintaining the exclusion of the interest on the Bonds from gross income of the owners thereof for federal income tax purposes, the Trustee agrees that it shall not take, or fail to take, any action that could adversely affect the tax-exempt status of the Bonds, unless it receives an opinion of Bond Counsel that such action, or failure to take such action, does not adversely affect the tax-exempt status of the Bonds. For such purpose the Trustee may rely upon the Tax Certificate and any other directions provided from time to time by the Issuer or by Bond Counsel.

(b) The Issuer shall not use or permit the use of any proceeds of the Bonds or any other funds of the Issuer pledged under this Indenture, directly or indirectly, to acquire any "higher yielding investments" when a "temporary period" is not applicable, as such terms are defined in section 148 of the Code. The Issuer shall not use, or permit the use of, any amounts held under this Indenture in any manner, and shall not take or permit to be taken any other action or actions, which would cause any of the Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code or any successor provision, or which would otherwise cause interest on the Bonds to become includible in gross income of the owners thereof for federal income tax purposes.

(c) The Issuer covenants and agrees that it will take all necessary and appropriate actions reasonably within its control, including (i) rebating any excess investment earnings to the United States of America and (ii) taking all necessary steps to satisfy any exceptions to arbitrage rebate requirements contained in the Code under sections 148(f)(4)(B)(i) and 148(f)(4)(C), as hereafter may be required to assure the continuing exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. The Issuer further covenants and agrees not to act in any other manner which could adversely affect the exemption of interest on any Bonds from gross income of the owners thereof for federal income tax purposes. The Issuer covenants to comply with the provisions of the Tax Certificate in the manner specified therein.

Section 7.07. General.

(a) The Issuer will at all times maintain its corporate existence and will use its best efforts to maintain, preserve and renew all the rights and powers provided to it by the Act or otherwise.

(b) The Issuer shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Issuer under the provisions of this Indenture and any other law or regulation applicable to the Issuer, including, without limitation, the Act.

(c) The Issuer shall not, without the affirmative vote of all of the members of its Board, take any action as set forth in Section 9.02(d) herein.

Section 7.08. Further Assurances. At any and all times the Issuer shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, granting, pledging, assigning and confirming the Trust Estate. Revenues, Funds, Accounts, Investment Securities held in any Fund or Account hereunder, and the Issuer's right, title and interest in and to the foregoing, and all other moneys, securities and funds hereby pledged or assigned, or intended so to be, or which the Issuer may become bound to pledge or assign.

Section 7.09. Sale or Encumbrance of Project. The Issuer covenants that, as long as there are any Outstanding Bonds, and except as in this Indenture otherwise permits, it will not sell or otherwise dispose of or encumber the Issuer's interest in the Project or any part thereof unless it determines that such sale or other disposal or encumbrance is in the best interest of the Project and not materially adverse to the rights of the Owners of the Bonds. Nothing in this Section, however, shall limit the ability of the Issuer to dispose of obsolete property or replace property with property of similar or greater values and function or to enter into contracts with respect to the operation of all or any part of the Project.

Section 7.10. Consulting Engineer's Reports on the Project. The Trustee will cause the Consulting Engineer to make an inspection of the Project and to submit not less than annually to the Issuer a report setting forth:

(a) the Consulting Engineer's findings as to whether the Project has been maintained in good repair, working order and condition;

(b) the Consulting Engineer's advice and recommendations as to the proper maintenance, repair, and operation of the Project during the ensuing Fiscal Year and an estimate of the amount of money necessary for such purposes, including their recommendations as to the total amounts and classifications of items and amounts that should be provided for Operating and Maintenance Expenses for the next ensuing Fiscal Year;

(c) the Consulting Engineer's advice and recommendation as to the insurance to be carried under the provisions of this Indenture. Copies of such reports shall be filed with the Trustee, the City, the Owners of ten percent (10%) or more of the aggregate principal amount of the Senior Bonds then Outstanding and any other Owner of the Bonds requesting such reports; and

(d) the R&R Plan.

Section 7.11. Annual Budget. After the Project is completed and operational, the Issuer shall file or cause to be filed with the Trustee and the City an annual budget for the Project for each Fiscal Year within 60 days after the completion of such annual budget. Each such annual budget shall include the estimated Operating and Maintenance Expenses for such Fiscal Year, in addition to any amount required to be deposited during such Fiscal Year into any Fund or Account pursuant to Section 5.05 hereof and shall comply with the Revenue Covenant. Each such annual budget may set forth such additional material as the Issuer may determine. The Issuer may, at any time, adopt an amended annual budget for the remainder of the then current Fiscal Year and shall comply with the Revenue Covenant. Until a new annual budget is adopted, the prior Fiscal Year's annual budget shall be deemed to be the annual budget for that Fiscal Year. Copies of such annual budget and any amended annual budget shall be filed with the Trustee, the City, and any Owner of the Bonds making a written request for such reports

Section 7.12. Accounts and Reports.

(a) The Issuer shall maintain or cause to be maintained proper books of records and accounts in which complete and correct entries shall be made of its transactions in accordance with Generally Accepted Accounting Principles. The Funds and Accounts established by this Indenture, such books, and all other books and papers relating to the Project, shall, to the extent permitted by law, at all times be subject to the inspection of the Trustee and the Owners of an aggregate of not less than 25% in principal amount of the Bonds Outstanding or their representatives duly authorized in writing. The Issuer will permit the Trustee, such Bondowners, the City and their respective agents, auditors, attorneys and counsel at all reasonable times, to take copies and extracts from the books of record and account, and will from time to time furnish, or cause to be furnished, to the Trustee, such information and statements as the Trustee may reasonably request, all as may be reasonably necessary for the purpose of determining performance or observance by the Issuer of the covenants, conditions and obligations contained in this Indenture. The Issuer shall file or cause to be filed with the Trustee, the City and each Owner submitting a written request: (i) audited financial

statements within 120 days after the end of each Fiscal Year, together with a no default certificate and audited calculations demonstrating whether the Revenue Covenant was met, and (ii) monthly financial statements within 30 days after the end of each month until Net Revenues equals or exceeds 110% of Debt Service on the Senior Bonds for each month commencing immediately after there are no moneys left in a Senior Capitalized Interest Account to pay interest on the Series 2017 Bonds, and thereafter quarterly financial statements within 45 days after the end of each quarter. In addition, the Issuer shall provide or cause to be provided to a Bondowner requesting such information such other data and information related to the Project as is reasonably requested by a Bondowner.

(b) The Trustee shall advise the Issuer, the City and any Bondowner upon written request within 15 days after the end of each month of its transactions during such month relating to the Funds and Accounts held by it under this Indenture.

(c) The Issuer shall create accounts within any Fund or Account created by this Indenture or any Supplemental Indenture when in the judgment of the Issuer the creation of such account will enable the Issuer to administer the Project or regulate investments or limit returns on such investments.

(d) The Issuer shall annually cause a Consultant to deliver to the Issuer, the City and the Trustee a report which specifies the amount of Revenues which need to be received in the Revenue Fund pursuant to Section 5.05 hereof for the future payment of Debt Service.

Section 7.13. Rules and Regulations; Maintenance of Project. The Issuer covenants that, subject to the terms of the Facilities Lease, and pursuant to the terms of the Management Agreement, (a) it will establish and enforce reasonable rules and regulations governing the use of the Project and the operation thereof, (b) it will maintain and operate, or cause to be maintained and operated, the Project in an efficient and economical manner, (c) from the Revenues of the Project or other funds available therefor in the Trust Estate, it will at all times maintain the same in good repair and in sound operating condition and will make all necessary repairs, renewals and replacements, and (d) it will comply with all valid acts, rules, regulations, orders and directions of any legislative, executive, administrative or judicial body applicable to the Project. The Issuer further covenants that any Management Agreement shall be a Qualified Management Contract.

Section 7.14. Payment of Lawful Claims. The Issuer covenants that, from the Trust Estate, it will pay or cause to be discharged, or will make adequate provision to satisfy and discharge, all lawful claims and demands for labor, materials, supplies or other object which, if unpaid, might by law become a lien upon the Trust Estate; provided, however, that nothing in this Section shall require the Issuer to pay or cause to be discharged, or make provision for, any such lien or charge so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings; provided, however, that if a judgment lien has been filed upon the Trust Estate, the Issuer shall only be able to contest such lien or charge if an amount equal to such lien or charge is deposited by the Issuer with the Trustee under an escrow agreement that permits the Trustee to apply such amount to discharge such judgment lien.

Section 7.15. Consulting Engineers. The Issuer covenants that, as long as there are any Outstanding Bonds, one or more Consulting Engineers selected by the Manager and approved by the City shall be employed as necessary to comply with this Indenture.

Section 7.16. Insurance. The Issuer covenants that it will maintain, or cause to be maintained, insurance covering such risks and in such amounts as is adequate to protect it and the Project and its operations, which shall be not less than the following:

(a) insurance against loss and/or damage to the Project covering such risk as are ordinarily and reasonably insured against by similar facilities, including, without limiting the generality of the foregoing, fire, earth settlement, flood (if applicable and available) and the risks covered under an "all risks" policy, including Extended Coverage and Special Extended Coverage Endorsements and "Umbrella" coverage, and against explosion of boilers, heating apparatus and other pressure vessels. Such insurance, together with the blanket earnings and extra expense insurance below mentioned, shall be in the amount required to pay the greater of (i) the principal of the Bonds or (ii) 100% of the replacement cost of the Project (and its contents to the extent owned by the Issuer), and, in any event, sufficient to prevent the Issuer from becoming a co-insurer with respect to any loss, said coverage to be endorsed with a "Replacement Cost Endorsement" (the amount to be reviewed annually and increased if necessary so as to provide coverage at all times in an amount necessary to restore the Project and such improvements and contents to the condition existing just before destruction or damage);

(b) blanket earnings and extra expense insurance, covering loss of revenues by reason of the total or partial suspension of, or interruption in, the operation of the Project caused by the damage to or destruction of any part of the Project, with such exceptions as are customarily imposed by insurers covering a period of suspension or interruption, and in such amount as will provide the cash portion of Revenues equal to the maximum annual Debt Service on the Bonds together with an amount sufficient to pay Operating and Maintenance Expenses during any 12-

month period (as shown on the most recent budget) and any other unavoidable costs during any 12-month period of such suspension, interruption or destruction of the Project or its operation;

(c) comprehensive general liability insurance, protecting the Issuer, the Manager and the Trustee against liability for injuries to persons and/or property, occurring on, in or about the Project in the minimum amount of \$1,000,000 combined bodily injury and property damage liability as supplemented by general liability coverage under a \$1,000,000 umbrella policy, or as to any such coverage such greater amounts as determined to be necessary by an insurance consultant as provided below;

(d) workers' compensation insurance respecting all employees of the Issuer, the Manager and all persons engaged in work at the Project in such amount as is required by law;

(e) comprehensive automobile liability insurance with \$1,000,000 combined bodily injury and property damage per occurrence and \$1,000,000 aggregate coverage;

(f) flood hazard insurance or evidence that it is not required for the Project;

(g) such other insurance on the Project in such amounts as may be recommended by the insurance Consultant as hereinafter provided against other insurable hazards or casualties which at the time are commonly insured against in the case of premises similarly situated;

(h) boiler and machinery coverage (direct damage and use and occupancy) on a replacement cost basis;
and

(i) during the construction of any capital improvements to the Project, builder's completed value "all risk" insurance affording coverage against all risks of physical loss, including collapse and transit coverage, in non-reporting form, covering the total value of work to be performed and equipment, supplies and materials to be furnished.

On or before the Closing Date, the Issuer shall deliver, or shall cause to be delivered, to the Trustee a certificate of an independent insurance Consultant that evidences the Issuer is in compliance with its insurance obligations set forth in this Section. The insurance required to be maintained pursuant hereto shall be subject to a review and procurement of certificate of an independent insurance Consultant as aforesaid at least once every other year, commencing in calendar year 2019 and the Issuer agrees that it will follow any recommendations of the independent insurance Consultant. Each insurance policy provided for in this Section shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interest of the Trustee, without first giving written notice thereof to the Trustee at least 30 days in advance of such cancellation or modification. All insurance policies or certificates evidencing such insurance issued pursuant to this Section shall be deposited with the Trustee.

All such insurance shall be evidenced by valid and enforceable policies in form and substance approved by the independent insurance Consultant and acceptable to the Trustee, the City and the Issuer and shall be made payable to the Trustee by means of a standard noncontributory mortgagee clause in favor of the Trustee and approved by the independent insurance Consultant, and in the case of liability coverage, shall name the Trustee as additional insured and the Trustee as loss payee. All renewal or replacement policies shall be delivered to the Trustee not less than 30 days before the expiration date of the policy to be renewed or replaced, accompanied by evidence satisfactory to the Trustee that all premiums payable with respect to such policies have been paid in full by the Issuer.

The agent and insurer through or by which the insurance required hereunder is obtained shall be authorized to write such insurance in the State, have a licensed resident agent in the State and have at all times a general policyholder's rating of "A" or "A+" in Best's latest rating guide, and the Issuer shall furnish or cause to be furnished evidence of such ratings to the Trustee on the Closing Date and annually thereafter. Such insurance shall not be "blanketed" with any insurance carried on property other than the Project.

The Trustee shall have the right and is hereby constituted and appointed the true and lawful attorney-in-fact, irrevocable and coupled with an interest, of the Issuer, in the name and stead of the Issuer, but in the uncontrolled discretion of said attorney, (a) to demand, adjust, sue for, compromise and collect any amounts due under such insurance policies in the event of loss, and (b) to give releases for any and all amounts received in settlement of losses under such policies; provided, however, that unless and until an Event of Default hereunder shall have occurred and be continuing, the Issuer reserves to itself the right to take any such action, without the consent or participation of the Trustee therein, to the extent the same involves a casualty or other loss having a value of \$100,000 or less.

If the Trustee in any manner acquires title to the Project, it shall then become the sole and absolute owner of all insurance policies held by or required hereunder to be delivered to the Trustee, with the sole right to collect and retain all

unearned premiums and dividends thereon, and the Issuer shall only be entitled to a credit in the amount of the short rate cancellation refund.

Section 7.17. Revenue Covenant.

(a) There shall be fixed, charged and collected pursuant to the Facilities Lease and this Section 7.17 such fees or other charges in respect of the Project as shall be required to produce Net Revenues which, for 12 months beginning on the first day of the thirteenth month immediately following the Closing Date, and for each Fiscal Year thereafter, shall be at least equal to 1.25 times the Aggregate Debt Service due on the Senior Bonds in such 12-month period or Fiscal Year.

(b) Before the beginning of such 12-month period or each such Fiscal Year, the Issuer will review or cause to be reviewed the financial status of the Project in order to estimate and determine whether Total Revenues for such 12-month period or the current Fiscal Year and for the following Fiscal Year will be sufficient to comply with the covenant set forth in subsection (a) of this Section. In connection with the preparation of the annual budget for each Fiscal Year, the Issuer will prepare and file or cause to be prepared and filed with the Trustee, the City, and any Owner submitting a request therefor, a copy of its estimate of Total Revenues, Operating and Maintenance Expenses, Debt Service and any transfers of Total Revenues required to be made to any other Fund or Account hereunder, together with a statement of the pertinent estimates and assumptions, which must take into consideration the cost of completing any uncompleted portion of the Project defined in Supplemental Indentures and the issuance of future Series of Additional Bonds, if necessary, to finance the completion. If the Issuer in adopting, or causing the adoption of, any annual budget determines that Total Revenues may be inadequate to meet such covenant, or if the audited financial reports regarding the Project prepared by the Issuer show that the Issuer did not satisfy such covenant for the prior Fiscal Year, the Issuer shall, within 60 days of such determination or the date such audit is final, engage or cause to be engaged a Consultant who shall conduct a study and, within 60 days of such engagement, recommend such actions as will provide sufficient Net Revenues in the next succeeding 12 months and thereafter each Fiscal Year to comply with the covenant in subsection (a) of this Section and that will provide additional Net Revenues in such next succeeding 12 months and thereafter each Fiscal Year to eliminate any deficiency at the earliest practicable time. A copy of such study and recommendations shall be filed with the Trustee, the City and any Owner requesting such study. The Issuer will take such recommended action no later than 60 days after the receipt of such recommendations from the Consultant.

(c) Failure to comply with the covenant described in subsection (a) above will not constitute an Event of Default if either (i) the Issuer complies or causes to be complied with the covenant described in subsection (b) above or (ii) the Consultant provides a written opinion to the Trustee that any action that attempts to comply with such covenant is impracticable at that time; provided, however, that failure to produce Net Revenues at least equal to 1.00 times the Aggregate Debt Service due on the Senior Bonds in a Fiscal Year will in all events constitute an Event of Default. For purposes of the preceding sentence, "impracticable" means (A) such action would not result in compliance with the covenant described in subsection (a) above, (B) the economic cost of taking such action exceeds the economic benefit resulting from such action or (C) the Issuer does not have sufficient available funds to pay the cost of taking such action.

(d) If the recommendation of the Consultant includes replacing the Operator of the Project, the Manager shall have 30 days from the date of issuance of the recommendation to retain a second Consultant to review the initial Consultant's study and recommendations. If the second Consultant concurs with the initial Consultant's recommendation to replace the Operator, the Issuer shall direct the Manager to do so under the Management Agreement or, if the Manager is the Operator, the Issuer shall replace the Manager. If the second Consultant recommends retaining the Operator, upon the City's direction, the Issuer shall direct the Manager to replace the Operator or, if the Manager is the Operator, the Issuer shall replace the Manager.

Section 7.18. Contracts with Other Persons. The Issuer reserves the right to enter into contracts with any Person providing for the acquisition, design, construction, operation and maintenance of the Project or any part thereof. Any contract entered into by the Issuer pursuant to the provisions of this Section shall comply with the provisions of Section 7.09 and may contain such provisions and be upon such terms and conditions consistent with the Facilities Lease as the Issuer deems advisable.

Section 7.19. License Agreement and Management Agreement. (a) The Issuer covenants to comply or, to the extent within the Issuer's control, cause the Manager to comply with the terms and provisions contained in the License Agreement. If the License Agreement has expired or is terminated for any reason, the Issuer covenants to use its best efforts to replace the Hilton Brand ("Hilton") with another hotel franchise brand that is acceptable to the City and meets the requirements of the Management Agreement or such replacement management agreement then in effect. The Issuer covenants to comply with the terms and provisions contained in the Management Agreement. If the Management Agreement has expired or is terminated for any reason, the Issuer covenants to use its best efforts to replace the Manager with another Manager that is acceptable to the City and Hilton or such other hotel franchise brand that is then acting as the franchisor in connection with the Project under a

replacement license agreement with the Issuer, and that enters into a replacement management agreement which, in the written opinion of Bond Counsel, meets the requirements of a Qualified Management Contract.

(b) The Issuer further covenants to (i) promptly notify the Trustee in writing of any expiration, termination, replacement, default or curing of a default under the License Agreement or the Management Agreement, as applicable, and (ii) direct the Trustee in writing to notify Bondowners of such events pursuant to Section 10.14 hereof.

Section 7.20. Issuer's Single Purpose. The Issuer covenants that, prior to the discharge of this Indenture and the Bonds, it will not engage in any activities other than the specific purposes of financing the acquisition, construction and equipping of the Project and of owning the Project.

Section 7.21. Maintenance of Legal Existence. During the term of this Indenture and so long as any Bonds remain Outstanding, the Issuer shall maintain its existence as a public facilities corporation and shall not (i) terminate, dissolve or dispose of all or substantially all of its assets, (ii) consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it, or (iii) transfer all or substantially all of its assets to another entity.

Section 7.22. Damage, Destruction or Condemnation.

(a) In the event of any damage, destruction, condemnation or taking under the threat of condemnation with respect to the Project, the Issuer, to the extent of funds held as part of the Trust Estate available therefor, shall promptly engage or cause to be engaged the services of a Consultant, which shall make a determination as to the amount of proceeds anticipated to result therefrom within 15 days of the occurrence of such damage, destruction, condemnation or taking (the "Proceeds").

(b) If the Proceeds of any damage, destruction, condemnation or taking under the threat of condemnation with respect to the Project as determined by the Consultant pursuant to paragraph (a) above are equal to or less than \$100,000, such Proceeds shall be deposited with the Trustee and shall be applied to repair, restore; modify, improve or replace the Project. The Trustee is hereby directed to make payments from such separate fund for such purposes or to reimburse the Issuer for costs paid by it in connection therewith upon receipt of a requisition signed by an Authorized Issuer Representative stating with respect to each payment to be made: (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due, (iii) the amount to be paid and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against the separate trust fund and has not been the basis of any previous withdrawal, which requisition shall be accompanied by copies of bills, invoices or receipts (as appropriate) for each payment made. Any balance of the Proceeds remaining after the Project has been repaired, restored or replaced to a state substantially like that prior to the event of damage, destruction or taking shall be deposited in the Senior Debt Service Fund.

(c) (i) If the Proceeds of any damage, destruction, condemnation or taking under the threat of condemnation with respect to the Project as determined by the Consultant pursuant to paragraph (a) above are greater than \$100,000 such Proceeds shall be deposited with the Trustee in an Account to be established within the Construction Fund, and the Issuer shall immediately request that the Consultant prepare a report to determine (i) if the repair, reconstruction, restoration or replacement of the Project or a portion thereof damaged or taken is economically feasible and will restore the Project to the physical and operating condition as existed before and (ii) if the Issuer will have sufficient funds from the Proceeds, business interruption insurance proceeds and other available funds to make the payments required hereunder when due, to pay the cost of repairing, reconstructing, restoring or replacing the portion of the Project affected by such loss, damage or condemnation (including without limitation architects' and attorneys' fees and expenses), to pay Operating and Maintenance Expenses until completion of the repair, reconstruction or replacement of such portion of the Project, and to meet the Revenue Covenant for the first two Fiscal Years after completion of the repair, reconstruction or replacement, which report shall be delivered to the Trustee and the City, within 30 days of the occurrence of such damage, destruction, condemnation or taking. If the report determines the foregoing conditions are satisfied, then within 30 days after delivery thereof, the Issuer shall deliver or cause to be delivered to the Trustee and the City:

(A) the plans and specifications, prepared by an architect, necessary to effect such repair, reconstruction or replacement and an executed Construction Contract for such work;

(B) cash in an amount equal to the funds, if any, in excess of Proceeds and business interruption insurance proceeds required by the report delivered under clause (i) above; and

(C) such other documents and information as is required to be submitted in connection with the construction of the Project; and unless the City objects within 15 days after receipt of such report, the Issuer shall promptly proceed to repair, reconstruct and replace the affected portion of the Project, including all fixtures, furniture and equipment and effects, to its original condition to

the extent possible. Each request for payment shall comply with the requirements of Section 5.13 hereof.

(ii) If (1) the report delivered does not determine that the conditions are satisfied or fails to meet the requirements relating to repair or reconstruction or replacement in clause (i) above, or (2) the City objects to such repair, reconstruction or replacement, the Issuer shall redeem the Bonds as set forth in Section 4.03(a) herein.

(d) If the Proceeds are insufficient to pay in full the cost of any repair, restoration, modification or improvement undertaken pursuant to this Section 7.22, the Issuer will nonetheless complete the work and will pay, but solely from the Trust Estate, any cost in excess of the amount of the Proceeds held by the Trustee. The Issuer agrees that if by reason of any such insufficiency of the Proceeds, the Issuer shall make any payments pursuant to the provisions of this Section, the Issuer shall not be entitled to any reimbursement therefor from the Trustee or any Holder, nor shall the Issuer be entitled to any diminution of the amount payable hereunder.

(e) Any balance of the Proceeds remaining after such replacement or repair has been completed shall be disbursed to redeem Bonds as provided in Section 4.03(a) hereof.

ARTICLE VIII - DISCHARGE AND DEFEASANCE

Section 8.01. Discharge of Indenture. If the Issuer, its successors or assigns, shall well and truly pay, or cause to be paid, all of the principal and Redemption Price of and interest on the Bonds, at the times and in the manner provided in the Bonds according to the true intent and meaning thereof, and shall cause the payments to be made into the Funds and Accounts established hereunder and in the amounts required hereby, or shall provide, as permitted hereby, for the payment thereof by depositing with or for the account of the Trustee an amount sufficient to provide for payment of the entire amount due or to become due thereon (including any amount due or to become due with respect to the Bonds under section 148 of the Code), and shall well and truly keep, perform and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions hereof, then, upon such payment and performance, this Indenture and the rights and liens hereby granted shall cease, terminate and be void; provided, however, that the Issuer's obligations under Section 7.06 and the Issuer's indemnification obligations shall survive such discharge; otherwise, this Indenture is to be and shall remain in full force and effect. In the event that this Indenture is discharged as herein provided, the Trustee shall cause an accounting for such period or periods as shall be requested by the Issuer to be prepared and filed with the Issuer and, upon the request of the Issuer, shall execute and deliver to the Issuer all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee and Paying Agent shall pay over or deliver to the City all moneys or securities held by them pursuant to this Indenture in respect of such Series which are not required for the payment of principal or Redemption Price, and interest on the Bonds of such Series not theretofore surrendered for such payment or redemption.

Section 8.02. Defeasance. Any Outstanding Bonds of any Series shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in Section 8.01 if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity, the Issuer shall have given to the Trustee in form satisfactory to it a Letter of Instructions containing irrevocable instructions to give notice of redemption of such Bonds on said date as provided in Article IV hereof, (b) there shall have been deposited with the Trustee, in trust, either money in an amount which shall be sufficient, or Defeasance Investment Securities the principal of and interest on which without any reinvestment thereof when due will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient, in the opinion of an independent certified public accountant, to pay when due the principal or Redemption Price of, and interest due and to become due on, such Bonds on or prior to the redemption date or maturity date thereof, as the case may be, (c) in the event such Bonds are not to be redeemed within the next succeeding 60 days, the Issuer shall have given the Trustee in form satisfactory to it a Letter of Instructions containing irrevocable instructions to mail, as soon as practicable, notice to the Owners of all such Bonds that the deposit required by (b) above has been made with the Trustee or an escrow agent and that such Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which money is to be made available for the payment of the principal or Redemption Price of and interest on such Bonds, (d) there shall be delivered to the Trustee evidence that the Bonds so defeased will be rated in the highest long-term rating category by a Rating Agency; and (e) there shall be delivered to the Trustee a written opinion of Bond Counsel to the effect that the provisions of this Section 8.02 have been complied with and such defeasance will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes. Neither Defeasance Investment Securities nor money deposited with the Trustee or an escrow agent pursuant to this Section nor principal or interest payments on any such Defeasance Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price of and interest on said Bonds; provided that any cash received from such principal or interest payment on such Defeasance Investment Securities, (i) to the extent such cash will not be required at any time for such purpose, shall be paid over to the Issuer as received, free and clear of any trust, lien, security interest, pledge or assignment securing such Bonds or otherwise existing under this Indenture, if all Bonds have been redeemed or discharged, otherwise such cash shall be deposited as Revenues, and (ii) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in the

Defeasance Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price of and interest to become due on such Bonds, on or prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestment shall be paid over to the Issuer, as received, free and clear of any trust, lien or pledge, if all Bonds have been redeemed or discharged, otherwise such cash shall be deposited as Revenues.

ARTICLE IX - DEFAULT AND REMEDIES

Section 9.01. Rights and Remedies, Generally. Subject to the provisions of this Indenture, the Owners of the Bonds and the Trustee acting for all of the Owners of the Bonds shall be entitled to all of the rights and remedies provided or permitted by law.

Section 9.02. Events of Default. Each of the following events is hereby declared an "Event of Default" under this Indenture:

(a) failure to make due and punctual payment of the principal or Redemption Price of any Senior Bond when and as the same shall become due and payable, whether at maturity or by call for redemption, or otherwise;

(b) failure to make due and punctual payment of any installment of interest on any Senior Bond or the unsatisfied balance of any Sinking Fund Installment therefor (except when such Sinking Fund Installment is due on the maturity date of such Bond), when and as such interest installment or Sinking Fund Installment shall become due and payable;

(c) failure by the Issuer in the performance or observance of any other of the covenants, agreements or conditions on its part contained in this Indenture or any Supplemental Indenture or in the Bonds, and such failure shall continue for a period of 30 days after written notice thereof to the Issuer by the Trustee or to the Issuer and to the Trustee by the Owners of not less than 25% in principal amount of the Bonds Outstanding; provided, however, if the failure stated in the notice cannot be corrected within the 30 days, then no Event of Default shall have occurred so long as corrective action is instituted or caused to be instituted by the Issuer within the 30-day period and diligently pursued until corrected; provided further that such correction shall occur within 180 days of such notice;

(d) if proceedings shall be commenced by or against the Issuer in bankruptcy or seeking reorganization, arrangement, readjustment or composition of its debts or for any other relief under the federal bankruptcy laws or under any other insolvency act or law, State or federal, now or hereafter existing, or seeking the appointment of a receiver or trustee of the Issuer or for all or a substantial part of its property, and, if not commenced by the Issuer, the same shall continue for 60 days undismissed or undischarged or shall result in the adjudication of bankruptcy or insolvency;

(e) the Issuer's failure to maintain the insurance required under Section 7.16;

(f) any of the Indenture or the Grant Agreement shall be terminated or declared unenforceable in whole or material part;

(g) the License Agreement or the Management Agreement shall be terminated or declared unenforceable in whole or material part or the Project shall cease to operate under the Management Agreement or the License Agreement and, upon the happening of any of the foregoing, the Issuer shall fail to enter into a replacement management agreement or replacement license agreement with a qualified replacement manager or replacement hotel franchise brand as described in Section 7.19(a) hereof within 180 days of such termination, declaration of unenforceability or cessation of operations under such agreements, as applicable;

(h) any event shall occur that entitles the holder or trustee for any indebtedness of the Issuer in an amount exceeding \$1,000,000 to accelerate such indebtedness which is not being contested in good faith and by appropriate legal proceedings by the Issuer; provided that during such contest period the power of acceleration is stayed and the amount involved is bonded for or deposited by the Issuer with the Trustee under an escrow agreement that permits the Trustee to apply such amount to pay such accelerated amount if the stay ceases to be in effect;

(i) the Issuer's failure to pay any insufficiency as described in Section 7.22(d) herein, regardless as to whether there are sufficient funds in the Trust Estate to make such payments; or

(j) an "Event of Default" shall occur under the Facilities Lease.

Section 9.03. Notice of Default. The Trustee shall not be required to give notice to the Issuer of any Event of Default hereunder; provided, however, that upon written request of the Owners of a majority in aggregate principal amount of the Bonds

Outstanding (for purposes of this Article, the "Affected Bonds"), the Trustee shall give written notice to the Issuer of any default or breach constituting an Event of Default with respect to such Affected Bonds under Section 9.02(c) hereof.

Notwithstanding the foregoing, the Trustee shall give notice to the Bondowners of any Event of Default under Section 9.02(a), (b) or (c) hereunder and of any other Event of Default of which the Trustee has actual knowledge, including without limitation any Event of Default under the Facilities Lease.

Section 9.04. Specific Remedies.

(a) If an Event of Default with respect to the Bonds occurs and is continuing, then the Trustee may and, upon the written request of the Owners of not less than a majority in aggregate principal amount of the Bonds and having been indemnified to its satisfaction, shall:

(i) accelerate the Bonds, whereupon all principal of and interest on the Bonds shall immediately become due;

(ii) by mandamus or other suit, action or proceeding at law or in equity require the Issuer to perform its covenants, representations and duties with respect to the Bonds under this Indenture;

(iii) by action or suit in equity require the Issuer to account as if it were the trustee of an express trust for the Owners of the Bonds;

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds;

(v) prohibit the Issuer from withdrawing moneys from any Funds or Accounts (except the Rebate Fund and the Renewal and Replacement Fund) without the Trustee's written consent;

(vi) request that a court of competent jurisdiction appoint, to the extent permitted by law, a receiver or receivers of the Trust Estate, and the income, revenues, profits and use thereof, it being the intent hereof that, to the extent permitted by law, the Trustee shall be entitled to appointment of such a receiver as a matter of right;

(vii) direct the Trustee to make Lease Payments from any available funds which are part of the Trust Estate in order to preserve the Trust Estate;

(viii) upon the occurrence of an Event of Default described in Section 9.02(a) or (b) hereof, transfer moneys from any Funds or Accounts (other than amounts on deposit in the Rebate Fund) to the Senior Debt Service Fund; and/or

(ix) take such other steps to protect and enforce its rights and the rights of the Owners of the Bonds, whether by action, suit or proceeding in aid of the execution of any power herein granted or for the enforcement of any other appropriate legal or equitable remedy, including, but not limited to, proceeding by suit or suits, at law or in equity or by any other appropriate legal or equitable remedy, to enforce payment of the principal and Redemption Price of and interest then due on the Bonds.

(b) If the Issuer issues Subordinate Bonds, events of default shall be defined in the proceedings authorizing the issuance of any such Subordinate Bonds; provided, that in no event shall the events of default so defined give rights to the holders of Subordinate Bonds superior to those rights granted to Owners of the Bonds hereunder.

Section 9.05. Application of Proceeds. The proceeds received by the Trustee pursuant to the exercise of any right or remedy under this Article shall, together with all securities and other moneys which may then be held by the Trustee as a part of the Trust Estate, be applied in order, as follows:

(a) To the payment of the reasonable and proper charges, expenses and liabilities of the Trustee; and

(b) Subject to the limitations set forth in Section 5.06 hereof, to the payment of the interest and principal or Redemption Price then due on the Bonds with respect to which such remedy was exercised as follows:

First, to the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installment, and, if the amount available shall not be sufficient to pay in full any

installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second, to the payment to the Person entitled thereto of the unpaid principal or Redemption Price of the Bonds with respect to which such remedy was exercised which shall have become due, whether at maturity or by call for redemption. in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

Section 9.06. Trustee May Act Without Possession of Bonds. All rights of action under this Indenture or under any Bonds may be enforced by the Trustee without possession of any of the Bonds or the production thereof in any trial or other proceedings relative thereto, and any such suit or proceedings instituted by the Trustee shall be brought in its name, as Trustee for the ratable benefit of the Owners of the Bonds, subject to the provisions of this Indenture.

Section 9.07. Trustee as Attorney-in-Fact. The Trustee is hereby appointed (and the Owners of the Bonds, by taking and holding same from time to time, shall be deemed to have so appointed the Trustee) the true and lawful attorney-in-fact of the Owners of the Bonds, or on behalf of all Owners of the Bonds as a class, with respect to any proof of debt, amendment to proof of debt, petition or other document, and to do and perform any and all acts and things for and in the name of the Owners of the Bonds against the Issuer allowed in any equity receivership, insolvency, liquidation, bankruptcy, reorganization or other proceedings to which the Issuer shall be a party and to receive payment of or on account of such claims. Any such receiver, assignee, liquidator or trustee is hereby authorized by each of the Owners of the Bonds to make such payments to the Trustee, and, in the event that the Trustee shall consent to the making of such payments directly to the Owners of the Bonds, to pay to the Trustee any amount due for compensation and expenses of the Trustee, including counsel fees, incurred up to the date of such distribution, and the Trustee shall have full power of substitution and delegation in respect of any such powers.

Section 9.08. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Bonds or now or hereafter existing at law or in equity or by statute.

Section 9.09. Limitation on Suits. All rights of action in respect of this Indenture shall be exercised only by the Trustee, and no Owner of any Bond shall have any right to institute any suit, action or proceedings at law or in equity for the appointment of a receiver or for any other remedy hereunder or by reason hereof, unless and until the Trustee shall have received a written request of the Owners of not less than a majority in aggregate principal amount of the Affected Bonds Outstanding and shall have been furnished reasonable indemnity and shall have refused or neglected for 10 days thereafter to institute such suit, action or proceedings and no direction inconsistent with such written request has been given to the Trustee during such 10-day period by the Owners of a majority in principal amount of the Affected Bonds Outstanding. The making of such request and the furnishing of such indemnity shall in each and every case be conditions precedent to the execution and enforcement by any Owner of any Affected Bond of the powers and remedies given to the Trustee hereunder and to the institution and maintenance by any such Owner of any action or cause of action for the appointment of a receiver or for any other remedy hereunder, but the Trustee may, in its discretion, and when thereunto duly requested in writing by the Owners of not less than 25% in aggregate principal amount of the Affected Bonds Outstanding and when furnished indemnity satisfactory to protect it against expenses, charges and liability, shall immediately take such appropriate action by judicial proceedings otherwise in respect of any existing default on the part of the Issuer as the Trustee may deem expedient in the interest of the Owners of the Affected Bonds.

Nothing contained in this Article, however, shall affect or impair the right of any Owner of Affected Bonds, which shall be absolute and unconditional, to enforce the payment of the principal of, premium, if any, and interest on the Affected Bonds of such Owner, but only out of the moneys for such payment as herein provided, or the obligation of the Issuer, which shall also be absolute and unconditional, to make payment of the principal of, premium, if any, and interest on the Affected Bonds, but only out of the funds provided herein for such payment, to the respective Owners thereof at the time and place stated herein.

Section 9.10. Right of Owners of the Bonds to Direct Proceedings. Notwithstanding any provisions of this Indenture to the contrary, the Owner or Owners of more than 66 2/3% in aggregate principal amount of the Affected Bonds Outstanding with respect to which an Event of Default shall have occurred and be continuing shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Indenture, or for the pursuit or exercise of any remedy available to the Trustee or any trust or power conferred on the Trustee or any other proceedings hereunder; provided, however, that the Trustee shall have been satisfactorily indemnified and that such direction shall not be contrary to law or the provisions of this Indenture.

Section 9.11. Restoration of Rights and Remedies. If the Trustee or any Owner of a Bond has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any

reason, or has been determined adversely to the Trustee or to such Owner of a Bond, then and in every such case, the Issuer, the Trustee and the Owners of the Bonds shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Trustee and the Owners of the Bonds shall continue as though no such proceeding had been instituted.

Section 9.12. Waiver of Stay or Extension Laws. To the extent that it may lawfully do so, the Issuer covenants that it will not at any time insist upon, plead or in any manner whatsoever claim or take the benefit or advantage of any stay or extension law, whenever or wherever enacted, which may affect the covenants or the performance of this Indenture. The Issuer also covenants that it will not otherwise hinder, delay or impede the execution of any power herein granted to the Trustee.

Section 9.13. Delay or Omission Not Waiver. No delay or omission of the Trustee or of any Owner of any Bond to exercise any right or remedy accruing upon any Event of Default hereunder shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Owners of the Bonds may be executed from time to time, and as often as may be deemed expedient, by the Trustee or by the Owners of the Bonds, as the case may be.

Section 9.14. Notice to Owners of the Bonds of Default. The Trustee shall reasonably promptly mail to registered Owners of Bonds and to the City written notice of the occurrence of any Event of Default of which it has notice pursuant to this Indenture.

ARTICLE X - CONCERNING THE TRUSTEE AND PAYING AGENTS

Section 10.01. Trustee: Appointment and Acceptance of Duties. U.S. Bank National Association is hereby appointed as Trustee. The Trustee hereby accepts and agrees to execute the trusts hereby created, but only upon the additional terms set forth in this Article X, to all of which the Issuer agrees and the respective Owners of the Bonds agree by their acceptance of delivery of any of the Bonds. The Trustee shall be deemed to have accepted such trusts with respect to all the Bonds hereafter to be issued, but only, however, upon the terms and conditions set forth in this Indenture.

Section 10.02. Paying Agents, Registrars and Other Agents: Appointment and Acceptance of Duties.

(a) The Issuer may appoint one or more Paying Agents, Registrars, or other agents to perform any of the duties and obligations imposed under this Indenture or any Supplemental Indenture, and separate appointments may be made for the Bonds of each Series.

(b) Each Paying Agent, Registrar or other agent, other than the Trustee, shall signify its acceptance of the duties and obligations imposed upon it by this Indenture or any Supplemental Indenture by executing and delivering to the Issuer and to the Trustee a written acceptance thereof.

Section 10.03. Responsibilities of the Trustee.

(a) The recitals of fact herein and in the Bonds contained shall be taken as the statements of the Issuer and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of any Bonds issued hereunder or as to the security afforded by this Indenture, and the Trustee shall not incur any liability in respect thereof. The Trustee shall, however, be responsible for its representations contained in any certificate on the Bonds. The Trustee shall not be under any responsibility or duty with respect to the application of any money paid to the Issuer or money collected by the Issuer prior to the delivery thereof to the Trustee. The Trustee shall not be under any obligation or duty to perform any act, whether requested by the Owners or otherwise, which would involve it in liability or to institute or defend any suit in respect hereof, or to advance any of its own money, unless it has been satisfactorily indemnified against such liability except liability resulting from its negligence or willful misconduct. Subject to the provisions of subsection (b) of this Section, the Trustee shall not be liable in connection with the performance of its duties hereunder except for its own negligence or willful misconduct.

(b) The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee. In case an Event of Default has occurred (which has not been cured), the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of said person's own affairs. The Trustee shall not be required to take notice or be deemed to have notice or knowledge of any default hereunder except an Event of Default under Subsection (a), (b) or (c) of Section 9.02, or any other default or Event of Default of which the Trustee has actual knowledge, unless a Responsible Officer of the Trustee shall be specifically notified in writing of the default by the Issuer or by the Owners of not less than a majority in principal amount of the Bonds Outstanding. All notices or other

instruments required by this Indenture to be delivered to the Trustee must, to be effective, be delivered at the principal corporate trust office of the Trustee, and in the absence of the notice so delivered, the Trustee may conclusively assume there is no default except as aforesaid. Any provision of this Indenture relating to action taken or to be taken by the Trustee or the evidence upon which the Trustee may rely shall be subject to the provisions of this Section.

(c) The Trustee is not required to make any inquiry or investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document (other than to establish facial compliance with the requirements of this Indenture) but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit and, if the Trustee determines to make such further inquiry or investigation, it is entitled to examine the books, records and premises of the Issuer, in person or by agent or attorney.

(d) The Trustee's immunities and protections from liability and its right to indemnification in connection with the performance of its duties under this Indenture shall extend to the Trustee's officers, directors, agents, attorneys and employees. Such immunities and protections and right to indemnification, together with the Trustee's right to compensation, shall survive the Trustee's resignation or removal, the discharge of this Indenture and final payment of the Bonds.

(e) The permissive right of the Trustee to take the actions permitted by this Indenture shall not be construed as an obligation or duty to do so.

(f) Promptly after receiving appropriate notification thereof, the Trustee shall be responsible for sending notifications required to be sent to Bondowners hereunder and soliciting consents of the requisite percentage of Owners when required hereunder.

(g) Except for information provided by the Trustee concerning the Trustee, the Trustee shall have no responsibility for any information in any offering memorandum or other disclosure material distributed with respect to the Bonds, and the Trustee shall have no responsibility for compliance with any state or federal securities laws in connection with the Bonds.

Section 10.04. Evidence on Which the Trustee May Act.

(a) The Trustee, upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of this Indenture, shall be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may or may not be counsel to the Issuer or any Consultant, and the opinion of such counsel or Consultant, if selected with due care, shall be full and complete protection in respect of any action taken or suffered by it under this Indenture in good faith and in accordance therewith.

(b) Whenever the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under this Indenture, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of an Authorized Issuer Representative, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Indenture upon the faith thereof.

(c) Except as otherwise expressly provided in this Indenture, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision thereof by the Issuer to the Trustee shall be sufficiently executed if executed in the name of the Issuer by an Authorized Issuer Representative.

(d) The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, receivers, agents or employees but shall not be answerable for the conduct of attorneys and receivers who have been selected by it with reasonable care, and may in all cases pay reasonable compensation to all attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts hereof, and the Trustee shall not be responsible for any misconduct or negligence of any agent or attorney appointed with due care by it.

(e) Except as otherwise provided in Section 6.02, the Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises. None of the provisions contained in this Indenture shall require the Trustee to advance, expend or risk its own funds or to otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there is reasonable grounds to believe that the repayment of such funds or liability is not reasonably assured to it by the security afforded to it by the terms of the Indenture.

(f) The Trustee shall not be responsible or liable for any failure or delay in the performance of its obligations under this Indenture arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including, without limitation, acts of God; earthquakes; fire; flood; hurricanes or other storms; wars; terrorism; similar military disturbances; sabotage; epidemic; pandemic; riots; interruptions; accidents; labor disputes; acts of civil or military authority or governmental action; it being understood that the Trustee shall use commercially reasonable efforts that are consistent with accepted practices in the banking industry to resume performance as soon as reasonably practicable under the circumstances.

(g) In no event shall the Trustee be responsible or liable for special, indirect, punitive or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss of damage and regardless of the form of such action.

(h) The Trustee may seek the approval of the Bondholders by any means it deems appropriate and not inconsistent with the terms of this Indenture in connection with the giving of any consent or taking of any action.

Section 10.05. Compensation. The Issuer shall pay to the Trustee from time to time, from amounts rightfully on deposit in the Administrative Fee Fund, reasonable compensation for all services rendered under this Indenture, including reasonable default fees of the Trustee upon the occurrence of an Event of Default hereunder, and also all reasonable expenses, costs, charges, counsel fees, Consultant fees and other disbursements, including those of its attorneys, agents, Consultants and employees, incurred in and about the execution of the trusts created by this Indenture, and in and about the exercise and performance of the powers and duties of the Trustee hereunder and for the reasonably necessary costs and expenses incurred in defending any liability in the premises of any character whatsoever (unless such liability is adjudicated to have resulted from the negligence or willful misconduct of the Trustee) under this Indenture. In the event the Trustee incurs expenses or renders services in any proceedings which result from the occurrence or continuance of an Event of Default under Section 9.02(j) hereof, or from the occurrence of any event which, by virtue of the passage of time, would become such Event of Default, the expenses so incurred and compensation for services so rendered are intended to constitute expenses of administration under the United States Bankruptcy Code or equivalent law.

Section 10.06. Certain Permitted Acts. The Trustee may become the Owner of any Bonds, with the same rights it would have if it were not the Trustee. To the extent permitted by law, the Trustee may act as depository for, and may permit any of its officers or directors to act as a member of; or in any other capacity with respect to, any committee formed to protect the rights of Bondowners or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Indenture, whether or not any such committee shall represent the Owners of a majority in principal amount of the Bonds Outstanding. The provisions of this Section shall extend to affiliates of the Trustee.

Section 10.07. Resignation of Trustee. Except as otherwise provided by a Supplemental Indenture, the Trustee may at any time resign and be discharged of the duties and obligations created by this Indenture, effective immediately upon the appointment of a successor Trustee pursuant to Section 10.09 hereof, by giving not less than 60 days' written notice to the Issuer of the date it desires to resign and mailing written notice to the Owners of all Bonds and such resignation shall take effect immediately on the appointment of a successor Trustee pursuant to Section 10.09 hereof.

Section 10.08. Removal of Trustee. The Trustee may be removed, with or without cause, at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the Owners of a majority in principal amount of the Bonds Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Issuer. The Trustee may be removed by an instrument in writing, which may be executed by the Issuer, appointing a successor Trustee filed with the Trustee so removed; provided that the Issuer may not remove the Trustee during the occurrence and continuance of an Event of Default. Notwithstanding the foregoing, any removal of the Trustee shall not be effective until a successor Trustee has been appointed and has assumed the duties and responsibilities of successor Trustee under this Indenture.

Section 10.09. Appointment of Successor Trustee.

(a) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the Owners of a majority in principal amount of the Bonds Outstanding, excluding any Bonds held by or for the account of the Issuer, by an instrument or concurrent instruments in writing signed and acknowledged by such Bondowners or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the Issuer and the predecessor Trustee; provided, nevertheless, that unless a successor Trustee shall have been appointed by the Bondowners as aforesaid, the Issuer by duly executed written instrument signed by an Authorized Issuer Representative shall immediately appoint a Trustee to fill such vacancy until a successor Trustee shall be appointed by the Bondowners as authorized in this Section. The successor Trustee shall mail notice of the Issuer's appointment of the successor Trustee to the Owners of all Bonds. Any successor Trustee

appointed by the Issuer shall, immediately and without further act, be superseded by a Trustee appointed by the Bondowners as authorized in this Section.

(b) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within 45 days after the Trustee shall have given to the Issuer written notice as provided in Section 10.07 or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, its removal, or for any other reason whatsoever, the Trustee (in the case of a resignation under Section 10.07) or the Owner of any Bond, may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

(c) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a bank or trust company or national or state banking association, having (or whose parent holding company shall have) capital stock and surplus aggregating at least \$100,000,000.

Section 10.10. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Indenture shall execute, acknowledge, and deliver to its predecessor Trustee and to the Issuer an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties, and obligations of such predecessor Trustee, with like effect as if originally named as Trustee; but the Trustee ceasing to act shall nevertheless, on the written request of the Issuer or of the successor Trustee, execute, acknowledge, and deliver such instruments of assignment and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all rights, powers, duties and obligation in and to any property held by it under this Indenture, and shall pay over, assign, and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any instrument in writing from the Issuer be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers, and duties, any and all such instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged, and delivered by the Issuer. Any such successor Trustee shall promptly notify any Paying Agents and Registrars of its appointment as Trustee.

Section 10.11. Merger or Consolidation. Any bank or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such entity shall be a bank or trust company organized under the laws of any state of the United States or a national banking association, and shall be authorized by law to perform all duties imposed upon it by this Indenture, shall be the successor Trustee without the execution or filing of any paper or the performance of any further act. The successor Trustee shall mail notice to the Owners of all Bonds of the successor Trustee.

Section 10.12. Adoption of Authentication. In case of the Bonds contemplated to be issued under this Indenture shall have been authenticated but not delivered, any successor Trustee or Authenticating Agent may adopt the certificate of authentication of any predecessor Trustee or Authenticating Agent so authenticating such Bonds and deliver such Bonds so authenticated; and in case any of the said Bonds shall not have been authenticated, any successor Trustee or Authenticating Agent may authenticate such Bonds in the name of the predecessor Trustee or Authenticating Agent, or in the name of the successor Trustee or Authenticating Agent, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in this Indenture provided that the certificate of the Trustee or Authenticating Agent shall have.

Section 10.13. Resignation or Removal of Paying Agent or Registrar and Appointment of Successors.

(a) Any Paying Agent or Registrar may at any time resign and be discharged of the duties and obligations created by this Indenture or any Supplemental Indenture by giving at least 60 days' written notice to the Issuer and the Trustee. Any such Paying Agent or Registrar may be removed at any time by an instrument filed with such Paying Agent or Registrar and the Trustee and signed by the Authorized Issuer Representative. Any successor Paying Agent or Registrar shall be appointed by the Issuer with the approval of the Trustee and shall be willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it in such capacity by this Indenture.

(b) In the event of the resignation or removal of any Paying Agent or Registrar, such Paying Agent or Registrar shall pay over, assign and deliver any money held by it to its successor, or if there be no successor, to the Trustee. In the event that for any reason there shall be a vacancy in the office of any Paying Agent or Registrar appointed by the Issuer, the Trustee shall act as such Paying Agent or Registrar.

(c) The provisions of this Section may be modified by Supplemental Indenture in respect of any Series of Bonds authorized thereby, and in the event of any conflict with the provisions hereof the provisions of such Supplemental Indenture shall control in respect of any Series of Bonds authorized thereby.

Section 10.14. Notice to Owners of Bonds of License Agreement and Management Agreement Events. At the written direction of the Issuer, the Trustee shall promptly mail to registered Owners of Bonds written notice of the occurrence of any of the events set forth in Section 7.19(b) hereof for which it has received notice from the Issuer.

ARTICLE XI - SUPPLEMENTAL INDENTURES AND AMENDMENT OF BOND DOCUMENTS

Section 11.01. Supplemental Indentures and Amendments of Bond Documents Effective Without Consent of Bondowners. The Issuer and the Trustee may, as appropriate, from time to time and at any time, without the consent of but with notice to Bondowners, enter into Supplemental Indentures or any amendments to the Bond Documents as follows:

- (a) to authorize Bonds of a Series and, in connection therewith, to specify and determine the matters and things referred to in Article III hereof and also any other matters and things relative to such Bonds which are not in conflict with this Indenture as theretofore in effect, or to amend, modify, or rescind any such authorization, specification, or determination at any time prior to the first delivery of such Bonds;
- (b) to conform this Indenture or the other Bond Documents to any amendment of any Supplemental Indenture in accordance with its terms;
- (c) to provide limitations and restrictions in addition to the limitations and restrictions contained in this Indenture or any Supplemental Indenture or the other Bond Documents on the delivery of Bonds or the issuance of other evidences of indebtedness;
- (d) to add to the covenants and agreements of the Issuer in this Indenture or any Supplemental Indenture or the other Bond Documents, other covenants and agreements to be observed by the Issuer or the other parties thereto which are not in conflict with this Indenture or the applicable Supplemental Indentures or in the applicable Bond Document as theretofore in effect;
- (e) to add to the limitations and restrictions in this Indenture or any Supplemental Indenture or the other Bond Documents other limitations and restrictions to be observed by the Issuer or the other parties thereto which are not in conflict with this Indenture or the applicable Supplemental Indenture as theretofore in effect;
- (f) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Indenture or any Supplemental Indenture of the Trust Estate;
- (g) to provide for additional duties of the Trustee in connection with the Trust Estate or the Project;
- (h) to modify, amend or supplement this Indenture or any Supplemental Indenture in such manner as to permit, if presented, the qualification hereof and thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or under any state blue sky law;
- (i) to surrender any right, power or privilege reserved to or conferred upon the Issuer by the terms of this Indenture, provided that the surrender of such right, power or privilege is not in conflict with the covenants and agreements of the Issuer contained in this Indenture;
- (j) to increase the Senior Debt Service Reserve Fund Requirement and any capitalized interest requirements;
- (k) to establish or increase the required balance to be accumulated or maintained in the Renewal and Replacement Fund;
- (l) to designate Paying Agents, Registrars, and other agents for the Bonds of any Series;
- (m) to modify, amend or supplement this Indenture or any Supplemental Indenture in order to provide for or eliminate book-entry registration of all or any of the Bonds to the extent not inconsistent with the provisions hereof; and
- (n) to amend a prior Supplemental Indenture in accordance with the provisions thereof.

Section 11.02. Supplemental Indentures and Amendments to Bond Documents Requiring Bondowner Consent. Except as provided in Section 11.01 hereof, any modification or amendment of this Indenture or to any other Bond Document and of the rights and obligations of the Issuer and of the Owners of the Bonds hereunder or thereunder, in any particular, may only be made by a Supplemental Indenture or an amendment to the applicable Bond Document with the written consent (given as provided in Section 11.03) of the Owners of at least a majority in principal amount of the Bonds that will be Outstanding as of

the effective date of such modification or amendment. Except as otherwise provided in this Indenture or any Supplemental Indenture, no such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds of which the consent of the Owners is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Trustee or Paying Agent without its written consent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Indenture or an amendment to the applicable Bond Document if the same materially adversely affects or diminishes the rights of the Owners of Bonds of such Series. The Trustee may in its discretion determine whether or not, in accordance with the foregoing powers of amendment. Bonds of any particular Series or maturity would be affected by any modification or amendment of this Indenture or an amendment to the applicable Bond Document and any such determination shall be binding and conclusive on the Issuer and all Owners of Bonds.

Section 11.03. Consent of Bondowners. The Issuer and the Trustee, as applicable, may at any time enter into a Supplemental Indenture or an amendment to the applicable Bond Document making a modification or amendment permitted by the provisions of Section 11.02 hereof, to take effect when and as provided in this Section. A copy of such Supplemental Indenture or amendment to a Bond Document (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondowners for their consent thereto in form satisfactory to the Trustee, shall be mailed to Bondowners as provided in Section 11.08 hereof. Such Supplemental Indenture shall not be effective unless and until: (a) there shall have been filed with the Trustee the written consent of Owners of the percentages of Outstanding Bonds specified in Section 11.02 hereof and an opinion of Bond Counsel, in form and substance satisfactory to the Trustee, stating that such Supplemental Indenture has been duly and lawfully entered into by the Issuer in accordance with the provisions of this Indenture, is authorized or permitted by this Indenture, is valid and binding upon the Issuer and enforceable in accordance with its terms, is in accordance with this Indenture and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Bonds; provided, however, that such opinion may take exception for limitations imposed by or resulting from bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally and principles of government law and equity; and (b) a notice shall have been mailed as hereinafter in this Section provided. Each such consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 13.01 hereof. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with Section 13.01 hereof shall be conclusive that the consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee. Any such consent shall be binding upon the Owner of the Bonds giving such consent and, anything in Section 13.01 hereof to the contrary notwithstanding, upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Owner thereof has notice thereof) unless such consent is revoked in writing by the Owner of such Bonds giving such consent or a subsequent Owner thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter in this Section provided for is filed, such revocation. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after the Owners of the required percentages of Bonds shall have filed their consents to the Supplemental Indenture, the Trustee shall make and file with the Issuer a written statement that the Owners of such required percentages of Bonds have filed such consents. Such written statement shall be conclusive that such consents have been so filed. At any time thereafter notice, stating in substance that the Supplemental Indenture (which may be referred to as a Supplemental Indenture entered into by the Issuer and the Trustee as of a stated date, a copy of which is on file with the Trustee) has been consented to by the Owner of the required percentages of Bonds and will be effective as provided in this Section, may be given to Bondowners by mailing such notice to Bondowners not more than 15 days after the Owners of the required percentages of Bonds shall have filed their consents to the Supplemental Indenture or amendment to a Bond Document and the written statement of the Trustee hereinabove provided for is filed. Proof of the mailing of such notice shall be filed with the Trustee. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Indenture or amendment to a Bond Document making such amendment or modification shall be deemed conclusively binding upon the Issuer, the Trustee, Paying Agent and the Owners of all Bonds at the expiration of 10 days after the filing with the Trustee of the proof of the mailing of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Indenture or amendment to a Bond Document in a legal action or equitable proceeding for such purpose commenced within such 10-day period; provided, however, that any Trustee or Paying Agent and the Issuer during such 10-day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Indenture or amendment to a Bond Document as they may deem expedient.

Section 11.04. Subordinate Bonds. Subordinate Bonds may be issued as provided in Article XII of this Indenture.

Section 11.05. Exclusion of Bonds. Bonds owned or held by or for the account of the Issuer shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and the Issuer shall not be entitled with respect to such Bonds to give any consent or take any other action provided in this Article. At the time of any consent or other action taken under this Article, the Issuer shall furnish the Trustee a certificate of an Authorized Issuer Representative, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 11.06. General Provisions.

(a) This Indenture and the other Bond Documents shall not be modified or amended in any respect except as provided in and in accordance with and subject to provisions of this Article.

(b) Any Supplemental Indenture or amendment to a Bond Document referred to and permitted or authorized by Section 11.01 hereof may be entered into by the Issuer and the Trustee, as applicable, without the consent of any of the Bondowners, but shall become effective only on the conditions, to the extent and at the time provided in said Section. Prior to entering into any Supplemental Indenture or amendment to a Bond Document, the Trustee shall receive an opinion of Bond Counsel, in form and substance satisfactory to the Trustee, stating that such Supplemental Indenture or amendment to a Bond Document has been duly and lawfully entered into by the Issuer in accordance with the provisions of this Indenture, is authorized or permitted by this Indenture, and is valid and binding upon the Issuer, and will not adversely affect the exclusion from gross income for federal income tax purposes of any interest on the Bonds.

Section 11.07. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in this Article may, and, if the Trustee so determines shall bear a notation by endorsement or otherwise in form approved by the Trustee as to such action, and in that case upon demand of the Owner of any Bond Outstanding at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or other Paying Agent or Registrar responsible for transferring Bonds or upon any transfer of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer by the Trustee or other Paying Agent or Registrar responsible for transferring Bonds as to any such action. If the Trustee shall so determine, new Bonds so modified as directed by the Trustee to conform to such action shall be prepared, authenticated and delivered, and upon demand of the Owner of any Bond Outstanding shall be exchanged, without cost to such Bondowner, for Bonds Outstanding, upon surrender of such Bonds, for Bonds of the same Series and maturity then Outstanding.

Section 11.08. Mailing. Any provision in this Article for the mailing of a notice or other instrument to Bondowners shall be fully complied with if it is mailed postage prepaid only to each Owner of Bonds at his, her or its address, if any, appearing upon the Register and to the Trustee.

ARTICLE XII - SUBORDINATE LIEN OBLIGATIONS

Section 12.01. Subordinate Lien Obligations. So long as no Event of Default has occurred and is continuing, the Issuer reserves the right to issue for any lawful purpose, bonds, notes, or other obligations secured in whole or in part by liens on the Revenues that are junior and subordinate to the lien on Revenues securing payment of the Bonds.

Section 12.02. Subordination of Subordinate Bonds.

(a) The Subordinate Bonds shall be and hereby are subordinated in priority and in right and time of payment to (i) all amounts due on the Senior Bonds and (ii) all amounts required to be transferred or paid from the Revenue Fund or deposited in any Fund or Account in priority to the deposits to be made in accordance with Section 5.05 of this Indenture.

Payment of the Subordinate Bonds shall be made by the Trustee only from moneys rightfully on deposit in the debt service fund and any other account hereafter created under the terms of a Supplemental Indenture solely for the benefit of the holders of Subordinate Bonds as provided in Section 5.05 hereof. Payment of the Subordinate Bonds shall not be from funds required to pay or to be reserved to pay the Senior Bonds, any expenses, costs or fees relating thereto, or any other amounts due hereunder. No payment shall be due and payable on the Subordinate Bonds, and the holders of the Subordinate Bonds, by acceptance of the Subordinate Bonds, expressly agree and acknowledge that (i) no payment shall be due and payable on the Subordinate Bonds if the Trustee does not rightfully hold sufficient funds in the debt service fund and any other account hereafter created under the terms of a Supplemental Indenture solely for the benefit of the holders of Subordinate Bonds to make such payment and (ii) if an Event of Default exists, no amounts may be transferred from the Revenue Fund to the debt service fund and any other account hereafter created in the proceedings authorizing the issuance of Subordinate Bonds solely for the benefit of the holders of Subordinate Bonds. No amounts deposited to the Senior Debt Service Fund, the Senior Debt Service Reserve Fund, the Administrative Fee Fund or the Renewal and Replacement Fund may be used to make payments on the Subordinate Bonds, unless no Senior Bonds remain Outstanding.

(b) Notwithstanding any other provisions of this Indenture, as long as any Senior Bonds are Outstanding, no Event of Default shall exist or may be declared to exist with respect to the Subordinate Bonds and the Trustee shall not declare a default with respect to the Subordinate Bonds or otherwise enforce the provisions hereof

relating to the Subordinate Bonds. The Holders of the Subordinate Bonds, by acceptance of their Bonds, expressly agree to and acknowledge that so long as any Senior Bonds are Outstanding, (i) no payments will be due and payable on any Subordinate Bond if the Trustee does not rightfully hold sufficient funds held in or which are rightfully available for transfer to the debt service fund or any other account hereafter created under the terms of an indenture or other proceedings authorizing the issuance of Subordinate Bonds to make such payment, (ii) no Holder of a Subordinate Bond will institute against, or join any other person in instituting against, the City or the Issuer any bankruptcy, reorganization, arrangement, insolvency or liquidation proceeding, or other proceeding under any bankruptcy or similar law, until the date on which no Senior Bonds remain Outstanding and (iii) no default or Event of Default shall exist or may be declared to exist with respect to the Subordinate Bonds.

(c) Upon any distribution of all or any part of the property or assets of the Owner,

(i) in the event of any insolvency or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding in connection therewith, relative to the Owner or to any of their respective creditors, as such, or to their respective assets;

(A) in the event of any liquidation, dissolution or other winding up of the Owner, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy;

(B) in the event of any assignment for the benefit of creditors or any other marshalling of assets and liabilities of the Owner; or

(C) in any manner inconsistent with the provisions of this Section 12.02;

then in any such event the Holders of the Senior Bonds shall receive payment in full of all amounts due or to become due (whether or not an Event of Default has occurred or the Senior Bonds have been declared due and payable prior to the date on which they would otherwise have become due and payable) on or in respect of the Senior Bonds, including any post-petition interest thereon whether or not such interest is an allowable claim under any applicable federal or state bankruptcy law before the holders of the Subordinate Bonds are entitled to receive any moneys; provided, however, that the holders of the Subordinate Bonds shall be entitled to receive moneys rightfully transferred from the debt service fund and any other account created for the sole benefit of the holders of Subordinate Bonds. In addition, all rights and votes that the holders of Subordinate Bonds may have in a bankruptcy proceeding shall be and hereby are assigned to the Senior Bondowners; and

(ii) if any payments are received by the holders of Subordinate Bonds on account of the Subordinate Bonds contrary to the provisions hereof, such payments shall be held in trust by such Holders of Subordinate Bonds for the Trustee's benefit and shall be delivered to the Trustee in kind, to be applied to, or held as collateral for, the payment of the Senior Bonds.

ARTICLE XIII - MISCELLANEOUS

Section 13.04. Failure to Present Bonds. Anything in this Indenture to the contrary notwithstanding, any money held by a Trustee or Paying Agent in trust for the payment and discharge of any of the Bonds which remain unclaimed for such period of time, after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, that the Owner thereof shall no longer be able to enforce the payment thereof, the Trustee or Paying Agent shall at the written request of the Issuer pay such money to the Issuer as its absolute property and free from trust, and the Trustee or Paying Agent shall thereupon be released and discharged with respect thereto and the Bondowners shall look only to the Issuer for the payment of such Bonds; provided, however, that before being required to make any such payment to the Issuer, the Trustee or Paying Agent shall, at the expense of the Issuer, cause to be mailed to the Owners of the Bonds entitled to such money, a notice that such money remains unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the Issuer.

Section 13.05. Filing of Security Instruments. Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Trust Estate granted by the Issuer under this Indenture, and such pledge is therefore valid, effective, and perfected. If State law is amended at any time while the Bonds are Outstanding and unpaid such that the pledge of the Trust Estate granted by the Issuer is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in said pledge, the Issuer agrees to take, at its own expense, such measures as it determines are reasonable and necessary under State law to comply with the applicable provisions of Chapter 9, Texas Business and Commerce Code, and enable a filing to perfect the security interest in said pledge to occur.

Section 13.06. Parties Interested Herein. Nothing in this Indenture or any Supplemental Indenture expressed or implied is intended or shall be construed to confer upon, or to give to, any person, other than the Issuer, the Trustee and the

Owners of the Bonds, any right, remedy or claim under or by reason of this Indenture or any Supplemental Indenture or any covenant, condition or stipulation hereof or thereof; and all the covenants, stipulations, promises and agreements in this Indenture and each Supplemental Indenture contained by and on behalf of the Issuer shall be for the sole and exclusive benefit of the Issuer, the Trustee and the Owners of the Bonds thereunto appertaining.

Section 13.07. No Recourse on the Bonds. No recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or for any other obligation under this Indenture or on any Supplemental Indenture against any officer or employee of the Issuer, the City or any person executing the Bonds.

Section 13.08. No Individual Liability. No covenant or agreement contained in the Bonds, this Indenture or any Supplemental Indenture shall be deemed to be the covenant or agreement of any member of the Board or any officer, agent, employee or representative of the Issuer, and neither the officers, agents, employees or representatives of the Issuer nor any person executing the Bonds shall be personally liable thereon or be subject to any personal liability or accountability by reason of the issuance thereof, whether by virtue of any constitutional provision, statute or rule of law, or by the enforcement of any assessment or penalty, or otherwise, all such liability being expressly released and waived as a condition of and in consideration for the execution of this Indenture, any Supplemental Indenture and the issuance of the Bonds.

Section 13.09. Indenture and Supplemental Indentures to Constitute Contracts. In consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued hereunder by those who shall hold the same from time to time, this Indenture and each Supplemental Indenture shall be deemed to be and shall constitute a contract among the Issuer, the Trustee and the Owners of the Bonds; and the pledge made in this Indenture and the covenants and agreements herein and therein set forth to be performed by or on behalf of the Issuer shall be for the equal benefit, protection and security of the Owners of any and all of the Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall be of equal rank within preference, priority or distinction of any of the Bonds over any other thereof, except as otherwise provided in or permitted by this Indenture or Supplemental Indenture.

Section 13.12. Continuing Disclosure Agreement. The Issuer and the Trustee will execute and deliver on the Closing Date a Continuing Disclosure Agreement, detailing the Issuer's responsibilities regarding its continuing disclosure undertaking made in accordance with Rule 15c2-12, promulgated by the United States Securities and Exchange Commission.

Section 13.14. Successors. Whenever in this Indenture or any Supplemental Indenture the Issuer or the Trustee is named or referred to, it shall be deemed to include any entity succeeding to the principal functions and powers of the Issuer or the Trustee, as appropriate, and all the covenants and agreements in this Indenture and each Supplemental Indenture by or on behalf of the Issuer or the Trustee shall bind and inure to the benefit of said successor whether so expressed or not.

Section 13.15. Holidays. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Indenture, shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in this Indenture, and no interest shall accrue for the period after such nominal date.

Section 13.17. Balances in Certain Funds and Accounts. All amounts remaining on deposit in the Funds and Accounts after the principal or Redemption Price of and interest due or to become due on the Bonds has been paid or deemed to have been paid pursuant to Article VIII hereof shall be delivered to the City.

*[END OF CERTAIN PROVISIONS OF THE INDENTURE – THE REMAINDER OF THIS PAGE IS
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APPENDIX C
MANAGEMENT AGREEMENT

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**AMENDED AND RESTATED
HOTEL MANAGEMENT AGREEMENT
BETWEEN
AUSTIN-BERGSTROM LANDHOST ENTERPRISES, INC.
AND
BOYKIN PROSPERA, LLC**

THIS AMENDED AND RESTATED HOTEL MANAGEMENT AGREEMENT (this “**Agreement**”) is made and entered into as of _____, 2017, between Austin-Bergstrom Landhost Enterprises, Inc., a Texas Public Facility Corporation (“**Owner**”), having its principal office at 3600 Presidential Blvd., Suite 411, Austin, Texas 78719, and Boykin Prospera, LLC, a Delaware limited liability company (“**Manager**”), having its principal offices at Foster Plaza 9, 750 Holiday Drive, Pittsburgh, Pennsylvania 15220.

RECITALS

- A. The City of Austin, a Texas home-rule municipal corporation (the “**City**”), owns and operates Austin-Bergstrom International Airport (the “**Airport**”), a public municipal airport in Austin, Travis County, Texas;
- B. The City created Austin-Bergstrom Landhost Enterprises, Inc. as a public facility corporation under Chapter 303 of the Texas Local Government Code to develop, finance, construct, and operate a full service hotel at the Airport (the “**Hotel**”);
- C. In order to finance the construction of the Hotel, Owner issued its \$38,785,000 Airport Hotel Senior Revenue Bonds, Series 1999A, and its \$3,730,000 Airport Hotel Subordinate Revenue Bonds, Series 1999B (together, the “**1999 Bonds**”) and the new Bonds will be issued to retire the 1999 Bonds.
- D. In furtherance of these objectives, the City leases to Owner the land and buildings at the Airport more particularly described in **Schedule A** hereto (the “**Site**”);
- E. This Agreement amends and restates that certain Hotel Management Agreement, dated January 1, 2006 (the “**Prior Agreement**”), as amended by Amendment No. 1 dated June 15, 2012 and Amendment No. 2 dated April 7, 2014 between Owner and Manager (as successor in interest to Boykin Enterprises Limited, LLC pursuant to that one certain Services Agreement dated as of June 16, 2008) pursuant to which Manager was engaged to operate the Hotel as a Hilton Hotel in accordance with the Franchise and the Indenture (as hereinafter defined);
- F. Owner desires to continue to retain the services of Manager to operate the Hotel, and Manager desires to continue to operate the Hotel, in each case subject to the terms and conditions of this Agreement; and

NOW, THEREFORE, for and in consideration of the premises, and other good and valuable consideration, the sufficiency of which is hereby acknowledged, Owner and Manager agree as follows:

**ARTICLE 1
GENERAL**

- 1.1 This Agreement amends and restates the Prior Agreement in its entirety.
- 1.2 Unless otherwise expressly defined herein, capitalized terms in this Agreement shall be defined as provided in the Indenture of Trust dated as of _____, 2017 (“**Indenture**”) between Owner and _____(the “**Bonds Trustee**”).
- 1.3 The following terms where used in this Agreement have the following meanings:
- A. **Affiliate** means any entity controlling, controlled by or under common control with Manager (control being deemed to mean the ownership of fifty percent (50%) or more of the stock or other beneficial interest in such entity and/or the power to direct the day-to-day operations of such entity).
 - B. **Bonds** means the Austin-Bergstrom Landhost Enterprises, Inc. Airport Hotel Senior Revenue Refunding and Improvement Bonds, Series 2017, issued in the aggregate principal amount of \$_____.
 - C. **Budgets** shall mean the Budgets described in Section 9.4.
 - D. **Building** shall mean the building located on the Site with 262 guest units, a ground floor lobby area, a full-service restaurant, lobby lounge, outdoor pool and Jacuzzi, meeting and banquet facilities, fitness center, gift shop, and other amenities and any surface parking areas or other improvements related to the Building.
 - E. **Effective Date** means the date of issuance and delivery of the Austin Bergstrom Landhost Enterprises, Inc. Airport Hotel Senior Revenue Refunding and Improvement Bonds, Series 2017.
 - F. **FF&E** shall mean the furniture, furnishings, wall coverings, floor coverings, window treatments, fixtures and hotel equipment (other than Installations and Operating Equipment) and vehicles.
 - G. **Fiscal Year** shall mean each twelve (12) consecutive calendar month period or partial twelve (12) consecutive calendar month period within the Operating Term commencing on January 1st and ending on December 31st (or, with respect to the last year of the Operating Term, the expiration or earlier termination of the Operating Term) unless Owner and Manager otherwise agree.
 - H. **Fixed Charges** shall mean the cost of Owner-related, or non-operating items as approved by Owner such as capital leases as applicable, Lease Payments, depreciation, interest on the Bonds, the “City Fee” and “Administrative Fees and Expenses” (as such terms are defined in the Indenture) relating to the Hotel or its facilities, which are properly attributable under the Uniform System to the period in question.

- I. **Franchise** shall mean the License Agreement between Owner and Hilton Inns, Inc. dated _____.
- J. **Hotel** shall mean the hotel developed and constructed at the Site. The Hotel consists of and includes the Building, Installations, FF&E, Operating Equipment and Operating Supplies, as such terms are defined in this Section 1.3.
- K. **Installations** shall mean the mechanical systems and built-in installations of the Building including, but not limited to, heating, ventilation, air conditioning, electrical and plumbing systems, elevators and escalators, and built-in laundry, refrigeration, filters and pool equipment and other similar systems and items of equipment installed in or affixed to the Building, excluding the FF&E.
- L. **Lease** shall mean the Ground Lease Agreement dated as of _____, 2017, between the Owner and the City, and thereafter as may be amended from time to time.
- M. **Major Agreements** shall mean the Indenture, the Lease, and the Franchise.
- N. **Operating Equipment** shall mean chinaware, glassware, silverware, linens and other items of a similar nature.
- O. **Operating Expenses** shall mean all costs and expenses of maintaining, conducting and supervising the operation of the Hotel and all of its facilities, which are properly attributable under the Uniform System to the period in question, to the extent the same are incurred in accordance with the terms of this Agreement.
- (i) Operating Expenses shall include the following, to the extent the same are incurred by Manager in accordance with the approved Operating Budget, are expressly permitted by this Agreement or are otherwise approved by Owner:
- (a) The cost of all Operating Equipment and Operating Supplies;
- (b) Salaries and wages of Hotel personnel, including costs of payroll taxes and employee benefits. The salaries or wages of off-site employees or executives of Manager shall not be Operating Expenses, provided that if it becomes reasonably necessary for an off-site employee or executive of Manager to temporarily perform services at the Hotel of a nature normally performed by Hotel Employees, his salary (including payroll taxes and employee benefits) for such period only as well as his reasonable travel expenses, shall be Operating Expenses and reimbursed to Manager, but the person's salary level shall not, without Owner's prior

approval, exceed the amount set forth in the approved Operating Budget for the position to be filled;

- (c) The cost of all other goods and services obtained in connection with the operation of the Hotel including, without limitation, heat, and utilities, laundry, landscaping and exterminating services and office supplies;
- (d) The non-capital cost of all repairs to and maintenance of the Hotel;
- (e) Insurance premiums (or the allocable portion thereof in the case of blanket policies) for all insurance maintained under Article XIII (other than insurance against physical damage to the Hotel) and losses incurred on any self-insured risks (including deductibles);
- (f) All taxes, assessments, permit fees, inspection fees, and water and sewer charges and other charges (other than income or franchise taxes) payable by or assessed against Owner with respect to the operation of the Hotel;
- (g) Data Processing and Network Connectivity Expense;
- (h) All costs and fees of accountants, attorneys, or other third parties who perform services required or permitted hereunder, which under GAAP are expended currently rather than capitalized;
- (i) All expenses for advertising the Hotel and all expenses of sales promotion and public relations activities;
- (j) All out-of-pocket expenses and disbursements incurred by Manager, pursuant to, in the course of, and directly related to, the management and operation of the Hotel under this Agreement. Without limiting the generality of the foregoing, such charges may include all reasonable travel, telephone, telegram, facsimile, air express and other incidental expenses, but, except as otherwise provided in this Agreement, shall not include any of the regular expenses of the central offices maintained by Manager, other than offices maintained at the Hotel for the management of the Hotel. Manager shall maintain and provide to Owner invoices or other evidence supporting such charges;
- (k) Manager's Base Fee;
- (l) Manager's fee for Centralized Services set forth in Section 7.1;
- (m) Payments under any applicable Franchise;

- (n) Any other item specified as an Operating Expense in this Agreement; and
 - (o) Any other cost or charge classified as an Operating Expense or an Administrative and General Expense under the Uniform System as specified in the Budgets unless specifically excluded under the provisions of this Agreement or a Major Agreement.
- (ii) Operating Expenses shall not include:
- (a) Amortization and depreciation;
 - (b) The making of or the repayment of any loans or any interest thereon;
 - (c) The costs of any alterations, additions or improvements which for Federal income tax purposes must be capitalized and amortized over the life of such alteration addition or improvement;
 - (d) Payments under any operating ground lease or space lease;
 - (e) Payments into or out of the Renewal and Replacement Fund; or
 - (f) Any item defined as a Fixed Charge in this Section 1.3.
- (iii) Notwithstanding anything to the contrary in this Agreement, it is the intention of the parties that every expense classified as an Operating Expense under this Agreement shall be treated as Operating and Maintenance Expenses under the Indenture, unless otherwise expressly provided in the Indenture. For so long as the Indenture is in force and effect, in the event of any inconsistency regarding the classification of Operating Expenses, the provisions of the Indenture shall control.

P. **Operating Supplies** shall mean stock and inventories of paper supplies, cleaning materials, consumable items and food and beverage.

Q. **Total Revenues** shall mean all income, revenue, and proceeds resulting from the operation of the Hotel and all of its facilities (net of refunds and credits to guests and other items deemed "Allowances" under the Uniform System), which are properly attributable under the Uniform System to the period in question.

- (i) Subject to Subsection (ii) below, Total Revenues shall include, without limitation, all amounts derived from:
- (a) The rentals of rooms, meeting space and conference facilities;
 - (b) The sale of food and beverage whether sold in a restaurant, lounge, delivered to a guest room, sold through an in-room facility or

vending machines, provided in meeting or banquet rooms or sold through catering operations;

- (c) Charges for admittance to or the use of any parking facilities, recreational facilities or any entertainment events at the Hotel, which shall mean the net amount received by Owner to the extent that Manager is not responsible for the management of such facilities or events;
 - (d) Rentals paid under office spaces and leases;
 - (e) Charges for other Hotel services or amenities, including, but not limited to, telephone service, wholesale and retail sales of merchandise, vending and game machines, services charges, business center, florist, in-room movies, and valet/laundry services; and
 - (f) The gross amount of any proceeds of business interruption or similar insurance.
- (ii) Total Revenues shall not include:
- (a) Sales, use excise or occupancy taxes or similar governmental impositions collected by Owner or Manager;
 - (b) Tips, service charges and other gratuities received by Hotel Employees;
 - (c) Proceeds of insurance except for proceeds of business interruption insurance;
 - (d) Proceeds of the sale or condemnation of the Hotel, any interest therein or any other asset of Owner, or the proceeds of any loans, financings or refinancings;
 - (e) Capital contributed by Owner or any third party to the Hotel;
 - (f) The receipts (including food and beverage and retail receipts) of any tenant, licensee, or concessionaire under a Concession; and
 - (g) Deposits to the Renewal and Replacement Fund.
- (iii) Notwithstanding anything to the contrary in this Agreement, it is the intention of the parties that all revenue classified as Total Revenues under this Agreement shall be treated as Total Revenues under the Indenture, unless otherwise expressly provided in the Indenture. For so long as the Indenture is in force and effect, in the event of any

inconsistency regarding the classification of Total Revenues, the provisions of the Indenture shall control.

ARTICLE 2 OPERATING TERM

- 2.1 This Agreement shall have a term (the “**Operating Term**”) commencing on the Effective Date and shall remain in effect for an initial term of 60 months and may be extended thereafter for up to two additional 12-month periods, subject to the mutual agreement of the Manager and Owner.
- 2.2 If a new manager has not been chosen by Owner to operate the Hotel at the expiration date of this Agreement, Owner shall have the unilateral right to extend the Operating Term by written notice to Manager on a month-to-month basis (“**Holdover Period**”), until a new management agreement has been executed and the new manager is ready to assume day-to-day management of the Hotel so long as all amounts due Manager under this Agreement are paid in full in accordance with the terms of this Agreement, and Manager continues to be paid all such amounts due on a current basis.

ARTICLE 3 APPOINTMENT OF MANAGER

- 3.1 Owner grants to Manager during the Operating Term the right to supervise and direct the management and operation of the Hotel for and on the account of Owner, and Manager hereby accepts said grant and agrees that it will supervise and direct the management and operation of the Hotel, pursuant to the terms of the Major Agreements and this Agreement. Owner agrees that it will cooperate with Manager in every reasonable and proper way to permit and assist Manager to carry out its duties hereunder. Owner and Manager further agree that this Agreement provides for management of the Hotel, that Owner and Manager do not intend to nor does this Agreement grant or create a franchise within the meaning of the Federal Trade Commission Act, any rule or regulation promulgated thereunder, or any other applicable law, rule, regulation or judicial decision.
- 3.2 In accordance with and subject to the Major Agreements, Manager shall conduct a full service hotel operation that will provide the public with good and efficient services and with full service hotel accommodations, including all amenities normally associated therewith. Manager shall at all times operate and manage the Hotel in a professional manner in accordance with prudent management practices common to the operation of comparable full service hotels in the local hotel industry consistent with the requirements of this Agreement. In its operation of the Hotel, Manager shall comply with all applicable federal, state, and local laws, rules and regulations. Manager shall not knowingly permit or create any electrical or other interference with radio communications between the Airport and aircraft. Manager will not install any new lighting on or about the Site without the prior approval of Owner (such approval not to be unreasonably withheld or delayed), and will remove any lighting on the Site that Manager becomes aware of that will make it difficult for pilots to distinguish between Airport

lights and those of the Hotel, impair visibility in the vicinity of the Airport, or otherwise endanger landing, taking off, or maneuvering of aircraft.

- 3.3 This Agreement incorporates the Lease and the Indenture by reference. In the event of any inconsistency or conflict between the provisions of the Lease or the Indenture and the provisions of this Agreement, the provisions of the Lease or Indenture, as applicable, shall govern; provided, however, nothing contained herein shall in any way be deemed a waiver or forbearance by Manager of the right to receive amounts due hereunder in accordance with the terms hereof.

ARTICLE 4 GENERAL SERVICES BY MANAGER

- 4.1 Subject to the provisions of Article III, Owner hereby engages Manager as the exclusive operator of the Hotel during the Operating Term and Manager accepts such engagement. During the Operating Term, Manager shall, as sole and independent contractor engaged by Owner to operate the Hotel and in accordance with the Budgets and the other applicable provisions of this Agreement, and subject to the availability of sufficient funds (to the extent that funds are required to accomplish such compliance):
- A. Recruit, train, direct, supervise, employ and dismiss on-site staff (the “**Hotel Employees**”) for the operation of the Hotel in accordance with the Employment Policies (as defined in Section 5.6).
 - B. Develop and implement advertising, marketing, promotion, publicity and other similar programs for the Hotel.
 - C. Negotiate and reasonably enter into (i) licenses or concession agreements (collectively, the “**Concessions**”) for stores, office space and lobby space at the Hotel, collect the fees due under such Concessions and otherwise administer the Concessions, and (ii) contracts for the provision of services to the Hotel, as applicable; provided Manager shall not execute and enter into any Concessions, contracts or service agreements that (a) extend beyond two (2) years and are not cancelable by Owner without penalty upon sixty (60) days’ notice or less, or (b) provides for aggregate payments by Owner over the life of the contract (taking into account Owner’s early termination rights, if any) in excess of One Hundred Thousand Dollars (\$100,000.00) without the prior written consent of Owner. Manager may not sublease any portion of the Hotel or the Site without the prior written consent of the City and Owner. Manager shall provide Owner with a true and complete copy of each agreement entered into by Manager under this Section 4.1C within ten (10) days after final execution.
 - D. Apply for, process and take all necessary steps to procure and keep in effect in Manager’s name (and/or Owner’s name to the extent required by local and licensing authorities) all licenses (including liquor licenses) and permits required for the operation of the Hotel. Owner agrees to assist Manager in connection with Manager’s efforts to obtain said liquor licenses. Upon the expiration or sooner

termination of this Agreement, Manager agrees to the extent permitted by applicable law, to sell, assign, transfer and convey to Owner or its designee all of Manager's right, title, and interest in and to all such licenses (including liquor licenses) and permits, without charge (other than expenses of transfer, which shall be borne by Owner) or (in the event such assignment is not permitted by applicable law) to use its reasonable efforts to provide Owner or its designee with the use and benefits of such licenses until such time as Owner and/or its designee are able to obtain new licenses, not to exceed one hundred eighty (180) days, and with an indemnification from the assignee to Manager.

- E. Purchase or lease all FF&E, Operating Equipment and Operating Supplies necessary for the operation of the Hotel in accordance with the Capital Budget and chargeable to the Renewal and Replacement Fund or otherwise made available by Owner from the Revenue Fund as applicable.
- F. Review, process and timely pay all valid invoices, bills, and other monetary obligations of the Hotel under contracts, service agreements, equipment leases, and similar agreements.
- G. Provide routine accounting and purchasing services as required in the ordinary course of business.
- H. Maintain the Hotel in a good state of repair and in accordance with all applicable laws, ordinances, regulations, rulings and orders of governmental authorities.
- I. Subject to Section 4.2 below, use commercially reasonable efforts to operate the Hotel in accordance with the Major Agreements.
- J. Provide, direct, supervise, and manage such other services as are required under the terms of this Agreement, or as customarily performed by Manager at similar properties managed by Manager.
- K. Manager understands and agrees that, pursuant to the Lease, the City reserves the right of flight for the passage of aircraft above the surface of the Hotel hereunder in accordance with FAA criteria, and such right of flight shall include the right to cause in such airspace such noises as may be inherent to the operation of aircraft now known or hereafter used for navigation of or flight in the air, and that City reserves the right to use said airspace for landing at, taking off from or operating aircraft on or above the Airport; provided, however, if the foregoing in any way creates a failure to comply with, or satisfy, Brand Standards (as defined in Section 4.3 hereof), Manager shall not be deemed to be in default of Section 4.3 hereof.
- L. Manager shall accept payment for goods, accommodations or services in accordance with the terms of the Franchise.
- M. Manager shall keep the Hotel free from debris and trash, and shall make reasonable commercial efforts to keep the Hotel free from any known hazards created by Manager's operations.

- N. Manager shall provide for the handling of all trash and other refuse arising from the operation of the Hotel in accordance with all applicable laws, rules and regulations, and shall provide for its timely removal to a central collection for disposal. Manager shall take appropriate action to exterminate and to prevent the presence of rodents and other vermin in accordance with applicable health and safety codes and Brand Standards (as defined below). Manager shall keep all garbage and recyclable materials in durable, fly and rodent-proof, fireproof containers that are easily cleaned. The containers shall have tight fitting lids, doors, or covers and shall be kept covered when material is not being deposited in them.
- O. Manager shall maintain an internal control structure designed to provide reasonable assurance that Hotel assets are safeguarded from loss or unauthorized use, that transactions are executed in accordance with Manager's authority, and that financial records are reliable for the purposes of preparing financial statements. The internal control structure shall be supported by the selection, training, and development of qualified personnel, by an appropriate segregation of duties, and by the dissemination of written policies and procedures.
- P. Manager shall comply with all applicable federal, state, and local laws, codes, rules, regulations, and license and permitting requirements applicable to the operation of a full service hotel in Austin, Travis County, Texas.

4.2 Notwithstanding any other provision of this Agreement to the contrary, Manager's obligations, liabilities, duties and expectations with respect to any franchise agreement, mortgage or any other agreement relating to the Hotel or the Site and mutually agreed by Owner and Manager to be a Major Agreement shall be subject to the following: (i) true and complete copies thereof shall have been delivered to Manager sufficiently in advance to allow Manager to evaluate the scope of its obligations related thereto and put itself in a position to perform the obligations to be performed by Owner or Manager of the Hotel there under and (ii) the provisions thereof and/or compliance with such provisions by Manager (1) are limited to the day-to-day operation, maintenance and non-capital repair and replacement of the Hotel or any portion thereof, (2) do not require contribution of capital or payments of Manager's own funds, (3) do not increase Manager's obligations, liabilities, duties and expectations hereunder or decrease Manager's rights or benefits hereunder, (4) do not limit or purport to limit any corporate activity or transaction with respect to Manager or its Affiliates or any other activity, transfer, transaction, property or other matter involving Manager or its Affiliates other than at the site of the Hotel, and (5) are otherwise within the scope of Manager's duties under this Agreement. Owner acknowledges and agrees, without limiting the foregoing, that any failure of Manager or the Hotel to comply with the provisions of any Major Agreement that Manager is bound to comply with pursuant to this Agreement, arising out of (A) the condition of the Hotel, and/or the failure of the Hotel to comply with the provisions of such Major Agreement, prior to Manager's assuming the day-to-day management thereof, (B) construction activities at the Hotel (except to the extent arising from Manager's or any Affiliate of Manager's management of the same pursuant to Section 4.1(H) above), (C) inherent limitations in the design and/or construction of, location of and/or parking at the Hotel

and/or (D) Owner's failure to approve any matter requested by Manager in Manager's reasonable good faith business judgment as necessary or appropriate to achieve compliance with any Major Agreement, shall not be deemed a breach by Manager of any of its obligations under this Agreement.

- 4.3 Manager acknowledges that Owner is a party to the Franchise with Hilton Inns, Inc., a subsidiary of Hilton Hotel Corporation (the "**Brand**"), pursuant to which the Hotel operates under the trade name, trademarks, and service marks ("**Marks**") of the Hilton Hotels Brand and which requires that the Hotel comply with the Brand Standards therein (the "**Brand Standards**"). Owner acknowledges that (i) Manager's ability to manage and operate the Hotel in accordance with the Brand Standards is dependent on Owner's approval of Budgets which are adequate both in terms of operating amounts and capital reserves to enable Manager to maintain the Brand Standards. Owner and Manager further acknowledge that the Brand may revise, update, amend, change or modify the Brand Standards ("**Revisions**") from time to time and Owner shall give written notice, in detail, of any such Revisions to Manager as promptly as possible and Manager shall have a commercially reasonable time to implement such actions as are necessary to comply with the Revisions. All costs and expenses incurred by Manager to comply with the terms, conditions, and requirements of the Franchise, the Brand, and the Brand Standards shall be Operating Expenses or amounts otherwise chargeable to the Renewal and Replacement Fund. Manager shall not claim or assert any right, title or interest in the Marks, the Brand or the Franchise Agreement, but Owner shall take all actions, including, without limitation, obtaining the written acknowledgment of the Brand, as may be necessary to confer upon Manager the right to use the Marks and operate the Hotel under the Marks, to the same extent available to Owner under the Franchise.
- 4.4 Manager shall consult with and advise Owner, at Owner's reasonable request, concerning all policies and procedures affecting all phases of the conduct of business at the Hotel. Manager shall meet quarterly with Owner, or more frequently if so desired by Owner, to discuss operating results, personnel matters, on-going marketing activity, capital improvement programs, and other items of interest to Owner.
- 4.5 Manager shall consult with and advise Owner, at Owner's reasonable request, concerning any and all litigation and/or claims regarding the Hotel, and will not settle any such litigation and/or claims for an amount over Ten Thousand Dollars (\$10,000) without the prior approval of Owner, such approval not to be unreasonably withheld or delayed.
- 4.6 Nothing in this Agreement shall constitute or be construed to be or create a partnership or joint venture between Owner and Manager. Except as otherwise provided in this Agreement, as between Owner and Manager, (a) all debts and liabilities to third persons incurred by Manager in the course of its operation and management of the Hotel in accordance with the provisions of this Agreement shall be the debts and liabilities of Owner and (b) Manager shall not be liable in its individual capacity for any such obligations by reason of its management, supervision, direction and operation of the Hotel in accordance with the provisions of this Agreement as independent contractor for Owner. Manager may so inform third parties with whom it deals on behalf of Owner.

4.7 Environmental Compliance.

- A. Manager shall comply with all environmental laws, rules, regulations, orders and/or permits applicable to Manager's operation and management of the Hotel, including but not limited to, the terms of all required permits (about which Manager has knowledge) and all applicable laws relating to the use, storage, generation, treatment, transportation, and/or disposal of hazardous, toxic, or regulated substances. Manager shall not use or store any hazardous, toxic, or regulated substances on or at the Site or Hotel except in such limited quantities as reasonably necessary in the ordinary course of Hotel operations, and then only if such substances are properly labeled and contained, and notice of and a copy of the current material safety data sheet is made available to the Owner for each such substance. Manager shall not knowingly generate, treat, or dispose of any hazardous, toxic, or regulated substances or waste on or near the Site except in compliance with applicable law, and without first obtaining prior written approval from Owner and obtaining all required permits and approvals from all authorities having jurisdiction over Manager's operations. Manager shall promptly notify Owner of any spills, releases, or other discharges of hazardous, toxic or regulated substances by Manager at the Site and promptly abate, remediate, and remove any of the same in accordance with applicable environmental laws. Manager shall provide Owner with copies of all reports, complaints, claims, citations, demands, inquiries, or notices relating to the environmental condition of the Site, or any alleged material noncompliance with environmental laws by Manager at the Airport within ten (10) days after such documents are generated or received by Manager.
- B. Manager acknowledges that the Airport is subject to the National Pollution Discharge Elimination System Program ("NPDES") and Federal Stormwater Regulations (40 CFR Part 122) and the Texas Pollution Discharge Elimination Program ("TPDES"). In its operations at the Airport, Manager shall comply with all applicable provisions of NPDES, TPDES, Federal and State Stormwater Regulations, and the Airport Storm Water Pollution Prevention Plan, as they may be amended from time to time.
- C. Any and all liabilities, losses, claims, damages, costs and expenses (including, but not limited to, reasonable attorneys' fees and expenses) that may be incurred by or asserted against the Hotel, Owner and/or Manager under this Section 4.7 shall be allocated between the parties as provided for in Article XIX of this Agreement. The rights and obligations set forth in this Section 4.7 shall survive the termination of this Agreement.

ARTICLE 5 HOTEL EMPLOYEES

- 5.1 All Hotel Employees shall be employees of Manager. Compensation (including, without limitation, all wages and fringe benefits) of the Hotel Employees shall be an Operating Expense, and in accordance with and subject to the approved Budgets, shall be paid or

reimbursed to Manager out of the Operating Account (as hereinafter defined). If the amounts in the Operating Account are insufficient, Owner shall authorize the Trustee to transfer sufficient funds from another account in accordance with and to the extent funded by the Trustee pursuant to the Indenture, following written demand therefore by Manager. Owner shall at no time interfere with the relationship of any person employed in the operation of the Hotel and shall not during the Operating Term, directly or indirectly, offer employment to any such employee without Manager's prior written consent. Owner shall not interfere with the day-to-day activities of personnel at the property level but may direct communications through Executive Personnel and designated Manager's corporate office executive(s) on matters connected with the Hotel and its operations.

- 5.2 Manager may, consistent with the Budgets, enroll the Hotel Employees in pension, medical and health, life insurance and similar employee benefit plans substantially similar to plans in other hotels of similar size and type operated by Manager. Such plans may, with Owner's approval, be joint plans for the benefit of employees at more than one hotel or motel owned, leased or managed by Manager or its Affiliates. Employer contributions to such approved plans during the Operating Term (including any withdrawal liability incurred upon termination of this Agreement) and reasonable administrative fees Manager may expend in connection therewith, shall be the responsibility of Owner and shall be an Operating Expense. The administrative expenses of any joint plans will be fairly and equitably apportioned by Manager among properties covered by such plan. The apportionment shall be based upon the total costs of the administrative expenses multiplied by a fraction, the numerator of which is the total payroll expense of the Hotel, and the denominator of which is the total payroll expense of all hotels participating in the approved joint plans or in a similar and equitable way (or alternatively, Manager may allocate such administrative expenses based upon the number of employees depending on which method is more equitable).
- 5.3 To the extent not otherwise booked for third party guests, Manager, in its reasonable discretion, may (i) provide lodging for Manager's employees visiting the Hotel in connection with the performance of Manager's services and allow them the use of Hotel facilities, and (ii) provide the General Manager of the Hotel temporary living quarters within the Hotel and the use of all Hotel facilities, at either a discounted price or without charge in accordance with Manager's standards for other hotels under its management.
- 5.4 During the Operating Term and for a period of two (2) years thereafter, Owner agrees that it (and its Affiliates) will not, without the prior written consent of Manager, either directly or indirectly, alone or in conjunction with any other person or entity, (a) solicit or attempt to solicit any general manager (each, a "**General Manager**" and, collectively, "**General Managers**") of the Hotel or any other hotels managed by Manager or any of Manager's corporate level (i.e., not engaged full time in the operation of the Hotel) employees or staff (the "**Executive Employees**"); collectively, the General Manager and Executive Employees, the "**Key Employees**") to terminate, alter or lessen Key Employees' employment or affiliation with Manager or to violate the terms of any agreement or understanding between any such Key Employee and Manager, as the case may be, or (b) employ, retain or contract with any Key Employee, unless in each case of

the actions described in (a) or (b) it will pay Manager, within thirty (30) days of taking any of the actions described in (a) or (b) above, an amount equal to 2.5 times the aggregate base salary and cash bonus paid to the relevant Key Employee over the twelve (12) month period immediately preceding such action; provided that the restrictions set forth in clauses (a) and (b) above shall not apply to the employment, retention of or contracting with a Key Employee if (i) Manager has not offered such Key Employee employment prior to the termination of this Agreement, (ii) Manager has not offered such Key Employee employment within thirty (30) days from Manager's receipt of notice of the termination of this Agreement, (iii) if Manager has otherwise waived in writing such restriction, or (iv) if this Agreement is terminated by Owner as a result of the commission of any theft, embezzlement or other criminal misappropriation of Hotel or Owner funds or any fraud or felony by any executive of Manager that relates to or materially affects the operation or reputation of the Hotel. The parties agree that Manager's damages resulting from Owner's violation of the restrictions set forth in clauses (a) and (b) above are not readily determined and that the compensation payable to Manager by Owner as provided by this Section 5.4 is a fair and reasonable estimation thereof.

- 5.5 Manager shall not be liable for any failure of the Hotel to comply prior to January 1, 2004 with all federal, state, local and foreign statutes, laws, ordinances, regulations, rules, permits, judgments, orders and decrees affecting labor union activities, civil rights or employment in the United States, including, without limitation, the Civil Rights Act of 1870, 42 U.S.C. 1981, the Civil Rights Acts of 1871, 42 U.S.C.. 1983 the Fair Labor Standards Act, 29 U.S.C., 201, et seq., the Civil Rights Act of 1964, 42 U.S.C.. 2000e, et seq., as amended, the Age Discrimination in Employment Act of 1967, 29 U.S.C., 621, et seq., the Rehabilitation Act, 29 U.S.C. 701, et seq., the Americans With Disabilities Act of 1990, 29 U.S.C.. 706, 42 U.S.C.. 12101, et seq., the Employee Retirement Income Security Act of 1974, 29 U.S.C., 301, et seq., the Equal Pay Act, 29 U.S.C., 201, et seq., the National Labor Relations Act, 29 U.S.C., 151, et seq., and any regulations promulgated pursuant to such statutes (collectively, as amended from time to time, and together with any similar laws now or hereafter enacted, the "**Employment Laws**"). Manager shall abide by all Employment Laws applicable to Hotel Employees.
- 5.6 Manager shall from time to time develop and implement policies, procedures, and programs for the Hotel (collectively, the "**Employment Policies**") reasonably designed to effect compliance with the Employment Laws. The Employment Policies shall comply with applicable law, and be consistent with industry standards from time to time for reputable hotel management companies. To the extent not otherwise prohibited by applicable law, upon request of Owner from time to time, Manager shall make available, for inspection by Owner, (i) copies of all employee policies and procedures, including, without limitation, copies of employee manuals and handbooks, in effect at the Hotel, and (ii) Hotel Employee job classifications, number of Hotel Employees in each job classification, job descriptions (if applicable), pay scales and benefits provided to each job classification.
- 5.7 Manager shall consult with Owner in advance of the hiring of the general manager, controller, director of sales and food and beverage director (the "**Executive Personnel**"), and Manager's selection of each Executive Personnel shall be subject to Owner's

approval. Owner shall have the right to interview any candidates for such positions selected by Manager (which request by Manager for Owner's approval shall be accompanied by a written summary of such candidate's professional experience and qualifications); provided that (a) Owner shall be deemed to have approved any Executive Personnel candidate selected by Manager if Owner has not notified Manager in writing of Owner's disapproval of such candidate within ten (10) days following Owner's interview of such candidate or any decline by Owner to interview such candidate, and (b) Owner may not reject more than three (3) qualified candidates for any Executive Personnel position. If Owner rejects three (3) qualified candidates, Manager can hire any of the three (3) rejected, qualified candidates.

- 5.8 Manager shall promptly inform Owner of any union organizing activities or campaigns, demands or petitions for union recognition, or any NLRB charges or proceedings undertaken with respect to the Hotel or the Hotel Employees. Owner shall have the right to direct and control the negotiation of collective bargaining agreements and to approve any collective bargaining agreement prior to the execution thereof; provided, however, that, subject to this Section 5.8, Manager shall have the right to participate in (or, at the direction of Owner, lead) collective bargaining with the bargaining representative or representatives of Hotel Employees as the employer of such Hotel Employees and to enter into collective bargaining agreements approved by Owner. Manager shall meet with Owner prior to commencing or participating in any collective bargaining negotiations to obtain Owner's direction with respect to the Hotel's negotiating strategy (including the strategic decision as to whether to commit the Hotel to participation in a negotiating group bound to mutual defense and acceptance of the group's collective decision) and to establish a framework of acceptable contract terms (the "**Framework**"). Once the Framework is established, Manager shall consult with Owner as to the status of such collective bargaining negotiations and shall not, without the prior consent of Owner, negotiate in a manner or enter into any binding agreement that is inconsistent with the Framework. Owner acknowledges that, as required by applicable laws governing labor relations, Owner's right to approve any bargaining agreements, and its right to be advised from time to time on progress of organizational or collective bargaining matters, shall be disclosed to the bargaining representative of any group of Hotel Employees. Notwithstanding any contrary directions or instructions from Owner, Manager shall have the right to refuse the same if it has received the written advice of independent counsel that to conform to such instructions or directions would involve a substantial risk of causing Manager to commit an unfair labor practice or otherwise be violation of applicable laws governing labor relations.
- 5.9 If at any time Owner reasonably requests that the employment of a Hotel Employee be terminated by Manager (whether by means of termination of employment or transfer to another hotel managed by Manager or any of its Affiliates), and such request is made with good reason supported by objective evidence of unsatisfactory performance or behavior by such Hotel Employee, Manager shall reasonably and in good faith consider Owner's request.
- 5.10 If Manager physically relocates any Executive Personnel to another hotel or property managed by Manager or any of its Affiliates within twenty-four (24) months after his/her

arrival at the Hotel (i.e., the time at which such Hotel Employee is put on the Hotel payroll), Manager shall reimburse Owner for part of the relocation expenses incurred in relocating such individual's replacement to the Hotel, if any, as provided in the following two sentences. The reimbursement to be made by Manager to Owner pursuant to this Section 5.10 shall be equal to the total relocation costs incurred by Owner in bringing the transferred Executive Personnel to the Hotel, multiplied by a fraction, the numerator of which shall be the period of time remaining from the date the departing Executive Personnel left his or her employment at the Hotel to the date when the departing Executive Personnel would have been employed at the Hotel for 730 days, and the denominator of which shall be 730. Manager's reimbursement obligation as described in the preceding two sentences shall not apply with respect to the relocation of any Executive Personnel whose transfer from the Hotel to another hotel managed by Manager or any of its Affiliates was requested by Owner. It is understood and agreed that Owner shall not incur any expense in connection with the relocation of any Hotel Employee to his or her new position at a hotel managed by Manager or any of its Affiliates regardless of the length of time any such individual is employed at the Hotel or the relocation expenses incurred in relocating such Hotel Employee's replacement to the Hotel.

ARTICLE 6 PROVISION OF FUNDS

- 6.1 Manager shall not be deemed to be in default of its obligations under this Agreement to the extent it is unable to perform any obligation directly or as a result of a lack of available funds from the operation of the Hotel or as otherwise provided by Owner.
- 6.2 Manager shall in no event be required to advance any of its funds (whether by cash advance, waiver or deferral of its management fees or otherwise) for the operation of the Hotel except as otherwise expressly set forth in this Agreement.
- 6.3 Owner shall authorize, to the extent funded by the Trustee pursuant to the Indenture, following written requisition by Manager to Trustee, any and all funds as are reasonably requested to satisfy the expenses related to the operations and maintenance of the Hotel, in accordance with the terms of the Indenture and the Budget approved by Owner. Notwithstanding anything contained in the Indenture or the Major Agreements, nothing contained in this Agreement shall be deemed a waiver or forbearance by Manager of the right to receive payment of fees or reimbursements under this Agreement within the time periods set forth herein.

ARTICLE 7 CENTRALIZED SERVICES

- 7.1 Manager may provide or cause its affiliated companies to provide for the Hotel and its guests the full benefit of any reservations system hereafter established by Manager or its Affiliates. Additionally, Manager shall provide, or cause its affiliated companies to provide, such aspects of any accounting, data processing, IT central support services, purchasing services (including food and beverage purchasing oversight), other group benefits and services, revenue management services, and on-site sales training, as are

made available generally to properties managed by Manager, all of which are collectively referred to as “**Centralized Services.**” Manager shall be paid \$4,487.00 per month for providing Centralized Services, which as of the effective date of this Agreement consist of IT/data processing and centralized purchasing. Owner and Manager each acknowledge that Manager’s cost in providing certain Centralized Services may be subject to future increases, with any such increases to be (i) negotiated from time to time by Owner and Manager, and (ii) fully disclosed in the applicable Budgets and/or subsequent forecast of operations as prepared by Manager and submitted to Owner for Owner’s approval. Any such increase shall be represented by a fixed periodic fee (e.g., monthly, bi-monthly, quarterly, and so forth). Manager shall advise Owner in writing of any Centralized Service not set forth in this Section 7.1, which Manager proposes to provide to the Hotel and the approximate cost thereof. Owner shall have the right to reject, in its sole and absolute discretion, any and all such other Centralized Services that are proposed by Manager after the date of the Agreement and/or which are not set forth in Section 7.1, in which case Manager shall not provide such rejected Centralized Services and no portion of the cost of such rejected Centralized Services shall be incurred by Owner or included in the Operating Expenses. To the extent that any services or benefits are provided to the Hotel by or through the Brand, if any, pursuant to any Major Agreements, then Manager shall not be obligated to provide and shall not charge the Hotel for the provision of such services.

7.2 Owner acknowledges that Manager may enter into purchasing, maintenance or service contracts with respect to the Hotel as are made available generally to properties managed by Manager. Manager shall secure competitive prices for such goods and services consistent with the requirements of the Major Agreements. When taking bids or issuing purchase orders, Manager shall use commercially reasonable efforts to secure for, and shall credit to, Owner any rebates, cash incentives, administration fees, concessions, profit participation or similar payments or economic consideration from or in, as applicable, vendors or suppliers of goods or services. Manager shall promptly remit to Owner’s benefit in the Operating Account all such amounts received by Manager or by any Affiliate of Manager in connection with any purchases described above. This clause is intended to ensure that neither Manager nor any Affiliate of Manager shall receive, directly or indirectly, any remuneration other than that to be paid by Owner to Manager hereunder. In the event Manager receives any such amounts from purchases made on behalf of the Hotel and other hotels managed by Manager or by any Affiliate of Manager, Manager shall distribute to Owner its fair and equitable share of such amounts, which distribution to Owner shall be accompanied with a detailed description of Manager’s basis for the fair and equitable allocation. All purchasing transactions relating to the Hotel with Affiliates of Manager shall constitute Affiliate Transactions (as hereinafter defined).

7.3 Direction and administration of Hotel renovation projects, other planning, design, concept development and implementation, information technology and accounting services for specific renovation or other projects, and related project management services which the Hotel may require (collectively, “**Project Services**”), are not Centralized Services. Project Services are available on an a la carte basis and fees shall be paid as an Operating Cost for actual services rendered. In the event Owner requests

such Project Services in writing, Manager may use the services of its Affiliates to perform Project Services; in which case, Project Services shall be furnished to Owner on terms and conditions that are generally no less favorable to Owner than those available from unrelated third parties in an arms-length transaction, and on terms and conditions than are no less favorable to Owner that are offered to owners of other properties managed by Manager. Owner and Manager shall enter into a separate agreement outlining the terms and fees associated with such services.

ARTICLE 8 WORKING CAPITAL AND BANK ACCOUNTS

- 8.1 Subject to Section 6.3, (i) funds for working capital shall be maintained from Total Revenues or other funds available therefore in the trust estate and in accordance with the Indenture, and (ii) in no event will the balance in the Operating Account be less than \$150,000, taking into account anticipated Total Revenues to be received at the Hotel during the applicable period.
- 8.2 Manager further acknowledges and agrees that Owner is a single purpose entity that has no assets or financial resources other than its leasehold interest in the Hotel and the Total Revenues of the Hotel. The Total Revenues are pledged as security to satisfy the payment of certain bonds that were issued to finance the development and reconstruction of the Hotel, as provided in the Indenture.
- 8.3 Manager shall deposit each business day (or as otherwise agreed by Owner in writing) the Total Revenues realized from the operation of the Hotel as required in the Indenture into an account established by Owner for such purpose (the “**Depository Account**”). Funds in the Depository Account are periodically swept up and transferred to the Bonds Trustee in accordance with the Indenture. Manager shall establish a special account in the name of Manager as agent for and fiduciary of Owner (the “**Operating Account**”) in such federally insured bank, savings and loan or trust company approved by Owner. Any successor or substitute bank, savings and loan or trust company shall be selected in the same manner. Manager shall have no liability for any loss resulting from insolvency, malfeasance or negligence of the bank in which such funds are deposited. Funds received from the Bonds Trustee for payment of Operating and Maintenance Expenses (as defined in the Indenture) shall be deposited in the Operating Account. From the Operating Account, Manager shall pay all Operating Expenses, Fixed Charges and other amounts required to be paid by Manager on Owner’s behalf under this Agreement. Upon request from Owner, Manager shall provide Owner with copies of the bank statements for the Operating Account or any other account maintained by Manager under this Agreement.
- 8.4 The Operating Account shall be in the name of Manager, as agent for and fiduciary of Owner. Except as expressly set forth below, only representatives of Manager shall sign checks or other documents of withdrawal, provided that such representatives shall be bonded or otherwise insured in a manner reasonably satisfactory to Owner. The premiums for bonding or other insurance shall be an Operating Expense except for premiums for bonding and/or insuring off-site Executive Employees of Manager. Upon

the expiration or termination of this Agreement and provided all fees, costs, expenses and obligations incurred under this Agreement have been paid or discharged, all remaining amounts in the Operating Account and other accounts maintained by Manager under this Article shall be transferred to Owner. Manager shall also have the right, subject to approval from Owner which shall not be unreasonably withheld, to establish any additional bank accounts in the name of Owner that Manager deems reasonably necessary, except for the payroll account which shall be in the name of Manager (dba Hotel). Owner shall also have a signatory right to the Operating Account and any other bank accounts, as applicable; provided, however, that check writing and other documents for the withdrawal of funds from the Operating Account will require the signature approval of (i) an Executive Employee of Manager only, or (ii) Owner and an Executive Employee of Manager, but not Owner only. Notwithstanding the foregoing to the contrary, from and after and during the continuance of an Event of Default by Manager under this Agreement, Owner shall be authorized to make withdrawals from the Operating Account and other accounts relating to the Hotel as long as (i) such amounts are applied to Hotel operating expenses and not for any other purpose; (ii) Owner in good faith believes any non-payment will have an adverse effect on the Hotel; and (iii) Owner uses commercially reasonable efforts to notify Manager in writing at least two (2) business days prior to the withdrawal outlining the amount and purpose of such withdrawal .

- 8.5 Owner further acknowledges and agrees that Manager shall have no obligation to advance its own funds for any payment and that no provisions herein that call for Manager to make payments, provide funds or which otherwise impose financial obligations on Manager shall be construed to impose such obligations.

ARTICLE 9 BOOKS, RECORDS AND STATEMENTS; BUDGETS

- 9.1 Manager shall keep full and accurate books of account and other records reflecting the results of the operation of the Hotel in accordance with generally accepted accounting principles (“GAAP”) and the “Uniform System of Accounts” (Eleventh Revised Edition 2014, as further revised from time to time) as adopted by the American Hotel and Motel Association of the United States and Canada (the “Uniform System”) with such exceptions as may be required by the provisions of this Agreement; provided, however, that Manager may, with prior notice to Owner, make such modifications to the methodology in the Uniform System as are consistent with Manager’s standard practice in accounting for its operations under management contracts generally, so long as such modifications do not affect the inclusion or exclusion of items from Total Revenues, Operating Expenses or Fixed Charges. Except for the books and records which may be kept in Manager’s home office or other suitable location pursuant to the adoption of a central billing system or other centralized service, the books of account and all other records relating to or reflecting the operation of the Hotel shall be kept at the Hotel, or at another location in Austin, Texas approved by Owner. Owner, the Bonds Trustee, and the independent accounting firms of Owner, shall each have the right and privilege of examining said books and records at any business hours following five (5) calendar days advance notice to Manager. Any such review shall be completed without material

disruption to the Hotel operations. All of such books and records including, without limitation, books of account, guest records, and front office records, shall be the property of Owner. Manager shall retain the current year's books and records through completion of the audit required under Section 9.3 for such Fiscal Year on Site. To the extent Owner does not provide storage for books and records after completion of the annual audit, Manager shall retain, at Owner's cost, all such books and records for a period of three years after the completion of the audit required under Section 9.3 for the Fiscal Year related to such records, or such longer time as may be required by law. All of such books and records shall thereafter be available to Owner or Owner's representatives at all reasonable times for inspection, audit, examination and transcription for a period of three (3) years. This Section shall survive termination of this Agreement.

- 9.2 Manager shall deliver to Owner and the Bonds Trustee within twenty (20) days after the end of each month, calendar quarter, and within sixty (60) days after the end of each Fiscal Year, the following items (collectively, the "**Reports**"):
- A. An executive summary noting highlights of operations for such month, quarter or Fiscal Year, as applicable;
 - B. A balance sheet as of the last day of such month, quarter or Fiscal Year, as applicable;
 - C. A source and use of funds statement for such month, quarter or Fiscal Year, as applicable;
 - D. An income and expense statement for such month with departmental schedules, as applicable;
 - E. A detailed General Ledger;
 - F. A forecast of operations and cash flow for the current Fiscal Year utilizing (i) actual year-to-date figures, (ii) forecasts for the balance of the Fiscal Year and (iii) budgeted amounts for the balance of the Fiscal Year;
 - G. A summary of year-to-date capital expenditures and budgeted amounts for the balance of the year;
 - H. For so long as the Indenture is in force and effect, each quarterly and Fiscal Year Report shall provide a calculation of the Net Revenues and the Aggregate Debt Service due on the Bonds, in accordance with the Indenture, as may be amended from time to time;
 - I. Manager agrees to provide to Owner as part of its Reports, an annual report prepared in accordance with the Uniform System of Accounts for the Lodging Industry, or such other report template or templates as are provided by Owner from time to time and are reasonably acceptable to Manager; and

- J. Such other Hotel related reports as Owner may reasonably request; provided, however, any additional costs or expenses associated, or incurred by Manager directly or indirectly in connection, with such reports shall be an Operating Expense of the Hotel.

The Reports shall be prepared in accordance with GAAP and the Uniform System to the extent applicable and shall otherwise be prepared in accordance with Manager's standard financial reporting and budgeting practices.

- 9.3 Within one hundred-twenty (120) days after the end of the Fiscal Year, Owner is required to furnish to the Bonds Trustee and City an audited annual financial statement. To that end, a certified audit of the Hotel operations and Owner-related accounts and activities shall be performed by a nationally recognized, independent Certified Public Accounting firm with expertise in the lodging industry as appointed by Owner. Manager shall cooperate in good faith with Owner and its auditors and representatives to facilitate such audit, which shall be an expense of operating the Hotel. A copy of the audit report shall be furnished to Manager.
- 9.4 On or before each November 1st during the Operating Term, Manager shall submit to Owner for the next Fiscal Year the following items (collectively, the "**Budgets**"):
 - A. An operating budget (the "**Operating Budget**") setting forth in reasonable line item detail the projected income from and expenses of all aspects of the operations of the Hotel;
 - B. A capital budget (the "**Capital Budget**") setting forth in reasonable line-item detail proposed capital projects and expenditures for the Hotel including but not limited to capital FF&E expenditures;
 - C. A cash flow forecast (the "**Cash Flow Forecast**") on a monthly basis;
 - D. A plan (the "**Marketing Plan**") describing the proposed advertising, marketing, promotion, publicity and other like programs for the Hotel; and
 - E. Such other Hotel related reports or projections as Owner may reasonably request.

The Budgets shall be prepared in accordance with GAAP and the Uniform System to the extent applicable and shall otherwise be prepared in accordance with Manager's standard financial reporting and budgeting practices.

If the Budgets (or any component of the Budgets), have not been approved by Owner prior to December 31 of any applicable Fiscal Year, then, until approval of the Budgets (or such components), Manager shall cause the Hotel to be operated substantially in accordance with the prior year's actual results except for, or as modified by, (a) those components of such Budgets for the applicable Fiscal Year approved by Owner, (b) an adjustment to the disputed Budgets so as to increase (but not decrease) disputed expense items by the same percentage as any percentage increase in the Consumer Price Index-All Urban Consumers (U.S.

City Average) (1982-1984 =100), or any successor index thereto appropriately adjusted (the “CPI”), from the CPI in effect on the first day of the first month of the Fiscal Year applicable to such last approved Budget to the CPI in effect on the first day of the first month of the Fiscal Year applicable to the disputed Budgets, (c) the Necessary Expenses which shall be paid as required and (d) the Emergency Expenses which shall be paid as required.

9.5 Upon approval of the Budgets by Owner, Manager shall cause the Hotel to be operated in accordance with the Budgets, except for variances expressly permitted by this Section 9.5. Manager shall not, without Owner’s prior approval:

- A. Incur any expense for any major expense account category (e.g. administrative and general) in the Operating Budget which causes the aggregate expenditures for such account category to exceed the budgeted amount by five percent (5.0%), and further provided that such excess does not cause pre-debt service cash flow to be insufficient to meet debt service for the Bonds, provided that Manager may, without Owner’s approval, (i) pay any expenses (the “**Necessary Expenses**”) regardless of amount, which are necessary for the continued operation of the Hotel and which are not within the reasonable control of Manager (including, but not limited to, those for taxes, utility charges and debt service), and (ii) pay any expenses, including capital expenses (the “**Emergency Expenses**”) regardless of amount which, in Manager’s good faith judgment, are immediately necessary to protect the physical integrity or lawful operation of Hotel or the health or safety of its occupants; provided, however, that Manager shall use commercially reasonable efforts (i) to notify Owner of any such Necessary Expenses or Emergency Expenses prior to the expenditure of Hotel funds, and (ii) following any such expenditure, to compensate for increases in Necessary Expenses or Emergency Expenses in an effort to achieve the projected operating results shown in the applicable approved Operating Budget; or
- B. Incur any expense for any general account classification in the Capital Budget which causes the aggregate expenditures for such account classification to exceed the budgeted amount by the greater of (i) ten percent (10%) or (ii) Ten Thousand Dollars (\$10,000) more provided that Manager may, without Owner’s approval, pay any Emergency Expenses which are capital in nature .

9.6 Owner and Manager acknowledge that the estimates of revenues and expenses contained in the Budgets represent Manager’s best estimate of the same for the ensuing Fiscal Year which can vary for reasons beyond the control of Manager, such as due to volume of business and levels of hotel occupancy in the area, the mix of businesses, prevailing wage rates, inflation, utility rates, insurance premiums, extraordinary repair and maintenance expenses and change in market conditions. Failure to achieve the results set forth in the Budgets shall under no circumstances be deemed or constitute an Event of Default under this Agreement.

9.7 The Budgets are subject to the approval of Owner. For a period of thirty (30) days after receipt of the Budgets, Owner is entitled from time to time to request further details and

to submit written comments. Owner agrees to give commercially reasonable consideration to the Budgets and not to unreasonably refuse to accept any items. Owner shall use commercially reasonable efforts to complete its review of the Budgets and communicate its comments and suggested revisions to Manager within thirty (30) days after receipt. Owner shall promptly and prior to the commencement of any Fiscal Year give Manager written notice of Owner's objection and proposals for amendment of any disputed items, and Owner and Manager shall act reasonably to resolve any such differences between them. If Owner and Manager cannot agree upon any Budget within sixty (60) days of the time periods set forth in Section 9.4, then the same shall be deemed a dispute and resolved pursuant to Article XXI, the cost of which shall be deemed an extraordinary operating expense.

- 9.8 On or before the last day of each month, Manager shall submit a requisition to the Bonds Trustee for the Operating and Maintenance Expenses required for such month; provided, however that Manager may submit such requisitions on a weekly or bi-weekly basis with the consent of Owner and the Bonds Trustee.

ARTICLE 10 MANAGEMENT FEES AND PAYMENTS TO MANAGER

- 10.1 Owner shall pay to Manager, on a monthly basis, for services rendered under this Agreement a management fee (the "**Base Fee**") equal to \$34,563 per month, adjusted annually so as to increase (but not decrease) the Base Fee by the same percentage as any percentage increase in the CPI from the CPI in effect on the first day of the first month of the previous Fiscal Year to the CPI in effect on the first day of the first month of the current Fiscal Year; provided, however, no such CPI increase shall exceed five percent (5%) in any Fiscal Year.
- 10.2 In each month during the Operating Term, Manager shall be paid out of the Operating Account the Base Fee, Manager's fees for Centralized Services as set forth in Section 7.1 and any other payments due Manager under and subject to the terms of this Agreement for the preceding month.

ARTICLE 11 INSURANCE

- 11.1 During the Operating Term, to the extent Owner does not place or keep in force the insurance coverages required pursuant to the terms of any Major Agreement, Manager shall cause to be placed and kept in force all forms of insurance required by law or needed to adequately protect Manager, the City, the Bonds Trustee, and Owner, as their respective interests may appear, as set forth in **Schedule 11.1**. To the extent requested by Owner and/or Bonds Trustee, Manager shall place and maintain all insurance reasonably required to fully insure the Hotel throughout the Operating Term. The cost of insurance shall be paid from Hotel revenues as an Operating Expense.
- 11.2 Manager acknowledges receipt of the relevant insurance provisions of the Indenture and the Lease, and of the Brand under the Brand Standards. In the event of any conflict

among the insurance requirements of the various Major Agreements, the Major Agreement having the strictest requirements shall govern.

**ARTICLE 12
TAXES**

- 12.1 To the extent that funds from Total Revenues or funds otherwise provided by Owner are available, Manager shall pay all taxes on their respective due dates on behalf of Owner in following order of priority: (a) payroll, (b) sales and/or use, and (c) occupancy taxes. All Hotel occupancy and sales taxes will be deposited daily in a tax escrow account controlled by Manager for payment as required by the state and any other municipality or taxing authority. (This does not include real estate taxes unless otherwise stated elsewhere in this Agreement). Manager acknowledges that Owner is a nonprofit public facility corporation created under Article 717s, Vernon's Annotated Texas Civil Statutes (now recodified as Chapter 303 Texas Local Government Code), as amended. Owner is a constituted authority and instrumentality of the City of Austin. As such Owner qualifies for exemption from certain Texas State taxes, including the franchise tax, and the limited sales, excise and use taxes, and to the extent that Owner provides to Manager evidence of such exemption, Manager shall use commercially reasonable efforts to utilize such exemptions when making payments on behalf of Owner to the extent permitted by applicable laws.

**ARTICLE 13
DAMAGE OR DESTRUCTION; CONDEMNATION**

- 13.1 If fire or other casualty damages the Hotel, Manager shall promptly notify Owner and the Bonds Trustee. This Agreement shall remain in full force and effect subsequent to such casualty provided that either party may terminate this Agreement upon thirty (30) days prior notice to the other party if (a) Owner shall elect to close the Hotel as a result of such casualty (except on a temporary basis for repairs or restoration) or (b) Owner shall determine in good faith not to proceed with the restoration of the Hotel and provided further that Manager may terminate this Agreement upon thirty (30) days prior notice to Owner if twenty percent (20%) or more of the rooms in the Hotel are unavailable for rental for a period of one hundred twenty (120) days or more as a result of such casualty.
- 13.2 If all or any portion of the Hotel becomes the subject of a condemnation proceeding or if Manager learns that any such proceeding may be commenced, Manager shall promptly notify Owner and the Bonds Trustee. Either Owner or Manager may terminate this Agreement on thirty (30) days' notice to the other party if (a) all or substantially all of the Hotel is taken through condemnation or (b) less than all or substantially all of the Hotel is taken, but, in the reasonable judgment of the party giving the termination notice, the Hotel cannot, after giving effect to any restoration as might be reasonably accomplished through available funds from the condemnation award, be profitably operated as a full-service, first-class Hotel.
- 13.3 Any condemnation award or similar compensation shall be the property of Owner, provided that Manager shall have the right to bring a separate proceeding against the

condemning authority for any damages and expenses specifically incurred by Manager as a result of such condemnation.

- 13.4 As long as the Bonds are outstanding, any proceed(s) received as a result of a casualty or condemnation proceeding shall be applied in accordance with the Indenture.

ARTICLE 14 EVENTS OF DEFAULT

- 14.1 The following shall constitute events of default (“**Events of Default**”):

- A. If either party shall be in default in the payment of any amount required to be paid under the terms of this Agreement, and such default continues for a period of twenty (20) days after written notice from the other party;
- B. If either party shall be in material default in the performance of its other obligations under this Agreement, and such default continues for a period of thirty (30) days after written notice from the other party, provided that if such default cannot by its nature reasonably be cured within such thirty (30) day period, an event of default shall not occur if and so long as the defaulting party promptly commences and diligently pursues the curing of such default, but in no event shall such cure period extend beyond ninety (90) days after such written notice;
- C. If either party shall (i) make an assignment for the benefit of creditors, (ii) institute any proceeding seeking relief under any federal or state bankruptcy or insolvency laws, (iii) institute any proceeding seeking the appointment of a receiver, trustee, custodian or similar official for its business or assets or (iv) consent to the institution against it of any such proceeding by any other person or entity (an “**Involuntary Proceeding**”);
- D. If an Involuntary Proceeding shall be commenced against either party and shall remain undismissed for a period of one hundred twenty (120) days;
- E. If either party shall be in default beyond the date of any applicable grace or cure periods under any Major Agreements;
- F. If Manager breached its obligations under Article XX of this Agreement, and such breach shall remain uncured for a period of thirty (30) days;
- G. Material theft, larceny, or criminal misappropriation of funds by Manager; or
- H. Manager, willfully or in bad faith, falsifies or makes a material misrepresentation on any report required to be made by Manager hereunder, and such report is not corrected within fifteen (15) days of written notice from Owner.

- 14.2 If any Event of Default shall occur, the non-defaulting party may terminate this Agreement on five (5) days prior notice to the defaulting party.

- 14.3 The right of termination set forth in Section 14.2 shall not be in substitution for, but shall be in addition to, any and all rights and remedies for breach of contract available in law or at equity. In no event shall either party be liable to the other party under this Agreement for incidental, consequential or punitive damages.
- 14.4 Neither party shall be deemed to be in default of its obligations under this Agreement if and to the extent that such party is unable to perform such obligation as a result of fire or other casualty, act of God, strike or other labor unrest, unavailability of materials, pandemic, war, terrorism, riot or other civil commotion or any other cause beyond the control of such party (“**Force Majeure Events**”). The party invoking Force Majeure shall give prompt, timely and adequate notice to the other party, by electronic mail, facsimile transmission or telephone confirmed promptly thereafter in writing, and shall use due diligence to remedy any default of its obligations caused by the Force Majeure Event, as soon as reasonably possible; provided, however the failure to give such notice by a party shall not be deemed to lessen, reduce or cancel the effect of the immediately preceding sentence with respect to any such Force Majeure Event.

ARTICLE 15 TERMINATION RIGHTS

- 15.1 In addition to its rights to terminate this Agreement under Section 14.2 and in addition to all other rights and remedies of Manager, Manager may terminate this Agreement upon five (5) business days’ notice if (i) if the license(s) for the sale of alcoholic beverages in the Hotel are at any time, without fault by Manager, suspended, terminated or revoked and such suspension, termination or revocation shall continue stayed and in effect for a period of sixty (60) consecutive days; (ii) the Franchise is canceled without fault by Manager; or (iii) Owner fails to provide adequate working capital to pay or reimburse Manager for the Operating Expenses of the Hotel to the extent set forth in the applicable approved Operating Budget and any permitted variances under Section 9.5(a), including, but not limited to, the maintenance of the insurance coverages required hereunder, in clause (i) and (ii) if Owner has failed to remedy any such situation within twenty (20) days following Manager’s written notice, and in clause (iii) if Owner has failed to remedy any such situation within three (3) business days following Manager’s written notice, subject to City Council approval if applicable and in accordance with City of Austin Charter.
- 15.2 Owner shall have the right to terminate the Agreement upon Owner’s sale or transfer of the Hotel to a bona fide unaffiliated third party, subject to (i) a sixty (60) day advance written notice provided to Manager, (ii) Owner’s payment of the Sale Termination Fee to Manager, and (iii) payment of all other amounts due Manager under this Agreement through the date of termination. For purposes of this Agreement, the “**Sale Termination Fee**” shall equal the Base Fees earned by Manager for the most recent trailing twelve (12) month period preceding the effective date of termination. Manager shall receive no Sale Termination Fee if a prospective purchaser of the Hotel retains Manager to manage the Hotel.

- 15.3 Owner shall pay no termination fee to Manager should Owner terminate the Agreement due to an Event of Default by Manager pursuant to Article XIV.
- 15.4 Owner shall have the right to terminate the Agreement with no termination fee if Manager fails to meet a certain level of operating performance (the “**Performance Test**”) as defined in this Section 15.4; provided, however, Owner shall not have the right to exercise such termination right, if the failure of the Performance Test was caused by Owner’s failure to provide sufficient funds as required by this Agreement or the failure of the Hotel to comply with Brand Standards not caused by Manager (including but not limited to Owner’s failure to comply with capital improvements required by the Brand). If in each of any two (2) consecutive Fiscal Years during the Operating Term (i) actual Net Operating Income (“**NOI**”) for each Fiscal Year is less than ninety percent (90.0%) of the budgeted NOI for such year, and (ii) the Hotel fails to maintain a rooms revenue per available room (“**RevPAR**”) yield index, as measured by Smith Travel Research, of at least ninety percent (90%) for each Fiscal Year of such two year period with respect to the Hotel’s defined competitive set, included in **Schedule 15.4** of this Agreement, Owner may terminate the Agreement without payment of a termination fee upon thirty (30) days’ notice to Manager not more than sixty (60) days after Owner’s receipt of the audit for the year or the determination of such yield index, as the case may be for the second consecutive Fiscal Year. Owner shall pay Manager all amounts due under this Agreement through the date of such termination. Manager shall have the right to cure any monetary deficiency by reimbursing Owner for the actual NOI shortfall for both consecutive Fiscal Years. Any future changes to the defined competitive set as shown in **Schedule 15.4** shall be mutually agreed to in writing between Manager and Owner.
- 15.5 Owner may terminate this Agreement without cause and in its sole discretion by giving Manager at least sixty (60) days prior written notice of such termination. In the event of a termination under this Section 15.5, Owner shall pay Manager (i) all amounts due under this Agreement through the date of such termination, and (ii) the monthly Base Fee earned by Manager for the most recent trailing twelve (12) months preceding the effective date of termination multiplied by twelve (12).
- 15.6 Upon the expiration of the Operating Term, by expiration, termination or otherwise, or of any renewal, or extension hereof, Manager shall peaceably quit, deliver up, and surrender the Hotel and the Site to Owner. Manager shall, immediately upon expiration or sooner of this Agreement, remove all furniture, equipment, supplies and other personal property owned by Manager from the Hotel and Site, provided that such removal can be accomplished without material injury to the Hotel or Site and provided that any damage (that did not pre-exist any such removal) caused to such facilities as a result of such removal is repaired by Manager at its own cost and expense to the reasonable satisfaction of Owner. In no event may Manager remove any furniture, equipment, supplies or other personal property owned, or paid for, by Owner, or out of Total Revenues.
- 15.7 At time of surrender, Manager shall transition to the successor manager of the Hotel in an orderly fashion. Manager shall deliver all keys to the Hotel to Owner. Manager shall cooperate with Owner and successor manager of the Hotel, and shall provide the successor manager of the Hotel all information and documentation regarding Manager’s

operations under this Agreement reasonably requested by the successor manager of the Hotel. Manager's obligations under this section shall survive termination of this Agreement.

- 15.8 Upon termination of this Agreement for any reason, Owner or the successor manager of the Hotel shall, to the extent permitted by applicable law and the terms of the contract, assume in writing any or all of the then outstanding contracts to the extent affecting the management and operation of the Hotel which have been executed pursuant to Manager's authority under this Agreement and are not otherwise terminated by Owner or Manager. If Owner or the successor manager of the Hotel assumes a contract under this Section 15.8, Owner shall be solely responsible and liable for any and all obligations of Manager arising under such contract relating to the management and operation of the Hotel. Manager shall cooperate with Owner concerning the transfer of such contracts, including, without limitation, providing Owner with copies of all agreements, correspondence, invoices and other relevant documents. Any reasonable costs incurred by Manager in connection with this Section 15.8 shall be an Operating Expense of the Hotel.
- 15.9 Manager shall cooperate with Owner or any successor management company in connection with Owner's or such successor management company's hiring of Hotel Employees. Manager shall not hinder or frustrate such transition of employment of Hotel Employees, and in connection with any termination of this Agreement, no Hotel Employees may be relocated to another hotel or property managed by Manager or any of its Affiliates unless the relocation is approved by (i) Owner, or (ii) the Hotel Employee.
- 15.10 Upon the expiration of the Operating Term, by expiration, termination or otherwise, Manager shall deliver to Owner all passwords and other information necessary (including, without limitation, all financial data on the software utilized by the Hotel and elsewhere relating to the operation of the Hotel in a format that can be readily uploaded at Owner's expense to a new software system selected by Owner) to facilitate a smooth transition of the operation of the Hotel to Owner or another management company selected by Owner; and Manager shall (to the extent permitted by applicable law) assign to Owner or its designee, including, without limitation, any other management company engaged by Owner to operate the Hotel, all operating licenses for the Hotel which have been issued or are in Manager's name and in the event that such licenses are not assignable, Manager, at the sole cost and expense of Owner, shall cooperate with Owner, its designee(s), and any new manager of the Hotel in connection with the issuance of new licenses.
- 15.11 Manager shall make available to Owner such books and records with respect to the Hotel for the Operating Term as will be needed by Owner to prepare all accounting statements, in accordance with the Uniform System, and tax returns for the Hotel and for Owner, whether for the Fiscal Year in which the termination occurs or for any prior or subsequent Fiscal Year. Such books and records shall include on a reasonable need-to-know basis employee records other than those records which must remain confidential in accordance with Manager's business practices or policies or applicable laws or regulations of any governmental authority or agency having jurisdiction over such matters.

- 15.12 Manager shall also receive a closeout fee separate from any other compensation due Manager (equal to the Base Fee for the month preceding the termination of this Agreement) upon Owner's receipt of a closeout report at Owner's request upon termination of the Agreement to cover costs of transitioning the Hotel to a successor management company. Notwithstanding anything in this Section 15.12 to the contrary, Manager shall receive no closeout fee if the successor management company is an Affiliate of Manager.

- 15.13 Owner acknowledges that Manager or its Affiliate may have an obligation under federal, state or local law to give advance notice to Hotel Employees of any termination of their employment, and that failure to comply with any such notification obligation could give rise to civil liabilities. Manager agrees that Owner may, at its option, extend the termination date of any termination of this Agreement to a date sufficient to avoid such liability, and Manager agrees to continue to manage the Hotel pursuant and subject to the terms of this Agreement during such period.

**ARTICLE 16
ASSIGNMENT**

- 16.1 Manager shall not assign, pledge or encumber this Agreement or its interest in this Agreement without the prior consent of Owner, provided that Manager may, without the consent of Owner, assign this Agreement to (a) an Affiliate of Manager, (b) any entity which is the successor by merger, consolidation or reorganization of Manager or Manager's general partner or parent corporation, or (c) the purchaser of all or substantially all of the hotel management business of Manager or Manager's general partner or parent corporation, provided that each such assignee or transferee pursuant to this Section 16.1 expressly assures in writing all of the obligations of Manager hereunder and has, directly or indirectly through its owners, officers or employees, adequate experience in managing comparable hotels and has adequate capital to conduct business as Manager under this Agreement. Manager shall give Owner written notice of any assignment that is permitted under this Section 16.1 no later than ten (10) business days prior to the effective date of the assignment or transfer, together with copies of the documents evidencing such assignment or transfer.

- 16.2 Owner shall not assign this Agreement without the prior consent of Manager, provided that Owner may without Manager's consent:
 - A. mortgage, pledge, hypothecate, or grant a security interest in, any or all of its property, rights, privileges and franchises, including, without limitation, its interest in this Agreement to the Bonds Trustee or other person to whom Owner has obligations under an Indenture, it being acknowledged and agreed by Manager that its rights under this Agreement are subject and subordinate to the lien of any and all mortgages encumbering the Hotel, whether now or hereafter existing, and the provisions of this Section 16.2A shall be self-operative but Manager nonetheless agrees to execute and deliver promptly any document or certificate containing such other terms as may be customary and reasonable confirming such subordination, including, without limitation, a subordination

agreement with each holder of a mortgage confirming the subordination of Manager's rights under this Agreement to the lien of the applicable mortgage, as Owner or any mortgagee may request; or

B. assign this Agreement to any Affiliate of Owner or any purchaser, lessee or other transferee of substantially all of the assets comprising the Hotel, provided that such Affiliate, purchaser, lessee or transferee expressly assumes in writing all of the obligations of Owner hereunder from and after the date of the assignment.

16.3 Upon any permitted assignment of this Agreement and the assumption of this Agreement by the assignee, the assignor shall be relieved of any obligation or liability under this Agreement arising after the effective date of the assignment.

ARTICLE 17 NOTICES

17.1 Any notice, statement or demand required to be given under this Agreement shall be in writing, sent by certified mail, postage prepaid, return receipt requested, or by nationally-recognized overnight courier, receipt confirmed, addressed if to:

Owner: Austin-Bergstrom Landhost Enterprises, Inc.
Austin-Bergstrom International Airport
3600 Presidential Blvd., Suite 411
Austin, TX 78719
Attention: President

Manager: Boykin Prospera, LLC
c/o Prospera Hospitality
750 Holiday Drive
Foster Plaza 9
Pittsburgh, PA 15220 Attention: Kevin P. Kilkeary, President

or to such other addresses as Manager and Owner shall designate in the manner provided in this Section 17.1. Any notice or other communication shall be deemed given (a) on the date three (3) business days after it shall have been mailed, if sent by certified mail, or (b) on the date received if it shall have been given to a nationally-recognized overnight courier service.

ARTICLE 18 ESTOPPELS

18.1 Owner and Manager agree that from time to time upon the request of the other party or a party to a Major Agreement, it shall execute and deliver within ten (10) days after the request a certificate confirming that this Agreement is in full force and effect, stating whether this Agreement has been modified and supplying such other information as the requesting party may reasonably require.

**ARTICLE 19
INDEMNIFICATION**

- 19.1 MANAGER SHALL INDEMNIFY AND HOLD OWNER (AND OWNER'S AFFILIATES, AGENTS, PRINCIPALS, MEMBERS, OFFICERS, DIRECTORS AND EMPLOYEES) HARMLESS FROM AND AGAINST ALL LIABILITIES, LOSSES, CLAIMS, DAMAGES, COSTS AND EXPENSES (INCLUDING, BUT NOT LIMITED TO, REASONABLE ATTORNEYS' FEES AND EXPENSES) THAT MAY BE INCURRED BY OR ASSERTED AGAINST ANY SUCH PARTY ARISING FROM (A) THE FRAUD, WILLFUL MISCONDUCT OR GROSS NEGLIGENCE OF MANAGER, (B) SUBJECT TO THE LIMITATIONS SET FORTH IN SECTION 14.4, THE BREACH BY MANAGER OF ANY PROVISION OF THE AGREEMENT, INCLUDING, WITHOUT LIMITATION, ANY ACTION TAKEN BY MANAGER WHICH IS BEYOND THE SCOPE OF MANAGER'S AUTHORITY UNDER THE AGREEMENT, (C) ANY VIOLATIONS OF APPLICABLE LAW BY MANAGER, OR (D) SUBJECT TO SECTION 19.3, ANY EMPLOYMENT CLAIMS; PROVIDED, HOWEVER, OWNER SHALL NOT MAKE ANY CLAIM AGAINST MANAGER FOR, NOR SHALL MANAGER BE LIABLE FOR, ANY ALLEGED ERRORS OF GOOD FAITH JUDGMENT MADE BY MANAGER IN PERFORMING ITS OBLIGATIONS UNDER THIS AGREEMENT. OWNER SHALL PROMPTLY PROVIDE MANAGER WITH WRITTEN NOTICE OF ANY CLAIM OR SUIT BROUGHT AGAINST IT BY A THIRD PARTY WHICH MIGHT RESULT IN SUCH INDEMNIFICATION.
- 19.2 TO THE EXTENT PERMITTED BY THE LAWS AND CONSTITUTION OF THE STATE OF TEXAS AND WITH FULL RESERVATION OF ALL AVAILABLE DEFENSES AND IMMUNITIES, EXCEPT AS SET FORTH IN SECTION 19.1, OWNER SHALL INDEMNIFY AND HOLD MANAGER (AND MANAGER'S AFFILIATES AGENTS, PRINCIPALS, SHAREHOLDERS, PARTNERS, MEMBERS, OFFICERS, DIRECTORS AND EMPLOYEES) HARMLESS FROM AND AGAINST ALL LIABILITIES, LOSSES, CLAIMS, DAMAGES, COSTS AND EXPENSES (INCLUDING, BUT NOT LIMITED TO, REASONABLE ATTORNEYS' FEES AND EXPENSES) THAT MAY BE INCURRED BY OR ASSERTED AGAINST SUCH PARTY AND THAT ARISE FROM OR IN CONNECTION WITH (A) ANY NEGLIGENT ACT OR OMISSION OR WILLFUL MISCONDUCT OF OWNER OR ANY THIRD PARTY OR (B) SUBJECT TO THE LIMITATIONS SET FORTH IN SECTION 14.4, THE BREACH BY OWNER OF ANY PROVISION OF THE AGREEMENT. TO THE EXTENT PERMITTED BY THE LAWS AND CONSTITUTION OF THE STATE OF TEXAS AND WITH FULL RESERVATION OF ALL AVAILABLE DEFENSES AND IMMUNITIES, OWNER SHALL INDEMNIFY AND HOLD MANAGER HARMLESS FOR ANY LOSS SUSTAINED AS A RESULT OF A WRONGFUL TERMINATION (INCLUDING BUT NOT LIMITED TO THE LOSS OF FEES AND DAMAGES) RESULTING FROM WARN ACT LIABILITIES TRIGGERED BY TERMINATION ON SHORT OR NO NOTICE. MANAGER SHALL PROMPTLY PROVIDE OWNER WITH WRITTEN NOTICE OF ANY CLAIM OR SUIT BROUGHT AGAINST IT BY A THIRD PARTY WHICH MIGHT RESULT IN SUCH INDEMNIFICATION AND OWNER SHALL HAVE THE

OPTION OF DEFENDING ANY CLAIM OR SUIT BROUGHT AGAINST MANAGER WITH COUNSEL SELECTED BY OWNER AND REASONABLY SATISFACTORY TO MANAGER. MANAGER SHALL COOPERATE WITH OWNER OR ITS COUNSEL IN THE PREPARATION AND CONDUCT OF ANY DEFENSE TO ANY SUCH CLAIM OR SUIT.

- 19.3 Supplementing the provisions of Section 19.1 and 19.2, if any claim shall be made against the Hotel, Owner and/or Manager which is based upon a violation or alleged violation of the Employment Laws (an “**Employment Claim**”), the Employment Claim shall fall within Manager’s indemnification obligations under Section 19.1 only if it is based upon Manager’s willful misconduct or gross negligence (including such willful misconduct or gross negligence as may arise in the hiring, supervision or dismissal of any Hotel Employee).
- 19.4 Any and all other liabilities, losses, claims, damages, costs and expenses (including, but not limited to, reasonable attorneys’ fees and expenses) that may be incurred by or asserted against the Hotel, Owner and/or Manager, to the extent not paid for by insurance, shall be an Operating Expense of the Hotel and shall be borne by Owner and paid or reimbursed to Manager out of the Operating Account or if the amounts therein are insufficient by Owner upon demand by Manager, unless a final judgment of a court of competent jurisdiction determines that such liabilities, losses, claims, damages, costs and expenses fall within the scope of Sections 19.1, 19.2 or 19.3.
- 19.5 If, in any judicial proceeding, a court of competent jurisdiction shall find that the term or scope of one or more of the separate covenants of Sections 19.1 or 19.2 are unenforceable, then in that event the unenforceable provision shall be modified by said court to the maximum extent to permit enforcement thereof, and the substitute provision shall be incorporated herein. The parties hereto expressly consent to said court making any such modification.
- 19.6 In the event that any claim, demand, suit, or other action is made or brought by any person, firm, corporation, or other entity against Manager arising out of or concerning this Agreement, or the operation or management of the Hotel, Manager shall give written notice thereof to Owner within ten (10) days after being notified of such claim, demand, suit, or action. Such notice shall enclose a true copy of all written claims, and if the claim is not written or the information is not discernible from the written claim, state the date of notification of any such claim, demand, suit, or other action; the names and addresses of the person, firm, corporation, or other entity making such claim or that instituted or threatened to institute any type of action or proceeding, the basis of such claim, action, or proceeding; and the name of any person against whom such claim is being made or threatened.
- 19.7 The provisions of this Article shall survive the termination of this Agreement with respect to acts, omissions, and occurrences arising during the Operating Term.

ARTICLE 20
NON-DISCRIMINATION AND AFFIRMATIVE ACTION

- 20.1 Manager will undertake an affirmative action program as required by 14 CFR Part 152, Subpart E, as amended, to ensure that no person shall on the grounds of race, color, national origin, sex, or handicap be excluded from participating in any employment activities by Manager at the Hotel. Manager will require that its subcontractors similarly undertake affirmative action programs and that they will each require assurances from their subcontractors, as required by 14 CFR Part 152, Subpart E.
- 20.2 Manager hereby agrees that no person shall be excluded from participation in, denied the benefits of or otherwise discriminated against in connection with the award and performance of any contract, including subleases, covered by 49 CFR Part 23 on the grounds of race, color, national origin, sex, or handicap.
- 20.3 Manager hereby agrees that it will include the above clauses in all subleases and/or subcontracts at the Hotel and cause such subcontractors to similarly include clauses in further subleases/subcontracts.
- 20.4 Pursuant to Department of Transportation Regulation (DOTR) 49 CFR Part 23, Appendix A, Manager shall make a good faith effort to use certified DBEs at a level to equal or exceed ten percent (10%) of the dollar value of the Hotel's projected gross revenues. A DBE is a small business concern owned and controlled by socially and economically disadvantaged individuals, to include SBA Section 8(a) certificate holders. Individuals who are rebuttably presumed to be socially and economically disadvantaged include women, Black Americans, Hispanic Americans, Asian-Pacific Americans and Asian-Indian Americans. If Manager qualifies as a DBE, the Agreement goal shall be deemed to have been met. Manager shall submit such reports to Owner as may be required to demonstrate compliance with the aforementioned provisions.
- 20.5 Manager covenants that it will comply fully with applicable laws, regulations and building codes governing nondiscrimination in public accommodations and commercial facilities, including, without limitation, the requirements of the Americans with Disabilities Act and all regulations thereunder, and that the Hotel shall remain in compliance throughout the Operating Term.

ARTICLE 21
MEDIATION

- 21.1 Should any dispute arise between the parties to this Agreement the parties agree to negotiate prior to prosecuting a suit for damages. However, this Section does not prohibit the filing of a lawsuit to toll the running of a statute of limitations or to seek injunctive relief. Either party may make a written request for a meeting between representatives of each party within ten (10) days after receipt of the request or such later period as agreed by the parties. Each party shall include, at a minimum, one (1) senior level individual with decision-making authority regarding the dispute. The purpose of this and any subsequent meeting is to attempt in good faith to negotiate a resolution of the dispute. If,

within twenty (20) days after such meeting, the parties have not succeeded in negotiating a resolution of the dispute, they will proceed directly to mediation as described below.

- 21.2 If the efforts to resolve the dispute through negotiation fail, or the parties waive the negotiation process, the parties may select, within twenty (20) days, a mediator trained in mediation skills to assist with resolution of the dispute. The parties agree to act in good faith in the selection of the mediator and to give consideration to qualified individuals nominated to act as mediator. Nothing in the Agreement prevents the parties from relying on the skills of a person who is trained in the subject matter of the dispute or a contract interpretation expert. If the parties fail to agree on a mediator within twenty (20) days of initiation of the mediation process, the mediator shall be selected by the Travis County Dispute Resolution Center. The mediation shall take place in Austin, Texas. The parties agree to participate in mediation in good faith for up to thirty (30) days from the date of the first mediation session.

ARTICLE 22 MISCELLANEOUS

- 22.1 Owner and Manager shall execute and deliver all other appropriate supplemental agreements and other instruments, and take any other action necessary to make this Agreement fully and legally effective, binding, and enforceable as between them and as against third parties.
- 22.2 Manager shall not enter into any transaction or arrangement between Manager (on the one hand) and an Affiliate of Manager (on the other hand) relating to goods or services utilized at the Hotel that has not been approved by Owner (“Affiliate Transaction”). Prior to obtaining Owner’s consent, Manager shall obtain competitive bidding from at least three (3) unrelated parties. Any Affiliate Transaction will include a provision to allow Owner to terminate the agreement with or without cause, and will be on terms of any such arrangement, when taken as a whole, shall not be materially less favorable to the Hotel than the prevailing terms of similar such arrangements obtainable on a commercially reasonable basis from unrelated parties in the area of the Hotel. Manager shall promptly notify Owner of any proposed engagement of Manager’s Affiliates to the extent such engagement and affiliation is not included in the applicable Budgets.
- 22.3 During the Operating Term, Manager or any Affiliate thereof, shall not own, lease or manage any hotel that is a member of the competitive set as compiled by Smith Travel Research and as agreed to annually in the Budgets.
- 22.4 This Agreement constitutes the entire agreement between the parties relating to the subject matter hereof, superseding all prior agreements or undertakings, oral or written. Owner acknowledges that in entering into this Agreement Owner has not relied on any projection of earnings, statements as to the possibility of future success or other similar matter, which may have been prepared by Manager.

- 22.5 The headings of the titles to the several articles of this Agreement are inserted for convenience only and are not intended to affect the meaning of any of the provisions hereof.
- 22.6 A waiver of any of the terms and conditions of this Agreement may be made only in writing and shall not be deemed a waiver of such terms and conditions on any future occasion.
- 22.7 This Agreement shall be binding upon and inure to the benefit of Owner and Manager and their respective successors and permitted assigns.
- 22.8 Owner may have access to have confidential or proprietary information of Manager concerning its business affairs, property, methods of operation, processing systems or other information related to Manager. Owner shall maintain or request to be maintained the confidentiality of all such information at all times. Manager shall mark or otherwise designate all confidential information as such. This Section 22.8 shall not apply to: (i) information that at the time of disclosure was generally available to the public; (ii) information that, subsequent to its disclosure, is published or otherwise becomes available to the public through any means other than an act or omission of Owner; (iii) information that was previously known to Owner free of any obligation to keep it in confidence or that is subsequently developed in good faith by Owner; and (iv) information rightfully acquired in good faith from a third party on a non-confidential basis. Further, Owner may disclose Confidential Information if required to do so by applicable law, rule or regulation, or a court or other governmental authority of competent jurisdiction including without limitation, the Texas Public Information Act (Texas Local Government Code Chapter 552). The provisions of this Section 22.8 shall survive the expiration or termination of this Agreement.
- 22.9 Except for those provisions herein which are for the benefit of lenders, none of the obligations hereunder of either party shall run to or be enforceable by any party other than the parties to this Agreement; provided, however, that in the event of a default by Owner under the Indenture, the Bonds Trustee may enforce the obligations of Manager hereunder subject to any rights or mitigating provisions of Manager contained in this Agreement.
- 22.10 The parties hereto agree and acknowledge this Agreement must conform in all respects to the provisions of the Financing Agreements, Major Agreements and the applicable Tax Code and that Owner shall obtain an affirmative opinion of counsel upon the execution of this Agreement. The parties agree to negotiate in good faith any required modifications to the terms and provisions of this Agreement, necessary, to attain an affirmative opinion of counsel; so long as such changes do not reduce the fees payable to Manager or modify the indemnification provisions of the parties hereunder.
- 22.11 This Agreement may be changed or modified only by an agreement in writing signed by the parties hereto and no oral understandings shall be binding as between the parties.

- 22.12 Owner and Manager each represents and warrants to the other that no broker or finder was retained by such party to render services in connection with any of the transactions contemplated hereby and that no fees are due to any third party with respect thereto.
- 22.13 This Agreement shall be construed, both as to its validity and as to the performance of the parties, in accordance with the laws of the state in which the Hotel is located. Venue for any dispute arising out of or concerning this Agreement, either administrative or judicial, shall be proper and lie exclusively in Travis County, Texas.
- 22.14 Manager and Owner each represent to the other that the execution, delivery and performance of this Management Agreement (i) has been duly authorized by all requisite corporate action, (b) has been duly and validly executed and delivered, and (c) constitutes a valid and binding obligation of such party, enforceable in accordance with its terms.
- 22.15 This Agreement is subject to the provisions of any agreement heretofore made between the City and the United States Government relative to the operation or maintenance of the Airport, the execution of which has been required as a condition precedent to the transfer of federal rights or property to the City for Airport purposes, or the expenditure of federal funds for the development of the Airport, including the expenditure of federal funds for the development of the Airport in accordance with the provisions of the FAA Modernization and Reform Act of 2012, as amended. Owner represents that as of the date hereof there are no existing agreements with the United States Government in conflict with the express provisions hereof.
- 22.16 Owner may terminate this Agreement if it is found that gratuities were offered or given by Manager or its agents or representatives (at the direction of Manager) to any official or employee of Owner or the City with a view toward securing favorable treatment with respect to the performance of this Agreement.
- 22.17 Manager and Owner acknowledge and agree that this Agreement creates an independent contractor relationship, with certain agency rights specifically set forth herein; provided that (a) Manager's authority is subject to the terms and conditions of this Agreement, and (b) nothing contained in this Agreement shall create an agency coupled with interest. Nothing contained in this Agreement shall constitute, or be construed to be or to create, a partnership, joint venture, or lease between Manager and Owner with respect to the Hotel or the operation thereof. This Agreement shall not be construed at any time to be an interest in real estate or a lien or security interest of any nature against the Hotel, or any other land used in connection with the Hotel, or any equipment, fixtures, inventory, motor vehicles, contracts, documents, accounts, notes, drafts, acceptances, instruments, chattel paper, general intangibles or other personal property now existing or that may hereafter be acquired or entered into with respect to the Hotel or the operation thereof. Notwithstanding anything to the contrary in this Agreement or otherwise, in no event shall Manager have any right to bind Owner except at expressly set forth in this Agreement.
- 22.18 TAX EXEMPT BONDS COMPLIANCE. Manager understands that the Owner is going to finance the Hotel with proceeds of bonds, the interest of which is excludable from

“gross income” for federal income tax purposes, and that, therefore, this Agreement has to comply with the management contract’s safe-harbor guidelines of Rev. Proc. 2017-13, I.R.B. 2017-6, as amended and superseded ("Guidelines"). Owner and Manager represent that compensation for the services provided by Manager is reasonable, and it is consistent with industry standards. Manager agrees that it is not entitled to and will not take any tax position that is inconsistent with being a service provider to the Owner with respect to the Hotel. In furtherance thereof, Manager agrees not to claim any depreciation or amortization deduction, investment tax credit, or deduction that an owner would otherwise be allowed with respect to the Hotel. Manager and Owner agree to make a good-faith effort to amend the Agreement, to the extent necessary to ensure compliance with the Guidelines.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, Manager and Owner have duly executed this Agreement the day and year first above written.

AUSTIN-BERGSTROM LANDHOST
ENTERPRISES, INC.

Name: Gregory S. Milligan
Title: President

BOYKIN PROSPERA, LLC

Name: _____
Title: _____

Schedule A

February 16, 1999

FIELD NOTE DESCRIPTION OF 10.003 ACRES OF LAND OUT OF THE SANTIAGO DEL VALLE TEN LEAGUE GRANT ABSTRACT No. 24 IN TRAVIS COUNTY, TEXAS, BEING A PORTION OF THAT CERTAIN (168.96 ACRE) TRACT OF LAND AS CONVEYED TO THE UNITED STATES OF AMERICA BY DEED RECORDED IN VOLUME 709 PAGE 181 OF THE DEED RECORDS OF TRAVIS COUNTY, TEXAS, AND BEING ALL OF THAT CERTAIN (10.003 ACRE) TRACT OF LAND AS DESCRIBED IN THAT CERTAIN MEMORANDUM OF LEASE AGREEMENT RECORDED IN VOLUME 13368 PAGE 19 OF THE REAL PROPERTY RECORDS OF TRAVIS COUNTY, TEXAS, AND BEING MORE PARTICULARLY DESCRIBED BY METES AND BOUNDS AS FOLLOWS:

BEGINNING at a ½” iron rod found (N 111390.6312 E 14303.0967, coordinate values based upon BACS Coordinate System, a local coordinate system) for the most Westerly corner of that certain (10.003 acre) tract of land as described in that certain Memorandum of Lease Agreement as recorded in Volume 13368 page 19 of the Real Property records of Travis County; Texas, for the most Westerly corner and PLACE OF BEGINNING of the herein described tract, and from which ½” iron rod found bears S 45 deg. 00’ 00” W 589.89 ft.;(bearing basis)

THENCE with the Northwest line of said (10.003 acre) lease tract, N 44 deg. 59’ 56” E 649.74 ft. to a ½” iron rod set with a plastic cap imprinted with “Bush Surveying, Inc.” for the most Northerly corner of said (10,003 acre) tract, and for the most Northerly corner of this tract;

THENCE with the Northwest line of said (10.003 acre) lease tract, S 44 deg. 58’ 16” E 636.40 ft. to a ½” iron rod set with a plastic cap imprinted with “Bush Surveying, Inc.” for a point of curvature;

THENCE along a curve to the right with a radius of 47.00 ft. For an arc length of 72.65 ft. And which chord bears S 00 deg. 16’ 00” W 65.63 ft. to a ½” iron rod found for a point of tangency;

THENCE with the Southeast line of said (10.003 acre) lease tract, S 44 deg. 53’ 38” W 574.41 ft. to a point falling at the Northwest face of a concrete wall for the most Southerly corner of said (10.003 acre) lease tract, and being the most Southerly corner of this tract;

THENCE with the Southwest line of said (10.003 acre) lease tract. the following three (3) courses and distance;

- 1) N 45 deg. 00’ 03” W 248.99 ft. to a ½” iron rod found;
- 2) N 83 deg. 18’ 19” W 45.88 ft. to a ½” iron rod found;
- 3) N 44 deg. 59’ 33” W 400.64 ft. to the PLACE OF BEGINNING, containing 10.003 acres of land.

SURVEYED: February 5, 1999.

SCHEDULE 11.1

INSURANCE REQUIREMENTS

I. MANAGER'S INSURANCE REQUIREMENTS

A. General Requirements

1. Within five (5) days of complete execution of the Agreement, Manager shall obtain the required insurance as stated herein and provide the City, the Bonds Trustee, and Owner a Certificate of Insurance as proof of coverage. If coverage period ends during the Operating Term of the Agreement, Manager must, prior to the end of the coverage period, forward a new Certificate of Insurance to City, the Bonds Trustee, and Owner as verification of continuing coverage for the duration of this Agreement.

2. Approval of insurance and the required minimums by the City, the Bonds Trustee, and Owner does not relieve or decrease the liability or responsibility of the Manager hereunder and will not be construed to be a limitation of liability on the part of the Manager.

3. Insurance coverage must: (a) be written by companies licensed to do business in the State of Texas at the time the policy is issued, and (b) with an A.M. Best rating of B+VII or better.

4. All endorsements naming the City, the Bonds Trustee, and Owner as additional insured, waivers, and notices of cancellation endorsements as well as the Certificate of Insurance shall indicate:

City of Austin
Department of Aviation
Attention: Executive Director
3600 Presidential Boulevard, Suite 411
Austin, Texas 78719

Austin-Bergstrom Landhost Enterprises, Inc.
Attention: President
3600 Presidential Boulevard, Suite 411
Austin, Texas 78719

5. The "Other" insurance clause does not apply to the City, the Bonds Trustee, and Owner where the City, the Bonds Trustee, and Owner are an additional insured shown on any policy. It is intended that policies required in this Agreement covering the City, the Bonds Trustee, Owner, and Manager will be considered primary coverage as applicable.

6. If insurance policies are not written for amounts specified below, Manager shall carry Umbrella or Excess Liability Insurance for any differences in amounts specified. If Excess Liability Insurance is provided, it must follow the form of the primary coverage.

7. City, the Bonds Trustee, and Owner shall be entitled, upon request and without expense, to receive certified copies of policies and endorsements thereto and may make any reasonable requests for deletion or revision or modification of particular policy terms, conditions, limitations, or exclusions except where policy provisions are established by law or regulations binding upon either of the parties hereto or the underwriter on any such policies.

8. City, the Bonds Trustee, and Owner reserves the right to review the insurance requirements set forth during the effective period of this Agreement and to make reasonable adjustments to insurance coverage, limits, and exclusions when deemed necessary and prudent by City, the Bonds Trustee, or Owner based upon changes in statutory law, court decision, the history of the industry or financial condition of the insurance company as well as the Manager.

9. Manager shall not cause or permit any insurance to lapse or to be canceled during the Operating Term of this Agreement.

10. Manager shall be responsible for premiums, deductibles and self-insured retentions, if any, stated in policies.

B. Specific Coverages

1. **Commercial General Liability Insurance** with a minimum bodily injury and property damage limit of \$25,000,000 per occurrence for coverages A & B. The policy must contain the following provisions:

- a. Blanket contractual liability coverage for liability assumed under this contract;
- b. Innkeeper's Liability;
- c. Assault and Battery coverage;
- d. Independent Contractors coverage;
- e. Products and Completed operations;
- f. The City, the Bonds Trustee, and Owner shall be listed as an additional insured, endorsement CG 2010, or equivalent coverage;
- g. Thirty (30) Day Notice of Cancellation in favor of City, the Bonds Trustee, and Owner, endorsement CG 0205, or equivalent coverage;
- h. Waiver of Transfer of Right of Recovery Against Others in favor of City, the Bonds Trustee, and Owner, endorsement CG 2404, or equivalent coverage;
- i. Fire Legal Liability with minimum limits of \$50,000.

2. **Business Automobile Liability Insurance** for all owned, non-owned, and hired vehicles with a minimum combined single limit of \$5,000,000 per occurrence for bodily injury and property damage. The policy shall contain the following endorsements in favor of the City, the Bonds Trustee, and Owner:

- a. Additional Insured endorsement CA 2048, or equivalent coverage;
- b. Waiver of Subrogation endorsement CA 0444, or equivalent coverage;
- c. Thirty (30) Day Notice of Cancellation endorsement CA 0244, or equivalent coverage.

3. **Worker's Compensation and Employers Liability** coverage with limits consistent with statutory benefits outlined in the Texas Workers' Compensation Act (Sec. 401.) with minimum policy limits for employers liability of \$1,000,000 bodily injury each accident \$1,000,000 bodily injury by disease policy limit and \$1,000,000 bodily injury by disease each employee. The following endorsements shall be added to the policy:

- a. Waiver of Subrogation in favor of the City, the Bonds Trustee, and Owner, form WC420304, or equivalent coverage;
- b. Thirty (300 day Notice of Cancellation/Material Change in favor of the City, the Bonds Trustee, and Owner, form WC 420601, or equivalent coverage.

4. **Property Insurance.** Manager shall provide Property Insurance covering the Building, the Installations, and the FF&E under an "All Risk" or Special Causes of Loss form. The policy shall also include coverage without limitation for boiler and machinery, earth movement, and flood. The coverage shall be provided on a replacement costs basis for the 100% value of the Property and must contain the following provision:

- a. Loss Payee Clause in favor of City and Owner.

5. **Business Interruption Insurance.** Manager shall provide Business Interruption Insurance covering loss of income for a minimum period of twelve (12) months resulting from interruption of business caused by an occurrence insured against under the Section 4. Property Insurance.

6. **Fidelity/Commercial Crime Insurance** including Third Party Employee Crime coverage to protect the assets and property of the Owner and City with limits of not less than \$3,000,000 per claim. Manager's insurance will be primary to any insurance carried by the City.

7. If Manager is serving/selling alcoholic beverages, Manager must provide **Liquor Legal Liability Policy** with a minimum limit of \$25,000,000 per occurrence for bodily injury and property damage arising from the acts or omissions of Manager or Manager's employees, representatives, agents, or subcontractors in the performance of this Agreement.

II. CONTRACTOR AND SUBCONTRACTOR REQUIREMENTS. Manager shall require any Contractor or subcontractor cleaning, maintaining, repairing, or otherwise working on the Site to provide insurance coverage as follows:

A. General Requirements

1. Contractor's insurance coverage must be written by companies: (a) licensed to do business in the State of Texas at the time the policies are issued, and (b) with an A.M. Best rating of B+VII or better.

2. All endorsements such as additional insured, waivers, and notices of cancellation endorsements as well as the attached certificate shall indicate the City, the Bonds Trustee, and Owner as follows:

City of Austin
Department of Aviation
Attention: Executive Director
3600 Presidential Boulevard, Suite 411
Austin, Texas 78719

Austin-Bergstrom Landhost Enterprises, Inc.
Attention: President
3600 Presidential Boulevard, Suite 411
Austin, Texas 78719

3. The "other" insurance clause does not apply to the City, the Bonds Trustee, and Owner where the City, the Bonds Trustee, and Owner is an additional insured shown on any policy. It is intended that policies required in the Contract, covering the Manager, City, the Bonds Trustee, Owner, and the Contractor will be considered primary coverage as applicable.

4. If insurance policies are not written for amounts specified above, Contractor shall carry Umbrella or Excess Liability Insurance for any differences in amounts specified. If Excess Liability Insurance is provided, it must follow the form of the primary coverage.

5. The City, the Bonds Trustee, and Owner shall be entitled, upon request and without expense, to receive certified copies of policies and endorsements thereto and may make any reasonable requests for deletion or revision or modification of particular policy terms, conditions, limitations, or exclusions except where policy provisions are established by law or regulations binding upon either of the parties hereto or the underwriter on any such policies.

6. The City, the Bonds Trustee, and Owner reserves the right to review the insurance requirements set forth during the effective period of this Agreement and to make reasonable adjustments to insurance coverage, limits, and exclusions when deemed necessary and prudent by the City, the Bonds Trustee, or Owner based upon changes in statutory law, court decisions, the claims history of the industry or financial condition of the insurance company as well as the Contractor.
7. The Contractor shall not cause any insurance to be canceled nor permit any insurance to lapse during the term of the Contract or as required in the Contract.
8. The Contractor shall be responsible for premiums, deductibles and self-insured retentions, if any, stated in policies.
9. The Contractor shall provide the City, the Bonds Trustee, and Owner thirty (30) days written notice of erosion of the aggregate limits below occurrence limits for all applicable coverages indicated within the Contract.
10. If City, the Bonds Trustee, or Owner owned property is being transported or stored off-site by the Contractor, then the appropriate property policy will be endorsed for transit and storage in an amount sufficient to protect the City, the Bonds Trustee, or Owner's property.
11. The insurance coverages required under this Agreement are required minimums and are not intended to limit the responsibility or liability of the Contractor.

B. Specific Coverages

1. Contractor shall carry insurance in the types and amounts indicated below for the duration of the Contract, which includes items owned by the City, the Bonds Trustee, and Owner in the care, custody and control of the Contractor prior to and during the period during which services are provided.
2. **Workers' Compensation and Employers' Liability** coverage with limits consistent with statutory benefits outlined in the Texas Workers' Compensation Act (Section 401) and minimum policy limits for employers liability of \$100,000 bodily injury each accident, \$500,000 bodily injury by disease policy limit and \$100,000 bodily injury by disease each employee. The City, the Bonds Trustee, and Owner will accept workers' compensation coverage written by the Texas Workers Compensation Insurance Fund.
3. The Contractor's policy must apply to the State of Texas and include these endorsements in favor of the City, the Bonds Trustee, and Owner:
 - a. Waiver of Subrogation, form WC 420304, or equivalent coverage;
 - b. Thirty (30) day Notice of Cancellation, form WC 420601, or equivalent coverage.

4. **Commercial General Liability Insurance** with a minimum bodily injury and property damage per occurrence limit of \$500,000 for coverages A & B. The policy must contain the following provisions:

- a. Blanket contractual liability coverage for liability assumed under this contract;
- b. Medical expense coverage with a limit of \$5,000 for any one person;
- c. Independent Contractors coverage;
- d. The City, the Bonds Trustee, and Owner shall be listed as an additional insured, endorsement CG 2010, or equivalent coverage;
- e. Thirty (30) Day Notice of Cancellation in favor of City, the Bonds Trustee, and Owner, endorsement CG 0205, or equivalent coverage;
- f. Waiver of Transfer of Right of Recovery Against Others in favor of City, the Bonds Trustee, and Owner, endorsement CG 2404, or equivalent coverage;
- g. Fire Legal Liability with minimum limits of \$50,000.

5. **Business Automobile Liability Insurance** for all owned, non-owned and hired vehicles with a minimum combined single limit of \$500,000 per occurrence for bodily injury and property damage. Alternate acceptable limits are \$250,000 bodily injury per person, \$500,000 bodily injury per occurrence and at least \$100,000 property damage liability per accident. The policy shall contain the following endorsements in favor of the City, the Bonds Trustee, and Owner:

- a. Additional Insured endorsement CA 2048, or equivalent coverage;
- b. Waiver of Subrogation endorsement CA 0444, or equivalent coverage;
- c. Thirty (30) Day Notice of Cancellation endorsement CA 0244, or equivalent coverage.

6. **Builders' Risk Insurance** on an all risk physical loss form in the amount of the maximum contractor amount for any improvements made to the Premises. Coverage shall commence upon the date any work with respect to such improvements begins and shall continue until the work is complete and a Completion Notice is issued with respect to the improvements. The City and Owner shall be a mortgagee/loss payee on the policy. If off-site storage is permitted with respect to the work, coverage shall include transit and storage in an amount sufficient to protect any property being transported or stored.

SCHEDULE 15.4
COMPETITIVE SET

Hotel	Rooms
Wyndham Garden Hotel Austin	210
DoubleTree Austin	350
Crowne Plaza Austin	293
Omni Austin Hotel at Southpark	312
Marriott Austin South	211

APPENDIX D
LICENSE AGREEMENT

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FRANCHISE AGREEMENT

HILTON AUSTIN AIRPORT

(Austin, Texas)

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ADDENDUM TO FRANCHISE AGREEMENT

EXHIBIT A - PRODUCT IMPROVEMENT PLAN

FRANCHISE AGREEMENT

This Franchise Agreement between Hilton Franchise Holding LLC (“we,” “us,” “our” or “Franchisor”) and the Franchisee set forth in the Addendum (“you,” “your” or “Franchisee”), is dated as of the Effective Date. We and you may collectively be referred to as the “Parties.”

INTRODUCTION

We are an Affiliate of Hilton Worldwide. Hilton Worldwide and its Affiliates own, license, lease, operate, manage and provide various services for the Network. We are authorized to grant licenses for selected, first-class, independently owned or leased hotel properties, to operate under the Brand. You have expressed a desire to enter into this Agreement with us to obtain a license to use the Brand in the operation of a hotel at the address or location described in the Addendum.

NOW, THEREFORE, in consideration of the premises and the undertakings and commitments of each Party to the other Party in this Agreement, the Parties agree as follows:

1.0 DEFINITIONS

The following capitalized terms will have the meanings set forth after each term:

“**Affiliate**” means any natural person or firm, corporation, partnership, limited liability company, association, trust or other entity which, directly or indirectly, controls, is controlled by, or is under common Control with, the subject entity.

“**Agreement**” means this Franchise Agreement, including any exhibits, attachments and addenda.

“**Anti-Corruption Laws**” means all applicable anti-corruption, anti-bribery, anti-money laundering, books and records, and internal controls laws of the United States and the United Kingdom, including the United States Foreign Corrupt Practices Act and the United Kingdom Bribery Act of 2010.

“**Brand**” means the brand name set forth in the Addendum.

“**Change of Ownership Application**” means the application that is submitted to us by you or the Transferee for a new franchise agreement in connection with a Change of Ownership Transfer.

“**Change of Ownership Transfer**” means any proposed Transfer that results in a change of Control of Franchisee, the Hotel, or the Hotel Site and is not otherwise permitted by this Agreement, all as set out in Subsection 13.2.2.

“**Competing Brand**” means a hotel brand or trade name that, in our sole business judgment, competes with the System, or any System Hotel or Network Hotel.

“**Competitor**” means any individual or entity that, at any time during the Term, whether directly or through an Affiliate, owns in whole or in part, or is the licensor or franchisor of a Competing Brand, irrespective of the number of hotels owned, licensed or franchised under such Competing Brand name. A Competitor does not include an individual or entity that: (i) is a franchisee of a Competing Brand; (ii) manages a Competing Brand hotel, so long as the individual or entity is not the exclusive manager of the Competing Brand; or (iii) owns a minority interest in a Competing Brand, so long as neither that individual or entity nor any of its Affiliates is an officer, director, or employee of the Competing Brand, provides services (including as a consultant) to the Competing Brand, or exercises, or has the right to exercise, Control over the business decisions of the Competing Brand.

“Construction Commencement Date” means the date set out in the Addendum, if applicable, by which you must commence construction of the Hotel. For the Hotel to be considered under construction, you must have begun to pour concrete foundations for the Hotel or otherwise satisfied any site-specific criteria for “under construction” set out in the Addendum.

“Construction Work” means all necessary action for the development, construction, renovation, furnishing, equipping and implementation of the Plans and Designs for the Hotel.

“Construction Work Completion Date” means the date set out in the Addendum, if applicable, by which you must complete construction of the Hotel.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity, or of the power to veto major policy decisions of an entity, whether through the ownership of voting securities, by contract, or otherwise.

“Controlling Affiliate” means an Affiliate that directly or indirectly Controls the Hotel and/or Controls the entity that Controls the Hotel.

“Designs” means your plans, layouts, specifications, drawings and designs for the proposed furnishings, fixtures, equipment, signs and décor of the Hotel that use and incorporate the Standards.

“Effective Date” means the date set out in the Addendum on which this Agreement becomes effective.

“Equity Interest” means any direct or indirect legal or beneficial interest in the Franchisee, the Hotel and/or the Hotel Site.

“Equity Owner” means the direct or indirect owner of an Equity Interest.

“Expiration Date” has the meaning set forth in Section 3.

“Force Majeure” means an event causing a delay in our or your performance that is not the fault of or within the reasonable control of the Party claiming Force Majeure. Force Majeure includes fire, floods, natural disasters, Acts of God, war, civil commotion, terrorist acts, any governmental act or regulation beyond such Party’s reasonable control. Force Majeure does not include the Franchisee’s financial inability to perform, inability to obtain financing, inability to obtain permits, licenses or zoning variances or any other similar events unique to the Franchisee or the Hotel or to general economic downturn or conditions.

“Government or Government Entity” means: (i) any agency, instrumentality, subdivision or other body of any national, regional, local or other government; (ii) any commercial or similar entities owned or controlled by such government, including any state-owned and state-operated companies; (iii) any political party; and (iv) any public international organization.

“Government Official” means the following: (i) officers and employees of any national, regional, local or other Government; (ii) officers and employees of companies in which a Government owns an interest; (iii) any private person acting in an official capacity for or on behalf of any Government or Government Entity (such as a consultant retained by a government agency); (iv) candidates for political office at any level; (v) political parties and their officials; (vi) officers, employees, or official representatives of public (quasi-governmental) international organizations (such as the United Nations, World Bank, or International Monetary Fund).

“Gross Food and Beverage Revenue” means all revenues (including credit transactions whether or not collected) derived from food and beverage-related operations of the Hotel and associated facilities, and all banquet, reception and meeting room rentals, including all restaurants (unless leased from third-party operators), dining, bar, lounge and retail food and beverage services, at the actual rates charged, less

allowances for any rebates and overcharges, and excluding any sales, hotel, entertainment or similar taxes collected from patrons or guests.

“Gross Receipts Tax” means any gross receipts, sales, use, excise, value added or any similar tax. **We acknowledge that you may not be subject to sales tax under applicable Law.**

“Gross Rooms Revenue” means all revenues derived from the sale or rental of Guest Rooms (both transient and permanent) of the Hotel, including revenue derived from the redemption of points or rewards under the loyalty programs in which the Hotel participates, amounts attributable to breakfast (where the guest room rate includes breakfast), resort fees, urban fees and similar fees, late cancellation fees, and guaranteed no-show revenue and credit transactions, whether or not collected, at the actual rates charged, less allowances for any Guest Room rebates and overcharges, and will not include taxes collected directly from patrons or guests. Group booking rebates, if any, paid by you or on your behalf to third-party groups for group stays must be included in, and not deducted from, the calculation of Gross Rooms Revenue.

“Guarantor” means the person or entity that guaranties your obligations under this Agreement or any of Your Agreements.

“Guest Rooms” means each rentable unit in the Hotel generally used for overnight guest accommodations, the entrance to which is controlled by the same key, provided that adjacent rooms with connecting doors that can be locked and rented as separate units are considered separate Guest Rooms. The initial number of approved Guest Rooms is set forth in the Addendum.

“Hilton Worldwide” means Hilton Worldwide Holdings Inc., a Delaware corporation (NYSE:HLT).

“Hotel” means the property you will operate under this Agreement and includes all structures, facilities, appurtenances, furniture, fixtures, equipment, and entry, exit, parking and other areas located on the Hotel Site we have approved for your business or located on any land we approve in the future for additions, signs, parking or other facilities.

“Hotel Site” means the real property on which the Hotel is located or to be located, as approved by us.

“Hotel Work” means Construction Work and/or Renovation Work, as the case may be, and the context requires.

“Hotel’s Average Monthly Royalty Fees” means: (a) if the Hotel has been operating for at least 24 months, the quotient of all Monthly Royalty Fees due under this Agreement for the twenty-four (24) month period immediately preceding the month of termination divided by twenty-four (24); and (b) if the Hotel has not been operating for at least twenty-four (24) months, the quotient of all Monthly Royalty Fees due under this Agreement for the period between the Opening Date and the termination date divided by the number of months between the Opening Date and the termination date. Any percentage fee discounts (including fee ramps) are excluded from the calculation of Hotel’s Average Monthly Royalty Fees.

“Improper Payment” means: (a) any payment, offer, gift or promise to pay or authorization of the payment or transfer of other things of value, including without limitation any portion of the compensation, fees or reimbursements received hereunder or the provision of any service, gift or entertainment, directly or indirectly to (i) a Government Official; (ii) any director, officer, employee or commercial partner of a Party or its Affiliates; or, (iii) any other person at the suggestion, request or direction or for the benefit of any of the above-described persons and entities, for purposes of obtaining or influencing official actions or decisions or securing any improper advantage in order to obtain, retain or direct business; (b) payments made and expenses incurred in connection with performance of obligations under this Agreement that are not made and recorded with sufficient accuracy, detail, and control to meet the standards in applicable Anti-Corruption Laws; or, (c) any other transaction in violation of applicable Anti-Corruption Laws.

“Indemnified Parties” means us and our Affiliates and our and their respective predecessors, successors and assigns, and the members, officers, directors, employees, managers, and agents.

“Information” means all information we obtain from you or about the Hotel or its guests or prospective guests under this Agreement or under any agreement ancillary to this Agreement, including agreements relating to the computerized reservation, revenue management, property management, and other systems we provide or require, or otherwise related to the Hotel. Information includes, but is not limited to, Operational Information, Proprietary Information, and Personal Information.

“Interim Remedy” has the meaning set forth in Subsection 14.3.

“Laws” means all public laws, statutes, ordinances, orders, rules, regulations, permits, licenses, certificates, authorizations, directions and requirements of all Governments and Government Entities having jurisdiction over the Hotel, Hotel Site or over Franchisee to operate the Hotel, which, now or hereafter, may apply to the construction, renovation, completion, equipping, opening and operation of the Hotel, including Title III of the Americans with Disabilities Act, 42 U.S.C. § 12181, et seq., and 28 C.F.R. Part 36.

“License” has the meaning set forth in Subsection 2.1.

“Liquidated Damages” has the meaning set forth in Subsections 6.4.4 and 14.4.

“Management Company” has the meaning set forth in Subsection 7.1.

“Manual” means all written compilations of the Standards. The Manual may take the form of one or more of the following: one or more looseleaf or bound volumes; bulletins; notices; videos; CD-ROMS and/or other electronic media; online postings; e-mail and/or electronic communications; facsimiles; or any other medium capable of conveying the Manual’s contents.

“Marks” means the Brand and all other business names, copyrights, designs, distinguishing characteristics, domain names, emblems, insignia, logos, slogans, service marks, symbols, trademarks, trade dress and trade names (whether registered or unregistered) used in the System.

“Monthly Fees” means, collectively, the Monthly Food and Beverage Fee; the Monthly Program Fee and the Monthly Royalty Fee.

“Monthly Food and Beverage Fee” means the fee we require from you in Subsection 8.1, which is set forth in the Addendum.

“Monthly Program Fee” means the fee we require from you in Subsection 8.1, which is set forth in the Addendum.

“Monthly Royalty Fee” means the fee we require from you in Subsection 8.1, which is set forth in the Addendum.

“Network” means the hotels, inns, conference centers, timeshare properties and other operations that Hilton Worldwide and its subsidiaries own, license, lease, operate or manage now or in the future.

“Network Hotel” means any hotel, inn, conference center, timeshare property or other similar facility within the Network.

“Opening Date” means the day on which we first authorize the opening of the facilities, Guest Rooms or services of the Hotel to the general public under the Brand.

“Operational Information” means all information concerning the Monthly Fees, other revenues generated at the Hotel, room occupancy rates, reservation data and other financial and non-financial information we require.

“Other Business(es)” means any business activity we or our Affiliates engage in, other than the licensing of the Hotel.

“Other Hotels” means any hotel, inn, lodging facility, conference center or other similar business, other than a System Hotel or a Network Hotel.

“Permitted Transfer” means any Transfer by you or your Equity Owners as specified in Section 13.2 of this Agreement.

“Person(s)” means a natural person or entity.

“Personal Information” means any information that: (i) can be used (alone or when used in combination with other information within your control) to identify, locate or contact an individual; or (ii) pertains in any way to an identified or identifiable individual. Personal Information can be in any media or format, including computerized or electronic records as well as paper-based files.

“PIP” means product improvement plan.

“PIP Fee” means the fee we charge for creating a PIP.

“Plans” means your plans, layouts, specifications, and drawings for the Hotel that use and incorporate the Standards.

“Principal Mark” is the Mark identified as the Principal Mark in the Addendum.

“Privacy Laws” means any international, national, federal, provincial, state, or local law, code, rule or regulation that regulates the processing of Personal Information in any way, including data protection laws, laws regulating marketing communications and/or electronic communications, information security regulations and security breach notification rules.

“Proprietary Information” means all information or materials concerning the methods, techniques, plans, specifications, procedures, data, systems and knowledge of and experience in the development, operation, marketing and licensing of the System, including the Standards and the Manuals, whether developed by us, you, or a third party.

“Publicly Traded Equity Interest” means any Equity Interest that is traded on any securities exchange or is quoted in any publication or electronic reporting service maintained by the National Association of Securities Dealers, Inc., or any of its successors.

“Quality Assurance Re-Evaluation Fee” has the meaning set forth in Subsection 4.5.

“Renovation Commencement Date” means the date set out in the Addendum, if applicable, by which you must commence Renovation Work.

“Renovation Work” means the renovation and/or construction work, as the context requires, including purchasing and/or leasing and installation of all fixtures, equipment, furnishings, furniture, signs, computer terminals and related equipment, supplies and other items that would be required of a new System Hotel under the Manual, and any other equipment, furnishings and supplies that we may require for you to operate the Hotel as set out in any PIP applicable to the Hotel.

“Renovation Work Completion Date” means any date set out in the Addendum by which you must complete Renovation Work.

"Reports" mean daily, monthly, quarterly and annual operating statements, profit and loss statements, balance sheets, and other financial and non-financial reports we require.

"Reservation Service" means the reservation service we designate in the Standards for use by System Hotels.

"Room Addition Fee" means a sum equal to the then-current Room Addition Fee charged for new System Hotels multiplied by the number of Additional Guest Rooms you wish to add to the Hotel in accordance with Subsection 6.6.3.

"Sanctioned Person" means any person or entity, including those owned (other than with respect to Publicly Traded Equity Interests), controlled by, or acting on behalf of such persons or entities: (a) who is, or is owned or controlled by, or acting on behalf of the Government of any country subject to comprehensive U.S. sanctions in force and which currently include the Government of Cuba, Iran, North Korea, Sudan, and Syria ("**Sanctioned Countries**"); (b) located in, organized under the laws of or ordinarily resident in Sanctioned Countries; (c) identified by any government or legal authority under applicable Trade Restrictions as a person with whom dealings and transactions by Franchisee and/or its Affiliates are prohibited or restricted, including but not limited to persons designated under United Nations Security Council Resolutions, the U.S. Department of the Treasury's Office of Foreign Assets Control ("**OFAC**") List of Specially Designated Nationals and Other Blocked Persons; the U.S. Department of State's lists of persons subject to non-proliferation sanctions; the European Union Financial Sanctions List; persons and entities subject to Special Measures regulations under Section 311 of the USA PATRIOT Act and the Bank Secrecy Act.

"Securities" means any public offering, private placement or other sale of securities in the Franchisee, the Hotel or the Hotel Site.

"Site" means domain names, the World Wide Web, the Internet, computer network/distribution systems, or other electronic communications sites, including mobile applications.

"Standards" means all standards, specifications, requirements, criteria, and policies that have been and are in the future developed and compiled by us for use by you in connection with the design, construction, renovation, refurbishment, appearance, equipping, furnishing, supplying, opening, operating, maintaining, marketing, services, service levels, quality, and quality assurance of System Hotels, including the Hotel, and for hotel advertising and accounting, whether contained in the Manual or set out in this Agreement or other written communication. The Standards do not include any personnel policies or procedures that we may, at our option, make available to you in the Manual or other written communication. You may, in your sole judgment, determine to what extent, if any, any such personnel policies or procedures might apply to the Hotel or Hotel Site.

"System" means the elements, including know-how, that we designate to distinguish hotels operating worldwide under the Brand (as may in certain jurisdictions be preceded or followed by a supplementary identifier such as "by Hilton") that provide to the consuming public a similar, distinctive, high-quality hotel service. The System currently includes: the Brand, the Marks, the Trade Name, and the Standards; access to a reservation service; advertising, publicity and other marketing programs and materials; training programs and materials; and programs for our inspection of the Hotel and consulting with you.

"System Hotels" means hotels operating under the System using the Brand name.

"System's Average Monthly Royalty Fees" means the average Monthly Royalty Fees per Guest Room owed to us by all System Hotels in operation in the United States over the twelve (12) full calendar month period immediately preceding the month of termination, multiplied by the number of approved Guest Rooms at the Hotel. Any percentage fee discounts (including fee ramps) are excluded from the calculation of System's Average Monthly Royalty Fees. For the avoidance of doubt, any System Hotel

that has not been in operation for at least twelve (12) full calendar months immediately preceding the month of termination is not included in determining the System's Average Monthly Royalty Fees.

"**Term**" has the meaning set forth in Section 3.0.

"**Trade Name**" means the name of the Hotel set forth in the Addendum.

"**Trade Restrictions**" means trade, economic or investment sanctions, export controls, anti-terrorism, non-proliferation, anti-money laundering and similar restrictions in force pursuant to laws, rules and regulations imposed under Laws to which the Parties are subject.

"**Transfer**" means in all its forms, any sale, lease, assignment, spin-off, transfer, or other conveyance of a direct or indirect legal or beneficial interest.

"**Transferee**" means the proposed new franchisee resulting from a Transfer.

"**Your Agreements**" means any other agreement between you and us, or any of our Affiliates, related to this Agreement, the Hotel and/or the Hotel Site.

2.0 GRANT OF LICENSE

2.1 Non-Exclusive License. We grant to you and you accept a limited, non-exclusive License to use the Marks and the System during the Term at, and in connection with, the operation of the Hotel in accordance with the terms of this Agreement.

2.2 Reserved Rights.

2.2.1 This Agreement does not limit our right, or the right of our Affiliates, to own, license or operate any Other Business of any nature, whether in the lodging or hospitality industry or not, and whether under the Brand, a Competing Brand, or otherwise. We and our Affiliates have the right to engage in any Other Businesses, even if they compete with the Hotel, the System, or the Brand, and whether we or our Affiliates start those businesses, or purchase, merge with, acquire, are acquired by, come under common ownership with, or associate with, such Other Businesses.

2.2.2 We may also:

2.2.2.1 add, alter, delete or otherwise modify elements of the System;

2.2.2.2 use or license to others all or part of the System;

2.2.2.3 use the facilities, programs, services and/or personnel used in connection with the System in Other Businesses; and

2.2.2.4 use the System, the Brand and the Marks in the Other Businesses.

2.2.3 You acknowledge and agree that you have no rights to, and will not make any claims or demands for, damages or other relief arising from or related to any of the foregoing activities, and you acknowledge and agree that such activities will not give rise to any liability on our part, including liability for claims for unfair competition, breach of contract, breach of any applicable implied covenant of good faith and fair dealing, or divided loyalty.

3.0 TERM

The Term shall begin on the Effective Date and will end, without further notice, on the Expiration Date set forth in the Addendum, unless terminated earlier under the terms of this Agreement. You acknowledge

and agree that this Agreement is non-renewable and that this Agreement confers on you absolutely no rights of license renewal or extension whatsoever following the Expiration Date.

4.0 OUR RESPONSIBILITIES

We have the following responsibilities to you under this Agreement. We reserve the right to fulfill some or all of these responsibilities through one of our Affiliates or through unrelated third parties, in our sole business judgment. We may require you to make payment for any resulting services or products directly to the provider.

4.1 Training. We may specify certain required and optional training programs and provide these programs at various locations. We may charge you for required training services and materials and for optional training services and materials we provide to you. You are responsible for all travel, lodging and other expenses you or your employees incur in attending these programs.

4.2 Reservation Service. We will furnish you with the Reservation Service. The Reservation Service will be furnished to you on the same basis as it is furnished to other System Hotels, subject to the provisions of Subsection 14.3 below.

4.3 Consultation. We may offer consultation services and advice in areas such as operations, facilities, and marketing. We may establish fees in advance, or on a project-by-project basis, for any consultation service or advice you request.

4.4 Marketing.

4.4.1 We will publish (either in hard copy or electronic form) and make available to the traveling public a directory that includes System Hotels. We will include the Hotel in advertising of System Hotels and in international, national and regional marketing programs in accordance with our general practice for System Hotels.

4.4.2 We will use your Monthly Program Fee to pay for various programs to benefit the System, including:

4.4.2.1 advertising, promotion, publicity, public relations, market research, and other marketing programs;

4.4.2.2 developing and maintaining directories of and Internet sites for System Hotels;

4.4.2.3 developing and maintaining the Reservation Service systems and support; and

4.4.2.4 administrative costs and overhead related to the administration or direction of these projects and programs.

4.4.3 We will have the sole right to determine how and when we spend these funds, including sole control over the creative concepts, materials and media used in the programs, the placement and allocation of advertising, and the selection of promotional programs.

4.4.4 We may enter into arrangements for development, marketing, operations, administrative, technical and support functions, facilities, programs, and/or other services with any other entity, including any of our Affiliates or third parties.

4.4.5 You acknowledge that Monthly Program Fees are intended for the benefit of the System and will not simply be used to promote or benefit any one System Hotel or market. We will have no obligation in administering any activities paid for with the Monthly Program Fee to make expenditures

for you that are equivalent or proportionate to your payments or to ensure that the Hotel benefits directly or proportionately from such expenditures.

4.4.6 We may create any programs and allocate monies derived from Monthly Program Fees to any regions or localities, as we consider appropriate in our sole business judgment. The aggregate of Monthly Program Fees paid to us by System Hotels does not constitute a trust or “advertising fund” and we are not a fiduciary with respect to the Monthly Program Fees paid by you and other System Hotels.

4.4.7 We are not obligated to expend funds in excess of the amounts received from System Hotels. If any interest is earned on unused Monthly Program Fees, we will use the interest before using the principal. The Monthly Program Fee does not cover your costs of participating in any optional marketing programs and promotions offered by us in which you voluntarily choose to participate. These Monthly Program Fees do not cover the cost of operating the Hotel in accordance with the Standards.

4.5 Inspections/Compliance Assistance. We will administer a quality assurance program for the System that may include conducting pre-opening and periodic inspections of the Hotel and guest satisfaction surveys and audits to ensure compliance with the Standards. You will permit us to inspect the Hotel without prior notice to you to determine if the Hotel is in compliance with the Standards. You will cooperate with our representatives during these inspections. You will then take all steps necessary to correct any deficiencies within the times we establish. You may be charged a Quality Assurance Re-Evaluation Fee as set forth in the Standards. You will provide complimentary accommodations for the quality assurance auditor each time we conduct a regular inspection or a special on-site quality assurance re-evaluation after the Hotel has failed a regular quality assurance evaluation or to verify that deficiencies noted in a quality assurance evaluation report or PIP have been corrected or completed by the required dates.

4.6 Manual. We will issue to you or make available in electronic form the Manual and any revisions and updates we may make to the Manual during the Term. You agree to ensure that your copy of the Manual is, at all times, current and up to date. If there is any dispute as to your compliance with the provisions of the Manual, the master copy of the Manual maintained at our principal office will control.

4.7 Equipment and Supplies. We will make available to you for use in the Hotel various purchase, lease, or other arrangements for exterior signs, operating equipment, operating supplies, and furnishings, which we make available to other System Hotels.

5.0 YOUR RESPONSIBILITIES

5.1 Operational and Other Requirements. You must:

5.1.1 operate the Hotel twenty-four (24) hours a day after the Opening Date;

5.1.2 operate the Hotel using the System, in compliance with this Agreement and the Standards, and in such a manner to provide courteous, uniform, respectable and high quality lodging and other services and conveniences to the public. You acknowledge that, although we provide the Standards, you have exclusive day-to-day control of the business and operation of the Hotel and we do not in any way possess or exercise such control;

5.1.3 comply with the Standards, including our specifications for all supplies, products and services. We may require you to purchase a particular brand of product or service to maintain the common identity and reputation of the Brand, and you will comply with such requirements. Unless we specify otherwise, you may purchase products from any authorized source of distribution; however, we reserve the right, in our business judgment, to enter into exclusive purchasing arrangements for particular products or services and to require that you purchase products or services from approved suppliers or distributors;

5.1.4 install, display, and maintain signage displaying or containing the Brand name and other distinguishing characteristics in accordance with Standards we establish for System Hotels;

5.1.5 comply with Standards for the training of persons involved in the operation of the Hotel, including completion by key personnel of the Hotel of a training program for operation of the Hotel under the System, at a site we designate. You will pay us all fees and charges, if any, we require for your personnel to attend these training programs. You are responsible for all travel, lodging and other expenses you or your employees incur in attending these programs;

5.1.6 purchase and maintain property management, revenue management, in-room entertainment, telecommunications, high-speed internet access, and other computer and technology systems that we designate for the System or any portion of the System based on our assessment of the long-term best interests of System Hotels, considering the interest of the System as a whole;

5.1.7 advertise and promote the Hotel and related facilities and services on a local and regional basis in a first-class, dignified manner, using our identity and graphics Standards for all System Hotels, at your cost and expense. You must submit to us for our approval samples of all advertising and promotional materials that we have not previously approved (including any materials in digital, electronic or computerized form or in any form of media that exists now or is developed in the future) before you produce or distribute them. You will not begin using the materials until we approve them. You must immediately discontinue your use of any advertising or promotional material we disapprove, even if we previously approved the materials;

5.1.8 participate in and pay all charges in connection with all required System guest complaint resolution programs, which programs may include chargebacks to the Hotel for guest refunds or credits and all required System quality assurance programs, such as guest comment cards, customer surveys and mystery shopper programs. You must maintain minimum performance Standards and scores for quality assurance programs we establish;

5.1.9 honor all nationally recognized credit cards and credit vouchers issued for general credit purposes that we require and enter into all necessary credit card and voucher agreements with the issuers of such cards or vouchers;

5.1.10 participate in and use the Reservation Service, including any additions, enhancements, supplements or variants we develop or adopt, and honor and give first priority on available rooms to all confirmed reservations referred to the Hotel through the Reservation Service. The only reservation service or system you may use for outgoing reservations referred by or from the Hotel to other Network Hotels will be the Reservation Service or other reservation services we designate;

5.1.11 comply with Laws and, on request, give evidence to us of compliance;

5.1.12 participate in, and promptly pay all fees, commissions and charges associated with, all travel agent commission programs and third-party reservation and distribution services (such as airline reservation systems), all as required by the Standards and in accordance with the terms of these programs, all of which may be modified;

5.1.13 not engage, directly or indirectly, in any cross-marketing or cross-promotion of the Hotel with any Other Hotel or related business, without our prior written consent. You agree to refer guests and customers, wherever reasonably possible, only to System Hotels or Network Hotels. We may require you to participate in programs designed to refer prospective customers to Other Hotels. You must display all material, including brochures and promotional material we provide for System Hotels and Network Hotels, and allow advertising and promotion only of System Hotels and Network Hotels on the Hotel Site, unless we specifically direct you to include advertising or promotion of Other Hotels;

5.1.14 subject to your obligations under the Texas Public Information Act or other applicable Laws, treat as confidential the Standards, the Manual and all other Proprietary Information. You acknowledge and agree that you do not acquire any interest in the Proprietary Information other than the right to utilize the same in the development and operation of the Hotel under the terms of this Agreement. You agree that you will not use the Proprietary Information in any business or for any purpose other than in the development and operation of the Hotel under the System and will maintain the absolute confidentiality of the Proprietary Information during and after the Term. You will not make unauthorized copies of any portion of the Proprietary Information; and will adopt and implement all procedures we may periodically establish in our business judgment to prevent unauthorized use or disclosure of the Proprietary Information, including restrictions on disclosure to employees and the use of non-disclosure and non-competition clauses in agreements with employees, agents and independent contractors who have access to the Proprietary Information;

5.1.15 not become a Competitor, or permit your Affiliate to become a Competitor, in the upper upscale hotel market segment, or any substantially equivalent market segment, as determined by Smith Travel Research (“STR”) (or, if STR is no longer in existence, STR’s successor or other such industry resource that is as equally as reputable as STR);

5.1.16 own fee simple title (or long-term ground leasehold interest for a term equal to the Term) to the real property and improvements that comprise the Hotel and the Hotel Site, or alternatively, at our request, cause the fee simple owner, or other third party acceptable to us, to provide its guaranty covering all of your obligations under this Agreement in form and substance acceptable to us;

5.1.17 maintain legal possession and control of the Hotel and Hotel Site for the Term and promptly deliver to us a copy of any notice of default you receive from any mortgagee, trustee under any deed of trust, or ground lessor for the Hotel, and on our request, provide any additional information we may request related to any alleged default;

5.1.18 not directly or indirectly conduct, or permit by lease, concession arrangement or otherwise, gaming or casino operations in or connected to the Hotel or on the Hotel Site, or otherwise engage in any activity which, in our business judgment, is likely to adversely reflect upon or affect in any manner, any gaming licenses or permits held by us or our Affiliates or the then-current stature of us or any of our Affiliates with any gaming commission, board, or similar governmental or regulatory agency, or the reputation or business of us or any of our Affiliates;

5.1.19 not directly or indirectly conduct or permit the marketing or sale of timeshares, vacation ownership, fractional ownership, condominiums or like schemes at, or adjacent to, the Hotel. This restriction will not prohibit you from directly or indirectly conducting timeshare, vacation ownership, fractional ownership, or condominium sales or marketing at and for any property located adjacent to the Hotel that is owned or leased by you so long as you do not use any of the Marks in such sales or marketing efforts and you do not use the Hotel or its facilities in such sales and marketing efforts or in the business operations of the adjacent property;

5.1.20 participate in and pay all charges related to our marketing programs (in addition to programs covered by the Monthly Program Fee), all guest frequency programs we require, and any optional programs that you opt into;

5.1.21 honor the terms of any discount or promotional programs (including any frequent guest program) that we offer to the public on your behalf, any room rate quoted to any guest at the time the guest makes an advance reservation, and any award certificates issued to Hotel guests participating in these programs;

5.1.22 after the Effective Date, maintain, at your expense, insurance of the types and in the minimum amounts we specify in the Standards. All such insurance must be with insurers having the minimum ratings we specify, name as additional insureds the parties we specify in the Standards, and carry the endorsements and notice requirements we specify in the Standards. If you fail or neglect to

obtain or maintain the insurance or policy limits required by this Agreement or the Standards, we have the option, but not the obligation, to obtain and maintain such insurance without notice to you, and you will immediately on our demand pay us the premiums and cost we incur in obtaining this insurance;

5.1.23 not share the business operations and Hotel facilities with any Other Hotel or other business;

5.1.24 provide to us information we reasonably request about any proposed lease or sublease of commercial space, or other concession arrangements, in the Hotel in the ordinary course of business, so that we may review and approve the nature of the proposed business, including the proposed brand and concept, in compliance with our then-current Standards for System Hotels;

5.1.25 not engage in any tenant-in-common syndication or Transfer of any tenant-in-common interest in the Hotel or the Hotel Site; and

5.1.26 promptly provide to us all information we reasonably request about you and your Affiliates (including your respective beneficial owners, officers, directors, shareholders, partners or members) and/or the Hotel, title to the property on which the Hotel is constructed and any other property used by the Hotel.

6.0 HOTEL WORK

6.1 Necessary Consents.

6.1.1 You must obtain our prior written consent before retaining or engaging any architect, interior designer, general contractor and major subcontractors for the Hotel. We will not unreasonably withhold such consent.

6.1.2 Plans and Designs must be submitted to us in accordance with the schedule specified in the Addendum or any PIP. Before we approve your Plans, your architect or other certified professional must certify to us that the Plans comply with all Laws related to accessibility/accommodations/facilities for those with disabilities.

6.1.3 You shall not commence any Hotel Work unless and until we have issued our written consent in respect of the Plans and Designs, which consent will not be unreasonably withheld.

6.1.4 Once we have provided our consent to the Plans and Designs, no change may be made to the Plans or Designs without our prior written consent. By consenting to the Plans and Designs or any changes or modifications to the Plans and Designs, we do not warrant the depth of our analysis or assume any responsibility or liability for the suitability of the Plans and Designs or the resulting Hotel Work.

6.1.5 You are solely responsible for ensuring that the Plans and Designs (including Plans and Designs for Hotel Work) comply with our then-current Standards, the Manual, and all Laws.

6.2 Initial Hotel Work. You will perform or cause the Hotel Work to be performed in accordance with this Agreement, the approved Plans and Designs, the Manual and, for Renovation Work, the PIP. You will bear the entire cost of the Hotel Work, including the cost of the Plans and Designs, professional fees, licenses, permits, equipment, furniture, furnishings and supplies. You are solely responsible for obtaining all necessary licenses, permits and zoning variances required for the Hotel Work.

6.3 Commencement and Completion of the Hotel Work.

6.3.1 You will commence the Hotel Work on or before the Construction Commencement Date or Renovation Commencement Date specified in the Addendum. You may request

an extension by submitting a written request for our approval before the applicable deadline, describing the status of the project and the reason for the requested extension, and paying our then-current extension fee. We may condition our approval on an update to the Plans and Designs. Once commenced, the Hotel Work will continue uninterrupted except to the extent continuation is prevented by events of Force Majeure. You must give written notice to us specifying the nature and duration of any event of Force Majeure promptly after becoming aware of the event, and specifying that you have used, and continue to use, reasonable endeavours to mitigate the effects of such event until such event ceases to exist. On verification of the event of Force Majeure, we will approve an extension of the applicable commencement or completion date for up to eighteen (18) months. You must promptly provide to us evidence that the Construction Work or Renovation Work has commenced if we request it.

6.3.2 The Hotel Work must be completed and the Hotel must be furnished, equipped, and otherwise made ready to open in accordance with the terms of this Agreement no later than the Construction Work Completion Date or Renovation Work Completion Date specified in the Addendum. You may request an extension by submitting a written request for our approval before the applicable deadline, describing the status of the project and the reason for the requested extension, and paying our then-current extension fee.

6.3.3 On completion of the Hotel Work and, as a condition to our authorization to open the Hotel, your architect, general contractor or other certified professional must provide us with a certificate stating that the as-built premises comply with all Laws relating to accessibility/accommodations/facilities for those with disabilities.

6.4 Opening the Hotel.

6.4.1 If the Hotel is not open under the Brand on the Effective Date, you will open the Hotel on the Opening Date. You will not open the Hotel unless and until you receive our written consent to do so pursuant to Subsection 6.4.2 or 6.4.3.

6.4.2 You will give us at least fifteen (15) days advance notice that you have complied with all the terms and conditions of this Agreement and the Hotel is ready to open. We will use reasonable efforts within fifteen (15) days after we receive your notice to visit the Hotel and to conduct other investigations as we deem necessary to determine whether to authorize the opening of the Hotel, but we will not be liable for delays or loss occasioned by our inability to complete our investigation and to make this determination within the fifteen (15) day period. If you fail to pass our initial opening site visit, we may, in our sole business judgment, charge you reasonable fees associated with any additional visits.

6.4.3 We shall be entitled to withhold our consent to the opening of the Hotel until:

6.4.3.1 you have complied with all the terms and conditions in this Agreement;

6.4.3.2 your staff has received adequate training and instruction in the manner we require;

6.4.3.3 you have received authorization to open the Hotel from the relevant governmental authority for the jurisdiction in which the Hotel is located, if applicable; and

6.4.3.4 all fees and charges you owe to us or our Affiliates have been paid.

6.4.4 Opening the Hotel before the Opening Date is a material breach of this Agreement.

6.4.4.1 You will pay us Liquidated Damages in the amount of Five Thousand Dollars (\$5,000) per day if you open the Hotel before the Opening Date to compensate us for the damage

caused by such breach. You must also reimburse us for all of our costs and expenses, including legal fees, incurred in enforcing our rights under this Agreement.

6.4.4.2 These Liquidated Damages for damage to our Marks shall not limit or exclude any other remedies we may have at law or in equity. You acknowledge and agree that the Liquidated Damages payable under this Subsection represent a reasonable estimate of the minimum just and fair compensation for the damages we will suffer as the result of the opening of the Hotel before the Opening Date in material breach of this Agreement.

6.5 Performance of Agreement. You must satisfy all of the terms and conditions of this Agreement, and equip, supply, staff and otherwise make the Hotel ready to open under our Standards. As a result of your efforts to comply with the terms and conditions of this Agreement, you will incur significant expense and expend substantial time and effort. You acknowledge and agree that we will have no liability or obligation to you for any losses, obligations, liabilities or expenses you incur if we do not authorize the Hotel to open or if we terminate this Agreement because you have not complied with the terms and conditions of this Agreement.

6.6 Hotel Refurbishment and Room Addition.

6.6.1 We may periodically require you to modernize, rehabilitate and/or upgrade the Hotel's fixtures, equipment, furnishings, furniture, signs, computer hardware and software and related equipment, supplies and other items to meet the then-current Standards. You will make these changes at your sole cost and expense and in the time frame we require.

6.6.2 You may not make any significant changes (including major changes in structure, design or décor) in the Hotel. Minor redecoration and minor structural changes that comply with our Standards will not be considered significant.

6.6.3 You may not make any change in the number of approved Guest Rooms in the Addendum. If you wish to add additional Guest Rooms to the Hotel after the Opening Date, you must submit an application to obtain our consent. Our consent to the addition of Guest Rooms at the Hotel will be conditioned upon the payment of our then-current Room Addition Fee and execution of an amendment to this Agreement in the form required by us. Further, as a condition to our granting approval of your application, we may require you to modernize, rehabilitate or upgrade the Hotel in accordance with Subsection 6.6.1 of this Agreement, and to pay us our then-current PIP Fee to prepare a PIP to determine the renovation requirements for the Hotel.

7.0 STAFF AND MANAGEMENT OF THE HOTEL

7.1 You are solely responsible for the management of the Hotel's business. You will provide qualified and experienced management ("**Management Company**"). Your Management Company must be approved by us in writing. We have the right to communicate directly with the Management Company and managers at the Hotel. We may rely on the communications of such managers or Management Company as being on your behalf. Any Management Company and its employees must have the authority to perform all of your obligations under this Agreement. The engagement of a Management Company does not reduce your obligations under this Agreement. In the case of any conflict between this Agreement and any agreement with the Management Company, this Agreement prevails.

7.2 You represent and agree that you have not, and will not, enter into any lease, management agreement or other similar arrangement for the operation of the Hotel or any part of the Hotel without our prior written consent. To be approved by us as the operator of the Hotel, you and any proposed Management Company must be qualified to manage the Hotel. We may refuse to approve you or any proposed Management Company that is a Competitor or which, in our business judgment, is inexperienced or unqualified in managerial skills or operating capability or is unable or unwilling to adhere fully to your obligations under this Agreement.

7.3 If the Management Company becomes a Competitor or the Management Company is terminated by you or otherwise becomes unsuitable in our sole business judgment to manage the Hotel during the Term, you will have ninety (90) days to retain a qualified substitute Management Company that is acceptable to us.

8.0 PAYMENT OF FEES

8.1 Monthly Fees. Beginning on the Opening Date, you will pay to us for each month (or part of a month, including the final month you operate under this Agreement) the Monthly Fees, each of which is set forth in the Addendum.

8.2 Calculation and Payment of Fees.

8.2.1 The Monthly Fees will be calculated in accordance with the accounting methods of the then-current Uniform System of Accounts for the Lodging Industry, or such other accounting methods specified by us in the Manual.

8.2.2 The Monthly Fees will be paid to us at the place and in the manner we designate on or before the fifteenth (15th) day of each month and will be accompanied by our standard schedule setting forth in reasonable detail the computation of the Monthly Fees for such month.

8.2.3 We may require you to transmit the Monthly Fees and all other payments required under this Agreement by wire transfer or other form of electronic funds transfer and to provide the standard schedule in electronic form. You must bear all costs of wire transfer or other form of electronic funds transfer or other electronic payment and reporting.

8.2.4 In the event of fire or other insured casualty that results in a reduction of Gross Rooms Revenue and Gross Food and Beverage Revenue, you will determine and pay us, from the proceeds of any business interruption or other insurance applicable to loss of revenues, an amount equal to the forecasted Monthly Fees, based on the Gross Rooms Revenue and Gross Food and Beverage Revenue amounts agreed on between you and your insurance company that would have been paid to us in the absence of such casualty.

8.2.5 If Hotel accommodations are bundled with food and beverage arrangements or other services when charged to the customer, you will make a good faith reasonable allocation of the resulting revenue between Gross Rooms Revenue and Gross Food and Beverage Revenue, consistent with the Uniform System of Accounts for the Lodging Industry.

8.3 Other Fees. You will timely pay all amounts due us or any of our Affiliates for any invoices or for goods or services purchased by or provided to you or paid by us or any of our Affiliates on your behalf.

8.4 Taxes. If a Gross Receipts Tax is imposed on us or any of our Affiliates based on payments made by you related to this Agreement, then you must reimburse us or the affected Affiliates for such Gross Receipts Tax to ensure that the amount we or our Affiliates retain, after paying the Gross Receipts Tax, equals the net amount of the payments you are required to pay us or our Affiliates had such Gross Receipts Tax not been imposed. You are not required to pay income taxes payable by us or any of our Affiliates as a result of our net income relating to fees collected under this Agreement.

8.5 Application of Fees. We may apply any amounts received from you to any amounts due under this Agreement.

9.0 PROPRIETARY RIGHTS

9.1 Our Proprietary Rights.

9.1.1 You will not contest, either directly or indirectly during or after the Term:

9.1.1.1 our (and/or any of our Affiliates') ownership of, rights to and interest in the System, Brand, Marks and any of their elements or components, including present and future distinguishing characteristics and agree that neither you nor any design or construction professional engaged by you may use our Standards, our Manual or your approved Plans and Designs for any hotel or lodging project other than the Hotel;

9.1.1.2 our sole right to grant licenses to use all or any elements or components of the System;

9.1.1.3 that we (and/or our Affiliates) are the owner of (or the licensee of, with the right to sub-license) all right, title and interest in and to the Brand and the Marks used in any form and in any design, alone or in any combination, together with the goodwill they symbolize; or

9.1.1.4 the validity or ownership of the Marks.

9.1.2 You acknowledge that these Marks have acquired a secondary meaning or distinctiveness which indicates that the Hotel, Brand and System are operated by or with our approval. All improvements and additions to, or associated with, the System, all Marks, and all goodwill arising from your use of the System and the Marks, will inure to our benefit and become our property (or that of our applicable Affiliates), even if you develop them.

9.1.3 You agree not to directly or indirectly dilute the value of the goodwill attached to the Marks, the Brand or the System. You will not apply for or obtain any trademark or service mark registration of any of the Marks or any confusingly similar marks in your name or on behalf of or for the benefit of anyone else. You acknowledge that you are not entitled to receive any payment or other value from us or from any of our Affiliates for any goodwill associated with your use of the System or the Marks, or any elements or components of the System.

9.2 Trade Name, Use of the Marks.

9.2.1 Trade Name.

9.2.1.1 The Hotel will be initially known by the Trade Name set forth in the Addendum. We may change the Trade Name, the Brand name and/or any of the Marks (but not the Principal Mark), or the way in which any of them (including the Principal Mark) are depicted, at any time at our sole option and at your expense. You may not change the Trade Name without our specific prior written consent.

9.2.1.2 You acknowledge and agree that you are not acquiring the right to use any business names, copyrights, designs, distinguishing characteristics, domain names, emblems, insignia, logos, slogans, service marks, symbols, trademarks, trade dress, trade names or any other marks or characteristics owned by us or licensed to us that we do not specifically designate to be used in the System.

9.3 Use of Trade Name and Marks. You will operate under the Marks, using the Trade Name, at the Hotel. You will not adopt any other names or marks in operating the Hotel without our approval. You will not, without our prior written consent, use any of the Marks, or the word "Hilton," or other Network trademarks, trade names or service marks, or any similar words or acronyms, in:

9.3.1 your corporate, partnership, business or trade name;

9.3.2 any Internet-related name (including a domain name);

9.3.3 or any business operated separately from the Hotel, including the name or identity of developments adjacent to or associated with the Hotel.

9.4 Trademark Disputes.

9.4.1 You will immediately notify us of any infringement or dilution of or challenge to your use of any of the Marks and will not, absent a court order or our prior written consent, communicate with any other person regarding any such infringement, dilution, challenge or claim. We will take the action we deem appropriate with respect to such challenges and claims and have the sole right to handle disputes concerning use of all or any part of the Marks or the System. You will fully cooperate with us and our applicable Affiliate in these matters. We will reimburse you for expenses incurred by you as the direct result of activities undertaken by you at our prior written request and specifically relating to the trademark dispute at issue. We will not reimburse you for any other expenses incurred by you for cooperating with us or our Affiliates.

9.4.2 You appoint us as your exclusive, true and lawful attorney-in-fact, to prosecute, defend and/or settle all disputes of this type at our sole option. You will sign any documents we or our applicable Affiliate believe are necessary to prosecute, defend or settle any dispute or obtain protection for the Marks and the System and will assign to us any claims you may have related to these matters. Our decisions as to the prosecution, defense or settlement of the dispute will be final. All recoveries made as a result of disputes regarding use of all or part of the System or the Marks will be for our account.

9.5 Web Sites.

9.5.1 You may not register, own, maintain or use any Sites that relate to the Network or the Hotel or that include the Marks. The only domain names, Sites, or Site contractors that you may use relating to the Hotel or this Agreement are those we assign or otherwise approve in writing. You acknowledge that you may not, without a legal license or other legal right, post on your Sites any material in which any third party has any direct or indirect ownership interest. You must incorporate on your Sites any information we require in the manner we deem necessary to protect our Marks.

9.5.2 Any use of the Marks on any Site must conform to our requirements, including the identity and graphics Standards for all System hotels. Given the changing nature of this technology, we have the right to withhold our approval, and to withdraw any prior approval, and to modify our requirements.

9.6 Covenant.

9.6.1 You agree, as a direct covenant with us and our Affiliates, that you will comply with all of the provisions of this Agreement related to the manner, terms and conditions of the use of the Marks and the termination of any right on your part to use any of the Marks. Any non-compliance by you with this covenant or the terms of this Agreement related to the Marks, or any unauthorized or improper use of the System or the Marks, will cause irreparable damage to us and/or our Affiliates and is a material breach of this Agreement.

9.6.2 If you engage in such non-compliance or unauthorized and/or improper use of the System or the Marks during or after the Term, we and any of our applicable Affiliates, along with the successors and assigns of each, will be entitled to both temporary and permanent injunctive relief against you from any court of competent jurisdiction, in addition to all other remedies we or our Affiliates may have at law. You consent to the entry of such temporary and permanent injunctions. You must pay all costs and expenses, including reasonable attorneys' fees, expert fees, costs and other expenses of

litigation that we and/or our Affiliates may incur in connection with your non-compliance with this covenant.

10.0 REPORTS, RECORDS, AUDITS, AND PRIVACY

10.1 Reports.

10.1.1 At our request, you will prepare, **or cause to be prepared**, and deliver to us the Reports containing the Operational Information (and any other information we reasonably require) in the form, manner and time frame we require. At a minimum, by the fifteenth (15th) day of each month, you will submit to us the Operational Information for the previous month and reflecting the computation of the amounts then due under Section 8, in the form, manner and time frame we require.

10.1.2 The Reports will be certified as accurate in the manner we require. You will permit us to inspect your books and records at all reasonable times.

10.2 Maintenance of Records. You will prepare, **or cause to be prepared**, on a current basis, (and preserve for no less than the greater of four (4) years or the time period we stated in our record retention requirements), complete and accurate records concerning Gross Rooms Revenue and all financial, operating, marketing and other aspects of the Hotel. You will maintain an accounting system that fully and accurately reflects all financial aspects of the Hotel and its business. These records will include books of account, tax returns, governmental reports, register tapes, daily reports, and complete quarterly and annual financial statements (including profit and loss statements, balance sheets and cash flow statements) and will be prepared in the form, manner and time frame we require.

10.3 Audit.

10.3.1 We may require you to have the Gross Rooms Revenue, fees or other monies due to us computed and certified as accurate by a certified public accountant. During the Term and for two (2) years thereafter, we and our authorized agents have the right to verify Operational Information required under this Agreement by requesting, receiving, inspecting and auditing, at all reasonable times, any and all records referred to above wherever they may be located (or elsewhere if we request).

10.3.2 If any inspection or audit reveals that you understated or underpaid any payment due to us, you will promptly pay to us the deficiency plus interest from the date each payment was due until paid at the interest rate set forth in Section 17.15 of this Agreement.

10.3.3 If the audit or inspection reveals that the underpayment is willful, or is for five percent (5%) or more of the total amount owed for the period being inspected, you will also reimburse us for all inspection and audit costs, including reasonable travel, lodging, meals, salaries and other expenses of the inspecting or auditing personnel. Our acceptance of your payment of any deficiency will not waive any rights we may have as a result of your breach, including our right to terminate this Agreement. If the audit discloses an overpayment, we will credit this overpayment against your future payments due under this Agreement, without interest, or, if no future payments are due under this Agreement, we will promptly pay you the amount of the overpayment without interest.

10.4 Ownership of Information. All Information we obtain from you and all revenues we derive from such Information will be our property and Proprietary Information that we may use for any reason, including making a financial performance representation in our franchise disclosure documents. At your sole risk and responsibility, you may use Information that you acquire from third parties in connection with operating the Hotel, such as Personal Information, at any time during or after the Term, to the extent that your use is permitted by Law.

10.5 Privacy and Data Protection. You will:

10.5.1 comply with all applicable Privacy Laws;

10.5.2 comply with all Standards that relate to Privacy Laws and the privacy and security of Personal Information;

10.5.3 refrain from any action or inaction that could cause us or our Affiliates to breach any Privacy Laws;

10.5.4 do and execute, or arrange to be done and executed, each act, document and thing we deem necessary in our business judgment to keep us and our Affiliates in compliance with the Privacy Laws; and

10.5.5 immediately report to us the theft or loss of Personal Information (other than the Personal Information of your own officers, directors, shareholders, employees or service providers).

11.0 CONDEMNATION AND CASUALTY

11.1 Condemnation. You must immediately inform us of any proposed taking of any portion of the Hotel by eminent domain. If, in our business judgment, the taking is significant enough to render the continued operation of the Hotel in accordance with the Standards and guest expectations impractical, then we may terminate this Agreement on written notice to you and you will not pay us Liquidated Damages. If such taking, in our business judgment, does not require the termination of this Agreement, then you will make all necessary modifications to make the Hotel conform to its condition, character and appearance immediately before such taking, according to Plans and Designs approved by us. You will take all measures to ensure that the resumption of normal operations at the Hotel is not unreasonably delayed.

11.2 Casualty.

11.2.1 You must immediately inform us if the Hotel is damaged by fire or other casualty. If the damage or repair requires closing the Hotel, you may choose to repair or rebuild the Hotel according to the Standards, provided you: begin reconstruction within six (6) months after closing and reopen the Hotel for continuous business operations as soon as practicable (but in any event no later than eighteen (18) months after the closing of the Hotel) and give us at least thirty (30) days' notice of the projected date of reopening. Once the Hotel is closed, you will not promote the Hotel as a System Hotel or otherwise identify the Hotel using any of the Marks without our prior written consent.

11.2.2 You and we each have the right to terminate this Agreement if you elect not to repair or rebuild the Hotel as set forth above in Subsection 11.2.1, provided the terminating Party gives the other Party sixty (60) days written notice. We will not require you to pay Liquidated Damages unless you or one of your Affiliates own and/or operate a hotel at the Hotel Site under a lease, license or franchise from a Competitor within three (3) years of the termination date.

11.3 No Extensions of Term. Nothing in this Section 11 will extend the Term.

12.0 NOTICE OF INTENT TO MARKET

Except in the case of a Transfer governed by Subsection 13.2.1 of this Agreement, if you or a Controlling Affiliate want to Transfer any Equity Interest, you must give us written notice, concurrently with beginning your marketing efforts.

13.0 TRANSFERS

13.1 Our Transfer.

13.1.1 We may assign or Transfer this Agreement or any of our rights, duties, or assets under this Agreement, by operation of law or otherwise, to any person or legal entity without your

consent, provided that any such person or legal entity shall be required to assume all of our obligations to permit you to operate the Hotel under the Brand after such assignment. Any of our Affiliates may transfer, sell, dispose of, or otherwise convey, their ownership rights in us or any other Affiliates, by operation of law or otherwise, including by public offering, to any person or legal entity without your consent.

13.1.2 If we assign this Agreement to a third party who expressly assumes our obligations under this Agreement, we will no longer have any performance or other obligations to you under this Agreement and your right to use any programs, rights or services provided to you by us or our Affiliates under this Agreement will terminate.

13.2 Your Transfer. You understand and acknowledge that the rights and duties in this Agreement are personal to you and that we are entering into this Agreement in reliance on your business skill, financial capacity, and the personal character of you, your officers, directors, partners, members, shareholders or trustees. A Transfer by you (or by any Equity Owner as of the Effective Date, or by any transferee Equity Owner we later approve) of any Equity Interest, or this Agreement, or any rights or obligations under this Agreement, is prohibited other than as expressly permitted in this Agreement. In any Transfer by you or any Equity Owner, the proposed Transferee may not be a Sanctioned Person or a Competitor.

13.2.1 Permitted Transfers. Permitted Transfers are Transfers that will not result in a change of Control of you, the Hotel or the Hotel Site. We will permit you or any Equity Owner to engage in the Permitted Transfers set forth in this Subsection 13.2.1 as long as the Permitted Transfer meets the listed requirements. If a Permitted Transfer under Subsection 13.2.1.2 (requiring notice and consent) otherwise qualifies as a Permitted Transfer under Subsection 13.2.1.1 (not requiring notice and consent), the less restrictive provisions of Subsection 13.2.1.1 will control.

13.2.1.1 Permitted Transfers That Do Not Require Notice or Our Consent. The following Permitted Transfers are permitted without giving notice or obtaining our consent if the Permitted Transfer meets the listed requirements.

13.2.1.1.1 Publicly Traded Equity Interests. A Publicly Traded Equity Interest may be Transferred.

13.2.1.1.2 Privately Held Equity Interests: Less than 25% Change. An Equity Interest that is not publicly traded may be Transferred if the transferee Equity Owner will own less than twenty-five percent (25%) of the Equity Interest, in total, immediately after the transaction.

13.2.1.2 Permitted Transfers That Require Notice and Our Consent. The following Permitted Transfers are permitted if you: (a) give us at least sixty (60) days' advance written notice of the proposed Permitted Transfer (including the identity and contact information for any proposed transferee); (b) pay to us on request a nonrefundable processing fee of Five Thousand Dollars (\$5,000); (c) follow our then-current procedure for processing Permitted Transfers, including providing any information we may require in order to review the proposed Transfer and completing our then-current compliance process; and (d) execute our then-current standard documents required for processing Permitted Transfers.

13.2.1.2.1 Affiliate Transfer. You or any Equity Owner may Transfer an Equity Interest or this Agreement to an Affiliate.

13.2.1.2.2 Transfers to a Family Member or Trust. If you or any Equity Owner as of the Effective Date are a natural person, you and such Equity Owner may Transfer an Equity Interest or this Agreement to an immediate family member (i.e., spouse, children, parents, siblings)

or to a trust for your benefit or the benefit of the Equity Owner or the Equity Owner's immediate family members.

13.2.1.2.3 Transfer on Death. On the death of Franchisee or an Equity Owner who is a natural person, this Agreement or the Equity Interest of the deceased Equity Owner may Transfer in accordance with such person's will or, if such person dies intestate, in accordance with laws of intestacy governing the distribution of such person's estate, provided that: (i) the transfer on death is to an immediate family member or to a legal entity formed by such family member(s); and (ii) within one (1) year after the death, such family member(s) or entity meet all of our then-current requirements for an approved Transferee.

13.2.1.2.4 Privately Held Equity Interests: 25% or Greater Change. You or any Equity Owner may Transfer your Equity Interests even though, after the completion of such Transfer, twenty-five percent (25%) or more of the Equity Interests will have changed hands since the Effective Date of this Agreement.

13.2.1.2.5 Transfer Related to Bond Obligations. You may Transfer this Agreement or your Equity Interests to the City of Austin or its designee when the Bonds (defined in Subsection 13.5) are no longer outstanding. You must (i) give written notice to us in accordance with Subsection 17.7; and (ii) provide any information we may reasonably require about the proposed Transfer. Transferee must complete our then-current compliance process. You and the Transferee must execute our then-current standard documents required for processing Permitted Transfers. We will waive any requirement to pay a processing fee in connection with a Transfer under this Subsection.

13.2.2 Change of Ownership Transfer. Any proposed Transfer that is not described in Subsection 13.2.1 is a Change of Ownership Transfer. We will have sixty (60) days from our receipt of the completed and signed franchise application to consent or withhold our consent to any proposed Change of Ownership Transfer. Our consent will not be unreasonably withheld. You consent to our communication with any third party we deem necessary about the Hotel in order for us to evaluate the proposed Change of Ownership Transfer. Our consent to the Change of Ownership Transfer is subject to the following conditions, all of which must be satisfied at or before the date of closing the Change of Ownership Transfer ("**Closing**"):

13.2.2.1 the Transferee submits a Change of Ownership Application, pays our then current franchise application fee and any PIP Fee, executes our then-current form of new franchise agreement and all ancillary forms, including a guaranty from a third party acceptable to us, if required;

13.2.2.2 you are not in default of this Agreement or any other agreements with us or our Affiliates;

13.2.2.3 you or the Transferee pay to us, on or before the date of Closing, all amounts due to us and our Affiliates through the date of the Closing; if we agree to execute any documents pursuant to Standard Operating Procedure 50 10 5(I) (or any equivalent or successor) of the United States Small Business Administration, we will estimate the Monthly Fees and Other Fees due to us through the date of Closing, which you and the Transferee may agree to escrow, to be disbursed to us at Closing to fulfill this obligation. If our estimate of the amounts due to us exceeds the amount actually owed, we will refund the difference to you, generally within thirty (30) days after the date of Closing. If all conditions to our consent are fulfilled, the date of Closing will be the termination date of this Agreement, and the effective date of the Transferee's franchise agreement;

13.2.2.4 you conclude to our satisfaction, or provide adequate security for, any suit, action, or proceeding pending or threatened against you, us or any of our Affiliates with respect to the Hotel, which may result in liability on the part of us or any of our Affiliates;

13.2.2.5 you, the Transferee and/or transferee Equity Owner(s) submit to us all information related to the Transfer that we require, including applications; and

13.2.2.6 the Transferee meets our then-current business requirements for new franchisees.

13.3 Public Offering or Private Placement.

13.3.1 Any offering by you of Securities requires our review if you use the Marks, or refer to us or this Agreement in your offering. All materials required by any Law for the offer or sale of those Securities must be submitted to us for review at least sixty (60) days before the date you distribute those materials or file them with any governmental agency, including any materials to be used in any offering exempt from registration under any securities laws.

13.3.2 You must submit to us a non-refundable Five Thousand Dollar (\$5,000) processing fee with the offering documents and pay any additional costs we may incur in reviewing your documents, including reasonable attorneys' fees. Except as legally required to describe the Hotel in the offering materials, you may not use any of the Marks or otherwise imply our participation or that of Hilton Worldwide or any other of our Affiliates in or endorsement of any Securities or any Securities offering.

13.3.3 We have the right to approve any description of this Agreement or of your relationship with us, or any use of the Marks, contained in any prospectus, offering memorandum or other communications or materials you use in the sale or offer of any Securities. Our review of these documents will not in any way be considered our agreement with any statements contained in those documents, including any projections, or our acknowledgment or agreement that the documents comply with any Laws.

13.3.4 You may not sell any Securities unless you clearly disclose to all purchasers and offerees that: (i) neither we, nor any of our Affiliates, nor any of our or their respective officers, directors, agents or employees, will in any way be deemed an issuer or underwriter of the Securities, as those terms are defined in applicable securities laws; and (ii) we, our Affiliates, and our respective officers, directors, agents and employees have not assumed and will not have any liability or responsibility for any financial statements, prospectuses or other financial information contained in any prospectus or similar written or oral communication.

13.3.5 You must, **to the extent permitted by Texas law**, indemnify, defend and hold the Indemnified Parties free and harmless of and from any and all liabilities, costs, damages, claims or expenses arising out of or related to the sale or offer of any of your Securities to the same extent as provided in Subsection 15.1 of this Agreement.

13.4 Mortgages and Pledges to Lending Institutions.

13.4.1 You or an Equity Owner may mortgage or pledge the Hotel or an Equity Interest to a lender that finances the acquisition, development or operation of the Hotel, without notifying us or obtaining our consent, provided that you or the applicable Equity Owner are the sole borrower; and the loan is not secured by any other hotels or other collateral.

13.4.2 You may request a "lender comfort letter" and we may require a loan related guaranty, each in a form satisfactory to us. We may charge a fee for the processing of a lender comfort letter.

13.5 Tax Exempt Bond Compliance. We acknowledge that you intend to finance or refinance the Hotel with proceeds of special facility bonds, the interest of which is excludable from "gross income" for federal income tax purposes ("**Bonds**"). You have asked us to make certain representations and agreements to ensure that this Agreement complies with the safe-

harbor guidelines relating to service contracts set forth in Rev. Proc. 2017-13, I.R.B. 2017-6, as amended and superseded ("**Guidelines**"). The terms "service contract" and "service provider" are not defined in the Guidelines and, to the best of our knowledge, this Agreement is not properly classified as a service contract; nor is Franchisor properly classified as a service provider. However, we are willing to make the representations and agreements in this Subsection 13.5, and if necessary to ensure compliance with the Guidelines, you and we agree to make a good-faith effort to further amend this Agreement. You and we acknowledge that the Monthly Fees payable to us under this Agreement are based on Gross Rooms Revenue generated by you at the Hotel. We represent that any other fees payable to us or our Affiliates for goods or services provided pursuant to this Agreement are reasonable and consistent with industry standards. You acknowledge that we do not manage the Hotel, and that we do not control the day-to-day activities conducted at the Hotel, which are under your sole control. We acknowledge that we may not claim any depreciation or amortization deduction, investment tax credit, or deduction that an owner would be allowed with respect to the Hotel assets, the acquisition and construction of which is financed, or refinanced, with the Bonds, as such claims are inconsistent with this Agreement. This Agreement does not provide us with any right to a share of net profits or net losses from the operation of the Hotel, all of which belong to you. This Agreement does not give us the right to demand or approve an annual budget for capital expenditures at the Hotel. You have the sole ability to approve capital expenditures for the Hotel. You have the sole ability to dispose of the Hotel, subject only to our right: (i) to approve a change of ownership transfer in accordance with Section 13.2.2, and/or (ii) to be paid liquidated damages in accordance with Section 14.4 for premature termination of this Agreement if you sell the Hotel before expiration of the Term to a party that does not enter into a replacement franchise agreement with us in accordance with Section 13.2.2.

14.0 TERMINATION

14.1 Termination with Opportunity to Cure. We may terminate this Agreement by written notice to you and opportunity to cure at any time before its expiration on any of the following grounds:

14.1.1 You fail to pay us any sums due and owing to us or our Affiliates under this Agreement within the cure period set forth in the notice, which shall not be less than ten (10) days;

14.1.2 You fail to begin or complete the Hotel Work by the relevant dates set forth in the Addendum or fail to open the Hotel on the Opening Date, and do not cure that default within the cure period set forth in the notice, which shall not be less than ten (10) days;

14.1.3 You do not purchase or maintain insurance required by this Agreement or do not reimburse us for our purchase of insurance on your behalf within the cure period set forth in the notice, which shall not be less than ten (10) days; or

14.1.4 You fail to comply with any other provision of this Agreement, the Manual or any Standard and do not cure that default within the cure period set forth in the notice, which shall not be less than thirty (30) days.

14.2 Immediate Termination by Us. We may immediately terminate this Agreement on notice to you and without any opportunity to cure the default if:

14.2.1 after curing any material breach of this Agreement or the Standards, you engage in the same non-compliance within any consecutive twenty-four (24) month period, whether or not the non-compliance is corrected after notice, which pattern of non-compliance in and of itself will be deemed material;

14.2.2 you receive three (3) notices of material default in any twelve (12) month period, even if the defaults have been cured;

14.2.3 you fail to pay debts as they become due or admit in writing your inability to pay your debts or you make a general assignment for the benefit of your creditors;

14.2.4 you have an order entered against you appointing a receiver for the Hotel or a substantial part of your or the Hotel's assets or you file a voluntary petition in bankruptcy or any pleading seeking any reorganization, liquidation, or dissolution under any law, or you admit or fail to contest the material allegations of any such pleading filed against you or the Hotel, and the action results in the entry of an order for relief against you under the Bankruptcy Code, the adjudication of you as insolvent, or the abatement of the claims of creditors of you or the Hotel under any law;

14.2.5 you or your Guarantor lose possession or the right to possession of all or a significant part of the Hotel or Hotel Site for any reason other than those described in Section 11;

14.2.6 you fail to operate the Hotel for five (5) consecutive days, unless the failure to operate is due to an event of Force Majeure or similar causes beyond your control, provided that you have taken reasonable steps to minimize the impact of such events;

14.2.7 you contest in any court or proceeding our ownership of the System or any part of the System or the validity of any of the Marks;

14.2.8 you or any Equity Owner with a controlling Equity Interest are or have been convicted of a felony or any other offense or conduct, if we determine in our business judgment it is likely to adversely reflect on or affect the Hotel, the Brand, the Marks, the System, us and/or any of our Affiliates;

14.2.9 you conceal revenues, maintain false books and records of accounts, submit false reports or information to us or otherwise attempt to defraud us;

14.2.10 you, your Affiliate or a Guarantor become a Competitor except as otherwise permitted by Subsection 5.1.15;

14.2.11 any attempted Transfer is not in compliance with Section 13 and its subparts;

14.2.12 you, your Affiliate or a Guarantor become a Sanctioned Person or are owned or controlled by a Sanctioned Person or fail to comply with the provisions of Subsection 17.13;

14.2.13 information is disclosed involving you or your Affiliates, which, in our business judgment, is likely to adversely reflect on or affect in any manner, any gaming licenses or permits held by us or our Affiliates or the then-current stature of us or any of our Affiliates with any gaming commission, board, or similar governmental or regulatory agency, or the reputation or business of us or any of our Affiliates;

14.2.14 any Guarantor breaches its guaranty to us; or

14.2.15 a threat or danger to public health or safety results from the construction, maintenance, or operation of the Hotel.

14.3 Suspension Interim Remedies. If you are in default of this Agreement, we may elect to impose an Interim Remedy, including the suspension of our obligations under this Agreement and/or our or our Affiliates' obligations under any other of Your Agreements.

14.3.1 We may suspend the Hotel from the Reservation Service and any reservation and/or website services provided through or by us. We may remove the listing of the Hotel from any

directories or advertising we publish. If we suspend the Hotel from the Reservation Service, we may divert reservations previously made for the Hotel to other System Hotels or Network Hotels.

14.3.2 We may disable all or any part of the software provided to you under Your Agreements and/or may suspend any one or more of the information technology and/or network services that we provide or support under Your Agreements.

14.3.3 We may charge you for costs related to suspending or disabling your right to use any software systems or technology we provided to you, together with intervention or administration fees as set forth in the Standards.

14.3.4 You agree that our exercise of the right to elect Interim Remedies will not result in actual or constructive termination or abandonment of this Agreement and that our decision to elect Interim Remedies is in addition to, and apart from, any other right or remedy we may have in this Agreement. If we exercise the right to elect Interim Remedies, the exercise will not be a waiver of any breach by you of any term, covenant or condition of this Agreement. You will not be entitled to any compensation, including repayment, reimbursement, refund or offsets, for any fees, charges, expenses or losses you may directly or indirectly incur by reason of our exercise and/or withdrawal of any Interim Remedy.

14.4 Liquidated Damages on Termination.

14.4.1 Calculation of Liquidated Damages. You acknowledge and agree that the premature termination of this Agreement will cause substantial damage to us. You agree that Liquidated Damages are not a penalty, but represent a reasonable estimate of the minimum just and fair compensation for the damages we will suffer as the result of your failure to operate the Hotel for the Term. If this Agreement terminates before the Expiration Date, you will pay us Liquidated Damages as follows:

14.4.1.1 If termination occurs before you begin the Hotel Work and you or any Guarantor (or your or any Guarantor's Affiliates) directly or indirectly, enter into a franchise, license, management, lease and/or other similar agreement for or begin construction or commence operation of a hotel, motel, inn, or similar facility at the Hotel Site within one (1) year after termination, then you will pay us Liquidated Damages in an amount equal to the System's Average Monthly Royalty Fees multiplied by sixty (60).

14.4.1.2 If termination occurs after you begin the Hotel Work but before the Opening Date, unless your failure to complete the Hotel Work was the result of Force Majeure you will pay us Liquidated Damages in an amount equal to the System's Average Monthly Royalty Fees multiplied by sixty (60).

14.4.1.3 If termination occurs after the Opening Date but before the second anniversary of the Opening Date, you will pay us Liquidated Damages in an amount equal to the greater of: (a) the Hotel's Average Monthly Royalty Fees multiplied by sixty (60); or (b) the System's Average Monthly Royalty Fees multiplied by sixty (60).

14.4.1.4 If termination occurs after the second anniversary of the Opening Date but before the final sixty (60) calendar months of the Term, you will pay us Liquidated Damages in an amount equal to the Hotel's Average Monthly Royalty Fees multiplied by sixty (60).

14.4.1.5 If there are fewer than sixty (60) months remaining in the Term on the date of termination, you will pay us Liquidated Damages in an amount equal to the Hotel's Average Monthly Royalty Fees multiplied by the number of months remaining in the Term.

14.4.2 Payment of Liquidated Damages. Payment of Liquidated Damages is due thirty (30) days following termination of this Agreement or on demand.

14.5 Actual Damages Under Special Circumstances. You acknowledge that the Liquidated Damages described in Subsection 14.4 may be inadequate to compensate us for additional harm we may suffer, by reason of greater difficulty in re-entering the market, competitive damage to the System or the Network, damage to goodwill of the Marks, and other similar harm, as we reserve the right to seek actual damages in lieu of Liquidated Damages under the following circumstances:

14.5.1 within twelve (12) months of each other, two (2) or more franchise agreements for the Brand between yourself (or any of your Affiliates) and us (or any of our Affiliates) terminate before their expiration date as a result of a breach by you or your Affiliate; or

14.5.2 this Agreement terminates due to an unapproved Transfer: (i) to a Competitor, or (ii) to a buyer that converts the Hotel to a Competing Brand within two (2) years from the date this Agreement terminates.

14.6 Your Obligations on Termination or Expiration. On termination or expiration of this Agreement, you will immediately:

14.6.1 pay all sums due and owing to us or any of our Affiliates, including any expenses incurred by us in obtaining injunctive relief for the enforcement of this Agreement;

14.6.2 cease operating the Hotel as a System Hotel and cease using the System;

14.6.3 cease using the Marks, the Trade Name, and any confusingly similar names, marks, trade dress systems, insignia, symbols, or other rights, procedures, and methods. You will deliver all goods and materials containing the Marks to us and we will have the sole and exclusive use of any items containing the Marks. You will immediately make any specified changes to the location as we may reasonably require for this purpose, which will include removal of the signs, custom decorations, and promotional materials;

14.6.4 cease representing yourself as then or formerly a System Hotel or affiliated with the Brand or the Network;

14.6.5 return all copies of the Manual and any other Proprietary Information to us;

14.6.6 cancel all assumed name or equivalent registrations relating to your use of any Mark, notify the telephone company and all listing agencies and directory publishers including Internet domain name granting authorities, Internet service providers, global distribution systems, and web search engines of the termination or expiration of your right to use the Marks, the Trade Name, and any telephone number, any classified or other telephone directory listings, Internet domain names, uniform resource locators, website names, electronic mail addresses and search engine metatags and keywords associated with the Hotel, and authorize their transfer to us; and

14.6.7 irrevocably assign and transfer to us (or to our designee) all of your right, title and interest in any domain name listings and registrations that contain any reference to our Marks, System, Network or Brand; notify the applicable domain name registrars of the termination of your right to use any domain name or Sites associated with the Marks or the Brand; and authorize and instruct the cancellation of the domain name, or transfer of the domain name to us (or our designee), as we specify. You will also delete all references to our Marks, System, Network or Brand from any Sites you own, maintain or operate beyond the expiration or termination of this Agreement.

15.0 INDEMNITY

15.1 Beginning on the Effective Date, you must, **to the extent permitted by Texas law**, indemnify the Indemnified Parties against, and hold them harmless from, all losses, costs, liabilities, damages, claims, and expenses, including reasonable attorneys' fees, expert fees, costs and other expenses of litigation arising out of or resulting from:

15.1.1 any breach by you of this Agreement, the Manual or the Standards;

15.1.2 any act or omission of you or your officers, employees, Affiliates, associates or agents in any way arising out of or relating to this Agreement;

15.1.3 any claimed occurrence at the Hotel including personal injury, death or property damage;

15.1.4 your alleged or actual infringement or violation of any copyright, industrial design, patent, service mark, trademark or other proprietary right owned or controlled by third parties;

15.1.5 your alleged or actual violation or breach of any contract (including any group sales agreement for the System), any Law, or any industry standard;

15.1.6 any business conducted by you or a third party in, on or about the Hotel or Hotel Site and

15.1.7 your failure to comply with Subsection 17.13, including a breach of the representations set forth therein.

15.2 You do not have to indemnify an Indemnified Party to the extent damages otherwise covered under this Section 15 are adjudged by a final, non-appealable judgment of a court of competent jurisdiction to have been solely the result of the gross negligence or willful misconduct of that Indemnified Party, and not any of the acts, errors, omissions, negligence or misconduct of you or anyone related to you or the Hotel. You may not rely on this exception to your indemnity obligation if the claims were asserted against us or any other Indemnified Party on the basis of theories of imputed or secondary liability, such as vicarious liability, agency, or apparent agency, or our failure to compel you to comply with the provisions of this Agreement, including compliance with Standards, Laws or other requirements.

15.3 You will give us written notice of any action, suit, proceeding, claim, demand, inquiry or investigation involving an Indemnified Party within five (5) days of your knowledge of it. At our election, you will defend us and/or the Indemnified Parties against the same. If you fail to defend us and/or the Indemnified Parties, we may elect to assume, but under no circumstance will we be obligated to undertake, the defense and/or settlement of the action, suit, proceeding, claim, demand, inquiry or investigation at your expense and risk.

15.4 If we think our respective interests conflict, we may obtain separate counsel of our choice. This will not diminish your obligation to indemnify the Indemnified Parties and to hold them harmless. You will reimburse the Indemnified Parties on demand for all expenses, including reasonable attorneys' fees, expert fees, costs and other expenses of litigation, the Indemnified Parties incur to protect themselves or to remedy your defaults. The Indemnified Parties will not be required to seek recovery from third parties or otherwise mitigate their losses to maintain a claim against you, and their failure to do so will not reduce the amounts recoverable from you by the Indemnified Parties.

15.5 Your obligations under this Section 15 will survive expiration or termination of this Agreement.

16.0 RELATIONSHIP OF THE PARTIES

16.1 No Agency Relationship. You are an independent contractor. Neither Party is the legal representative or agent of the other Party. Neither Party has the power to obligate the other Party for any purpose. You acknowledge that: (a) we do not direct, supervise, manage, dictate, control, or have the right to control labor or employment matters for you or your employees; (b) we do not set or have the right to set any terms or conditions of employment for your employees; (c) the training we require is for the purpose of enabling you to ensure that your Hotel operates in compliance with our Standards; and (d) you have exclusive control over your daily affairs. You expressly acknowledge that the Parties have a business relationship based entirely on, and defined by, the express provisions of this Agreement and that no partnership, joint venture, agency, fiduciary, employment, or joint-employment relationship is intended or created by reason of this Agreement.

16.2 Notices Concerning Your Independent Status. All contracts for the Hotel's operations and services at the Hotel will be in your name or in the name of your Management Company. You will not enter into or sign any contracts in our name or any of our Affiliates' names or use the Marks or any acronyms or variations of the Marks. You will disclose in all dealings with the public and your employees, agents, contractors, suppliers and other third parties that: (a) you are the Hotel's owner; (b) you are an independent entity; (c) you are the employer, principal, or contracting party (as applicable); and (d) we are not responsible for your liabilities or debts in any manner whatsoever.

17.0 MISCELLANEOUS

17.1 Severability and Interpretation.

17.1.1 If any provision of this Agreement is held to be unenforceable, void or voidable, that provision will be ineffective only to the extent of the prohibition, without in any way invalidating or affecting the remaining provisions of this Agreement, and all remaining provisions will continue in effect, unless the unenforceability of the provision frustrates the underlying purpose of this Agreement. If any provision of this Agreement is held to be unenforceable due to its scope, but may be made enforceable by limiting its scope, the provision will be considered amended to the minimum extent necessary to make it enforceable.

17.1.2 This Agreement will be interpreted without interpreting any provision in favor of or against either Party by reason of the drafting of the provision, or either of our positions relative to the other.

17.1.3 Any covenant, term or provision of this Agreement that provides for continuing obligations after the expiration or termination of this Agreement will survive any expiration or termination.

17.2 Governing Law, Jurisdiction and Venue.

17.2.1 The Parties agree that, except to the extent governed by the United States Trademark Act of 1946 (Lanham Act; 15 U.S.C. ¶ 1050 et seq.), as amended, this Agreement will be governed by the laws of the State of **Texas** without recourse to **Texas** choice of law or conflicts of law principles. Nothing in this Section is intended to invoke the application of any franchise, business opportunity, antitrust, "implied covenant," unfair competition, fiduciary or any other doctrine of law of the State of **Texas** or any other state that would not otherwise apply absent this Subsection 17.2.1.

17.2.2 The Parties agree that any action brought pursuant to this Agreement or the relationship between them must be brought in the U.S. District Court for the **Western District of Texas**, in **Austin, Texas**, or in a court of competent jurisdiction in the county and state where the Hotel is located. **The Parties** consent to personal jurisdiction and venue in each of these jurisdictions and waive, and agree not to assert, move or otherwise claim that the venue in any of these jurisdictions is for any reason improper, inconvenient, prejudicial or otherwise inappropriate.

17.3 Exclusive Benefit. This Agreement is exclusively for our and your benefit, and none of the obligations of you or us in this Agreement will run to, or be enforceable by, any other party (except for any rights we assign or delegate to one of our Affiliates or covenants in favor of our Affiliates, which rights and covenants will run to and be enforceable by our Affiliates or their successors and assigns) or give rise to liability to a third party, except as otherwise specifically set forth in this Agreement.

17.4 Entire Agreement. This Agreement and all of its attachments, documents, schedules, exhibits, and any other information specifically incorporated into this Agreement by reference (including any representations in any franchise disclosure document that we provided to you for the Brand in connection with the offer of this License) will be construed together as the entire agreement between you and us with respect to the Hotel and any other aspect of our relationship and will supersede and cancel any prior and/or contemporaneous discussions or writings between you and us.

17.5 Amendment and Waiver.

17.5.1 No change, termination, or attempted waiver or cancellation of any provision of this Agreement will bind us unless it is in writing, specifically designated as an amendment or waiver, and signed by one of our officers. We may condition our agreement to any amendment or waiver on receiving from you, in a form satisfactory to us, an estoppel and general release of claims that you may have against us, our Affiliates, and related parties.

17.5.2 No failure by us or by any of our Affiliates to exercise any power given us under this Agreement or to insist on strict compliance by you with any of your obligations, and no custom or practice at variance with the terms of this Agreement, will be considered a waiver of our or any of our Affiliates' right to demand exact compliance with the terms of this Agreement.

17.6 Consent; Business Judgment.

17.6.1 Wherever our consent or approval is required in this Agreement, unless the provision specifically indicates otherwise, we have the right to withhold our approval at our option, in our business judgment, taking into consideration our assessment of the long-term interests of the System overall. We may withhold any and all consents or approvals required by this Agreement if you are in default or breach of this Agreement. Our approvals and consents will not be effective unless given in writing and signed by one of our duly authorized representatives.

17.6.2 You agree not to make a claim for money damages based on any allegation that we have unreasonably withheld or delayed any consent or approval to a proposed act by you under the terms of this Agreement. You also may not claim damages by way of set-off, counterclaim or defense for our withholding of consent. Your sole remedy for the claim will be an action or proceeding to enforce the provisions of this Agreement by specific performance or by declaratory judgment.

17.7 Notices. Notices under this Agreement must be in writing and must be delivered in person, by prepaid overnight commercial delivery service, or by prepaid overnight mail, registered or certified, with return-receipt requested. Notices to us must be sent to 7930 Jones Branch Drive, Suite 1100, McLean, VA 22102, Attention: General Counsel. We will send notices to your address set forth in the Addendum. If you want to change the name or address for notice to you, you must do so in writing, signed by you or your duly authorized representative, designating a single address for notice, which may not be a P.O. Box, in compliance with this Subsection. Notice will be deemed effective on the earlier of: 1) receipt or first refusal of delivery; 2) one (1) day after posting if sent via overnight commercial delivery service or overnight United States Mail; or 3) three (3) days after placement in the United States mail if overnight delivery is not available to the notice address.

17.8 General Release. With the exception of claims related to representations contained in the franchise disclosure document for the Brand, you, on your own behalf and on behalf of, as applicable, your officers, directors, managers, employees, heirs, administrators, executors, agents and

representatives and their respective successors and assigns hereby release, remise, acquit and forever discharge us and our Affiliates and our and their respective officers, directors, employees, managers, agents, representatives and their respective successors and assigns from any and all actions, claims, causes of action, suits, rights, debts, liabilities, accounts, agreements, covenants, contracts, promises, warranties, judgments, executions, demands, damages, costs and expenses, whether known or unknown at this time, of any kind or nature, absolute or contingent, existing at law or in equity, on account of any matter, cause or thing whatsoever that has happened, developed or occurred relating to this Agreement or the relationship between you and us before the Effective Date of this Agreement. This release will survive the termination of this Agreement.

17.9 Remedies Cumulative. The remedies provided in this Agreement are cumulative. These remedies are not exclusive of any other remedies that you or we may be entitled to in case of any breach or threatened breach of the terms and provisions of this Agreement.

17.10 Economic Conditions Not a Defense. Neither general economic downturn or conditions nor your own financial inability to perform the terms of this Agreement will be a defense to an action by us or one of our Affiliates for your breach of this Agreement.

17.11 Representations and Warranties. You warrant, represent and agree that all statements in your franchise application in anticipation of the execution of this Agreement, and all other documents and information submitted to us by you or on your behalf are true, correct and complete as of the date of this Agreement. You further represent and warrant to us that:

17.11.1 you have independently investigated the risks of operating the Hotel under the Brand, including current and potential market conditions and competitive factors and risks, and have made an independent evaluation of all such matters and reviewed our franchise disclosure document, if applicable;

17.11.2 neither we nor our representatives have made any promises, representations or agreements other than those provided in the Agreement or in our franchise disclosure document provided to you in connection with the offer of this Agreement, if applicable, and you acknowledge that you are not relying on any promises, representations or agreements about us or the franchise not expressly contained in this Agreement in making your decision to sign this Agreement;

17.11.3 you have the full legal power authority and legal right to enter into this Agreement;

17.11.4 this Agreement constitutes a legal, valid and binding obligation and your entry into, performance and observation of this Agreement will not constitute a breach or default of any agreement to which you are a party or of any Law;

17.11.5 if you are a corporation, limited liability company, or other entity, you are, and throughout the Term will be, duly formed and validly existing, in good standing in the state in which you are organized, and are and will be authorized to do business in the state in which the Hotel is located;

17.11.6 no Equity Interest has been issued, converted to, or is held as, bearer shares or any other form of ownership, for which there is no traceable record of the identity of the legal and beneficial owner of such Equity Interest; and

17.11.7 to the extent permitted by Texas law, you hereby indemnify and hold us harmless from any breach of these representations and warranties, which will survive the termination of this Agreement.

17.12 Counterparts. This Agreement may be signed in counterparts, each of which will be considered an original.

17.13 Sanctioned Persons and Anti-bribery Representations and Warranties.

17.13.1 You represent, warrant and covenant to us and our Affiliates, on a continuing basis, that:

17.13.1.1 you (including your directors and officers, senior management and shareholders (or other Persons) having a controlling interest in you), and any Controlling Affiliate of the Hotel or the Hotel Site are not, and are not owned or controlled by, or acting on behalf of, a Sanctioned Person or, to your actual knowledge, otherwise the target of Trade Restrictions;

17.13.1.2 you have not and will not obtain, receive, transfer or provide any funds, property, debt, equity, or other financing related to this Agreement and the Hotel or Hotel Site to/from a Person that qualifies as a Sanctioned Person or, to your actual or constructive knowledge, is otherwise the target of any applicable Trade Restrictions;

17.13.1.3 neither you nor anyone having an Equity Interest has been convicted of, pleaded guilty to, or otherwise been adjudged liable for any violation of laws, ordinances, rules or regulations that pertain to bribery or corruption, money laundering, competition, securities or financial fraud, trade sanctions or export controls, human trafficking, sex trade, or forced labor;

17.13.1.4 you are familiar with the provisions of applicable Anti-Corruption Laws and shall comply with applicable Anti-Corruption Laws in performance of your respective obligations under or in connection with this Agreement;

17.13.1.5 any funds received or paid in connection with entry into or performance of this Agreement have not been and will not be derived from or commingled with the proceeds of any activities that are proscribed and punishable under the criminal laws of the United States, and that you are not engaging in this transaction in furtherance of a criminal act, including acts in violation of applicable Anti-Corruption Laws;

17.13.1.6 in preparation for and in entering into this Agreement, you have not made any Improper Payment or engaged in any acts or transactions otherwise in violation of any applicable Anti-Corruption Laws, and, in connection with this Agreement or the performance of your obligations under this Agreement, you will not directly or indirectly make, offer to make, or authorize any Improper Payment or engage in any acts or transactions otherwise in violation of any applicable Anti-Corruption Laws;

17.13.1.7 You will assure that you or any of your officers, employees, representatives, agents, direct or indirect legal or beneficial owners who at any time during this Agreement may be considered a Government Entity or Government Official do not improperly use their status or position to influence official actions or decisions or to secure any improper advantages to or for the benefit of the Hotel or us and do not directly or indirectly make, offer to make, or authorize any Improper Payment or engage in acts or transactions otherwise in violation of any applicable Anti-Corruption Laws;

17.13.1.8 any statements, oral, written, electronic or otherwise, that you submit to us or to any third party in connection with the representations, warranties, and covenants described in this Subsection 17.13 are truthful and accurate and do not contain any materially false or inaccurate statements; and

17.13.1.9 you will assure that your respective appointed agents (including any Management Company) in relation to this Agreement comply in all material respects with the representations, warranties, and covenants described in this Subsection 17.13.

17.13.2 You will notify us in writing immediately on the occurrence of any event which would render the foregoing representations and warranties of this Subsection 17.13 incorrect.

17.13.3 If we believe that you may not be in compliance with any of the covenants, representations and warranties set forth in this Subsection 17.13, we will advise you of our belief, and you must (i) cooperate with any and all reasonable information and documentation requests and inquiries, including requests for execution of certificates of compliance, and (ii) permit, on reasonable prior notice, at all reasonable times, inspection of the books and records pertaining to the development, ownership, management, and use of the Hotel.

17.14 Attorneys' Fees and Costs. If either Party is required to employ legal counsel or to incur other expenses to enforce any provision of this Agreement or defend any claim by the other, then, **to the extent authorized under applicable Laws**, the prevailing Party in any resulting dispute will be entitled to recover from the non-prevailing Party the amount of all reasonable fees of attorneys and experts, court costs, and all other expenses incurred in enforcing such obligation or in defending against such claim, demand, action, or proceeding.

17.15 Interest. Any sum owed to us or our Affiliates by you or paid by us, or our Affiliates on your behalf, will bear interest from the date due until paid by you at the rate of eighteen percent (18%) per annum or, if lower, the maximum lawful rate.

17.16 Successors and Assigns. The terms and provisions of this Agreement will inure to the benefit of and be binding on the permitted successors and assigns of the Parties.

17.17 Our Delegation of Rights and Responsibility. In addition to the rights granted to us in Section 4 and Subsection 13.1 of this Agreement, we reserve the right to delegate to one or more of our Affiliates at any time, any and all of our rights, obligations or requirements under this Agreement, and to require that you submit any relevant materials and documents otherwise requiring approval by us under this Agreement to such Affiliates, in which case approval by such Affiliates will be conclusively deemed to be approval by us. During the period of such delegation or designation, any act or direction by such Affiliates with respect to this Agreement will be deemed the act or direction of us. We may revoke any such delegation or designation at any time. You acknowledge and agree that such delegation may result in one or more of our Affiliates which operate, license, or otherwise support brands other than the Brand, exercising or performing on our behalf any or all rights, obligations or requirements under this Agreement or performing shared services on our behalf.

18.0 WAIVER OF JURY TRIAL AND PUNITIVE DAMAGES

18.1 IF EITHER PARTY INITIATES LITIGATION INVOLVING THIS AGREEMENT OR ANY ASPECT OF THE RELATIONSHIP BETWEEN THE PARTIES (EVEN IF OTHER PARTIES OR OTHER CLAIMS ARE INCLUDED IN SUCH LITIGATION), ALL THE PARTIES WAIVE THEIR RIGHT TO A TRIAL BY JURY.

18.2 IN ANY DISPUTE BETWEEN THE PARTIES, ARISING OUT OF OR RELATED TO THIS AGREEMENT, ANY BREACH OF THIS AGREEMENT, OR THE RELATIONSHIP BETWEEN THE PARTIES, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, ALL PARTIES WAIVE ANY RIGHT THEY MAY HAVE TO PUNITIVE OR EXEMPLARY DAMAGES FROM THE OTHER. NOTHING IN THIS SECTION LIMITS OUR RIGHT OR THE RIGHT OF AN INDEMNIFIED PARTY TO BE INDEMNIFIED AGAINST THE PAYMENT OF PUNITIVE OR EXEMPLARY DAMAGES TO A THIRD PARTY. THE PARTIES ACKNOWLEDGE THAT LIQUIDATED DAMAGES PAYABLE BY YOU UNDER THIS AGREEMENT (WHETHER PRE-OPENING LIQUIDATED DAMAGES OR LIQUIDATED DAMAGES FOR EARLY TERMINATION) ARE NOT PUNITIVE OR EXEMPLARY DAMAGES.

ADDENDUM TO FRANCHISE AGREEMENT

Effective Date: _____

Facility Number: **23286**

Franchisor Name: **HILTON FRANCHISE HOLDING LLC,
a Delaware limited liability company**

Brand: **Hilton (excluding Hilton Suites and any other brands or
product lines containing “Hilton”)**
**The Brand does not mean Hilton Worldwide, its
Affiliates, or any other brands, chains of hotels or
product lines that include the “by Hilton” tagline in the
name.**

Initial Approved Hotel Name (Trade Name): **Hilton Austin Airport**

Principal Mark in Brand: **Hilton**

Franchisee Name and Address (Attn:
Principal Legal Correspondent): **Austin-Bergstrom Landhost Enterprises, Inc.
Attention: President
3600 Presidential Boulevard, Suite 411
Austin, Texas 78719
Telephone: 512-530-6614
Facsimile: 512-530-7686
E-mail: gregory.milligan@austintexas.gov**

Address of Hotel: **9515 Hotel Drive
Austin, Texas 78719**

Initial Number of Approved Guest Rooms: **262**

Plans Submission Dates:

 Preliminary Plans: **N/A**

 Design Development (50%) Plans and
 Specifications: **N/A**

 Final (100%) Plans and Specifications: **N/A**

Construction Commencement Date: **N/A**

Construction Work Completion Date: **N/A**

Renovation Commencement Date: **The Effective Date**

Renovation Work Completion Date: **As set forth in the PIP attached as Exhibit A**

Expiration Date: **At midnight on December 31, 2032**

Monthly Fees:

Monthly Food and Beverage Fee:	Beginning on the Effective Date through January 31, 2021	None
	February 1, 2021 through January 31, 2022	\$2,917 per month
	February 1, 2022 through January 31, 2023	\$5,833 per month
	February 1, 2023 through January 31, 2024	\$8,750 per month
	February 1, 2014 through the end of Term	The monthly rate for each successive 12-month period will be established by increasing the prior year's monthly rate by the percentage increase in the Consumer Price Index ("CPI") from the prior year
Monthly Program Fee:	Four percent (4%) of the Hotel's Gross Rooms Revenue for the preceding calendar month. The Monthly Program Fee is subject to change by us. Any change may be established in the Standards, but the rate will not exceed the standard Monthly Program Fee as of the Effective Date plus one percent (1%) of the Hotel's Gross Rooms Revenue during the Term	
Monthly Royalty Fee:	Beginning the Effective Date for the first 12 full calendar months (Year 1)	\$27,862 per month
	For the next 12 full calendar months following Year 1 (Year 2)	\$37,150 per month
	For the next 12 full calendar months following Year 2 (Year 3)	\$47,916 per month
	Year 4 through the remainder of the Term	The monthly rate for each successive 12-month period will be established by increasing the prior year's monthly rate by the percentage increase in the CPI from the prior year

Additional Requirements/Special Provisions:

Section 1.0, Definitions, Gross Receipts Tax – MODIFIED
Subsection 5.1.14 – MODIFIED
Subsection 8.4 – MODIFIED
Subsection 10.1.1 – MODIFIED
Subsection 10.2 – MODIFIED
Subsection 13.2.1.2.5 – NEW
Subsection 13.3.5 – MODIFIED
Subsection 13.5 – NEW
Subsection 15.1 – MODIFIED
Subsection 17.2.1 – MODIFIED
Subsection 17.2.2 – MODIFIED
Subsection 17.11.7 – MODIFIED
Subsection 17.14 – MODIFIED

Amendment and Restatement: This Agreement hereby replaces the franchise agreement dated as of March 3, 1999, as amended (collectively, the “**Original Agreement**”) by and between us (or our Affiliate) and you (or your Affiliate) with respect to the Hotel, **which was first authorized to open under the Brand pursuant to the Original Agreement on January 10, 2001.** On execution of this Agreement by the Parties, the Original Agreement will be superseded and have no further force or effect as of the Effective Date of this Agreement, except for those provisions expressly intended to survive its termination or expiration. To the extent that there are outstanding obligations to us or our Affiliates under the Original Agreement, you acknowledge and agree that you are directly responsible, jointly and severally, for all such obligations under the Original Agreement existing at or accruing after the execution of this Agreement.

Your Ownership Structure: See Attached Schedule 1

EXHIBIT A – PRODUCT IMPROVEMENT PLAN

[Signatures on the following page]

IN WITNESS WHEREOF, the Parties have executed this Agreement, which has been entered into and is effective as of the Effective Date set forth above.

FRANCHISEE:

AUSTIN-BERGSTROM LANDHOST
ENTERPRISES, INC., a Texas corporation

By: _____

Name: _____

Title: _____

Executed on: _____

FRANCHISOR:

HILTON FRANCHISE HOLDING LLC,
a Delaware limited liability company

By: _____

Name: _____

Title: Authorized Signatory

Executed on: _____

SCHEDULE 1

Your Ownership Structure:

**Austin-Bergstrom Landhost Enterprises, Inc.
(a Texas public facility corporation)**

<u>Name</u> <u>(Shareholder, Partner, Member and Manager)</u>	<u>Nature of</u> <u>Ownership Interest</u>	<u>%</u> <u>Interest</u>
City of Austin Department of Aviation	Sponsor	Sole Sponsor

EXHIBIT A

Product Improvement Plan

Prepared for:

Hilton Hotel

Austin-Airport, TX

(InnCode: AUSAH, Facility ID:23286)

9515 Hotel Drive, Austin, Texas, United States

To be relicensed as a Hilton Hotel



By John Bryant

Inspection Date: Apr-20-2017

FINAL PIP REVISION DATE : Jun-06-2017 by Martin Schellenberg

Brand Management Approval

Final PIP Approval Date : Jun-06-2017

Final FLA PIP Approval Signature :

A handwritten signature in black ink, which appears to read "Martin Schellenberg".

PIP Contact

Martin Schellenberg

Email: Martin.Schellenberg@hilton.com

Phone: 7038835362

Printed On: Jun-07-2017



Page: (1 of 8)

EXHIBIT A – PRODUCT IMPROVEMENT PLAN

Property Information

Open Date:	1968/2001
Hotel Management Company:	Prospera Hospitality Services
Ownership Group:	
Last Renovation:	
Multiple Renovations:	2012 - Corridor carpet, Lobby and Pre-function FF&E, Connectivity Center
Guestrooms:	2009 - Guestroom Desks & TV's
Public Areas:	2013 - Fitness Center refresh
Parking:	Exterior Surface Concrete - 350 + 45 total parking spaces; controlled access (Valet + Self -Park Options)
Pool (indoor or outdoor):	Yes - heated outdoor pool, chlorine treated, 5' max. depth
Whirlpool:	Yes - heated outdoor whirlpool, chlorine treated, 3' max. depth
Hotel Van:	Yes - 2 hotel shuttle vans serving airport
Multiple Towers:	No
Number Floors:	4
Food Service Facilities:	Yes - "Creeks" Restaurant (3-meal Service) and Atrium Lobby Lounge (Bar Service, Lunch and Dinner); "Creeks Coffee" Starbucks Market
Meeting Space/total size:	Yes - 48,000sf - Hotel Meeting Space - on two levels incl. Atrium and Bergstrom Ballroom (6,795sf)
Boardroom:	Yes - 3 Boardrooms on 2 levels; largest 430 sf.
Business Center:	Yes - Lobby Connectivity Station
Gift Shop:	Yes - Closed
Exercise Room/Size:	Yes - 700 sf.
Date exercise room was last renovated:	2013
Other Recreation:	No
Retail Outlets:	No
Guest Laundry:	Yes -
Number Of Guest Rooms:	262
Accessible Rooms:	
Guest Room Size:	Standard - 15'x 28' (420 sf.)
Guest Room Mix:	
Typical King:	145
Typical Q/Q:	
Typical D/D:	105
Two Bedroom(K;D/D):	
Suites:	
King Parlor:	11
Presidential:	1
Guest Bathroom:	
Size:	7'x 8'
Door Width:	32"
Tub Surround:	6" ceramic tile
Shower stalls:	No - 100% Tub/Shower Combinations (Except ADA Roll-Ins + Presidential Suites)
Floor:	12+" ceramic tile
Vanity:	Granite full width wall-mounted with granite skirt
Water Closet:	Elongated, close-coupled with closed front seats
HVAC System:	
100% Makeup Air:	Yes - 100%, Corridors
Public Areas:	Packaged roof-top units for Atrium, 2-pipe system with electric resistance heating
Guestrooms:	2-pipe system with electric resistance heating in Guestrooms
Digital Thermostats:	Yes
Elevators:	Yes - 6 total Elevators
Guest Elevator:	Yes - 4
Service Elevator:	Yes - 2
High Speed Internet (wired or wireless):	
Public Areas:	Wireless - Stay Connected
Meeting Space:	Wireless - Stay Connected
Guestrooms:	Wireless - Stay Connected
TV Size:	37" TV's in Guest Rooms, older Phillip's, varied sizes in Public Spaces
Telephone System:	One incoming line with one handset per guestroom
Guestroom door lock system:	Tesa Keycard, (Digital Key/Bluetooth technology installed)
Executive Lounge:	No
HHonors level:	No
Fire Life Safety:	Fully sprinkled, smoke and/or heat detectors in all Guestrooms, Public Spaces, and B-O-IT;
Manufacturer:	Honeywell
Installation Date:	2001
Last Fire System Upgrade Date:	2012

EXHIBIT A – PRODUCT IMPROVEMENT PLAN

PLEASE NOTE: Key information about the terms and effectiveness of this Property Improvement Plan is set out at the end of the document.

General			
#	Active Date	Scope of Work	Finish Date
General			
1		All properties within the Hilton Worldwide portfolio of brands must be designed in compliance with local, regional and national codes or laws for individuals with disabilities for universal access. The more stringent between these code(s) and Section 2517.00 must be followed as a minimum. The owner of the property is responsible for compliance with and the provision of all applicable codes. The owner is urged to seek appropriate council to ensure compliance. Hilton Worldwide does not and cannot warrant conformance with or interpretation of any codes, laws or regulations relating to accessibility for individuals with disabilities.	Per Brand Standards
2		Based on the scope outlined in this Product Improvement Plan, all owners, management company representatives, general managers and design firms are required to fully review and apply the Hilton Guest Room Design Narrative and the Hilton Lobby Design Narrative prior to presenting any plans or commencing any renovation work at the hotel. Please visit www.hiltontdesignstudio.com to review the full narratives. By sharing the Hilton Guest Room and Hilton Lobby Design Narratives with our stakeholders, our goal is that each of our hotels is able to provide a consistent, yet unique, guest room and lobby experience that meets or exceeds our Hilton design standards. Each narrative is a set of essential building blocks that must be used when planning renovations for both the guest room and lobby areas. Our Hilton Global Design Services team will cross reference your design plans against these narratives to ensure our design goals are met. All guest room renovations must either use a room design created within the Hilton Guest Room Design Program or provide a bespoke design that meets or exceeds our standards in both the quality of materials and the overall look and feel of the guest room. The Hilton Brand and Hilton Global Design Services will strictly enforce the above requirements through the required Hilton design review process.	Per Brand Standards
General/Fire Safety			
#	Active Date	Scope of Work	Finish Date
General			
3		Architectural/Design Approval – All Front-of-House design modifications (both PIP and voluntary) must be submitted to the Hilton Global Design Services for formal review, comments and written approval prior to commencing work. Design Approvals for in USA/Canada are provided by Vito Lotta, vito.lotta@hilton.com . All architectural and design plans submittals are required to be compiled by a licensed Architectural and/or licensed Interior Design Firm.	Per Brand Standards
Fire Safety			
4		General Requirements Summary - This hotel must fully comply with all Hilton Fire and Life Safety standards as outlined in the most current Design & Construction Manual for this Brand. The more stringent requirements between these Standards and any local, national, state or city requirements must be followed as a minimum. See our Design & Construction Manual for specific requirements.	24 Months
5		Means of Egress - Means of Egress - Modify the stair railings (emergency exits) so that horizontal rails cannot be used as steps.	24 Months
Basic Standards Issues			
#	Active Date	Scope of Work	Finish Date
Structure			
6		Structure - Remediate mold on Atrium roof structure and provide new finish with fungicidal protection.	24 Months
FF&E			

EXHIBIT A – PRODUCT IMPROVEMENT PLAN

7		Corner Guards - Remove all half-height corner guards. Install new full height corner guards at outside wall corners. Corner guards must be a resilient vinyl to coordinate with the wall color and be adhesive mount. This requirement applies to the entire hotel.	24 Months
Mechanical/Electrical/Plumbing			
8		Mechanical/HVAC - The building must have adequate ventilation systems to meet ASHRAE Standard 62.1, in all occupied spaces. The installation of new dedicated ventilation systems may be necessary to meet this requirement. Contact Rick Frey (rick.frey@hilton.com) for details and requirements.	24 Months
Signage			
#	Active Date	Scope of Work	Finish Date
Signage			
9		Exterior Signage - Repair all damaged signage. Ensure that signs are properly illuminated. These existing signs must be properly maintained and operated until new brand signage standards are released in the near future. Remove the carouche sign.	24 Months
Building Exterior			
#	Active Date	Scope of Work	Finish Date
Building			
10		Building - Professionally powerwash the building exterior.	36 Months
Public Areas			
#	Active Date	Scope of Work	Finish Date
Entrance/Lobby/Registration Area			
11		Lobby -A full renovation is required. Re-concept the space and create an upscale, modern and vibrant hotel Lobby. Remove the water feature. Replace all flooring, wall finishes, seating, furniture, lighting, window treatment, art and decorative accessories.	48 months
12		Registration Desk - Replace the registration desk. Construct a new registration area with a minimum of three registration workstations. (Based on keys. <300 = 3, 300-399 = 4, 400-499 =5, etc.) Workstations must be grouped together into units to allow circulation around each side of the unit. No more than three workstations are allowed within a single front desk unit. The front desk must be built according to the design drawings and specifications found online at www.hiltonworldwide.com/design .	48 months
13		Registration Desk - Replace the wall treatment on the wall behind the registration desk. Install new wall covering or approved decorative wall treatment. Install a dynamic wall behind the front desk that is regionally relevant and provides a visually delightful backdrop consisting of sculpture, lighting treatment or artwork. Televisions or digital walls are not allowed. The use of cabinetry behind the front desk unit and the placement of doors on the rear wall of the registration area are not allowed. Eliminate all electrical outlets and switches from the back wall.	48 months
Gift Shop			
14		Gift Shop - An Herb'N Kitchen Tier 3 gift shop must be constructed. For specifications and requirements contact Shawn McGowan at Shawn.McGowan@hilton.com .	48 months
Public Restrooms			
15		Lobby/Atrium Public Restrooms - Install new vanity automated faucets. Install new backlit or framed vanity mirrors. Install new toilet/urinal partitions. Install automated flush valves at all toilets and urinals. Install a framed full length mirror and artwork. Remove the wall mounted trash receptacles, repair the walls, and install wall mounted motion activated paper towel dispensers and free standing decorative trash receptacles. Install a baby changing station (plastic is not allowed). Lights must be wired to remain on at all times or controlled by approved motion sensors. Restore finish on entry doors.	48 months

EXHIBIT A – PRODUCT IMPROVEMENT PLAN

16		Meeting/Ballroom Public Restrooms - Install new vanity automated faucets. Install new backlit or framed vanity mirrors. Install new toilet/urinal partitions. Install automated flush valves at all toilets and urinals. Install a framed full length mirror and artwork. Remove the wall mounted trash receptacles, repair the walls, and install wall mounted motion activated paper towel dispensers and free standing decorative trash receptacles. Install a baby changing station (plastic is not allowed). Lights must be wired to remain on at all times or controlled by approved motion sensors. Restore finish on entry doors.	48 months
Executive Lounge			
17		Executive Lounge - An executive lounge is a required facility. Construct a new executive lounge space to meet all brand standards. The standards include space requirements (approximately 1000 SF) and FF&E requirements, as well as service and operating standards.	48 months
Food and Beverage Facilities			
#	Active Date	Scope of Work	Finish Date
Lounge Facilities			
18		Bar - Re-design the bar space to match the new overall Lobby concept. Replace flooring (stone and carpet) with brand approved surfaces; install new soft seating, tables, bar furniture; Either reface the existing bar (if approved by Hilton Global Design) or install a new bar with updated finishes, integrated LCD TV's and new bar back	48 months
Restaurant Facilities			
19		Restaurant (optional) - Hilton has developed a new fast casual dining concept with a grab and go element to allow for a more flexible food and beverage operation tailored to this hotel's specific need. Herb N Kitchen concept may be constructed to meet the restaurant, bar and gift shop requirement. This facility could be constructed in addition to typical F&B offerings or in place of the existing restaurant and bar. The dining/grab-n-go concept typically requires a minimum of 1300 SF. Options such as breakfast buffet and gift shop push minimum space requirements closer to 2000 SF. Please contact Shawn McGowan at shawn.mcgowan@hilton.com for specific standards, requirements and design options.	48 months
20		Coffee Shop/Cafe - Integrate the coffee shop concept into the new Lobby concept. Replace floor finishes; Install new seating and tables; refinish surfaces of the coffee shop counterspace.	48 months
21		Restaurant - Integrate the restaurant into the new Lobby concept. Replace all flooring with brand approved surfaces; replace all soft seating and furniture; redecorate the space to create an updated, modern and upscale dining environment. Include a decorative feature allowing the breakfast buffet and open kitchen to be closed off from direct guest use when not in use.	48 months
Kitchens			
22		Kitchen - Replace damaged/discolored tile ceiling panels. Repair and repaint rusted sections of metal ceiling grid.	24 Months
23		Kitchen - Replace tile and grout as needed to correct damaged or missing flooring.	24 Months
24		Kitchen - Replace damaged walk-in cooler doors and frames.	24 Months
Meeting Spaces			
#	Active Date	Scope of Work	Finish Date
General			
25		Ballrooms/Meeting Rooms/Boardrooms - The primary entrance to the meeting facilities must have a digital, wall mounted event board. All meeting spaces must have electronic signage with the function room name and an integrated LCD display for information services.	36 Months
26		Ballrooms/Meeting Rooms/Boardrooms - Refinish and restore all entry and service doors and door frames. Replace all worn/scarred/discolored door hardware. Ensure that one-way viewers are installed at each meeting entry door and service door.	36 Months
27		Ballrooms/Meeting Rooms - Replace all stack chairs.	36 Months

EXHIBIT A – PRODUCT IMPROVEMENT PLAN

Ballroom Prefunction			
28		Ballroom Pre-Function - Provide new high quality soft seating areas to serve as break out space. Seating areas must have sofas, lounge chairs, occasional tables, lighting and other decorative accessories.	36 Months
29		Ballroom Pre-Function - Remove the telephone banks and repair the walls to a new condition. Install a house telephone in the seating area.	36 Months
30		Ballroom Pre-Function - Install new carpet and carpet pad.	36 Months
Ballrooms			
31		Ballroom - Install new carpet and carpet pad.	36 Months
Meeting Prefunction			
32		Meeting Room Pre-Function - Replace all stone flooring. Install new 18" x 18" or larger square or rectangular porcelain tile or natural stone with matching base.	36 Months
Meeting Rooms			
33		Meeting Rooms - Install new art or a framed mirror above the service bar.	36 Months
34		Meeting Rooms - Install new carpet and carpet pad.	36 Months
Boardrooms			
35		Bluebonnet Boardroom - A renovation is required. Install new carpet and carpet pad. Install new vinyl wall covering, or other approved decorative finish. Replace all window treatment. Install window treatments for privacy at glass door and sidelights. Install a new board table and 12 upholstered ergonomic chairs. The board table must have power and data outlets built into the table top. Install a new decorative millwork service bar (built-in or freestanding) with a granite top, a built-in refrigerator and a built in electronic safe large enough to accommodate a 17" laptop computer.	36 Months
36		Boardrooms - Install new carpet and carpet pad. Install a new board table or refinish existing. The board table must have power and data outlets built into the table top. Install a new decorative millwork service bar (built-in or freestanding) with a granite top, a built-in refrigerator and a built in electronic safe large enough to accommodate a 17" laptop computer.	36 Months
37		Boardrooms - The technology in the boardroom must be updated. Install a 65" or larger wall mounted LED television. The TV must be connected to the MATV and the conference table. Provide an A/V conferencing system. Install a ceiling recessed, electronically operated projection screen with controls located near the lighting controls. The conference table must have built-in Cat 6 wiring for voice and data, power outlets, a telephone outlet, and data controls for the wall mounted TV. A wall mounted clock must also be installed.	36 Months
Recreational Areas			
#	Active Date	Scope of Work	Finish Date
Pool Area			
38		Outdoor Pool Area - Repair the pool deck to restore the non-slip tile surface. Deep clean and restore good condition.	36 Months
39		Outdoor Pool Area - Restore the pool coping to good condition.	36 Months
40		Outdoor Pool Area - Install new "depth" and "no diving" markers in 4" tile recessed into (preferred) or adjacent to the pool and whirlpool coping and on the inside rim of the pool and whirlpool at the water line. Depth indicators must be in imperial and metric units.	36 Months
41		Outdoor Pool Area - Replace all pool furniture. Provide chaise lounges, tables and seating to accommodate a minimum of 20 people in the pool area. Chaise lounges and chairs must be sling back type; plastic straps must not be used.	36 Months
Back of House			
#	Active Date	Scope of Work	Finish Date
Offices			
42		Administrative Offices - Install new carpet.	48 months
Service Corridors			

EXHIBIT A – PRODUCT IMPROVEMENT PLAN

43		Service Corridors - Replace damaged and missing floor tile.	48 months
Mechanical/Electrical/Boiler/Elevator Rooms			
44		Boiler Room - Replace water heater that is not working.	24 Months
Guest Support			
#	Active Date	Scope of Work	Finish Date
Vending			
45		Vending - Remove the light switch. Lights must be wired to remain on at all times.	24 Months
Guest Laundry			
46		Guest Laundry - Install signage for equipment operation and cycle times. Install a 48"/1.2 m long, built-in solid counter top for clothes folding. The top surface must be stone or an approved alternate. Install a new side chair or stool.	24 Months
47		Guest Laundry - The guest laundry is an optional space. As an alternative to the required renovations, the space may be converted to an approved alternative use.	24 Months
Circulation Areas			
#	Active Date	Scope of Work	Finish Date
Corridors			
48		Corridors - A renovation is required. Install new carpet and carpet pad. Install new wood or approved synthetic base. Install new vinyl wall covering. Install artwork throughout the corridors. Install new decorative light fixtures.	24 Months
49		Corridors - Repair and refinish all entry doors and service doors and door frames. Replace all damaged or discolored door hardware.	24 Months
Elevator Lobbies			
50		Elevator Lobbies - Renovate the elevator lobbies to match or complement the renovated corridors. Install a new seating group and furniture appropriate for the space. Install new artwork, decorative accessories and a decorative trash um.	24 Months
Elevators/Escalators			
51		Elevators - Install new decorative hard surface flooring. Install new handrails. Remove scars from elevator doors and panels.	24 Months
Guest Rooms			
#	Active Date	Scope of Work	Finish Date
Guest Rooms			
52		Guestrooms - A renovation is required. Install a stone or approved hard surface flooring in the guest entry. Install new carpet, carpet pad and base. Install a stone or quartz composite threshold at the entry. Install new vinyl wall covering or an approved decorative finish. Install new case goods. Install new soft seating (sofas, lounge chairs, desk chairs). Install new window treatments. Install new lamps (table lamps must have rocker switches; desks and night stands must have power outlets in the wall, the furniture, or the lamp base). Replace all wall mounted and ceiling mounted light fixtures. Install an illuminated rocker-type light switch at the entry. Install new artwork and mirrors. Install sound stripping and automatic drop down seals at all entry and connecting room doors. Install an approved, one-piece auxiliary safety latch on all entry and connecting doors. All hardware must be the same finish and color. Install viewer cover (on guestroom side) in all guestroom entrance doors.	24 Months

EXHIBIT A – PRODUCT IMPROVEMENT PLAN

53	Guestrooms - Replace all televisions. Install minimum 49" LED HDTVs. All televisions must be U.L. listed for commercial use with an individual remote control. Televisions must be securely mounted to a case good piece utilizing a swivel mount that allows comfortable viewing from the desk. Televisions must sit a minimum of 2"/50 mm above the case good. The center of the television in bedrooms must be positioned 13"/33 cm above the top of the bed. Cables must not be visible to guests. Wall-mounted televisions are allowed on non-demising walls. If mounted on demising walls, sufficient blocking must be provided, it must be pre-approved by the brand and is subject to sound transmission studies.	24 Months
Specialty Suites		
54	Suites - All suites must be renovated to meet the same requirements as listed in the Guest Rooms section and the Guest Bathrooms section.	24 Months
Guest Bathrooms		
55	Guest Bathrooms - A renovation is required. Install new 16" floor tile and matching base. Install new vinyl wall covering. Install a new vanity top, vanity chrome and millwork vanity base (all towel storage must be incorporated into the vanity base). Install a new frameless and back-lit vanity mirror. Install an 18" towel bar or a 6" towel ring adjacent to the vanity. Install artwork above the toilet. Install an additional towel hook in close proximity to the tub or shower for guest reuse of towels. Provide a lighted make-up mirror. Install a wall switch nightlight or illuminated rocker-type wall switch.	24 Months
56	Bathrooms - In King bedded guest rooms and 60% of double bedded guestrooms a shower is required in lieu of a combination bathtub/shower. Remove all tubs and surrounds and construct shower stalls. An approved grab bar must be installed. A soap dish must be installed in the corner of the shower head wall. Tempered or laminated safety glass shower doors are required.	24 Months
57	Bathrooms - In double bedded rooms where shower-tub combinations are not removed, replace the tub surrounds. Install new 12"/30 cm or larger porcelain tile or stone surrounds. A grab bar and two soap dishes must be installed. Install a soap dish in the corner on the showerhead wall, with a bathtub height soap dish centered on the long wall.	24 Months

The improvements identified in this property improvement plan ("PIP") relevant to the brand specified on the cover page of this PIP ("Brand") are based on conditions at the hotel existing on the Inspection Date specified on the cover page of this PIP ("Inspection Date"). This PIP and any specified waivers of relevant brand standards are only effective for the purpose of incorporation by reference into a fully executed and dated agreement relating to the implementation of the PIP ("Relevant Agreement") with the affiliate entity of Hilton Worldwide, Inc. that is party to such Relevant Agreement ("Hilton"), if such Relevant Agreement is entered into within 180 calendar days of the Inspection Date. In the event that a Relevant Agreement is not entered into within 180 calendar days of the Inspection Date, an updated PIP may be required (in Hilton's absolute discretion). The preparation and/or supply of this PIP shall not obligate Hilton (or any affiliate of Hilton) to enter into any Relevant Agreement (including, but not limited to, a franchise agreement or a management agreement).

This PIP review is limited to aesthetic and functional layout and design, and certain functional, operational and quality criteria as specified by Hilton. It does not encompass, and Hilton does not make any representation or warranty as to, nor shall Hilton be responsible for, the architectural, structural, mechanical, or electrical adequacy, accessibility requirements or other compliance with applicable government or other legal requirements. Compliance is required with brand standards (including the fire safety and security equipment standards specified by Hilton), all applicable local, state and federal building codes, any legally mandated accessibility requirements and all other legal requirements. Accordingly, Hilton recommends that its counterparty(ies) engage an appropriate professional team and legal counsel to advise on such compliance. Any omission in this PIP report does not constitute a waiver of such requirements and does not release any obligation in any Relevant Agreement to conform to brand standards. Nothing in this PIP is intended to modify the terms of any Relevant Agreement to which it may be attached and/or incorporated by reference. In the event of any conflict of the terms, the terms of the Relevant Agreement are the terms that prevail.

The works set out in this PIP are required to be completed by the specified "Finish Date". All "Finish Dates" that are a specified number of months or days shall mean the number of months or days from the date of the Relevant Agreement into which the PIP is incorporated by reference.

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “*Disclosure Agreement*”) is made and entered into as of October 1, 2017, by AUSTIN-BERGSTROM LANDHOST ENTERPRISES, INC., a Texas nonprofit public facility corporation (the “*Issuer*”) in connection with the issuance of its \$45,600,000 Airport Hotel Senior Revenue Refunding and Improvement Bonds, Series 2017 (the “*Bonds*”). The Bonds are being issued pursuant to the terms of an Indenture of Trust dated as of October 1, 2017 (the “*Indenture*”) between the Issuer and U.S. Bank National Association, as trustee (in such capacity, together with any successor trustee, the “*Trustee*”).

NOW THEREFORE, intending to be legally bound hereby, the parties hereto hereby covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered for the benefit of the registered owners and Beneficial Owners (hereinafter defined) of the Bonds and in order to assist the Participating Underwriter (hereinafter defined) in complying with the Rule (hereinafter defined).

SECTION 2. Definitions. In addition to the capitalized terms defined above and the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined, the following capitalized terms shall have the following meanings:

“*ABIA*” shall mean the Austin-Bergstrom International Airport.

“*Annual Report*” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“*Beneficial Owner*” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“*Business Day*” shall mean any day other than a Saturday, Sunday or other day on which the New York Stock Exchange or banks are authorized or required to close in New York, New York or Austin, Texas.

“*City*” shall mean the City of Austin, Texas.

“*Dissemination Agent*” shall mean any Dissemination Agent designated in writing by the Issuer and which has filed with its predecessor Dissemination Agent a written acceptance of such designation. The Trustee shall initially act as Dissemination Agent.

“*EMMA*” shall mean the Electronic Municipal Market Access system maintained by the MSRB (or any successor electronic filing system established in accordance with the Rule for the submission of information required to be filed under the Rule). As of the date of this Disclosure Agreement, information regarding submissions to the MSRB through EMMA is available at <http://emma.msrb.org>.

“*Generally Accepted Accounting Principles*” means those accounting principles applicable in the preparation of financial statements of governmental entities, as promulgated by the Financial Accounting

Standards Board or such other body recognized as authoritative by the American Institute of Certified Public Accountants or any successor body.

“**Hotel**” shall have the meaning given in the Official Statement.

“**Issuance Date**” means November 1, 2017, the date of issuance and delivery of the Bonds.

“**Listed Event**” shall mean any of the events listed in Section 6(a) of this Disclosure Agreement.

“**Manager**” shall mean the manager of the Hotel as set forth in the Indenture.

“**MSRB**” shall mean the Municipal Securities Rulemaking Board.

“**Obligated Person**” shall mean, at any applicable time, each “obligated person” (as that term is defined in paragraph (f)(10) of the Rule) with respect to the Bonds. As of the Issuance Date, “Obligated Person” means the Issuer. The Issuer has determined that as of the Issuance Date, there are no “obligated persons” with respect to the Bonds for purposes of the Rule other than the Issuer.

“**Official Statement**” means the “final Official Statement” (as that term is defined in paragraph (f)(3) of the Rule) relating to the Bonds, dated October 11, 2017.

“**Participating Underwriter**” shall mean Citigroup Global Markets Inc., as the underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“**Repository**” shall mean EMMA and the State Repository.

“**Rule**” shall mean Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“**SEC**” shall mean the United States Securities and Exchange Commission.

“**State Repository**” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, the State Repository is the Municipal Advisory Council of Texas, 606 West 8th Street, Post Office Box 2177, Austin, Texas 78768-2177, (512) 476-6947.

SECTION 3. Provision of Annual Reports.

(a) In accordance with the requirements of the Rule, the Issuer shall deliver, or shall provide to the Dissemination Agent and shall cause the Dissemination Agent to deliver, to the Repository not later than six (6) months after the end of the fiscal year of the Issuer, commencing with the fiscal year ending December 31, 2017, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement; provided, that, if the audited financial statements of the Issuer are not available by the time the Annual Report is required to be provided, unaudited financial statements will be included in the Annual Report, and audited financial statements will be provided, when and if available. If the Issuer is relying on the Dissemination Agent to file the Annual Report with the Repository, it shall provide such Annual Report, together with a “Compliance Certificate” in substantially the form attached hereto as Exhibit A, to the Dissemination Agent at least five (5) Business Days (or such shorter period as may be acceptable to the Dissemination Agent) prior to the applicable filing date. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may

cross-reference other information as provided in Section 4 of this Disclosure Agreement. If the fiscal year of the Issuer changes, the Issuer shall give notice of such change in the same manner as for a Listed Event under Section 6.

(b) If the Dissemination Agent receives the Annual Report from the Issuer and delivers the Annual Report to the Repository, the Dissemination Agent shall file a report with the Trustee, if the Dissemination Agent is not the Trustee (with a copy to the Issuer), to the effect that the Annual Report has been so delivered pursuant to this Disclosure Agreement and stating the date it was delivered. If the Issuer delivers the Annual Report directly to the Repository, it shall provide a “Report of Filing” in substantially the form attached hereto as Exhibit B to the Dissemination Agent and, if the Dissemination Agent is not the Trustee, to the Trustee.

(c) If the Issuer fails either to (i) provide the Annual Report to the Dissemination Agent in a time, manner and condition sufficient for the Dissemination Agent to deliver the Annual Report in compliance with Section 3(a), or (ii) report to the Dissemination Agent that it has on its own so delivered the Annual Report, the Dissemination Agent shall send a “Notice to Repository of Failure to File Annual Report” (and copies thereof to the Issuer and the Trustee, if the Trustee is not the Dissemination Agent) in substantially the form attached hereto as Exhibit C.

SECTION 4. Content of Annual Reports. The Annual Reports shall contain or include by reference the following:

(a) The audited financial statements of the Issuer for the prior fiscal year prepared in accordance with Generally Accepted Accounting Principles. Notwithstanding the foregoing, the Issuer may change the accounting principles used for preparation of the audited financial statements so long as the Issuer includes, in its next Annual Report as part of the information set forth therein, a statement to the effect that different accounting principles are being used, stating the reason for such change and providing a method by which to compare the financial information provided by the differing financial accounting principles;

(b) A summary of historical operating data substantially in the form appearing in “TABLE ONE – Historical Operations” of the Official Statement;

(c) A comparison of the Hotel's actual operating results compared to the approved budget for the last fiscal year;

(d) Calculation of the debt service coverage ratio for the Bonds based on the audited financial statements for the last fiscal year end in the same form as the “Pro-Forma Debt Service Coverage Table” set forth the Official Statement; and

(e) A narrative discussion highlighting the Hotel's overall financial performance (including presentation of occupancy levels, average daily rates and revenue per available room for the last fiscal year in the same form as the “Forecasts of Occupancy, Average Rate and RevPAR” table set forth in the Official Statement); describing material capital projects (including the funding thereof); any modifications, renewals and replacements of the management agreement for the Hotel, and other material events or changes in the operations of the ABIA affecting the operations or performance of the Hotel.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer, which have been filed with the Repository or the SEC. If the document included by reference is a final official statement, it must be available from the

MSRB. The Issuer shall clearly identify each such other document so included by reference. In the event the Issuer's audited financial statements for the fiscal year which have been provided pursuant to Section 3 of this Disclosure Agreement together with audited financial statements for other fiscal years which have been filed with the Repository or SEC contain any of the information described in clause (b) above, the related requirement of this Section 4 shall be deemed to be satisfied with respect to including such information in the Issuer's Annual Report.

SECTION 5. Filing of Certain Additional Information. In addition to the Annual Report, the Issuer shall file or cause the Dissemination Agent to file with the Repository the following information.

(a) Within six (6) months after the end of the Issuer's fiscal year, beginning with the fiscal year ending December 31, 2017, the financial information and operating data with respect to the City and the ABIA of the type set forth in tables 2 through 4 under the heading "AUSTIN-BERGSTROM INTERNATIONAL AIRPORT" and in APPENDIX G to the Official Statement. By acknowledging receipt of this Disclosure Agreement, the City agrees to provide to the Issuer, within nine (9) months after the end of the City's fiscal year, beginning with the fiscal year ending September 30, 2017, such information as is necessary to meet the requirements of this Section 5(a).

(b) Operations report prepared by the Manager and unaudited quarterly reports of the Manager (which will include income and cash flow statements and balance sheets) to be provided within forty-five (45) days of the end of each quarter.

SECTION 6. Reporting of Listed Events.

(a) Pursuant to the provisions of this Section 6, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds in a timely manner not in excess of ten (10) Business Days after the occurrence of the Listed Event:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements, if any, reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, if any, or their failure to perform;
- (vi) 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;
- (vii) Modifications to rights of the registered owners and Beneficial Owners of the Bonds, if material;

- (viii) Bond calls (other than mandatory sinking fund redemption), if material, and tender offers;
- (ix) Defeasances;
- (x) Release, substitution or sale of property securing repayment of the Bonds, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the Issuer;
- (xiii) The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The Listed Events listed in clauses (i) through (xiv) above are quoted from the Rule. Not all Listed Events listed above may be applicable to the Bonds.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall promptly prepare a notice describing the Listed Event and notify the Dissemination Agent, if any, in writing, and either report or instruct the Dissemination Agent to report, the occurrence to the Repository, or to the MSRB. Within two (2) Business Days of receipt of such notice, the Dissemination Agent shall file it with the Repository, or with the MSRB, as instructed in writing by the Issuer, with a copy to the Trustee, if the Dissemination Agent is not the Trustee. Each notice of a Listed Event shall be so captioned and shall prominently state the date, title and CUSIP numbers of the Bonds affected by the Listed Event.

SECTION 7. Termination of Reporting Obligations. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 6.

SECTION 8. Dissemination Agent. The initial Dissemination Agent is the Trustee. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report, including, without limitation, any Annual Report, prepared by the Issuer pursuant to this Disclosure Agreement. The Issuer may, from time to time upon thirty (30) days' written notice to the Dissemination Agent, appoint or engage a new Dissemination Agent, and may discharge any such Dissemination Agent, upon the appointment of a successor Dissemination Agent which shall be evidenced and be effective upon such successor Dissemination Agent's execution and delivery to the Issuer and the existing Dissemination Agent of a "Form of Acceptance of Dissemination Agent's Duties" substantially in the form attached hereto as Exhibit D. The Issuer shall be responsible for the reasonable, out-of-pocket and documented expenses of the Dissemination Agent associated with this Disclosure Agreement, and all fees of the Dissemination Agent as separately agreed to with the Issuer in writing. In addition, the Issuer may, from time to time, upon written notice to the Dissemination Agent, assume the responsibilities and duties of the Dissemination

Agent hereunder. Notwithstanding any contrary provision hereof, during any period in which the Issuer is performing the duties of Dissemination Agent hereunder, all references to "Dissemination Agent" shall be deemed to refer to the Issuer.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, provided that no amendment shall subject the Issuer to any additional obligations or liabilities, and, provided further, that unless otherwise permitted by the Rule, the following conditions are satisfied:

(a) The amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an Obligated Person with respect to the Bonds (including, but not limited to, affiliations, mergers, acquisitions, divestitures or dispositions affecting the Issuer), or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized disclosure counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the registered owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of registered owners, or (ii) does not, in the opinion of a nationally recognized bond counsel, materially adversely affect the interests of the registered owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to accounting principles that differ from Generally Accepted Accounting Principles, to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall provide a method by which to compare the financial information provided by the differing accounting principles.

SECTION 10. Form of Reports; Additional Information. All notices, reports and financial information shall be provided to the Dissemination Agent (or filed by the Issuer) in a word searchable portable document format (PDF), as required by the Rule. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, the Issuer or the Dissemination Agent may, or at the written request of the Registered Owners of at least 25% of the aggregate principal amount of outstanding Bonds and the provision of indemnification satisfactory to it, the Dissemination Agent shall, or any registered owner or

Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent.

Article X of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and applicable to the Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and no further duties or responsibilities shall be implied. The Dissemination Agent shall not have any liability under, nor duty to inquire into the terms and provisions of, any agreement or instructions, other than as outlined in this Disclosure Agreement. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any written notice, instruction or request furnished to it hereunder and reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties. The Dissemination Agent shall be under no duty to inquire into or investigate the validity, accuracy or content of any such document. In the administration of this Disclosure Agreement, the Dissemination Agent may execute any of its powers and perform its duties hereunder directly or through agents or attorneys and may consult with counsel, accountants and other skilled persons to be selected and retained by it. The Dissemination Agent shall not be liable for any action taken or omitted by it in good faith unless a court of competent jurisdiction determines that the Dissemination Agent's gross negligence or willful misconduct was the primary cause of any loss to the Issuer. The Dissemination Agent shall not incur any liability for following the instructions herein contained or expressly provided for, or written instructions given by the Issuer. The Dissemination Agent may resign and be discharged from its duties or obligations hereunder by giving notice in writing of such resignation specifying a date when such resignation shall take effect. Any corporation or association into which the Dissemination Agent in its individual capacity may be merged or converted or with which it may be consolidated, or any corporation or association resulting from any merger, conversion or consolidation to which the Dissemination Agent in its individual capacity shall be a party, or any corporation or association to which all or substantially all of the corporate trust business of the Dissemination Agent in its individual capacity may be sold or otherwise transferred, shall be the Dissemination Agent under this Disclosure Agreement without further act. To the extent permitted by the laws of the State, the Issuer covenants and agrees to hold the Dissemination Agent and its directors, officers, agents and employees (collectively, the "*Indemnitees*") harmless from and against any and all liabilities, losses, damages, fines, suits, actions, demands, penalties, costs and expenses, including out-of-pocket, incidental expenses, legal fees and expenses, the allocated costs and expenses of in-house counsel and legal staff and the costs and expenses of defending or preparing to defend against any claim ("*Losses*") that may be imposed on, incurred by, or asserted against, the Indemnitees or any of them for following any instruction or other direction upon which the Dissemination Agent is authorized to rely pursuant to the terms of this Disclosure Agreement. In addition to and not in limitation of the immediately preceding sentence, the Issuer, to the extent permitted by the laws of the State, also covenants and agrees to indemnify and hold the Indemnitees and each of them harmless from and against any and all Losses that may be imposed on, incurred by, or asserted against the Indemnitees or any of them in connection with or arising out of the Dissemination Agent's performance under this Disclosure Agreement provided the Dissemination Agent has not acted with gross negligence or engaged in willful misconduct. Anything in this Disclosure Agreement to the contrary notwithstanding, in no event shall the Dissemination Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Dissemination Agent has been advised of such loss or damage and regardless of the form of action. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 13. Notices. Any notices or communications to or between the parties to this Disclosure Agreement shall be deemed sufficiently given if sent by registered or certified United States mail, return receipt requested, postage prepaid, by overnight delivery service providing positive tracking or by telecopier with a duplicate hard copy sent by overnight delivery service providing positive tracking as follows:

To the Issuer:

Austin-Bergstrom Landhost Enterprises, Inc.
c/o City of Austin
3600 Presidential Blvd., Suite 411
Austin, TX 78719
Attention: President
Telephone No.: (512) 530-6614
Telecopy No.: (512) 530-7686

To the Trustee:

U.S. Bank National Association
8 Greenway Plaza, Suite 1100
Houston, TX 77046
Attention: Corporate Trust Department – Austin-Bergstrom Landhost Enterprises, Inc.
Telecopier Number: 713-212-3718

Any party may, by written notice to the other parties, designate a different address or telecopier number to which subsequent notices or communications should be sent.

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter, and registered owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which will be regarded as an original, and all of which will constitute one and the same document.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Issuer has executed this Continuing Disclosure Agreement on the date first above written.

AUSTIN-BERGSTROM LANDHOST ENTERPRISES,
INC.

By: _____
Title:

Receipt Acknowledged:

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Title: Authorized Signatory

Receipt Acknowledged:

CITY OF AUSTIN, TEXAS

By: _____
Title: Authorized Signatory

EXHIBIT A

COMPLIANCE CERTIFICATE

\$45,600,000 Austin-Bergstrom Landhost Enterprises, Inc. Airport Hotel Senior Revenue Refunding and Improvement Bonds, Series 2017

[Date]

[Dissemination Agent]
[Attention]
[Address]

Re: Compliance Certificate for Annual Report

Dear _____:

Pursuant to the Continuing Disclosure Agreement of Austin-Bergstrom Landhost Enterprises, Inc. (the "Issuer") dated as of October 1, 2017 (the "Disclosure Agreement"), the undersigned as a representative of the Issuer, does hereby certify that the enclosed Annual Report (as defined in the Disclosure Agreement) for the fiscal year-end December 31, ____, of the Issuer, complies with the requirements of the Disclosure Agreement with respect to the above-referenced Bonds.

AUSTIN-BERGSTROM LANDHOST ENTERPRISES, INC.

By: _____
Name:
Title:

Enclosure

EXHIBIT B

REPORT OF FILING

\$45,600,000 Austin-Bergstrom Landhost Enterprises, Inc. Airport Hotel Senior Revenue Refunding and Improvement Bonds, Series 2017

[Date]

[Dissemination Agent]
[Attention]
[Address]

Re: Compliance Certificate for Annual Report

Dear _____:

Pursuant to the Continuing Disclosure Agreement of Austin-Bergstrom Landhost Enterprises, Inc. (the "Issuer") dated as of October 1, 2017 (the "Disclosure Agreement"), the undersigned as a representative of the Issuer, does hereby certify that the enclosed Annual Report (as defined in the Disclosure Agreement) for the fiscal year-end December 31, ____, of the Issuer, complies with the requirements of the Disclosure Agreement with respect to the above-referenced Bonds and was submitted directly to the MSRB on _____ (date).

AUSTIN-BERGSTROM LANDHOST ENTERPRISES, INC.

By: _____
Name:
Title:

Enclosure

EXHIBIT C

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Austin-Bergstrom Landhost Enterprises, Inc. (the “Issuer”)

Name of Bond Issue: \$45,600,000 Austin-Bergstrom Landhost Enterprises, Inc. Airport Hotel Senior Revenue Refunding and Improvement Bonds, Series 2017

CUSIP:

Date of Issuance: November 1, 2017

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-referenced Bonds as required by the Continuing Disclosure Agreement of the Issuer dated as of October 1, 2017.

Dated: _____

cc: Austin-Bergstrom Landhost Enterprises, Inc.
[Trustee]

EXHIBIT D

FORM OF ACCEPTANCE OF DISSEMINATION AGENT’S DUTIES

\$45,600,000 Austin-Bergstrom Landhost Enterprises, Inc. Airport Hotel Senior Revenue Refunding and Improvement Bonds, Series 2017

[Date]

[Dissemination Agent]
[Attention]
[Address]

_____ hereby accepts and assumes all of the duties and obligations as Dissemination Agent under that certain Continuing Disclosure Agreement of Austin-Bergstrom Landhost Enterprises, Inc. dated as of October 1, 2017 (the “Disclosure Agreement”) with respect to the \$45,600,000 Austin-Bergstrom Landhost Enterprises, Inc. Airport Hotel Senior Revenue Refunding and Improvement Bonds, Series 2017.

[NAME OF SUCCESSOR
DISSEMINATION AGENT]

Dated: _____

By: _____
Authorized Officer

cc: Austin-Bergstrom Landhost Enterprises, Inc.
[Trustee]

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APPENDIX F

AUDITED FINANCIAL STATEMENTS OF THE ISSUER

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**Austin Bergstrom Landhost
Enterprises, Inc.**

**Basic Financial Statements and
Independent Auditor's Report**

December 31, 2016 and 2015

Austin Bergstrom Landhost Enterprises, Inc.

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Independent Auditor's Report

The Board of Directors
Austin Bergstrom Landhost Enterprises, Inc.
Austin, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Austin Bergstrom Landhost Enterprises, Inc. (Company), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Austin Bergstrom Landhost Enterprises, Inc. as of December 31, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As described in Notes 4 and 9 to the financial statements, the events of default and possible remedies available to the bondholders under the indenture of trust raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matter

The financial statements of Austin Bergstrom Landhost Enterprises, Inc. as of and for the year ended December 31, 2015, were audited by other auditors, whose report dated April 15, 2016, expressed an unmodified opinion on those statements with an emphasis of matter paragraph.

RSM US LLP

Austin, Texas
April 21, 2017

Austin Bergstrom Landhost Enterprises, Inc.

Management's Discussion And Analysis (Unaudited)

Introduction

Management's Discussion and Analysis of the 2016 and 2015 financial statements is provided by Austin-Bergstrom Landhost Enterprises, Inc. in accordance with governmental accounting and financial reporting principles established by the Governmental Accounting Standards Board ("GASB"), and is designed to assist the reader in focusing on significant financial issues and providing a performance overview of operations. Please read this analysis in conjunction with the financial statements, which follow this section. Comparative analysis of key elements of total enterprise funds has been provided, as well as comparisons to prior year.

Austin-Bergstrom Landhost Enterprises, Inc. ("Company") is a Texas nonprofit public benefit corporation. The Company was organized under Article 717s, *Vernon's Annotated Texas Civil Statutes* (since recodified as Chapter 303 Texas Local Government Code), as amended, for public purposes. The sponsor of the Company is the City of Austin, Texas ("City") for the primary purpose of financing the acquisition, construction and equipping of, and providing for the operation of, the Hilton Austin Airport Hotel ("Hotel") at Austin-Bergstrom International Airport ("ABIA"), Austin, Texas. Austin-Bergstrom Landhost Enterprises, Inc. was incorporated with the State of Texas effective December 10, 1998.

The Company's fiscal year is the calendar year, January 1 through December 31. The Company's financial statements are prepared on the basis of an enterprise fund as defined by GASB. The statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Overview of the Financial Statements

The Company's Statement of Net Position presents the financial information regarding all assets (financial and capital; restricted and unrestricted) and liabilities of the Company at the end of the fiscal year. The Company's assets less its liabilities equals the Company's net position at the end of the operating year.

The Statement of Revenues, Expenses and Changes in Fund Net Position presents the operating revenues and expenses of the Hilton Austin Airport Hotel, and the non-operating revenues and expenses of the Company for the year. Operating revenue less operating expenses equals the operating income or loss for the year. Non-operating revenue of the Company consists mainly of interest earned on funds held by the trustee for the airport hotel revenue bonds issued by the Company in February 1999. Non-operating expenses include interest expense, primarily for the senior and subordinate revenue bonds. Operating income or loss of the Hotel, less net non-operating expenses of the Company, equals the change in net position of the Company for the year.

The Statement of Cash Flows shows the cash flow for the year from operating activities, investing activities, capital and related financing activities, and non-capital and related financing activities. The sum of net cash provided (increase in cash) or used (decrease in cash) equals the net increase or decrease in the Company's cash and cash equivalents for the period. The statement provides the total cash and cash equivalents of the Company at the start (January 1) and at the end (December 31) of the period.

The Notes to the financial statements provide additional information that is essential to fully understanding the information provided in the statements.

Austin Bergstrom Landhost Enterprises, Inc.

Management's Discussion And Analysis (Unaudited)

Financial Analysis

Summary financial information for the Company is provided below for fiscal years 2016, 2015 and 2014.

Condensed Statement of Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets:			
Capital	\$ 22,151,581	\$ 23,373,470	\$ 24,601,165
Other	6,196,283	3,050,368	2,787,972
Total assets	<u>\$ 28,347,864</u>	<u>\$ 26,423,838</u>	<u>27,389,137</u>
Liabilities:			
Current liabilities	\$ 68,771,398	\$ 43,992,734	45,446,505
Noncurrent liabilities	-	20,903,915	18,896,437
Total liabilities	<u>\$ 68,771,398</u>	<u>\$ 64,896,649</u>	<u>64,342,942</u>
Fund Net Position (Deficit):			
Net investment in capital assets	\$ (38,791,971)	\$ (35,304,696)	(32,030,660)
Restricted	1,000,027	-	-
Unrestricted deficit	(2,631,590)	(3,168,115)	(4,923,145)
Total fund net position (deficit)	<u>\$ (40,423,534)</u>	<u>\$ (38,472,811)</u>	<u>\$ (36,953,805)</u>

Condensed Statement of Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenue	\$ 16,853,234	\$ 17,506,925	\$ 16,416,294
Operating expenses			
Hotel operating expenses	\$ 6,244,263	\$ 6,418,550	\$ 6,212,761
Depreciation expenses	1,225,067	1,293,381	1,292,845
General and administrative expenses	6,526,702	6,723,564	6,454,218
Total operating expenses	<u>\$ 13,996,032</u>	<u>\$ 14,435,495</u>	<u>\$ 13,959,824</u>
Non-operating expenses, net	<u>\$ 4,807,925</u>	<u>\$ 4,590,436</u>	<u>\$ 4,346,361</u>
Change in net position	\$ (1,950,723)	\$ (1,519,006)	\$ (1,889,891)
Fund net position (deficit), beginning of year	<u>(38,472,811)</u>	<u>(36,953,805)</u>	<u>(35,063,914)</u>
Fund net position (deficit), end of year	<u>\$ (40,423,534)</u>	<u>\$ (38,472,811)</u>	<u>\$ (36,953,805)</u>

Austin Bergstrom Landhost Enterprises, Inc.

Management's Discussion And Analysis (Unaudited)

Discussion of 2016 Results and Comparison to 2015

Overall, the Company's financial position declined in 2016 with a decrease in net position of \$1,950,723. Net position at the start of the fiscal year was \$(38,472,811) and was \$(40,423,534) at the end of the year. Total operating revenue of \$16,853,234 exceeded total operating expenses of \$13,996,032 for operating income of \$2,857,202 for 2016. Net non-operating expenses of \$4,807,925 plus the operating income of \$2,857,202 resulted in the fiscal year change in net position of \$(1,950,723). Net non-operating expenses consisted mainly of interest expense of \$4,824,901 on the senior and subordinate revenue bonds.

Hotel industry key performance indicator data for the Hilton Austin Airport Hotel for 2016 compared to 2015, as reported by Boykin Enterprises Limited, LLC ("Boykin"), the Hotel management company, were as follows:

Key Performance Indicators

	<u>2016</u>	<u>2015</u>
Occupancy	83.3%	88.9%
Average Daily Rate ("ADR")	\$ 139.90	\$ 136.54
Room Revenue per Available Room ("RevPAR")	\$ 116.54	\$ 121.42

Hotel occupancy was down 5.6% in 2016. Average Daily Rate ("ADR") was up in 2016, increasing 2.5% over 2015 ADR. With the decrease in occupancy coupled with the moderate increase in ADR, Room Revenue per Available Room ("RevPAR") for 2016 was down 4.0% over 2015.

Compared to 2016 budget target, actual occupancy of 83.3% missed budgeted occupancy of 87.1%. Actual ADR was below budgeted ADR of \$142.47 by \$2.57. In addition, actual RevPAR of \$116.54 fell short of budgeted RevPAR of \$124.15 by \$7.61, or 6.1%.

Compared to budget, 2016 operating revenue of \$16,853,234 missed budgeted revenue of \$17,799,028 by \$945,794. Compared to 2015, 2016 operating revenue decreased \$653,691, or 3.7%. Below is a summary of operating revenue for 2016 and 2015.

Summary of Operating Revenue

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>% Change</u>
Rooms Revenue	\$ 11,174,898	\$ 11,611,819	\$ (436,921)	-3.8%
Food & Beverage Revenue	3,543,783	3,652,055	(108,272)	-3.0%
Other Revenue	2,134,553	2,243,051	(108,498)	-4.8%
	<u>\$ 16,853,234</u>	<u>\$ 17,506,925</u>	<u>\$ (653,691)</u>	<u>-3.7%</u>

Austin Bergstrom Landhost Enterprises, Inc.

Management's Discussion And Analysis (Unaudited)

The 3.8% decrease in Rooms Revenue for 2016 was primarily attributable to Contract Rooms revenue, which is revenue from lodging agreements with airlines. Contract Rooms Revenue information is included below:

Contract Rooms Revenue Information

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>% Change</u>
Contract Rooms Revenue	\$ 1,198,402	\$ 1,679,567	\$ (481,165)	-28.6%
Contract Rooms Average Nightly Rate	\$ 93.62	\$ 96.17	(\$ 2.55)	-2.7%
Contract Rooms Nights	12,801	17,465	(4,664)	-26.7%

The Contract Rooms revenue decreased 28.6% in 2016 over 2015. The decrease is due a 26.7% decrease in Contract room nights. The room night decrease was largely attributable to airlines producing lower room nights due to changes in their schedules of overnight parking of aircrafts in Austin and availability of additional hotel rooms in the city offering lower rates.

Food and Beverage revenue in 2016 came in under budgeted revenue by \$206,726 and \$108,272 below 2015 revenue, a decrease of 3.0%. The year-over-year decrease was primarily in the Banquets category, which was down \$132,139, or 6.1%, in 2016. The Banquets Revenue decrease was the result of a decrease in the number of room nights associated Banquets.

Total operating expenses for 2016 totaled \$13,996,032, a decrease of \$439,463, or 3.0%, over 2015. The 3.0% decrease in operating expenses compares reasonably with the 3.7% year-over-year decrease in operating revenues noted above.

The Hotel's 2016 operations resulted in net operating income of \$4,082,269 before depreciation, interest and other income, and interest expense. For comparison, 2015 operations resulted in net operating income of \$4,364,811 before depreciation, interest and other income, and interest expense, a decrease of \$282,542, or 6.5%, in 2016 results over 2015.

Total assets of the Company at December 31, 2016 were \$28,347,864 compared to \$26,423,838 at December 31, 2015.

Summary of Assets

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>% Change</u>
Current assets	\$ 3,674,821	\$ 1,045,321	\$ 2,629,500	251.5%
Non-current assets	2,521,462	2,005,047	516,415	25.8%
Capital, net of depreciation	22,151,581	23,373,470	(1,221,889)	-5.2%
Total Assets	<u>\$ 28,347,864</u>	<u>\$ 26,423,838</u>	<u>\$ 1,924,026</u>	<u>7.3%</u>

Austin Bergstrom Landhost Enterprises, Inc.

Management's Discussion And Analysis (Unaudited)

Non-capital assets at December 31, 2016 totaled \$6,196,283, an increase of \$3,145,915 over the December 31, 2015 non-capital assets balance of \$3,050,368. The 2016 increase was due to a \$3,000,000 advance from the City of Austin for mold remediation and HVAC system repairs at the hotel ("Atrium Project"). The proceeds from the advance are restricted for the use of the Atrium Project and are therefore classified as restricted. Furthermore, the Company anticipates expending the cash within one year of December 31, 2016, and as such has classified it as current. See *Currently Known Facts* section and Note 10 to the financial statements for further discussion of the Atrium Project and its funding.

Capital assets, before depreciation, were \$40,773,989 at December 31, 2016, an increase of \$3,178 over 2015 year end. Capital assets net of accumulated depreciation at December 31, 2016 totaled \$22,151,581 compared to \$23,373,470 at end of 2015, a decrease of \$1,221,889. This decrease was due to additions of accumulated depreciation on capital assets in 2016.

The Company's total liabilities at December 31, 2016 were \$68,771,398 compared to \$64,896,649 at year end 2015, an increase of \$3,874,749. At December 31, 2016, current liabilities totaled \$68,771,398 compared to \$43,992,734 at 2015 year end, an increase of \$24,778,664. The increase in current liabilities is due to the reclassification of the \$23,149,098 in subordinate bonds which matured on April 1, 2016 along with \$3,000,000 increase for the City of Austin Atrium Project advance and a \$1,515,485 decrease in accrued bond interest payable. Year end accrued senior bond interest payable for 2016 and 2015 totaled \$1,676,109 and \$3,191,594, respectively, for the year-over-year decrease of \$1,515,485. At December 31, 2016, non-current liabilities totaled \$0 compared to \$20,903,915 at 2015 year end; the decrease was due to reclassification of the subordinate bonds to current as of December 31, 2016, along with \$2,251,814 of interest accretion on the subordinate bonds payable.

Discussion of 2015 Results and Comparison to 2014

Overall, the Company's financial position declined in 2015 with a decrease in net position of \$1,519,006. Net position at the start of the fiscal year was \$(36,953,805) and was \$(38,472,811) at the end of the year. Total operating revenue of \$17,506,925 exceeded total operating expenses of \$14,435,495 for operating income of \$3,071,430 for 2015. Net non-operating expenses of \$4,590,436 plus the operating income of \$3,071,430 resulted in the fiscal year change in net position of \$(1,519,006). Net non-operating expenses consisted mainly of interest expense of \$4,606,954 on the senior and subordinate revenue bonds.

Hotel industry key performance indicator data for the Hilton Austin Airport Hotel for 2015 compared to 2014, as reported by Boykin Enterprises Limited, LLC, the Hotel management company, were as follows:

Key Performance Indicators

	<u>2015</u>	<u>2014</u>
Occupancy	88.9%	86.9%
ADR	\$ 136.54	\$ 126.14
RevPar	\$ 121.42	\$ 109.56

Austin Bergstrom Landhost Enterprises, Inc.

Management's Discussion And Analysis (Unaudited)

Hotel occupancy was up 2.0% in 2015. Average Daily Rate was also up in 2015, increasing 8.2% over 2014 ADR. With the increases in occupancy and ADR, the Room Revenue per Available Room for 2015 was \$121.42, a 10.8% increase over 2014.

Compared to 2015 budget target, actual occupancy of 88.9% exceeded budgeted occupancy of 84.7%. Actual ADR exceeded budgeted ADR of \$133.98 by \$2.56. In addition, actual RevPAR of \$121.42 surpassed budgeted RevPAR of \$113.42 by \$8.00, or 7.1%.

Compared to budget, 2015 operating revenue of \$17,506,925 exceeded budgeted revenue of \$16,494,781 by \$1,012,144. Hotel operating revenue for 2015 increased \$1,090,631, or 6.6%, over 2014. Below is a summary of operating revenue for 2015 and 2014.

Summary of Operating Revenue

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>% Change</u>
Rooms Revenue	\$ 11,611,819	\$ 10,476,876	\$ 1,134,943	10.8%
Food & Beverage Revenue	3,652,055	3,787,130	(135,075)	-3.6%
Other Revenue	2,243,051	2,152,288	90,763	4.2%
	<u>\$ 17,506,925</u>	<u>\$ 16,416,294</u>	<u>\$ 1,090,631</u>	<u>6.6%</u>

The 10.8% increase in Rooms Revenue for 2015 was primarily attributable to Contract Rooms revenue, which is revenue from lodging agreements with airlines. Contract Rooms Revenue information is included below:

Contract Rooms Revenue Information

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>% Change</u>
Contract Rooms Revenue	\$ 1,679,567	\$ 843,266	\$ 836,301	99.2%
Contract Rooms Average Nightly Rate	\$ 96.17	\$ 76.17	\$ 20.00	26.3%
Contract Rooms Nights	17,465	11,071	6,394	57.8%

The Contract Rooms revenue in nearly doubled in 2015 over 2014. The 99.2% increase was due to increases in Contract room rates and increases in the number of Contract room nights. The 26.3% rate increase is largely attributable to a rate increases that went into effect in July 2015 for an existing agreement. The increase in the number of room nights is attributable to a new agreement which started May 1, 2015; the new agreement contributed on average approximately 30 rooms per night.

Food and Beverage revenue in 2015 beat budgeted revenue by \$60,767, while coming in \$135,075 below 2014 revenue. Most of the year-over-year decrease was in the Banquets category, which was down \$97,978, or 4.3%, in 2015. The Banquets Revenue decrease was the result of a decrease in the number of room nights associated Banquets.

Austin Bergstrom Landhost Enterprises, Inc.

Management's Discussion And Analysis (Unaudited)

Total operating expenses for 2015 were \$14,435,495, an increase of \$475,671, or 3.4%, over 2014. Increases were attributable to increases in expenses. In the Rooms category, expenses increased 7.1%, which was due to increases royalties and housekeeping payroll. In General & Administrative category, expenses increased 4.2%, which was due to increases in professional services and utilities.

In sum, 2015 operations resulted in net operating income of \$4,364,811 before depreciation, interest and other income, and interest expense. For comparison, 2014 operations resulted in net operating income of \$3,749,315 before depreciation, interest and other income, and interest expense, an increase of \$615,496, or 16.4%, in 2015 results over 2014.

Total assets of the Company at December 31, 2015 were \$26,423,838, compared to \$27,389,137 at December 31, 2014. The decrease of \$965,299 in total assets at the end of 2015 over 2014 was due to an increase of in accumulated depreciation on capital assets of \$1,293,381 in 2015.

Capital assets, before depreciation, were \$40,770,811 at December 31, 2015, an increase of \$65,686 over 2014 year end. Operating equipment increased by \$103,136, less decreases/retirements of \$37,450 during 2015. Capital assets net of accumulated depreciation at December 31, 2015 totaled \$23,373,470, compared to \$24,601,165 at end of 2014, a decrease of \$1,227,695. This difference was due to additions of capital assets, less retirements of capital assets, and less accumulated depreciation on capital assets at year end 2015.

Total non-capital assets of the Company at December 31, 2015 were \$3,050,368, compared to \$2,787,972 at end of 2014, an increase of \$262,396. Current assets were \$6,497, or 0.6%, less at end of 2015 over 2014 year end. For non-current assets, restricted assets held by the trustee totaled \$2,005,047 at end of 2015, compared to \$1,736,154 at end of 2014. The increase of \$268,893 was due to an increase in cash and money market funds held by the trustee.

The Company's total liabilities at December 31, 2015 were \$64,896,649 compared to \$64,342,942 at year end 2014, an increase of \$553,707. At December 31, 2015, current liabilities totaled \$43,992,734, compared to \$45,446,505 at 2014 year end, a decrease of \$1,453,771. The decrease in current liabilities is due to a decrease in accrued bond interest payable. Year end accrued senior bond interest payable for 2015 and 2014 totaled \$3,191,594 and \$5,110,981, respectively, for a year-over-year decrease of \$1,919,387. At December 31, 2015, non-current liabilities totaled \$20,903,915, compared to \$18,896,437 at 2014 year end, an increase of \$2,007,478. The increase is due to an increase of \$2,032,769 in subordinate bonds payable.

Capital Assets and Long-Term Debt

The carrying value of the Company's capital assets, before depreciation, at December 31, 2016 was \$40,773,989, an increase of \$3,178 from December 31, 2015. Of the total capital assets, the building value was \$35,875,193; furniture and fixtures, \$3,280,187; and equipment, \$1,618,609. Net of accumulated depreciation, net capital assets at 2016 year end were \$22,151,581, compared to \$23,373,470 at end of 2015, a decrease of \$1,221,889. The decrease in net capital assets was due to additional accumulated depreciation in 2016.

Austin Bergstrom Landhost Enterprises, Inc.

Management's Discussion And Analysis (Unaudited)

Under the License Agreement with Hilton Inns, Inc., the Hotel is required to comply with specific brand standards for Hilton Hotels. The brand standards cover a wide range of specifications, from the hotel lobby, meeting rooms, food and beverage facilities, guest rooms and bathrooms, to business and recreational facilities and specific hotel systems and services, for example. Annually, some of the capital purchases for the hotel are required in order to comply with current Hilton brand standards. Other capital spending is directed toward purchasing new or additional furniture, fixtures and operating equipment for the property, as well as necessary repairs and refurbishments to the facilities. At the end of 2016, the Hotel was sixteen years old.

In prior years, capital assets were purchased by the Company for the Hotel from funds held in the Renewal and Replacement Fund by the Trustee. Under the Second Supplemental Indenture of Trust between the Company and Wells Fargo Bank, Trustee, 4% of total revenues received in the Revenue Fund were to be transferred into the Renewal and Replacement Fund semiannually for capital asset needs and purchases.

In March 2014, at the direction of the majority bondholders, the balance of funding in the Renewal and Replacement account, \$263,337, was transferred to a trust contingency account for use in the partial bond interest payment on April 1, 2014. For the remainder of 2014 and through all of 2015, no transfers or allocations of hotel revenues were made to the Renewal and Replacement Fund. Only urgent or other necessary, pre-approved capital expenditures were made. The ending balance in the Renewal and Replacement Fund at December 31, 2015, was \$0.

Throughout 2016 minimal capital spending was undertaken. Capital expenditures during 2016 included the replacement of a kitchen cooler and the replacement of the fitness center towel station and mirror. The 2016 capital expenditures were funded from revenues in the trust Revenue Fund.

In August 2016, \$1,000,000 was transferred to the Renewal and Replacement fund for the purpose of providing partial funding of the Hotel's Atrium Project. See *Currently Known Facts* section below and Note 10 to the financial statements for a discussion of the Atrium Project. As of December 31, 2016 the Renewal and Replacement fund had a balance of \$1,000,027. These funds are restricted by contract for use only on the Atrium Project. As such, net position is restricted as of December 31, 2016.

Bond related liabilities at December 31, 2016 consisted of: senior bonds payable, net of discount on bonds; accrued senior bond interest payable; and subordinate bonds payable.

Senior bonds payable, net of discount on bonds, of \$37,794,454 is classified as a current liability (see Note 4 to the financial statements), an increase of \$13,572 from December 31, 2015. The senior bonds payable increased due to no principal payment made in 2016, plus an increase of \$13,572 in accumulated amortization of the bonds discount.

Accrued senior bond interest payable of \$1,676,109, also classified as a current liability, decreased \$1,515,485 from December 31, 2015. The accrued senior bond interest decreased at December 31, 2016 due to three partial payments of back interest owing on the senior bonds during 2016. The payments were made at the direction of the majority bondholders and totaled \$4,075,000: \$1,200,000 paid in January 2016, \$1,800,000 paid in May 2016, and \$1,075,000 paid in October 2016. The current semiannual interest due on the scheduled interest payment dates of April 1, 2016 and October 1, 2016 were not paid. The senior bonds interest rate is 6.75% per annum, due semiannually.

Austin Bergstrom Landhost Enterprises, Inc.

Management's Discussion And Analysis (Unaudited)

Subordinate bonds payable of \$23,149,098 is classified as a current liability as of December 31, 2016 as the bonds matured on April 1, 2016 but no payment was made (see Note 4 to the financial statements). The bond balance increased \$2,251,814 from December 31, 2015 due to interest accreting at 10.5% per annum on those bonds.

With respect to bond indenture debt service compliance, historically there have been insufficient funds available in the Trustee-held Revenue Fund to make full semiannual debt service payments for most debt service due dates, dating back to 2004. For most semiannual payments, a portion of interest due was paid and the rest was deferred. Starting in 2010 and continuing through 2014, the mandatory sinking fund payments due on April 1 of each year have been deferred, in addition to partial interest payments made on most semiannual due dates. The Trustee issued notices to the Company and the bondowners for each new or continuing event of default since 2004. The amounts of interest and principal not paid when due continue to be an obligation of the Company, payable from future revenues.

On September 30, 2015 as of January, 28, 2015, UMB Bank, n.a., Successor Trustee, issued a revised notice of partial payment of interest due and owing. A payment of \$1,280,000 for interest owed was made January 28, 2015.

For the April 1, 2015 debt service due date, a mandatory sinking fund payment of principal of \$1,025,000 was due, plus semiannual interest of \$1,280,306 due on this date. UMB Bank, n.a., Successor Trustee, issued a revised notice of partial payment of interest due and owing dated September 30, 2015 as of April 1, 2015. No principal was paid in April 2015. Interest owed in the amount of \$1,100,000 was paid in April 2015.

On September 30, 2015 as of July, 1, 2015, UMB Bank, n.a., Successor Trustee, issued a revised notice of partial payment of interest. A payment of \$900,000 for interest owed was paid in July 2015.

For the October 1, 2015 debt service due date, the trustee issued a notice of payment of current interest and partial payment of past due interest dated October 1, 2015. A payment of \$1,200,000 for interest owed was paid in October 2015.

Since the events of default declared in 2004 and additional events of default declared in 2006 through 2015, were continuing as of December 31, 2015, the Series 1999A Bonds are classified as current liability as of December 31, 2015. As of December 31, 2015, unpaid mandatory sinking fund payments of principal totaling \$4,035,000 and interest of \$3,191,594 continued to be due and owing.

On January 12, 2016, UMB Bank, n.a., Successor Trustee, issued a notice of partial payment of interest for a payment of \$1,200,000 for interest owed. For the April 1, 2016 debt service due date, a mandatory sinking fund payment of principal of \$1,185,000 was due, plus semiannual interest. UMB Bank, n.a., Successor Trustee, issued a notice of nonpayment of interest or principal dated April 1, 2016. No principal was paid in 2016. On May 26, 2016, UMB Bank, n.a., Successor Trustee, issued a notice of partial payment of interest for a payment of \$1,800,000 for interest owed. On October 7, 2016, UMB Bank, n.a., Successor Trustee, issued a notice of partial payment of interest for a payment of \$1,075,000 for interest owed. In 2016, interest payments on bonds totaled \$4,075,000.

Austin Bergstrom Landhost Enterprises, Inc.

Management's Discussion And Analysis (Unaudited)

Since the events of default declared in 2004 and additional events of default declared in 2006 through 2016 were continuing as of December 31, 2016, the Series 1999A Bonds are classified as a current liability as of December 31, 2016. Unpaid mandatory sinking fund payments of principal for years 2010 through 2016 totaling \$5,220,000 and interest totaling \$1,676,109 continued to be due and owing as December 31, 2016.

The Series 1999B bonds matured on April 1, 2016 but no payment was made. On April 1, 2016, the Successor Trustee issued a notice of nonpayment of principal on the Series 1999B bonds and stated the bonds will continue to accrue additional interest and remain due and owing beyond April 1, 2016. In accordance with the indenture, as long as any senior bonds remain outstanding, no event of default will exist or may be declared with respect to the subordinate bonds.

Interest and principal not fully paid on the semiannual debt service dates from 2016 and prior periods continues to be an obligation of the Company, payable from future revenues in accordance with the indenture, as amended.

Please see also detailed notes to the financial statements relative to capital assets, bonds payable, and other long-term obligations of the Company.

Currently Known Facts and Additional Information

On January 19, 2017, the successor trustee, UMB Bank, n.a., issued a notice of partial payment of interest. The notice states the majority bondholders directed the trustee to make a distribution of \$1,135,000 to pay interest owed for prior time periods. The partial interest payment was made January 19, 2017. The notice also states after the payment was made, interest continues to be due and owing for prior periods of accrual in the amount of \$669,139, which has not been forgiven.

On April 1, 2017, the \$1,375,000 mandatory sinking fund payment was not made. On April 3, 2017, the successor trustee, UMB Bank, n.a., issued a notice of partial payment of interest. The notice states the majority bondholders directed the trustee to make a distribution of \$1,100,000 to pay interest owed for prior time periods. The partial interest payment was made April 3, 2017. The notice also states after the payment was made, interest continues to be due and owing for prior periods of accrual in the amount of \$81,262, which has not been forgiven.

Management is in the process of executing a plan with bond counsel and financial advisors to refund the outstanding Series 1999 bonds.

Non-toxic mold has been identified in the Hotel's atrium; it has been tested and found to not be harmful. In order to mitigate it and prevent future recurrences, a mold remediation and HVAC rehabilitation project is being undertaken (Atrium Project). A project management firm has been retained and a design-build contract executed. The estimated project costs of approximately \$4.0 million are anticipated to have minimum negative financial impact while improving overall operational efficiency and hotel occupancy.

Austin Bergstrom Landhost Enterprises, Inc.

Management's Discussion And Analysis (Unaudited)

On August 19, 2016, the City of Austin, the Company, the majority bondholders, and the Successor Trustee executed a letter of intent that provided for the funding and performance of repairs related to the Atrium Project. Under this agreement, 75% of the costs of the project will be funded by the Company and 25% of the costs will be funded from the Company's Renewal and Replacement Fund trust account. See Note 10 to the financial statements for more information on the Atrium Project.

For the past seven operating years, 2010 through 2016, operating revenue and key indicator data for the Hotel, as reported by Boykin, were as follows:

	2016	2015	2014	2013	2012	2011	2010
Operating Revenue	\$16.9M	\$17.5M	\$16.4M	\$15.5M	\$14.3M	\$13.1M	\$12.2M
Occupancy	83.3%	88.9%	86.9%	84.8%	80.3%	82.7%	78.3%
ADR	\$139.90	\$136.54	\$126.14	\$121.84	\$114.99	\$102.14	\$98.04
RevPar	\$116.54	\$121.42	\$109.56	\$103.34	\$92.30	\$84.45	\$76.80

During 2009 and 2010, the economic recession impacted the hotel industry and annual revenues for the Hotel declined from the 2008 peak annual revenue. For 2009 and 2010, the annual operating revenue was \$12.3 million and \$12.2 million, respectively. Although the Hotel maintained occupancy of 73.6% in 2009 and improved to 78.3% in 2010, the recession contributed to demand for lower rates, and ADR declined accordingly. Annual ADRs for 2009 and 2010 were \$101.28 for 2009 and \$98.04 for 2010. The drop in ADR for 2009 and 2010, from the high of \$118.27 in 2008, led to a lower RevPAR for 2009 and 2010 of \$74.54 and \$76.80, respectively.

In keeping with economic and hospitality industry recoveries from the recession since 2010, the Hotel increased annual operating revenue from \$12.2 million in 2010 to over \$13 million in 2011. The Hotel achieved occupancy of 82.7% in 2011, compared to 78.3% in 2010, while moving ADR from \$98.04 in 2010 to \$102.14 in 2011. The 2011 RevPAR of \$84.45 was much improved over 2010 RevPAR of \$76.80, a difference of \$7.65, or 10%.

For 2012, operating revenue of \$14.3 million was \$1.2 million greater than for 2011, and was only \$228,301 less than peak annual revenue in 2008. Occupancy for 2012 was 80.3%, compared to 82.7% for 2011. However, ADR for 2012 was \$114.99, compared to \$102.14 for 2011, an improvement of \$12.85, or 12.6%. The higher ADR, coupled with occupancy over 80%, resulted in annual RevPAR of \$92.30 for 2012. The RevPAR of \$92.30 was the highest annual RevPAR to that year, since the hotel opened in 2001, and was \$7.85 better than 2011 RevPAR of \$84.45, and \$4.39 better than earlier peak year 2008 RevPAR of \$87.91.

For 2013, operating revenue of \$15,498,148 was \$1.2 million over 2012. 2013 operating revenue was the highest operating revenue year, through 2013, since hotel's opening in January 2001; and \$1.0 million higher than the previous highest revenue year of 2008. Occupancy for 2013 was 84.8%, up from 80.3% in 2012. 2013 ADR was also higher at \$121.84, compared to \$114.99 in 2012. 2013 ADR was also the highest annual ADR achieved by the Hotel from opening through 2013. RevPAR achieved for 2013 was \$103.34, compared to \$92.30 in 2012, a year-over-year increase of 12.0% in RevPAR. 2013 RevPAR was the highest RevPAR achieved by the Hotel from opening through 2013.

Austin Bergstrom Landhost Enterprises, Inc.

Management's Discussion And Analysis (Unaudited)

For 2014, operating revenue of \$16,416,294 was \$918,146 higher than 2013 operating revenue, and the highest operating revenue year for the hotel from opening through 2014. Occupancy for 2014 was also high at 86.9%, compared to 2013 occupancy of 84.8%. ADR for 2014 was \$126.14, \$4.30 higher than 2013 ADR of \$121.84. RevPAR achieved for 2014 was \$109.56, compared to \$103.34 for 2013, an increase of 6.0%. All key metrics for 2014, Occupancy, ADR, and RevPAR, were the highest achieved for the Hotel from opening in 2001 through 2014.

For 2015, operating revenue of \$17,506,925 was \$1,090,631 higher than 2014 operating revenue, and the highest operating revenue year for the hotel from opening through 2015. Occupancy for 2015 was also high at 88.99%, compared to 2014 occupancy of 86.9%. ADR for 2015 was \$136.14, \$10.40 higher than 2014 ADR of \$126.14. RevPAR achieved for 2015 was \$121.42, compared to \$109.56 for 2014, an increase of 10.8%. All key metrics for 2015, Occupancy, ADR, and RevPAR, were the highest achieved for the Hotel since its 2001 opening.

For 2016, operating revenue of \$16,853,234 was \$653,691 lower than 2015 operating revenue; 2015 operating revenue of \$17,506,925 was the highest operating revenue year for the Hotel since opening. Occupancy for 2016 dipped to 83.3% compared to 88.9% in 2015. ADR for 2016 was \$139.90, \$3.36 higher than 2015 ADR of \$136.54. RevPAR achieved for 2016 was \$116.54 compared to \$121.42 for 2015.

The operating budget for the Hotel for 2017 projects operating revenue of \$17.6 million, with an annual occupancy of 84.5%, ADR of \$144.50, and RevPAR of \$122.15.

Austin-Bergstrom International Airport served 12.4 million total passengers in 2016, a record for the airport. The airport has continued to experience passenger growth for the past seven years. ABIA's total annual passenger information for 2010 – 2016 is as follows:

	Passengers (in millions)	Increase over prior year
2010	8.6	5.2%
2011	9.1	5.1%
2012	9.4	3.8%
2013	10.0	6.2%
2014	10.7	7.0%
2015	11.9	11.0%
2016	12.4	4.2%

Conclusion

This financial report is intended to provide investors, creditors, and customers with a general overview of the Company's finances and to demonstrate the Company's accountability for the funds it receives. If you have any questions about this report or need additional financial information, contact Greg Milligan, President, Austin-Bergstrom Landhost Enterprises, Inc., 3600 Presidential Blvd., Suite 411, Austin, TX 78719, or at (512) 530-6364.

Basic Financial Statements

Austin Bergstrom Landhost Enterprises, Inc.

Statements of Net Position

December 31, 2016 And 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 289,661	\$ 333,285
Cash for Atrium Project - restricted	3,000,000	-
Accounts receivable, net of allowances of \$5,000 and \$26,871 in 2016 and 2015, respectively	228,150	522,345
Prepaid expenses and other assets	103,270	135,500
Inventory	53,740	54,191
Total Current Assets	<u>\$ 3,674,821</u>	<u>\$ 1,045,321</u>
Non-Current Assets		
Restricted Assets		
Cash and Money market mutual funds held by trustee	\$ 2,168,152	\$ 1,651,737
Guaranteed interest contract held by trustee	353,310	353,310
	<u>\$ 2,521,462</u>	<u>\$ 2,005,047</u>
Capital Assets		
Building	\$ 35,875,193	\$ 35,875,193
Furniture and fixtures	3,280,187	3,276,216
Operating equipment	1,618,609	1,619,402
	<u>\$ 40,773,989</u>	<u>\$ 40,770,811</u>
Less accumulated depreciation	(18,622,408)	(17,397,341)
Total Capital Assets, net	<u>\$ 22,151,581</u>	<u>\$ 23,373,470</u>
 TOTAL ASSETS	 <u>\$ 28,347,864</u>	 <u>\$ 26,423,838</u>
<u>LIABILITIES</u>		
Current Liabilities		
Hotel operations payable - Boykin	\$ 267,893	\$ 353,009
Accrued bond interest payable	1,676,109	3,191,594
Accrued wages payable - Boykin	267,381	244,249
Accrued expenses and other liabilities	2,609,832	2,397,709
Advance from City of Austin for Atrium Project	3,000,000	-
Current obligations under capital lease	6,631	25,291
Bonds payable, net of discount	60,943,552	37,780,882
Total Current Liabilities	<u>\$ 68,771,398</u>	<u>\$ 43,992,734</u>
Non-Current Liabilities		
Subordinate bonds payable	\$ -	\$ 20,897,284
Capital lease obligation	-	6,631
Total Non-Current Liabilities	<u>\$ -</u>	<u>\$ 20,903,915</u>
 TOTAL LIABILITIES	 <u>\$ 68,771,398</u>	 <u>\$ 64,896,649</u>
<u>FUND NET POSITION (DEFICIT)</u>		
Net investment in capital assets	\$ (38,791,971)	\$ (35,304,696)
Restricted	1,000,027	-
Unrestricted deficit	(2,631,590)	(3,168,115)
TOTAL FUND NET POSITION (DEFICIT)	<u>\$ (40,423,534)</u>	<u>\$ (38,472,811)</u>

Notes to the financial statements form an integral part of this statement.

Austin Bergstrom Landhost Enterprises, Inc.

Statements of Revenues, Expenses, And Changes In Fund Net Position

Years Ended December 31, 2016 And 2015

	<u>2016</u>	<u>2015</u>
Operating Revenue		
Rooms	\$ 11,174,898	\$ 11,611,819
Food and beverage	3,543,783	3,652,055
Other	2,134,553	2,243,051
Total Operating Revenue	<u>\$ 16,853,234</u>	<u>\$ 17,506,925</u>
Operating Expenses		
Costs of revenue		
Rooms	\$ 2,676,345	\$ 2,650,066
Food and beverage	1,590,616	1,675,993
Other	1,977,302	2,092,491
General and administrative	6,526,702	6,723,564
Depreciation	1,225,067	1,293,381
Total Operating Expenses	<u>\$ 13,996,032</u>	<u>\$ 14,435,495</u>
Operating Income	<u>\$ 2,857,202</u>	<u>\$ 3,071,430</u>
Non-operating Revenues (Expenses)		
Interest and other income	\$ 18,549	\$ 20,013
Interest expense	(4,826,474)	(4,610,449)
Net Non-operating Expenses	<u>\$ (4,807,925)</u>	<u>\$ (4,590,436)</u>
Change in Net Position	\$ (1,950,723)	\$ (1,519,006)
Fund Net Position (Deficit), Beginning of Year	<u>(38,472,811)</u>	<u>(36,953,805)</u>
Fund Net Position (Deficit), End of Year	<u>\$ (40,423,534)</u>	<u>\$ (38,472,811)</u>

Notes to the financial statements form an integral part of this statement.

Austin-Bergstrom Landhost Enterprises, Inc.

Statements of Cash Flows

Years Ended December 31, 2016 And 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Cash receipts from customers	\$ 17,147,429	\$ 17,456,163
Cash payments to employees for services	(3,963,068)	(3,806,001)
Cash payments to other suppliers for goods or services	(8,625,077)	(8,908,311)
Net Cash Provided by Operating Activities	<u>\$ 4,559,284</u>	<u>\$ 4,741,851</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of furniture, fixtures, and equipment	\$ (3,178)	\$ (65,686)
Payments on capital lease obligations	(25,291)	(23,427)
Interest paid	(4,076,573)	(4,483,495)
Advance from City of Austin	3,000,000	-
Net Cash Used in Capital and Related Financing Activities	<u>\$ (1,105,042)</u>	<u>\$ (4,572,608)</u>
Cash Flows from Investing Activities:		
Interest and dividend income	\$ 18,549	\$ 20,013
Net Cash Provided by Investing Activities	<u>\$ 18,549</u>	<u>\$ 20,013</u>
Net Increase in Cash and Cash Equivalents	\$ 3,472,791	\$ 189,256
Cash and Cash Equivalents, Beginning of Year	<u>1,985,022</u>	<u>1,795,766</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 5,457,813</u></u>	<u><u>\$ 1,985,022</u></u>
Reconciliation of Cash and Cash Equivalents, End of Year		
Cash and cash equivalents	\$ 289,661	\$ 333,285
Money Market Mutual Funds held by Trustee	2,168,152	1,651,737
Cash for Atrium Project	3,000,000	-
Cash and Cash Equivalents, End of Year	<u><u>\$ 5,457,813</u></u>	<u><u>\$ 1,985,022</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 2,857,202	\$ 3,071,430
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,225,067	1,293,381
Change in assets and liabilities:		
Decrease (increase) in accounts receivable, net	294,195	(50,762)
Decrease (increase) in prepaid expenses and other assets	32,230	(15,943)
Decrease (increase) in inventory	451	(6,435)
Increase (decrease) in hotel operations payable	(85,116)	59,524
Increase in accrued wages payable	23,132	23,816
Increase in accrued expenses and other liabilities	212,123	366,840
Net Cash Provided by Operating Activities	<u><u>\$ 4,559,284</u></u>	<u><u>\$ 4,741,851</u></u>
Non-cash financing		
Subordinate bond interest accretion	<u><u>\$ 2,251,814</u></u>	<u><u>\$ 2,032,769</u></u>

Notes to the financial statements form an integral part of this statement.

Austin-Bergstrom Landhost Enterprises, Inc.

Notes to the Financial Statements

NOTE 1: Summary of Significant Accounting Policies

ORGANIZATION

Austin-Bergstrom Landhost Enterprises, Inc. ("Company"), was incorporated on December 10, 1998, as a non-profit public benefit corporation. The Company has no members and is a non-stock corporation. It is organized under Texas Local Government Code, Chapter 303, for public purposes. The sponsor of the Company is the City of Austin, Texas which reports the Company as a discretely presented component unit as defined by the Governmental Accounting Standards Board ("GASB").

The specific purposes of the Company are:

- (a) To render financial or other assistance to the City of Austin, Texas by constructing and financing public facilities.
- (b) To borrow the necessary funds to pay the cost of constructing and financing public facilities.
- (c) To conduct its business and affairs so that the City of Austin will have a beneficial interest in the Company.
- (d) To receive limited or conditional grants or gifts in order to carry out the purposes of the Company.

Under the provisions as set forth above, the Company has financed the acquisition, construction and equipping of a hotel located at the Austin-Bergstrom International Airport. The hotel received a certificate of occupancy and opened for business on January 11, 2001.

The Company is not financially accountable for any other operations and accordingly is accounted for as a single enterprise fund with no component units.

GENERAL

The Company manages the operations of the Hilton Austin Airport Hotel.

Pursuant to a Facilities Lease Agreement dated as of June 4, 1998, as amended by a First Amendment dated as of December 9, 1998, the City of Austin leased the former Bergstrom Air Force Base command center and surrounding land (approximately 10 acres) to Landmark Hospitality, L.P. ("Landmark") who agreed to operate the leased premises offering appropriate accommodations for temporary or overnight use, functionally related and subordinate to the airport, and functionally related to the needs or convenience of the general public, including the airlines using the airport, their personnel, passengers and shipping companies. Landmark was to pay the greater of a minimum annual rent of \$78,401, or a percentage of Guest Room Revenues and Other Revenues for the first five rental years, after which the rent may be adjusted every five years. The current minimum annual rent as of December 31, 2016 is \$111,816.

On February 1, 1999, Landmark assigned the Facilities Lease Agreement, as amended, to the Company. At this time, Chase Bank of Texas National Association ("Chase") was designated as the Company's Trustee under the Indenture of Trust dated February 1, 1999, between Company and Chase.

On February 1, 1999, the Company, Chase and Landmark entered into a Project Development Agreement to complete the acquisition, construction, renovation and equipping of the hotel project.

Austin-Bergstrom Landhost Enterprises, Inc.

Notes to the Financial Statements

NOTE 1: Summary of Significant Accounting Policies (continued)

On February 17, 1999, the Company issued two series of bonds to finance the design, development and equipping of the airport hotel: the \$38,785,000 Austin-Bergstrom Landhost Enterprises, Inc. Airport Hotel Senior Revenue Bonds, Series 1999A, and the \$3,730,000 Austin-Bergstrom Landhost Enterprises, Inc. Airport Hotel Subordinate Revenue Bonds, Series 1999B. The bonds are limited obligations of the Company, and are payable solely from all revenues generated from the hotel, and from certain amounts held by the Trustee under the Indenture of Trust.

On February 26, 1999, the Company, on behalf of the City of Austin, contracted with Landmark for the management, operation and maintenance of the hotel. An affiliate of Landmark, Landmark Organization, L.P., served as the general contractor during construction, and the hotel opened in January 2001.

On February 26, 1999, Landmark subcontracted the operation and management of the hotel to Bristol Management, L.P., then a subsidiary of Bristol Hotels & Resorts, Inc. Prior to the opening of the hotel, Bristol Hotels and Resorts, Inc. and its subsidiaries were acquired by Bass, PLC of the United Kingdom, which subsequently changed its name to Six Continents, PLC. Bristol Management, L.P. ("Bristol") became an operating subsidiary of Six Continents PLC's U.S. subsidiary, Six Continents Hotels & Resorts, Inc. The hotel opened on January 11, 2001, and Bristol, under its new ownership, served as the operator of the hotel for the first nine months of 2001. On October 10, 2001, Landmark terminated the management contract with Bristol and entered into a new management agreement with DePalma Hotel Corporation ("DePalma") to manage the operations of the hotel. On December 30, 2003, Landmark terminated the management contract with DePalma and entered into a new management agreement with Boykin Enterprises Limited, L.L.C. ("Boykin") to manage the operations of the hotel.

Effective March 31, 2005, the Company terminated its management contract with Landmark. At the same time, the Management Agreement between Landmark and Boykin, and the License Agreement between Landmark and Hilton Inns were assigned to and assumed by the Company.

A Second Amendment to the Facilities Lease Agreement was executed between the Company and the City of Austin Department of Aviation, dated as of November 1, 2005, with an effective date of January 1, 2005. Also, a Second Supplemental Indenture was executed between the Company and Wells Fargo Bank, N.A., as Trustee ("Trustee"), dated as of November 1, 2005 and effective as of January 1, 2005. These amendments modified the terms relating to payment of rent and the default and termination provisions under the Facilities Lease, and the flow of funds under the Indenture of Trust.

A new Hotel Management Agreement between the Company and Boykin was executed in 2006 with an effective date of January 1, 2006. Under this agreement, Boykin serves as Manager of the hotel for a term of seven years (2006 through 2012). The Hotel Management Agreement was amended effective June 15, 2012 to extend the operating term to December 31, 2013. The Hotel Management Agreement was again amended, effective April 7, 2014, extending the operating term to June 30, 2014. The Agreement was later held over to September 30, 2014, and subsequently, month to month.

Austin-Bergstrom Landhost Enterprises, Inc.

Notes to the Financial Statements

NOTE 1: Summary of Significant Accounting Policies (continued)

By an Instrument of Removal and Appointment dated December 9, 2013, the majority bondholders removed Wells Fargo Bank, N.A., as Trustee, and appointed UMB Bank, n.a., as successor trustee (“Successor Trustee”) for the bonds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The Company meets the definition of a governmental entity as set forth in the American Institute of Certified Public Accountants’ Audit and Accounting Guide, *State and Local Governments*. The financial statements of the Company are prepared on the basis of an enterprise fund as defined by the GASB. Enterprise funds are used to account for any activity for which a fee is charged to external users for goods and services.

Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Company considers money market accounts and all highly liquid debt instruments with original maturities of three months or less from the date of purchase to be cash equivalents. At December 31, 2015, restricted cash consisted of escrow accounts maintained in accordance with the terms of the bonds discussed in Note 4. At December 31, 2016, restricted cash consisted of escrow accounts maintained in accordance with the terms of the bonds discussed in Note 4 and cash provided by, and to be reimbursed to, the City of Austin and restricted by contract for the Company’s Atrium Project.

INVESTMENTS

Effective January 1, 2016, the Company adopted GASB Statement No. 72, *Fair Value Measurement and Application* (“Statement No. 72”). Statement No. 72 addresses the accounting and reporting issues related to fair value of investments. The adoption of this standard did not have a significant impact on the Company's financial statements.

The Company invests funds in accordance with its bond indenture. Investments in debt and equity securities are carried at fair value. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Investments in money market mutual funds are measured using the fund’s current share price which is based on amortized cost. Investments in non-participating interest-earning investment contracts are carried at amortized cost.

INVENTORIES

Inventory consists primarily of food, beverage, and gift store items used in the operations of the hotel, and is stated at the lower of cost or market. Cost is determined using the first-in, first-out cost method.

REVENUE RECOGNITION

Revenue from rooms, food and beverage, and other hotel services are recognized when the service is rendered.

Austin-Bergstrom Landhost Enterprises, Inc.

Notes to the Financial Statements

NOTE 1: Summary of Significant Accounting Policies (continued)

DISCOUNT ON BONDS

Bond discounts are recorded as a reduction in bonds payable. These costs are amortized over the life of the related bonds using the straight-line method which approximates the effective interest method.

CLASSIFICATION OF OPERATING AND NON-OPERATING REVENUE AND EXPENSES

The Company defines operating revenues and expenses as those revenues and expenses generated by a specific program offering either a good or service. This definition is consistent with governmental accounting standards which define operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, non-capital financing, or investing activities. Operating expenses include personnel services, contractual services, commodities, other expenses (such as insurance), and depreciation. Revenues and expenses not fitting the above definitions are considered non-operating.

CAPITAL ASSETS

Buildings, furniture and fixtures, and operating equipment are stated at cost and depreciated on the straight-line method over the estimated useful lives of the assets. The Company has estimated the useful life of the building as 40 years, furniture and fixtures as seven years, and operating equipment as five years. The Company capitalizes the interest cost incurred on qualifying assets acquired with the proceeds of tax-exempt borrowings, less any interest earned on related investments acquired with the proceeds of tax-exempt borrowings, from the date of the borrowing until the assets are ready for their intended use. The Company records assets held under capital leases at the present value of future minimum lease payments at the inception of the lease, and depreciates such assets over the term of the lease.

INCOME TAXES

The Company has been organized as a public benefit corporation which is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3). As such, no provision for federal income taxes has been provided in the accompanying financial statements.

USE OF ESTIMATES

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the statement of net position and reported revenues and expenses for the period. Actual results could differ significantly from those estimates.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are recorded at the billed amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable and is determined based on historical write-off experience.

Austin-Bergstrom Landhost Enterprises, Inc.

Notes to the Financial Statements

NOTE 1: Summary of Significant Accounting Policies (continued)

COMPENSATED ABSENCES

Full time hourly associates of the management company are eligible for vacation. An associate's eligibility period is defined as the one year period concluding each year on the associate's anniversary date. Vacation days must be taken within the one year of time it is earned and cannot be carried over from year to year. As of December 31, 2016 and 2015, respectively, accrued compensated absences was \$115,011 and \$115,921.

NOTE 2: Cash and Investments

CASH AND CASH EQUIVALENTS

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At December 31, 2016 and 2015, the Company's demand deposits exceeded FDIC insured limits by approximately \$2,778,000 and \$11,000, respectively.

Cash and cash equivalents at December 31, 2016 and 2015, respectively, include \$2,168,152 and \$1,651,737 in cash and money market funds (Fidelity Treasury Fund at December 31, 2016 and 2015), that are not evidenced by securities that exist in physical or book entry form. Cash and cash equivalents consist of the following at December 31:

	2016	2015
Cash and cash equivalents	\$ 289,661	\$ 333,285
Restricted Cash and Cash Equivalents		
Restricted by bond indenture		
Revenue fund	\$ 1,168,126	\$ 1,616,666
Renewal and replacement fund	1,000,027	-
Senior debt service reserve fund	-	35,071
Total restricted by bond indenture	\$ 2,168,152	\$ 1,651,737
Other restricted		
Cash for Atrium Project	3,000,000	-
Total Restricted Cash and Cash Equivalents	\$ 5,168,152	\$ 1,651,737
Total Cash and Cash Equivalents	\$ 5,457,813	\$ 1,985,022

Austin-Bergstrom Landhost Enterprises, Inc.

Notes to the Financial Statements

NOTE 2: Cash and Investments (continued)

INVESTMENTS

The Company is allowed to invest available funds as specified by the bond indenture. The Company is not subject to the Texas Public Funds Investment Act, and does not have an investment policy other than its bond indenture.

The Company's investments, including restricted assets, at December 31, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Portigon Financial Services AG (formerly Westdeutsche Landesbank Giroz)		
Guaranteed interest contract (5.34%)		
Carrying Value	\$353,310	\$353,310
Amortized Cost	\$353,310	\$353,310

The total investments at December 31, 2016 and 2015, categorized by bond indenture funds, are \$353,310 in the senior debt service reserve fund.

Credit Risk. The Company's bond indenture does not limit credit risk. As of December 31, 2016 and 2015, the Fidelity money market mutual funds were rated AAAM by Standard and Poor's. The Portigon guaranteed interest contract is not rated.

Custodial Credit Risk. All of the Company's investments are insured, registered, or the Company's agent holds the securities in the Company's name. Therefore, the Company's investments are not exposed to custodial credit risk.

Concentration of Credit Risk. The Company's bond indenture does not limit concentration risk. As of December 31, 2016 and 2015, respectively, 86% and 82% of the Company's funds held by the trustee were invested in money market mutual funds. As of December 31, 2016 and 2015, respectively, 14% and 18% of the Company's funds held by the trustee were invested in a guaranteed interest contract.

Interest Rate Risk. The Company's bond indenture does not limit investment maturities. As of December 31, 2016 and 2015 respectively, the exposure to interest rate risk as measured by the specific identification method for the guaranteed interest contract was 10.3 years and 11.3 years.

Austin-Bergstrom Landhost Enterprises, Inc.

Notes to the Financial Statements

NOTE 3: Commitments

OPERATING LEASES

The Company has one operating lease with the City of Austin ("City") for the hotel property: the Facilities Lease Agreement dated as of June 4, 1998, as amended by a First Amendment dated as of December 9, 1998 and a Second Amendment dated as of November 1, 2005. Under the Facilities Lease, as amended, the Company shall pay the greater of an annual Minimum Rent or a percentage of guest room revenues and other revenues. The annual Minimum Rent shall be adjusted every five years based on changes in the Consumer Price Index ("CPI") for Urban consumers. The first five-year CPI adjustment occurred in 2004, the second in 2009, and the third in 2014. Effective May 2014, the annual Minimum Rent is \$111,816. The next adjustment date will occur in 2019.

For guest room revenues, if the hotel occupancy is 70% or less for the calendar quarter, then the Company is required to pay 3% of the guest room revenues to the City. If the occupancy is greater than 70% but less than 80% for the quarter, then 4% of the guest room revenues will be paid to the City. If the occupancy rate is 80% or more for the quarter, then 5% of guest room revenues will be paid to the City. The Company will also pay the City 5% of the gross revenues generated by the operations of restaurants, lounges, retail shops, and any other concession, including a parking concession. In addition, the City, at its option, may levy a late payment penalty against the Company because of nonpayment of rent.

Under the Facilities Lease as amended, effective January 1, 2005, 75% of the rent due under the lease, referred to as Priority Rent, is payable as an operating and maintenance expense. The remaining 25% of the rent due under the lease, referred to as Subordinated Rent, is payable after payment of 65% of the interest due and 100% of principal payments due on the Series 1999A Bonds, subject to availability of funds and the required flow of funds under the bond indenture as amended.

The default and termination provisions of the Facilities Lease were also revised under the second amendment to clarify certain ambiguities and conform to the amended indenture.

The Company had lease payments of \$1,720,677 and \$1,572,188 owed to the City in accrued expenses at December 31, 2016 and 2015, respectively. During 2016 and 2015, there were no payments made to the City from the flow of funds for Subordinated Rent, in accordance with the indenture as amended.

Rent expense for the operating lease during the years ended December 31, 2016 and 2015 was \$692,637 and \$746,455, respectively.

Austin-Bergstrom Landhost Enterprises, Inc.

Notes to the Financial Statements

NOTE 3: Commitments (continued)

CAPITAL LEASES

The Company entered into two capital leases for operating equipment effective April 1, 2014. The leases expire on April 1, 2017.

At December 31, 2016 and 2015, the gross amount of equipment and related accumulated depreciation recorded under capital leases was as follows:

	2016	2015
Operating equipment	\$ 109,784	\$ 109,784
Less accumulated depreciation	(100,635)	(64,041)
	<u>\$ 9,149</u>	<u>\$ 45,743</u>

Depreciation of assets held under capital leases is included with depreciation expense.

FUTURE MINIMUM LEASE PAYMENTS

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of December 31, 2016 are:

	Capital Leases	Operating Leases
Year Ending December 31:		
2017	\$ 6,716	\$ 111,816
2018	-	111,816
2019	-	111,816
2020	-	111,816
2021	-	111,816
2022 - 2026	-	559,078
2027 - 2030	-	400,672
Total Minimum Lease Payments	<u>\$ 6,716</u>	<u>\$ 1,518,830</u>
Less amount representing interest	<u>(85)</u>	
Present value of net minimum capital lease payments	\$ 6,631	
Less current installments of obligations under capital leases	<u>(6,631)</u>	
Obligations under capital leases, excluding current installments	<u>\$ -</u>	

Austin-Bergstrom Landhost Enterprises, Inc.

Notes to the Financial Statements

NOTE 4: Bonds Payable

Bonds payable consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
\$38,785,000 Airport Hotel Senior Revenue Bonds, Series 1999A, due April 1, 2027, interest at 6.75% per annum due semiannually, secured by all revenue of the Company and the Facilities Lease Agreement	\$ 37,935,000	\$ 37,935,000
\$3,730,000 Subordinate Revenue Bonds, Series 1999B, due and owing as of April 1, 2016, will continue to accrete interest at 10.5% per annum until they will be paid	23,149,098	20,897,284
	<u>\$ 61,084,098</u>	<u>\$ 58,832,284</u>
Less unamortized discount on bonds payable	(140,546)	(154,118)
Bond payable, net	<u><u>\$ 60,943,552</u></u>	<u><u>\$ 58,678,166</u></u>

The Series 1999A Bonds are subject to mandatory redemption at a price of 100%, plus accrued interest on April 1 in each year as set forth below:

Year April 1	Interest Payment	Principal Payment	Total Debt Service
2017	\$ 2,161,856	\$ 1,375,000	\$ 3,536,856
2018	2,062,463	1,570,000	3,632,463
2019	1,949,063	1,790,000	3,739,063
2020	1,820,306	2,025,000	3,845,306
2021	1,675,013	2,280,000	3,955,013
2022	1,511,494	2,565,000	4,076,494
2023	1,328,231	2,865,000	4,193,231
2024	1,123,706	3,195,000	4,318,706
2025	896,231	3,545,000	4,441,231
2026	643,781	3,935,000	4,578,781
2027	255,488	7,570,000	7,825,488
Total	<u>\$ 15,427,632</u>	<u>\$ 32,715,000</u>	<u>\$ 48,142,632</u>

Past due principal amounts (deferred by bondholders):

Due April 1, 2010	\$ 365,000
Due April 1, 2011	475,000
Due April 1, 2012	590,000
Due April 1, 2013	720,000
Due April 1, 2014	860,000
Due April 1, 2015	1,025,000
Due April 1, 2016	1,185,000
Total Past due principal:	<u>5,220,000</u>

Bonds payable, December 31, 2016 \$ 37,935,000

Austin-Bergstrom Landhost Enterprises, Inc.

Notes to the Financial Statements

NOTE 4: Bonds Payable (continued)

Series 1999A Bonds

The Series 1999A Bonds are subject to redemption at the option of the Company, in whole or in part, at any time on or after April 1, 2007, at a redemption price of 100%, plus accrued interest.

During 2004, two events of default were declared on the Series 1999A Bonds. These events related to failure to make monthly transfers as required to the senior debt service account and a draw on the debt service reserve account to make debt service due. From 2004, the events of default were continuing and additional events of default were declared during 2006 through 2014, for most semiannual debt service due dates. The events of default included failure to pay mandatory sinking fund payments and full interest due and owing on the bonds. Principal and interest amounts not paid continue to be an obligation of the Company, payable from future revenues in accordance with the bond indenture, as amended.

On September 30, 2015 as of January, 28, 2015, UMB Bank, n.a., Successor Trustee, issued a revised notice of partial payment of interest due and owing. A payment of \$1,280,000 for interest owed was made January 28, 2015. For the April 1, 2015 debt service due date, a mandatory sinking fund payment of principal of \$1,025,000 was due, plus semiannual interest of \$1,280,306 due on this date. UMB Bank, n.a., Successor Trustee, issued a revised notice of partial payment of interest due and owing dated September 30, 2015 as of April 1, 2015. No principal was paid in April 2015. Interest owed in the amount of \$1,100,000 was paid on April 1, 2015. On September 30, 2015 as of July, 1, 2015, UMB Bank, n.a., Successor Trustee, issued a revised notice of partial payment of interest. A payment of \$900,000 for interest owed was paid July 1, 2015. For the October 1, 2015 debt service due date, the successor trustee issued a notice of payment of current interest and partial payment of past due interest dated October 1, 2015. A payment of \$1,200,000 for interest owed was paid October 1, 2015. Interest payments on bonds in 2015 totaled \$4,480,000.

Since the events of default declared in 2004 and additional events of default declared in 2006 through 2015 were continuing as of December 31, 2015, the Series 1999A Bonds are classified as a current liability as of December 31, 2015. As of December 31, 2015, unpaid mandatory sinking fund payments of principal totaling \$4,035,000 and interest of \$3,191,574 continued to be due and owing.

On January 12, 2016, UMB Bank, n.a., Successor Trustee, issued a notice of partial payment of interest for a payment of \$1,200,000 for interest owed.

For the April 1, 2016 debt service due date, a mandatory sinking fund payment of principal of \$1,185,000 was due, plus semiannual interest. UMB Bank, n.a., Successor Trustee, issued a notice of nonpayment of interest or principal dated April 1, 2016. No principal was paid in 2016. On May 26, 2016, UMB Bank, n.a., Successor Trustee, issued a notice of partial payment of interest for a payment of \$1,800,000 for interest owed. On October 7, 2016, UMB Bank, n.a., Successor Trustee, issued a notice of partial payment of interest for a payment of \$1,075,000 for interest owed. In 2016, interest payments on bonds totaled \$4,075,000.

Since the events of default declared in 2004 and additional events of default declared in 2006 through 2016 were continuing as of December 31, 2016, the Series 1999A Bonds are classified as a current liability as of December 31, 2016. Unpaid mandatory sinking fund payments of principal for years 2010 through 2016 totaling \$5,220,000 and interest totaling \$1,676,109 continued to be due and owing as December 31, 2016.

Austin-Bergstrom Landhost Enterprises, Inc.

Notes to the Financial Statements

NOTE 4: Bonds Payable (continued)

Series 1999B Bonds

The Series 1999B bonds matured on April 1, 2016 but no payment was made. On April 1, 2016, the Successor Trustee issued a notice of nonpayment of principal on the Series 1999B bonds and stated the bonds will continue to accrue additional interest and remain due and owing beyond April 1, 2016. In accordance with the indenture, as long as any senior bonds remain outstanding, no event of default will exist or may be declared with respect to the subordinate bonds.

NOTE 5: Related Party Transactions

The Company contracted with Landmark to construct and manage the hotel. In accordance with the management agreement (see Note 1), Landmark was entitled to, to the extent funding was available, an annual management fee, payable in twelve equal payments, from the gross revenues earned by the hotel. Effective March 31, 2005, the Company terminated its management contract with Landmark, and the management agreement between Landmark and Boykin was assigned to and assumed by the Company.

A new Hotel Management Agreement between the Company and Boykin was later executed, effective January 1, 2006, for a term of seven years. The Hotel Management Agreement was amended in 2012, effective June 15, 2012, to extend the term of the agreement to December 31, 2013. The Hotel Management Agreement was again amended, effective April 7, 2014, extending the operating term to June 30, 2014. The Agreement was later held over to September 30, 2014, and subsequently, month to month.

The management fee expense for the years ended December 31, 2016 and 2015 was \$406,620 and \$398,652, respectively, in base management fees to Boykin.

In addition to the operating lease payments made to the City of Austin (Note 3), under the Series 1999A and 1999B Indenture of Trust (Notes 1 and 4), the City receives a fee of \$25,000 per calendar year. The Company's City of Austin fee expense for the years ended December 31, 2016 and 2015 was \$25,000 in each year.

Austin-Bergstrom Landhost Enterprises, Inc.

Notes to the Financial Statements

NOTE 6: Capital Assets

Capital assets consist of buildings, furniture and fixtures, and operating equipment, and are comprised of the following components at December 31:

	2015	Increases	Decreases	2016
Capital assets, being depreciated:				
Building	\$ 35,875,193	\$ -	\$ -	\$ 35,875,193
Furniture and fixtures	3,276,216	3,971	-	3,280,187
Operating equipment	1,619,402	4,211	(5,004)	1,618,609
Total capital assets being depreciated	<u>\$ 40,770,811</u>	<u>\$ 8,182</u>	<u>\$ (5,004)</u>	<u>\$ 40,773,989</u>
Less accumulated depreciation for:				
Building	\$ (13,378,457)	\$ (896,880)	\$ -	\$ (14,275,337)
Furniture and fixtures	(2,792,265)	(196,487)	-	(2,988,752)
Operating equipment	(1,226,619)	(131,700)	-	(1,358,319)
Total accumulated depreciation	<u>\$ (17,397,341)</u>	<u>\$ (1,225,067)</u>	<u>\$ -</u>	<u>\$ (18,622,408)</u>
Total capital assets being depreciated, net	<u>\$ 23,373,470</u>	<u>\$ (1,216,885)</u>	<u>\$ (5,004)</u>	<u>\$ 22,151,581</u>
Capital assets, net	<u>\$ 23,373,470</u>	<u>\$ (1,216,885)</u>	<u>\$ (5,004)</u>	<u>\$ 22,151,581</u>

	2014	Increases	Decreases	2015
Capital assets, being depreciated:				
Building	\$ 35,875,193	\$ -	\$ -	\$ 35,875,193
Furniture and fixtures	3,276,216	-	-	3,276,216
Operating equipment	1,553,716	103,136	(37,450)	1,619,402
Total capital assets being depreciated	<u>\$ 40,705,125</u>	<u>\$ 103,136</u>	<u>\$ (37,450)</u>	<u>\$ 40,770,811</u>
Less accumulated depreciation for:				
Building	\$ (12,481,577)	\$ (896,880)	\$ -	\$ (13,378,457)
Furniture and fixtures	(2,531,646)	(260,619)	-	(2,792,265)
Operating equipment	(1,090,737)	(135,882)	-	(1,226,619)
Total accumulated depreciation	<u>\$ (16,103,960)</u>	<u>\$ (1,293,381)</u>	<u>\$ -</u>	<u>\$ (17,397,341)</u>
Total capital assets being depreciated, net	<u>\$ 24,601,165</u>	<u>\$ (1,190,245)</u>	<u>\$ (37,450)</u>	<u>\$ 23,373,470</u>
Capital assets, net	<u>\$ 24,601,165</u>	<u>\$ (1,190,245)</u>	<u>\$ (37,450)</u>	<u>\$ 23,373,470</u>

Austin-Bergstrom Landhost Enterprises, Inc.

Notes to the Financial Statements

NOTE 7: Long-Term Obligations

The following is a summary of changes in long-term obligations for the years ended December 31, 2016 and 2015, with amounts due within one year as of December 31, 2016 and 2015.

	12/31/15	Increases	Decreases	12/31/16	Amount Due Within One Year
Senior bonds payable	\$ 37,780,882	\$ 13,572	\$ -	\$ 37,794,454	\$ 37,794,454
Subordinate bonds payable	20,897,284	2,251,814	-	23,149,098	23,149,098
Capital lease obligation	31,922	-	(25,291)	6,631	6,631
Total long-term obligations	<u>\$ 58,710,088</u>	<u>\$ 2,265,386</u>	<u>\$ (25,291)</u>	<u>\$ 60,950,183</u>	<u>\$ 60,950,183</u>

	12/31/14	Increases	Decreases	12/31/15	Amount Due Within One Year
Senior bonds payable, net	\$ 37,767,310	\$ 13,572	\$ -	\$ 37,780,882	\$ 37,780,882
Subordinate bonds payable	18,864,515	2,032,769	-	20,897,284	20,897,284
Capital lease obligation	55,349	-	(23,427)	31,922	25,291
Total long-term obligations	<u>\$ 56,687,174</u>	<u>\$ 2,046,341</u>	<u>\$ (23,427)</u>	<u>\$ 58,710,088</u>	<u>\$ 58,703,457</u>

NOTE 8: General and Administrative Expense

The following are the major components of general and administrative expenses of the Company for the years ended December 31:

	2016	2015
Sales and marketing	\$ 653,878	\$ 642,293
Utilities	747,792	820,837
Professional services	164,717	357,506
City of Austin percentage rent	692,637	746,455
City of Austin fee	25,000	25,000
Property operations and maintenance	371,332	437,972
Hotel labor	2,308,308	2,122,776
Boykin management fees	406,620	398,652
Insurance	214,458	183,302
General and administrative (other)	941,960	988,771
	<u>\$ 6,526,702</u>	<u>\$ 6,723,564</u>

Austin-Bergstrom Landhost Enterprises, Inc.

Notes to the Financial Statements

NOTE 9: Going Concern

As described in Note 4, the Company has been notified of several events of default by the Trustee and Successor Trustee. Thus, the Series 1999A Bonds may be declared currently due and payable by the Company on demand of the Successor Trustee by a majority vote of the bondholders. Since the Company has deficits in fund net position of \$40,423,534 and \$38,472,811 as of December 31, 2016 and 2015, respectively, the Company appears to have no financial means to satisfy this remedy under the Indenture of Trust if elected by the bondholders. Under the Indenture of Trust, the Bonds are secured by both the revenues of the hotel and the Facilities Lease Agreement (the "Lease") between the City of Austin and the Company as discussed in Notes 1, 3 and 4. Following a majority vote by the bondholders, the Successor Trustee has the ability to foreclose on the Lease and assume its rights for the benefit of the bondholders. In this event, the Company would likely discontinue as a going concern.

The majority bondholders have not yet elected any of the possible remedies available under the indenture of trust. Management is in the process of executing a plan with bond counsel and financial advisors to refund the outstanding Series 1999 bonds.

NOTE 10: Atrium Project

In 2015, non-toxic mold was identified in the hotel atrium. Mold remediation is estimated to cost \$4 million which includes replacing the heating, ventilating, and air conditioning system, skylight and stucco repairs, and other related mechanical repairs ("Atrium Project").

On August 19, 2016, the City of Austin, the Company, the majority bondholders, and the Successor Trustee executed a letter of intent that provided for the funding and performance of repairs related to the Atrium Project. Under this agreement, 75% of the costs of the project will be funded by the Company and 25% of the costs will be funded from the Company's Renewal and Replacement Fund trust account.

On August 25, 2016, the Company and the City executed an agreement for a \$3 million advance by the City to the Company for the Atrium Project and \$3 million cash was subsequently provided. This cash is restricted for use for the Atrium Project. The Atrium Project is currently underway with the Project Manager selected and on April 4, 2017, a design-build contract was executed.

NOTE 11: Risk Management

The Company is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions, natural disasters, and job-related injuries or illnesses to employees.

The Company does not participate in a risk pool but purchases commercial insurance coverage for property loss or damage.

APPENDIX G

AUDITED FINANCIAL STATEMENTS OF THE CITY OF AUSTIN, TEXAS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of discretely presented component units which represents 100% of the assets and net position, and 99.8% of revenues of the discretely presented component units. Those statements were audited by other auditors whose reports, one of which (Austin Bergstrom Landhost Enterprises) contains an emphasis of matter paragraph related to a going concern issue, have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Austin, Texas, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Deloitte & Touche LLP

March 10, 2017



The Management's Discussion and Analysis (MD&A) section of the City of Austin's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016.

The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 73, No. 76, No. 79, and No. 82.

FINANCIAL HIGHLIGHTS

Government-wide financial statements

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

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

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

Total revenues for the City increased \$255.2 million; revenues for governmental activities increased \$106.4 million; revenues for business-type activities increased \$148.8 million. Total expenses for the City increased \$216.3 million; expenses for governmental activities increased \$168.3 million; expenses for business-type activities increased \$48 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, consisting of three components:

- government-wide financial statements,
- fund financial statements, and
- notes to the financial statements.

This report also contains required supplementary information in addition to the basic financial statements.

a -- Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner comparable to a private-sector business. The two government-wide financial statements are, as follows:

- The **Statement of Net Position** presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Austin is improving or deteriorating.
- The **Statement of Activities** presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues for uncollected taxes and expenses for future general obligation debt payments. The statement includes the annual depreciation for infrastructure and governmental assets.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; and urban growth management. The business-type activities include electric, water, wastewater, airport, convention, environmental and health services, public recreation, and urban growth management.

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

The government-wide financial statements include the City as well as blended component units: the Austin Housing Finance Corporation (AHFC), the Austin Industrial Development Corporation (AIDC), Mueller Local Government Corporation (MLGC), Austin-Bergstrom International Airport (ABIA) Development Corporation, and the Urban Renewal Agency (URA). The operations of AHFC, AIDC, MLGC, ABIA, and URA are included within the governmental activities of the government-wide financial statements. AHFC is reported as the Housing Assistance Fund. Although legally separate from the City, these component units are blended with the City because of their governance or financial relationships to the City.

The government-wide financial statements also include three discretely presented component units: Austin-Bergstrom Landhost Enterprises, Inc. (ABLE), Austin Convention Enterprises, Inc. (ACE), and Waller Creek Local Government Corporation (WCLGC). These entities are legally separate entities that do not meet the GASB reporting requirements for inclusion as part of the City's operations; therefore, data from these units are shown separately from data of the City. More information on these entities can be found in the notes to the financial statements, including how to get a copy of separately audited financial statements for ACE and ABLE. WCLGC activities are recorded in the City's financial system and City staff prepares the financial reports for this entity.

b -- Fund financial statements

The fund financial statements are designed to report information about groupings of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental, proprietary, and fiduciary funds. Within the governmental and proprietary categories, the emphasis is on the major funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds. These funds focus on current sources and uses of liquid resources and on the balances of available resources at the end of the fiscal year. This information may be useful in determining what financial resources are available in the near term to finance the City's future obligations.

Because the focus of governmental fund level statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide statements. In addition to the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balance, separate statements are provided that reconcile between the government-wide and fund level financial statements.

The City's General Fund is reported as a major fund and information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances. In addition, the City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects, and permanent funds). Data from these governmental funds are combined into a single column labeled nonmajor governmental funds. Individual fund data for the funds is provided in the form of combining statements in the supplementary section of this report.

Proprietary funds. Proprietary funds are generally used to account for services for which the City charges customers – either outside customers or internal units or departments of the City. Proprietary fund statements provide the same type of information shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of three of the City's major funds, Austin EnergyTM, Austin Water Utility, and Austin-Bergstrom International Airport (Airport), as well as the nonmajor enterprise funds.
- Internal Service funds are used to report activities that provide supplies and services for many City programs and activities. The City's internal service funds include: Capital Projects Management; Combined Transportation, Emergency and Communications Center (CTECC); Employee Benefits; Fleet Maintenance; Information Systems; Liability Reserve; Support Services; Wireless Communication; and Workers' Compensation. Because these services predominantly benefit governmental operations rather than business-type functions, they have been included in governmental activities in the government-wide financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

The nonmajor enterprise funds and the internal service funds are combined into separately aggregated presentations in the proprietary fund financial statements. Individual fund data for the funds are provided in the form of combining statements in the supplementary section of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside City government. Since the resources of fiduciary funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting policies applied to fiduciary funds are much like those used for proprietary funds.

Comparison of government-wide and fund financial components. The following chart compares how the City's funds are included in the government-wide and fund financial statements:

<u>Fund Types/Other</u>	<u>Government-wide</u>	<u>Fund Financials</u>
General Fund	Governmental	Governmental - Major
Special revenue funds	Governmental	Governmental - Nonmajor
Debt service funds	Governmental	Governmental - Nonmajor
Capital projects funds	Governmental	Governmental - Nonmajor
Permanent funds	Governmental	Governmental - Nonmajor
Internal service funds	Governmental	Proprietary
Governmental capital assets, including infrastructure assets	Governmental	Excluded
Governmental liabilities not expected to be liquidated with available expendable financial resources	Governmental	Excluded
Austin Energy	Business-type	Proprietary - Major
Austin Water Utility	Business-type	Proprietary - Major
Airport	Business-type	Proprietary - Major
Convention	Business-type	Proprietary - Nonmajor
Environmental and health services	Business-type	Proprietary - Nonmajor
Public recreation	Business-type	Proprietary - Nonmajor
Urban growth management	Business-type	Proprietary - Nonmajor
Fiduciary funds	Excluded	Fiduciary
Discrete component units	Discrete component units	Excluded

Basis of reporting -- The government-wide statements and fund-level proprietary statements are reported using the flow of economic resources measurement focus and the full accrual basis of accounting. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

c -- Notes to the financial statements

The notes to the financial statements provide additional information that is essential to fully understanding the data provided in the government-wide and fund financial statements.

d -- Other information

The Required Supplementary Information (RSI) section immediately follows the basic financial statements and related notes section of this report. The City adopts an annual appropriated budget for the General Fund plus nine separately budgeted activities, all of which comprise the General Fund for GAAP reporting. RSI provides a comparison of revenues, expenditures and other financing sources and uses to budget and demonstrates budgetary compliance. In addition, trend information related to the City's retirement and other postemployment benefits plans is presented in RSI. Following the RSI are other statements and schedules, including the combining statements for nonmajor governmental and enterprise funds, internal service funds, and fiduciary funds.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net position

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

	Condensed Statement of Net Position as of September 30 (in thousands)					
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current assets	\$ 620,994	688,543	1,451,381	1,339,775	2,072,375	2,028,318
Capital assets	2,898,442	2,792,395	7,692,806	7,446,085	10,591,248	10,238,480
Other noncurrent assets	138,151	1,488	1,797,435	1,644,741	1,935,586	1,646,229
Total assets	<u>3,657,587</u>	<u>3,482,426</u>	<u>10,941,622</u>	<u>10,430,601</u>	<u>14,599,209</u>	<u>13,913,027</u>
Deferred outflows of resources	393,054	167,627	413,338	313,209	806,392	480,836
Current liabilities	333,146	324,557	532,423	489,483	865,569	814,040
Noncurrent liabilities	3,077,582	2,661,982	6,002,049	5,923,535	9,079,631	8,585,517
Total liabilities	<u>3,410,728</u>	<u>2,986,539</u>	<u>6,534,472</u>	<u>6,413,018</u>	<u>9,945,200</u>	<u>9,399,557</u>
Deferred inflows of resources	7,009	1,464	1,142,181	904,455	1,149,190	905,919
Net position:						
Net investment in capital assets	1,719,704	1,645,359	2,250,698	2,223,964	3,970,402	3,869,323
Restricted	124,695	133,984	690,459	642,052	815,154	776,036
Unrestricted (deficit)	<u>(1,211,495)</u>	<u>(1,117,293)</u>	<u>737,150</u>	<u>560,321</u>	<u>(474,345)</u>	<u>(556,972)</u>
Total net position	<u>\$ 632,904</u>	<u>662,050</u>	<u>3,678,307</u>	<u>3,426,337</u>	<u>4,311,211</u>	<u>4,088,387</u>

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

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

The most significant factor in the increase of business-type total assets is related to growth in capital assets of \$246.7 million or 48.3% of the increase in business-type total assets. The primary factors in the increase in business-type total liabilities of \$121.5 million include a decrease in long term debt of \$89.6 million and an increase in the net pension liability of \$189 million.

As noted earlier, net position may serve as a useful indicator of a government's financial position. For the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4.3 billion at the end of the current fiscal year. However, the largest portion of the City's net position is represented in the net investment in capital assets (e.g. land, buildings, and equipment offset by related debt), which is \$4 billion, or 92.1% of the total amount of the City's net position. The City uses these capital assets to provide services to citizens. Capital assets are generally not highly liquid; consequently, they are not considered future available resources. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion, \$815.2 million of the City's net position, represents resources that are subject to external restrictions on how they may be used in the future. The remaining balance is a deficit of \$474.3 million of unrestricted net position. Unrestricted net position decreased \$82.6 million in the current fiscal year.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for business-type activities. However, governmental activities as well as the government as a whole report a deficit of \$1.2 billion and \$474.3 million for unrestricted net position, respectively.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

b -- Changes in net position

Condensed Statement of Changes in Net Position						
September 30						
(in thousands)						
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program revenues:						
Charges for services	\$ 182,045	160,708	2,411,212	2,296,132	2,593,257	2,456,840
Operating grants and contributions	47,430	45,470	739	1,039	48,169	46,509
Capital grants and contributions	95,486	70,484	144,139	110,580	239,625	181,064
General revenues:						
Property tax	507,485	476,439	--	--	507,485	476,439
Sales tax	212,634	204,029	--	--	212,634	204,029
Franchise fees and gross receipts tax	147,773	141,368	--	--	147,773	141,368
Interest and other	41,708	21,951	10,936	10,498	52,644	32,449
Special item - land sale	4,309	11,983	--	--	4,309	11,983
Total revenues	1,238,870	1,132,432	2,567,026	2,418,249	3,805,896	3,550,681
Program expenses:						
General government	177,302	131,993	--	--	177,302	131,993
Public safety	657,846	601,112	--	--	657,846	601,112
Transportation, planning, and sustainability	66,739	77,349	--	--	66,739	77,349
Public health	100,195	85,326	--	--	100,195	85,326
Public recreation and culture	147,191	134,567	--	--	147,191	134,567
Urban growth management	179,081	135,386	--	--	179,081	135,386
Interest on debt	61,500	55,855	--	--	61,500	55,855
Electric	--	--	1,226,585	1,203,729	1,226,585	1,203,729
Water	--	--	244,907	294,624	244,907	294,624
Wastewater	--	--	237,450	219,320	237,450	219,320
Airport	--	--	135,860	120,015	135,860	120,015
Convention	--	--	63,796	65,657	63,796	65,657
Environmental and health services	--	--	102,994	97,690	102,994	97,690
Public recreation	--	--	8,266	8,824	8,266	8,824
Urban growth management	--	--	173,360	135,360	173,360	135,360
Total expenses	1,389,854	1,221,588	2,193,218	2,145,219	3,583,072	3,366,807
Excess (deficiency) before transfers	(150,984)	(89,156)	373,808	273,030	222,824	183,874
Transfers	121,838	70,865	(121,838)	(70,865)	--	--
Increase (decrease) in net position	(29,146)	(18,291)	251,970	202,165	222,824	183,874
Beginning net position, as previously reported	662,050	1,308,194	3,426,337	3,328,362	4,088,387	4,636,556
Restatement adjustment	--	(627,853)	--	(104,190)	--	(732,043)
Beginning net position, as restated	662,050	680,341	3,426,337	3,224,172	4,088,387	3,904,513
Ending net position	\$ 632,904	662,050	3,678,307	3,426,337	4,311,211	4,088,387

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

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

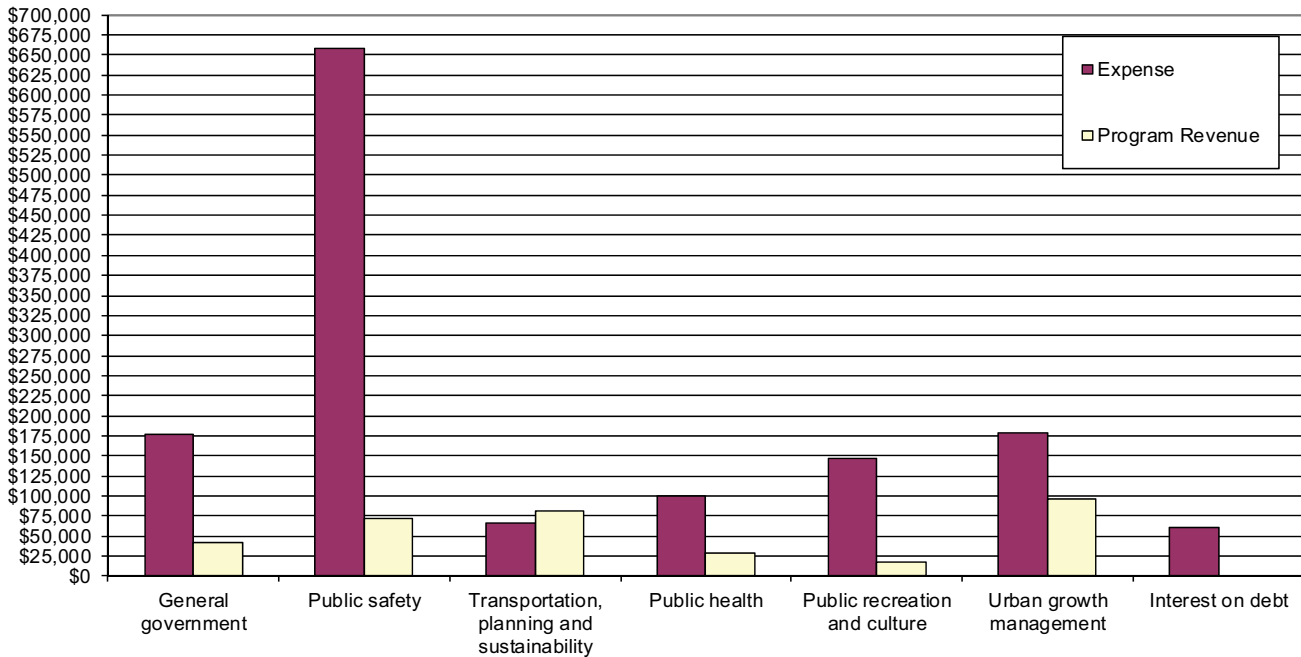
c -- Program revenues and expenses -- governmental activities

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

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

The chart below illustrates the City's governmental expense and revenues by function: general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; urban growth management; and interest on debt.

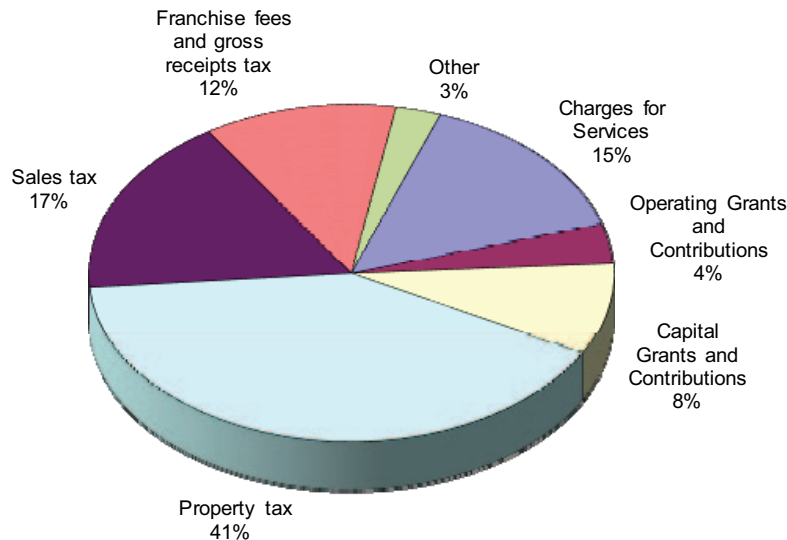
**Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)**



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

General revenues such as property taxes, sales taxes, and franchise fees are not shown by program, but are used to support all governmental activities. Property taxes are the largest source of governmental revenues, followed by sales taxes and charges for goods and services.

Government-wide Revenues by Source -- Governmental Activities



d -- Program revenues and expenses -- business-type activities

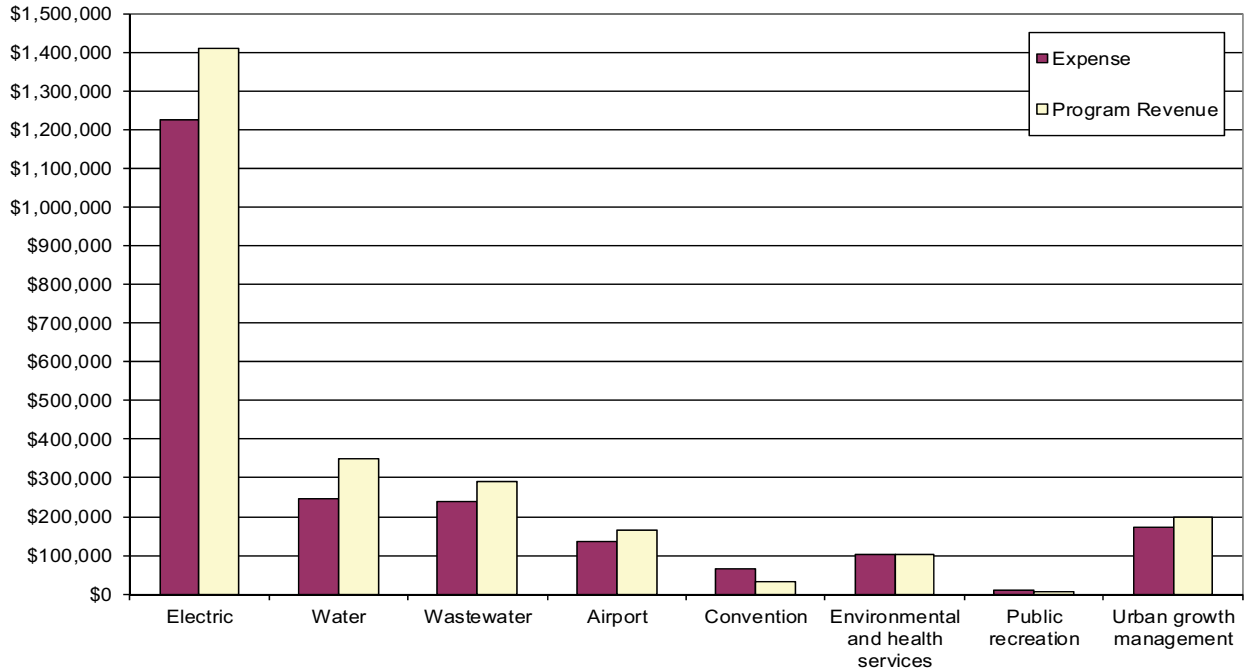
Business-type activities increased the City's net position by approximately \$252 million, accounting for a 7.4% increase in the City's total net position. Key factors include:

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

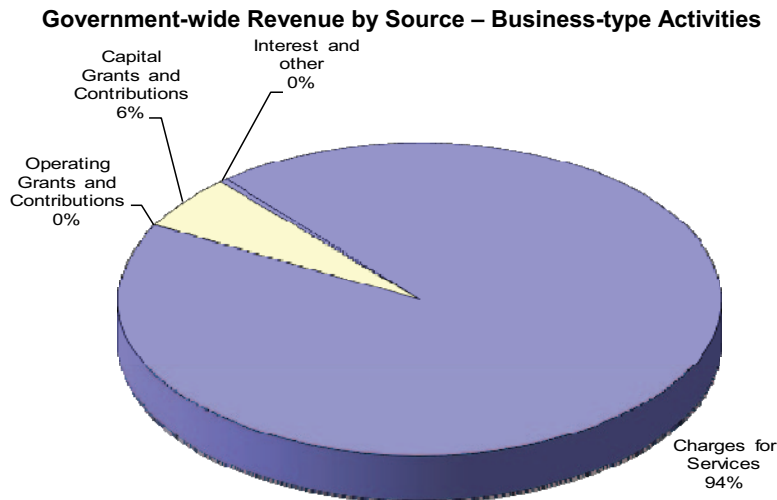
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

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



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



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

a -- Governmental funds

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

At the end of the fiscal year, the City of Austin's governmental funds reported combined ending fund balances of \$483.9 million, an increase of \$65.3 million from the previous year. Approximately \$1.6 million is nonspendable, \$186.4 million is restricted, \$42.5 million is committed, \$136.5 million is assigned, and \$116.9 million is unassigned.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the General Fund reported nonspendable fund balance of \$0.5 million, assigned fund balance of \$28.7 million, and unassigned fund balance of \$131.7 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 14.1% of total General Fund expenditures of \$932.2 million, and total fund balance represents 17.3% of expenditures. The City's financial policies provide that surplus fund balance be identified for budget stabilization. This amount is a component of unassigned fund balance. The fund balance identified for budget stabilization was \$70.9 million. The balance identified for budget stabilization may be appropriated to fund capital or other one-time expenditures in the subsequent fiscal year, but such appropriation will not normally exceed one-third of the total identified amount, with the other two-thirds identified for budget stabilization in future years.

The fund balance of the General Fund decreased \$16.2 million during the fiscal year. Significant differences from the previous year include:

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

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

b -- Proprietary funds

The City's proprietary funds provide the same type of information found in the business-type activities of the government-wide financial statements, but in more detail. Overall, net position of the City's enterprise funds increased by \$248.2 million before consolidation of the internal service funds activities.

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

OTHER INFORMATION

a -- General Fund budgetary highlights

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

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

OTHER INFORMATION, continued

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

b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2016, total \$10.6 billion (net of accumulated depreciation and amortization). Capital assets include buildings and improvements, equipment, vehicles, electric plant, non-electric plant, nuclear fuel, water rights, infrastructure, land, construction in progress, and plant held for future use. The total increase in the City's capital assets for the current fiscal year was \$352.8 million, with an increase of 3.8% for governmental activities and an increase of 3.3% for business-type activities. Additional information on capital assets can be found in Note 5. Capital asset balances are as follows:

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Building and improvements	\$ 551	550	1,776	1,649	2,327	2,199
Plant and equipment	74	77	2,321	2,306	2,395	2,383
Vehicles	50	47	81	82	131	129
Electric plant	--	--	2,222	2,219	2,222	2,219
Non-electric plant	--	--	144	138	144	138
Nuclear fuel	--	--	47	47	47	47
Water rights	--	--	83	84	83	84
Infrastructure	1,581	1,451	--	--	1,581	1,451
Land and improvements	374	368	651	594	1,025	962
Construction in progress	241	272	341	300	582	572
Plant held for future use	--	--	23	23	23	23
Other assets not depreciated	27	27	4	4	31	31
Total net capital assets	\$ 2,898	2,792	7,693	7,446	10,591	10,238

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

- Governmental capital assets increased \$106 million primarily due to additions of new facilities and improvements to existing facilities. Significant additions and improvements were also made including acquisitions of parkland, upgrades to information technology equipment, pedestrian facility improvements, and street reconstructions across the City. Construction on the new Central Library and Waller Creek Tunnel has progressed throughout the fiscal year.
- Business-type activities purchased, constructed or received capital asset contributions of \$246.7 million. Asset additions included a \$151 million of Airport assets with the October 2015 opening of the Consolidated Rental Car Facility (CONRAC) and continued work on terminal and apron expansion projects. Additionally, the Drainage Fund continued to acquire properties at risk of flooding in Onion Creek.

OTHER INFORMATION, continued

c -- Debt administration

At the end of the current fiscal year, the City reported \$6.2 billion in outstanding debt. The table below reflects the outstanding debt at September 30. Additional information can be found in Note 6.

**Outstanding Debt
General Obligation and Revenue Debt
(in millions)**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation bonds and other tax supported debt, net	\$ 1,376	1,298	136	133	1,512	1,431
Commercial paper notes, net	--	--	130	200	130	200
Revenue bonds, net	--	--	4,579	4,601	4,579	4,601
Capital lease obligations	--	--	1	1	1	1
Total	\$ 1,376	1,298	4,846	4,935	6,222	6,233

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

- Bond debt for governmental activities increased by \$77.3 million. The resulting net increase is a combination of the issuance of \$315.8 million in new debt to be used primarily for facility improvements, streets and signals, drainage improvements, watershed home buyouts, central library, parks and recreation, capital equipment, transportation projects, affordable housing and the Waller Creek Tunnel project, offset by debt payments during the year.
- Outstanding debt for business-type functions decreased by \$89.6 million. The City issued \$247.8 million in Water and Wastewater System separate lien revenue refunding bonds to refund separate lien debt, offset by debt payments during the year and the defeasance of \$13.6 million in Water and Wastewater combined utility system revenue bonds and separate lien bonds.

The City's commercial paper ratings are related to the ratings of the liquidity providers associated with those obligations; commercial paper ratings were unchanged in the current fiscal year. All other bond ratings were unchanged. Ratings of the City's obligations for various debt instruments at September 30, 2016 and 2015 were as follows:

Debt	Moody's Investors Service, Inc.		Standard & Poor's		Fitch, Inc.	
	2016	2015	2016	2015	2016	2015
General obligation bonds and other tax supported debt	Aaa	Aaa	AAA	AAA	AAA	AAA
Commercial paper notes - tax exempt	P-1	P-1	A-1	A-1	F1	F1
Commercial paper notes - taxable	P-1	P-1	A-1	A-1	F1	F1
Utility revenue bonds - prior lien	Aa1	Aa1	AA+	AA+	AA	AA
Utility revenue bonds - subordinate lien	Aa2	Aa2	AA	AA	AA-	AA-
Utility revenue bonds - separate lien:						
Austin Energy	A1	A1	AA-	AA-	AA-	AA-
Austin Water Utility	Aa2	Aa2	AA	AA	AA-	AA-
Airport system revenue bonds	A1	A1	A	A	NUR (1)	NUR (1)
Convention Center revenue bonds	Aa3	Aa3	AA-	AA-	NUR (1)	NUR (1)
Convention Center revenue bonds - subordinate	A1	A1	A	A	NUR (1)	NUR (1)

(1) No underlying rating

OTHER INFORMATION, continued

d -- Economic factors and next year's budget and rates

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

The City's 2017 budget was developed in a manner true to the City Manager's unwavering commitment to openness, transparency, and public engagement. Input from City Council, City employees, and citizens played a major role in the development of a variety of structural applications designed to positively affect our City's fiscal sustainability over the long term and present a balanced budget for City Council's review. The Austin City Council has adopted a comprehensive set of financial policies to provide the foundation for long-range financial sustainability. These financial policies are directly aligned with the Council's priority of budget stability while at the same time maintaining affordability and investing in future economic development, infrastructure needs, and quality of life. These policies are also crucial in maintaining the City's favorable bond ratings. City management continues to monitor the economy and take corrective actions to help mitigate any unfavorable economic events.

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

e -- Requests for Information

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







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

City of Austin, Texas
Exhibit A-1

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

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

(Continued)

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

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

City of Austin, Texas
Exhibit A-1
(Continued)

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

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

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

Statement of Activities
For the year ended September 30, 2016
(In thousands)

City of Austin, Texas
Exhibit A-2

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

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



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

**City of Austin, Texas
Exhibit B-1**

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

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

Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2016
(In thousands)

City of Austin, Texas
Exhibit B-1.1

Total fund balances - Governmental funds \$ 483,919

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.

Governmental capital assets	4,465,271	
Less: accumulated depreciation	(1,630,063)	
		2,835,208

Other long-term assets and certain revenues are not available as current-period resources and are not reported in the funds.

Other assets	1,428	
		1,428

Deferred outflows represent the consumption of net position that are applicable to a future reporting period.

Deferred outflow of resources	392,923	
		392,923

Long-term liabilities are not payable in the current period and are not reported in the funds.

Compensated absences	(127,329)	
Interest payable	(8,290)	
Bonds and other tax supported debt payable, net	(1,373,057)	
Net pension liability	(1,125,290)	
Other postemployment benefits payable	(537,840)	
Other liabilities	(15,507)	
		(3,187,313)

Deferred inflows represent an acquisition of net position that is applicable to a future reporting period.

Unavailable revenue		
Property taxes and interest	11,557	
Accounts and other taxes receivable	12,791	
Pension actuarial experience deferral	(7,005)	
		17,343

Internal service funds are used by management to charge the costs of capital project management, combined emergency communication center, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds.

Certain assets, deferred outflows of resources, liabilities and deferred inflows of resources of the internal service funds are included in governmental activities in the statement of net position.

89,396

Total net position - Governmental activities		\$ 632,904

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

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended September 30, 2016
(In thousands)

City of Austin, Texas
Exhibit B-2

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

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

Governmental Funds
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
For the year ended September 30, 2016
(In thousands)

City of Austin, Texas
Exhibit B-2.1

Net change in fund balances - Governmental funds \$ 65,314

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	113,962	
Depreciation expense	(113,836)	
Loss on disposal of capital assets	<u>(259)</u>	(133)

Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.

Property taxes	(1,619)	
Charges for services	311	
Interest and other	3,605	
Capital asset contributions	<u>71,408</u>	73,705

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of long-term debt	(156,181)	
Principal repayment on long-term debt	80,859	
Issuance of refunding bonds	(139,690)	
Refunding bond premiums	(19,899)	
Payment to refunding bond escrow agent	<u>159,589</u>	(75,322)

Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.

Compensated absences	(4,600)	
Pensions	(67,450)	
Other postemployment benefits	(52,986)	
Interest and other	<u>33,999</u>	(91,037)

A portion of the net revenue (expense) of the internal service funds is reported with the governmental activities. (1,673)

Change in net position - Governmental activities \$ (29,146)

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

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

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

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

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
ASSETS			
Current assets:			
Cash	32	61	12
Pooled investments and cash	236,656	716,491	130,576
Pooled investments and cash - restricted	12,388	107,405	1,999
Total pooled investments and cash	249,044	823,896	132,575
Investments - restricted	10,678	181,427	--
Cash held by trustee - restricted	--	--	1,558
Working capital advances	--	1,982	--
Accounts receivable, net of allowance	19,160	235,836	9,242
Receivables from other governments	--	--	340
Receivables from other governments-restricted	1,280	8,412	--
Due from other funds	1,732	2,655	1,005
Inventories, at cost	3,045	87,145	1,837
Regulatory assets, net of accumulated amortization	--	52,556	--
Prepaid expenses	119	9,745	542
Other receivables - restricted	29	728	--
Other assets	--	15,012	--
Total current assets	285,119	1,419,455	147,111
Noncurrent assets:			
Cash - restricted	--	4,972	--
Pooled investments and cash - restricted	24,771	556,545	--
Advances to other funds	--	20,936	42
Advances to other funds - restricted	370	421	--
Investments - restricted	13,305	285,824	--
Investments held by trustee - restricted	--	228,310	--
Interest receivable - restricted	--	528	--
Depreciable capital assets, net	363,917	6,673,948	62,618
Nondepreciable capital assets	291,777	1,018,858	616
Derivative instruments - energy risk management	--	1,921	--
Regulatory assets, net of accumulated amortization	--	696,309	--
Other receivables - restricted	--	9,744	--
Other long-term assets	--	13,282	--
Total noncurrent assets	694,140	9,511,598	63,276
Total assets	979,259	10,931,053	210,387
Deferred outflows of resources	87,670	413,338	131

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

(Continued)

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

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

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

(Continued)

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

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

(Continued)

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

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

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

(Continued)

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

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

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the year ended September 30, 2016
(In thousands)

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

(Continued)

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

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

(Continued)

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

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

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

(Continued)

	<u>Business-Type Activities</u>		<u>Governmental Activities- Internal Service Funds</u>
	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Capital appreciation bonds interest accreted	--	(9,361)	--
Capital assets contributed from other funds	9,060	9,092	19,928
Capital assets contributed to other funds	(42,418)	(43,408)	(224)
Capital assets acquired through service concession arrangements	--	151,565	--
Contributed facilities	--	42,991	--
Contributions in aid of construction	--	86	--
Increase in the fair value of investments	--	(1,799)	--
Amortization of bond (discounts) premiums	2,160	23,301	40
Amortization of gain/loss on refundings	(1,135)	(16,027)	(22)
Gain (loss) on disposal of assets	(878)	1,149	(81)
Costs (recovered) to be recovered	--	(12,927)	--
Transfers (to) from other funds	375	(434)	436
Capitalized interest	1,381	2,663	--

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

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

City of Austin, Texas
Exhibit D-1

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

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

Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the year ended September 30, 2016
(In thousands)

City of Austin, Texas
Exhibit D-2

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The City's major activities or programs include general government; public safety; transportation, planning, and sustainability; public health; public recreation and culture; and urban growth management. In addition, the City owns and operates certain major enterprise activities including an electric utility, water and wastewater utility, airport, and non-major enterprise activities including convention, environmental and health services, public recreation, and urban growth management activities. These activities are included in the accompanying financial statements.

The City of Austin's charter requires an annual audit by an independent certified public accountant. These financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 74, No. 73, No. 79, and No. 82. In fiscal year 2016, the City implemented the following GASB Statements:

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

The more significant accounting and reporting policies and practices used by the City are described below.

As a local government, the City is not subject to federal income taxes, under the Internal Revenue Code Section 115. Furthermore, it is not subject to state sales tax.

a -- Reporting Entity

These financial statements present the City's primary government, its component units, and other entities for which the City is considered financially accountable. Blended component units, although legally separate entities, are in substance, part of the City's operations; therefore, data from these units are combined with data of the City. Discrete component units are legally separate entities that are not considered part of the City's operations; therefore, data from these units are shown separately from data of the City.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
a -- Reporting Entity, continued

Blended Component Units – Following are the City's blended component units.

Blended Component Units
The Austin Housing Finance Corporation (AHFC)

Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
AHFC was created in 1979 as a public, nonprofit corporation and instrumentality of the City under the provisions of the Texas Housing Finance Corporation Act, Chapter 394, and Local Government Code. The mission of the AHFC is to generate and implement strategic housing solutions for the benefit of low- and moderate- income residents of the City. AHFC is governed by a board composed of the City Council. In addition, City management has operational responsibilities for this component unit.

Reporting Fund: Housing Assistance Fund, a nonmajor special revenue fund

Austin Industrial Development Corporation (AIDC)

AIDC was created under the Texas Development Corporation Act of 1979 to provide a means of extending tax-exempt financing to projects that are deemed to have substantial social benefit through the creation of commercial, industrial, and manufacturing enterprises, in order to promote and encourage employment in the City. The Austin City Council acts as the board of directors of the corporation. In addition, City management has operational responsibilities for this component unit.

Reporting Fund: Austin Industrial Development Corporation Fund, a nonmajor special revenue fund

Mueller Local Government Corporation (MLGC)

MLGC is a non-profit local government corporation created by the City under Subchapter D of Chapter 431 of the Texas Transportation Code. MLGC was created for the purpose of financing infrastructure projects required for the development of the former site of Mueller Airport. The Austin City Council acts as the board of directors of the corporation. Members of the City staff serve as officers of the corporation and have operational responsibilities for this component unit.

Reporting Fund: Mueller Local Government Corporation, a nonmajor special revenue fund

Urban Renewal Agency (URA)

URA was created by the City under Chapter 374 of the Texas Local Government Code. The Mayor, with consent of the City Council, appoints the board of commissioners for this agency, whose primary responsibility is to oversee the implementation and compliance of urban renewal plans adopted by the City Council. An urban renewal plan's primary purpose is to eliminate slum and blighting influence within a designated area of the city. Council maintains the ability to impose its will on the organization. URA exclusively receives financial support/benefits from its relationship with the City.

Reporting Fund: Urban Renewal Agency fund, a nonmajor special revenue fund

Austin-Bergstrom International Airport (ABIA) Development Corporation

ABIA Development Corporation is governed by a board composed of the City Council. The entity has no day-to-day operations. Its existence relates only to the authorization for issuance of industrial revenue bonds or to other similar financing arrangements in accordance with the Texas Development Corporation Act of 1979. To date, none of the bonds issued constitute a liability of ABIA Development Corporation or the City of Austin. In addition, City management has operational responsibilities for this component unit.

There is no financial activity to report related to this component unit.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
a -- Reporting Entity, continued

Discretely Presented Component Units – Following are the City's discretely presented component units. See Note 17 for additional information. Financial statements for these entities can be requested from the addresses located below.

Discretely Presented Component Units
Austin-Bergstrom Landhost Enterprises,
Inc. (ABLE)
2716 Spirit of Texas Drive
Austin, TX 78719

Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
ABLE is a legally separate entity that issues revenue bonds for the purpose of financing the cost of acquiring, improving, and equipping a full-service hotel on airport property. City Council appoints this entity's Board and maintains a contractual ability to remove board members at will. Debt issued by ABLE does not constitute a debt or pledge of the faith and credit of the City.

Austin Convention Enterprises, Inc.
(ACE)
500 East 4th Street
Austin, TX 78701

ACE is a legally separate entity that owns, operates, and finances the Austin Convention Center Hotel. City Council appoints this entity's Board and maintains a contractual ability to remove board members at will. Debt issued by ACE does not constitute a debt or pledge of the faith and credit of the City.

Waller Creek Local Government
Corporation (WCLGC)
124 W. 8th Street
Austin, TX 78701

WCLGC is a non-profit local government corporation created by the City under Subchapter D of Chapter 431 of the Texas Transportation Code. The purpose of WCLGC is implementing the financing, design, construction, maintenance and operation of certain public improvements located within or around the Waller Creek Redevelopment Project district. The Austin City Council appoints a voting majority of the board of directors of the WCLGC and maintains a contractual ability to remove board members at will.

Related Organizations -- The City Council appoints the voting majority of the board members, but the City has no significant financial accountability for the Austin Housing Authority. The Mayor appoints the persons to serve as commissioners of this organization; however, this entity is separate from the operating activities of the City.

The City of Austin retirement plans (described in Note 7) and the City of Austin Deferred Compensation Plan are not included in the City's reporting entity since the City does not exercise substantial control over these plans.

Related organizations are not included in the City's reporting entity.

b -- Government-wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all governmental and business-type activities of the primary government and its component units. Fiduciary activities are not included in the government-wide statements. Internal service fund asset, deferred outflow of resources, liability, and deferred inflow of resources balances that are not eliminated in the statement of net position are primarily reported in the governmental activities column on the government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

The accounts of the City are organized on the basis of funds. The fund level statements focus on the governmental, proprietary, and fiduciary funds. Each fund was established to account for specific activities in accordance with applicable regulations, restrictions, or limitations. Major funds are determined by criteria specified by GAAP. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other funds are aggregated into nonmajor governmental, nonmajor enterprise, or internal service fund groupings. A reconciliation of the fund financial statements to the government-wide statements is provided in the financial statements to explain the differences between the two different reporting approaches.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
b -- Government-wide and Fund Financial Statements, continued

The City's fiduciary funds are presented in the fund financial statements by type (private-purpose and agency). By definition, fiduciary fund assets are held for the benefit of a third party and cannot be used to address activities or obligations of the primary government; therefore, they are not included in the government-wide statements.

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

c -- Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual (i.e. both measurable and available). Revenues, other than grants, are considered available when they are collectible within the current period or soon enough thereafter to liquidate liabilities of the current period (defined by the City as collected within 60 days of the end of the fiscal year). Revenues billed under a contractual agreement with another governmental entity, including federal and state grants, are recognized when billed or when all eligibility requirements of the provider have been met, and they are considered to be available if expected to be collected within one year. Expenditures generally are recorded when incurred. However, expenditures related to compensated absences and arbitrage are recorded when payment is due. Debt service expenditures are recognized when payment is due. The reported fund balance of governmental funds is considered a measure of available spendable resources.

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

Governmental Funds: Consist of the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.

The City reports the following major governmental fund:

General Fund: The primary operating fund of the City. It is used to account for all financial resources that are not required to be accounted for in another fund. It includes the following activities: general government; public safety; transportation, planning, and sustainability; public health; public recreation and culture; and urban growth management.

In addition, the City reports the following nonmajor governmental funds:

Special Revenue Funds: Account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds: Account for and report financial resources, and the accumulation of those financial resources, that are restricted, committed, or assigned to expenditure for principal and interest of general long-term debt and HUD Section 108 loans.

Capital Projects Funds: Account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those reported within proprietary funds). It is primarily funded by general obligation debt, other tax supported debt, interest income, and other intergovernmental revenues. A 1981 ordinance requires the establishment of a separate fund for each bond proposition approved in each bond election.

Permanent Funds: Account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
c -- Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

Proprietary Funds: Consist of enterprise funds and internal service funds. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as providing electric or water-wastewater services. Other revenues or expenses are nonoperating items.

Enterprise Funds: Account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges.

The City reports the following major enterprise funds:

Austin Energy™: Accounts for the activities of the City-owned electric utility.

Austin Water Utility: Accounts for the activities of the City-owned water and wastewater utility.

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

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

Convention: Accounts for convention center and public events activities.

Environmental and health services: Accounts for solid waste services activities.

Public recreation: Accounts for golf activities.

Urban growth management: Accounts for drainage and transportation activities.

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

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

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

Agency Funds: Account for resources held by the City in a custodial capacity for permit fees; campaign financing donations and fees; Municipal Court service fees; and escrow deposits and payments to loan recipients.

d -- Budget

The City Manager is required by the City Charter to present a proposed operating and capital budget to the City Council no later than thirty days before the beginning of the new fiscal year. The final budget shall be adopted no later than the twenty-seventh day of the last month of the preceding fiscal year. During the final adoption process, the City Council passes an appropriation ordinance and a tax-levying ordinance.

Annual budgets are legally adopted for the General Fund, certain special revenue funds, and debt service funds. Additional information related to special revenue funds with legally adopted budgets can be found in Exhibit E-13. Annual budgets are also adopted for enterprise and internal service funds, although they are not legally required. Multi-year budgets are adopted for capital projects and grant funds, where appropriations remain authorized for the life of the projects, irrespective of fiscal year. Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders are treated as expenditures in the year of commitment. Certain payroll accruals, employee training, and other fund-level expenditures are budgeted as general city responsibilities.

Formal budgetary control is employed during the year at the fund and department level as a management control device for annual budgeted funds.

Budgets are modified throughout the year. The City Manager is authorized to transfer appropriation balances within a fund and department of the City. The City Council approves amendments to the budget and transfers of appropriations from one fund and department to another. The original and final budgets for the General Fund are reported in the required supplementary information. Unencumbered appropriations for annual budgets lapse at fiscal year end.

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

Pooled Investments and Cash -- Cash balances of all City funds (except for certain funds shown in Note 3 as having non-pooled investments) are pooled and invested. Interest earned on investments purchased with pooled cash is allocated monthly to each participating fund based upon the fund's average daily balance. Funds that carry a negative balance in pooled cash and investments are not allocated interest earnings nor charged interest expense.

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

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

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

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

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

Elimination of Internal Activities -- The elimination of internal service fund activity is needed in order to eliminate duplicate activity in making the transition from the fund level financial statements to the government-wide financial statements. In addition, the elimination of internal service fund activity requires the City to "look back" and adjust the internal service funds' internal charges. A positive change in net position derived from internal service fund activity results in a pro-rata reduction in the charges made to the participatory funds. A deficit change in net position of internal service funds requires a pro-rata increase in the amounts charged to the participatory funds.

Internal Balances -- In the government-wide statement of net position, internal balances are the receivables and payables between the governmental and business-type activities.

Interfund Receivables and Payables -- During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund-level statements when they are expected to be liquidated within one year. If receivables or payables are not expected to be liquidated within one year, they are classified as "advances to other funds" or "advances from other funds."

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

Inventories -- Inventories are valued at cost, which is determined as follows:

Fund	Inventory Valuation Method
General Fund	Average cost; postage first-in, first-out
Austin Energy	
Fuel oil	Last-in, first-out
Other inventories	Average cost
All others	Average cost

Inventories for all funds are accounted for using the consumption method and expenditures are recorded when issued. Inventories reported in the General Fund are offset by an equal amount in nonspendable fund balance, which indicates that they do not represent "available spendable resources."

Restricted Assets -- Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Since Austin Energy and Austin Water Utility report in accordance with accounting for regulated operations, enabling legislation also includes restrictions on asset use established by its governing board which is the City Council. Restricted assets used to repay maturing debt and other current liabilities are classified as current.

The balances of restricted assets in the enterprise funds are as follows (in thousands):

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

Capital Assets -- Capital assets, which primarily include land and improvements, buildings and improvements, plant and equipment, vehicles, water rights, and infrastructure assets, are reported in the proprietary funds and the applicable governmental or business-type activity columns of the government-wide statement of net position; related depreciation or amortization is allocated to programs in the statement of activities. Capital assets are defined as assets with an initial individual cost of \$5,000 or more and an estimated useful life of greater than one year. Assets purchased, internally generated, or constructed are capitalized at historical cost. Contributed or annexed capital assets are recorded at estimated fair value at the time received. Capital outlay is recorded as an expenditure in the General Fund and other governmental funds and as an asset in the government-wide financial statements and proprietary funds. Maintenance and repairs are charged to operations as incurred. Improvements and betterments that extend the useful lives of capital assets or increase their value are capitalized in the government-wide and proprietary statement of net position and expended in governmental funds.

The City obtains public domain capital assets (infrastructure) through capital improvement projects (CIP) construction or through annexation or developer contribution. Infrastructure assets include streets and roads, bridges, pedestrian facilities, drainage systems, and traffic signal systems acquired after September 30, 1980.

Interest is not capitalized on governmental capital assets. Enterprise funds, with the exception of the Austin Energy and Austin Water Utility, capitalize interest paid on long-term debt when it can be attributed to a specific project and when it materially exceeds the interest revenue generated by the bond proceeds issued to fund the project. Interest is not capitalized on Austin Energy and Austin Water Utility assets in accordance with accounting for regulated operations.

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

Capital assets, except for nuclear fuel, are depreciated or amortized using the straight-line method over the following estimated useful lives (in years):

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

(1) Includes internal service funds

(2) Nuclear fuel is amortized over units of production

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

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

Water rights represent the amortized cost of a \$100 million contract, net of accumulated amortization, of \$16.8 million, between the City and the Lower Colorado River Authority (LCRA) for a fifty-one year assured water supply agreement, with an option to extend another fifty years. The City and the LCRA entered into the contract in 1999. The asset amortization period is 101.25 years.

Regulatory Assets -- In accordance with accounting for regulated operations, certain utility expenses that do not currently require funding are recorded as assets and amortized over future periods if they are intended to be recovered through future rates. These expenses include unrealized gain/loss on investments, debt issuance costs, pension, other postemployment benefits, interest, decommissioning, and pass-through rates, such as the Power Supply Adjustment charge, Community Benefit charge, and Regulatory charge. Regulatory Assets will be recovered in these future periods by setting rates sufficient to provide funds for the requirements. If regulatory assets are not recoverable in future rates, the regulatory asset will be subject to write off. Retail deregulation of electric rates in the future may affect the City's current accounting treatment of its electric utility revenues and expenses.

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

Deferred Outflows (Inflows) of Resources -- Deferred outflows of resources represent the consumption of net position that are applicable to a future reporting period. Deferred outflows have a positive effect on net position, similar to assets. Deferred inflows of resources represent the acquisition of net position that have a negative effect on net position, similar to liabilities.

The following chart reflects the activities included in deferred outflows and inflows (in thousands).

Activities	Category and explanation	Deferred Outflows	Deferred Inflows
Derivative instruments	Deferred outflows or inflows. Derivative instruments are reported in the statement of net position at fair value. Changes in fair value of hedging derivative instruments are recognized through the application of hedge accounting as either deferred outflows or inflows in the statement of net position, as an offset to the related hedging derivative instrument.	\$96,675	1,921
Gain/loss on debt refundings	Deferred outflows or inflows. When debt is refunded, the associated gains (deferred inflows) or losses (deferred outflows) are recognized as deferred outflows or inflows of resources and amortized over future periods.	123,003	285
Regulated operations	Deferred inflows. In accordance with accounting for regulated operations, certain credits to income are held as deferred inflows of resources until the anticipated matched charge is incurred. These credits include unrealized gain/loss on investments, contributions, interest, decommissioning, and pass-through rates.		980,860
Service concession arrangements	Deferred inflows. The resources related to the service concession arrangements that will be recognized as revenue in future years over the terms of arrangements between the City and the operators are reported as deferred inflows of resources.		160,436
Pensions	Deferred outflows or inflows. Differences between estimated and actual investment earnings, changes in actuarial assumptions, and differences between projected and actual actuarial experience may be treated as either deferred outflows or inflows. Contributions made to the pension systems between the Plans' measurement date (December 31) and the City's fiscal year end (September 30) are recognized as deferred outflows.	586,714	5,687

Compensated Absences -- The amounts owed to employees for unpaid vacation, exception vacation, and sick leave liabilities, including the City's share of employment-related taxes, are reported on the accrual basis of accounting in the applicable business-type activity columns of the government-wide statements and in the proprietary activities of the fund financial statements. The liabilities and expenditures are reported on the modified accrual basis in the governmental fund financial statements; the estimated liability for governmental funds is the amount of unused vacation, exception vacation, and sick leave eligible for payout upon termination for employees that terminated by the fiscal year end.

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

Accumulated leave payouts are limited to the lower of actual accumulated hours or the hours listed below:

	Work-week	Non-Sworn Employees (1)	Sworn Police (2)	Sworn Fire (3)	Sworn EMS (4)
Vacation	0-40	240	240	240	240
	42	N/A	N/A	N/A	270
	48	N/A	N/A	N/A	309
	53	N/A	N/A	360	N/A
	56	N/A	N/A	N/A	N/A
Exception vacation (4)	0-40	160	160	176	206
	42	160	N/A	N/A	206
	48	160	N/A	N/A	206
	53	N/A	N/A	264	N/A
	56	N/A	N/A	N/A	N/A
Sick leave	0-40	720	1,400	720	720
	42	N/A	N/A	N/A	756
	48	N/A	N/A	N/A	864
	53	N/A	N/A	1,080	N/A
	56	N/A	N/A	N/A	N/A
Compensatory time (6)		120	120	120	120

- (1) Non-sworn employees are eligible for accumulated sick leave payout if hired before October 1, 1986.
- (2) Sworn police employees with 12 years of actual service are eligible for accumulated sick leave payout.
As of January 1, 2011, officers may be eligible to receive up to 1,700 hours of sick leave if certain criteria are met.
- (3) Sworn fire employees are eligible for accumulated sick leave payout regardless of hire date.
- (4) Sworn EMS employees with 12 years of actual service are eligible for accumulated sick leave payout if certain criteria are met.
- (5) Exception vacation hours are hours accumulated by an employee when the employee works on a City holiday.
- (6) Employees may earn compensatory time in lieu of paid overtime; maximum payout is 120 hours for all employees.

Other Postemployment Benefits (OPEB) -- The City provides certain health care benefits for its retired employees and their families as more fully described in Note 8. At September 30, 2016, the City's total actuarial accrued liability for these retiree benefits was approximately \$1.5 billion. The City funds the costs of these benefits on a pay-as-you-go basis.

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

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

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

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

For proprietary funds and for governmental activities in the government-wide financial statements, the City defers and amortizes gains and losses realized on refundings of debt and reports both the new debt as a liability and the related deferred loss (gain) amount as deferred outflows (or deferred inflows) of resources on the statement of net position. Austin Energy and Austin Water Utility recognize gains and losses on debt defeasance in accordance with accounting for regulated operations.

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

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

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

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

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

Electric, water, and wastewater revenue is recorded when earned. Customers' electric and water meters are read and bills rendered on a cycle basis by billing district. Electric rate schedules include a fuel cost adjustment clause that permits recovery of fuel costs in the month incurred or in future months. The City reports fuel costs on the same basis as it recognizes revenue. Unbilled revenue is recorded in Austin Energy by estimating the daily power generation and allocating by each billing district meter read dates as of September 30, 2016. The amount of unbilled revenue recorded, as of September 30, 2016, was \$34.9 million. Austin Water Utility records unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2016. The amount of unbilled revenue reported in accounts receivable as of September 30, 2016 was \$18 million for water and \$14.3 million for wastewater.

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

	Discounts
Airport	\$ 1,219
Nonmajor Enterprise	2,168

Interfund Revenues, Expenses, and Transfers -- Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved, such as billing for utility services. Transactions between funds that constitute reimbursements for expenditures or expenses are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. Transfers between funds are reported in the operations of governmental and proprietary funds. In the government-wide statement of activities, the effect of interfund activity has generally been removed from the statements. Exceptions include the chargeback of services, such as utilities or vehicle maintenance, and charges for central administrative costs. Elimination of these charges would distort the direct costs and program revenues of the various functions reported. The City recovers indirect costs that are incurred in the Support Services Fund, which is reported as an internal service fund. Indirect costs are calculated in a citywide cost allocation plan or through indirect cost rates, which are based on the cost allocation plan.

Intergovernmental Revenues, Receivables, and Liabilities -- Intergovernmental revenues and related receivables arise primarily through funding received from Federal and State grants. Revenues are earned through expenditure of money for grant purposes. Intergovernmental liabilities arise primarily from funds held in an agency capacity for other local governmental units.

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

Federal and State Grants, Entitlements, and Shared Revenues -- Grants, entitlements, and shared revenues may be accounted for within any City fund. The purpose and requirements of each grant, entitlement, or shared revenue are analyzed to determine the appropriate fund statement and revenue category in which to report the related transactions. Grants, entitlements, and shared revenues received for activities normally recorded in a particular fund may be accounted for in that fund, provided that applicable legal restrictions can be satisfied.

Revenues received for activities normally accounted for within the nonmajor governmental fund groupings include: Federal grant funds, State grant funds, and other special revenue grant funds. Capital grants restricted for capital acquisitions or construction, other than those associated with proprietary type funds, are accounted for in the applicable capital projects funds. Revenues received for operating activities of proprietary funds or revenues that may be used for either operations or capital expenses are recognized in the applicable proprietary fund.

Special item – land sale -- In April 2012, the City Council approved an ordinance authorizing the execution of a master development agreement for the sale and redevelopment of the Green Water Treatment plant land. Under this agreement, the City will sell the land to the developer in four phases. The City received a payment of \$4.31 million in fiscal year 2016; sales to date total \$32.12 million. The final sale is anticipated in fiscal year 2019, according to the current schedule. Due to the unusual and infrequent occurrence of a sale of City property of this significance and the fact that the transaction is under the control of City management, it is being reported as a special item in the financial statements.

Fund Equity -- Fund balances for governmental funds are reported in classifications that demonstrate the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The governmental fund type classifications are as follows:

Nonspendable: The portion of fund balance that cannot be spent because it is either (a) not in spendable form, such as inventories and prepaid items, or (b) legally or contractually required to be maintained intact.

Restricted: The portion of fund balance that is restricted to specific purposes due to constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitution provisions or enabling legislation.

Committed: The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by an ordinance, the highest level action taken, adopted by the City Council. An equal action (ordinance) must be enacted to rescind the commitment. The City Council is the highest level of decision making authority.

Assigned: The portion of fund balance that is constrained by the City's intent to use for specific purposes, but are neither restricted nor committed. Under the City charter, the City Manager is authorized to assign individual amounts up to \$58,000 in fiscal year 2016 to a specific purpose. This amount is updated annually based on the most recently published federal government, Bureau of Labor Statistics Indicator, Consumer Price Index (CPI-W U.S. City Average) U.S. City Average.

Unassigned: The portion of fund balance that is not restricted, committed, or assigned to specific purposes; only the General Fund reports a positive unassigned fund balance.

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

The constraints placed on the fund balances of the General Fund and the nonmajor governmental funds are presented below (in thousands):

	General Fund	Nonmajor Governmental			Total
		Special Revenue	Debt Service	Capital Projects	
Nonspendable					
Inventory	\$ 49	--	--	--	49
Prepaid items	497	--	--	--	497
Permanent funds	--	--	--	1,070	1,070
Total Nonspendable	546	--	--	1,070	1,616
Restricted					
Municipal court services	--	2,602	--	--	2,602
Police special purpose	--	6,860	--	--	6,860
Fire special purpose	--	46	--	--	46
Transportation, planning, and sustainability	--	224	--	--	224
Public health services	--	289	--	--	289
Parks services	--	2,224	--	--	2,224
Library services	--	1,802	--	1	1,803
Tourism programs	--	23,727	--	--	23,727
Affordable housing programs	--	27,055	--	--	27,055
Urban growth programs	--	4,403	--	--	4,403
Capital construction	--	--	--	95,533	95,533
Debt service	--	--	21,629	--	21,629
Total Restricted	--	69,232	21,629	95,533	186,395
Committed					
Transportation, planning, and sustainability	--	92	--	--	92
Parks services	--	5,091	--	--	5,091
Affordable housing programs	--	3,871	--	--	3,871
Urban growth programs	--	33,454	--	--	33,454
Total Committed	--	42,508	--	--	42,508
Assigned					
Municipal court services	182	--	--	--	182
Police special purpose	3,444	39	--	--	3,483
Fire special purpose	1,205	--	--	--	1,205
EVS special purpose	1,138	--	--	--	1,138
Transportation, planning, and sustainability	486	9	--	--	495
Public health services	4,531	30	--	--	4,561
Parks services	1,953	119	--	--	2,072
Library services	172	6	--	--	178
Tourism programs	--	63	--	--	63
Affordable housing programs	90	5,537	--	--	5,627
Urban growth programs	15,499	5,222	--	--	20,721
Capital construction	--	--	--	96,808	96,808
Total Assigned	28,700	11,025	--	96,808	136,533
Unassigned	131,743	(6,370)	--	(8,506)	116,867
Total Fund Balance	\$ 160,989	116,395	21,629	183,835	483,919

Restricted resources -- If both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and unrestricted resources as needed. In governmental funds, unrestricted resources would be utilized in order from committed to assigned and finally unassigned.

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

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

Cash and Cash Equivalents -- For purposes of the statement of cash flows, the City considers cash and cash equivalents to be currency on hand, cash held by trustee, demand deposits with banks, and all amounts included in pooled investments and cash accounts. The City considers the investment pool to be highly liquid, similar to a money market mutual fund.

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

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

The City does not participate in a risk pool but purchases commercial insurance coverage for property loss or damage, commercial crime, fidelity bonds, airport operations, and contractors working at selected capital improvement project sites (see Note 13).

Austin Energy has established an energy risk management program. This program was authorized by City Council and led by the risk oversight committee. Under this program, Austin Energy enters into futures contracts, options, and swaps to reduce exposure to natural gas and energy price fluctuations. For additional details see Note 9.

f -- Comparative Data

Governments are required to present comparative data only in connection with Management's Discussion and Analysis (MD&A). Comparative data has been utilized within the MD&A to help readers more fully understand the City's financial statements for the current period.

g -- Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

2 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2016 (in thousands):

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

3 – INVESTMENTS AND DEPOSITS
a -- Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under a written investment policy (the "Investment Policy") that primarily emphasizes safety of principal and liquidity; addresses investment diversification, yield, and maturity; and addresses the quality and capability of investment personnel. The Investment Policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under Chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the Investment Policy, which is approved annually by the City Council. The Investment Policy includes a list of authorized investment instruments, a maximum allowable stated maturity of any individual investment, and the maximum average dollar weighted maturity allowed for pooled fund groups. In addition, it includes an "Investment Strategy Statement" that specifically addresses each fund's investment options and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification, and yield. Additionally, the soundness of financial institutions in which the City will deposit funds is addressed.

The City Treasurer submits an investment report each quarter to the investment committee. The report details the investment position of the City and the compliance of the investment portfolio as it relates to both the adopted investment strategy statements and Texas state law.

The City is authorized to invest in the following investment instruments if they meet the guidelines of the investment policy:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of the State of Texas;
3. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities;
4. Obligations of other states, cities, counties, or other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent;
5. Bankers' acceptances, so long as each such acceptance has a stated maturity of 270 days or less from the date of its issuance, will be liquidated in full at maturity, are eligible collateral for borrowing from a Federal Reserve Bank, and are accepted by a domestic bank whose short-term obligations are rated at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency or which is the largest subsidiary of a bank holding company whose short-term obligations are so rated;
6. Commercial paper with a stated maturity of 270 days or less from the date of its issuance that is either rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies or is rated at least A-1, P-1, or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof;
7. Collateralized repurchase agreements having a defined termination date and described in more detail in the Investment Policy;
8. Certificates of deposit issued by depository institutions that have a main office or branch office in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or as further described in the Investment Policy;
9. Share certificates issued by a depository institution that has a main office or branch office in Texas;
10. Money market mutual funds;
11. Local government investment pools (LGIPs); and
12. Securities lending program.

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

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

The City participates in TexPool, TexasDAILY, TexStar, and Lone Star (collectively referred to as the LGIPs). The State Comptroller oversees TexPool, with Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Although there is no regulatory oversight over TexasDAILY, an advisory board consisting of participants or their designees maintains oversight responsibility for TexasDAILY. PFM Asset Management LLC manages the daily operations of TexasDAILY under a contract with the advisory board. JPMorgan Investment Management, Inc. and First Southwest Asset Management, Inc. serve as co-administrators for TexStar under an agreement with the TexStar board of directors. First Public, LLC serves as the administrator of Lone Star under an agreement with Lone Star's board of directors.

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

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

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

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

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

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

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

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

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

Concentration of Credit Risk

At September 30, 2016, the City of Austin was exposed to concentration of credit risk since it held investments with more than five percent of the total investment portfolio balances of the City in securities of the following issuers (in millions): Federal Farm Credit Bank (\$308.3 or 11%), Federal Home Loan Bank (\$327.3 or 12%), Federal Home Loan Mortgage Corporation (\$295.5 or 11%), and Federal National Mortgage Association (\$275.8 or 10%).

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

The risk exposures for governmental and business-type activities, individual major funds, nonmajor funds in the aggregate, and fiduciary fund types of the City are not significantly greater than the deposit and investment risk of the primary government. The Investment Policy segregates the portfolios into strategic categories including:

1. Operating funds excluding special project funds,
2. Debt service funds,
3. Debt service reserve funds, and
4. Special project funds or special purpose funds.

The City's credit risk is controlled by complying with the Investment Policy, which includes qualification of the brokers and financial institutions with whom the City will transact, sufficient collateralization, portfolio diversification, and maturity limitations.

b -- Investment Categories

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

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

(1) Includes combined pledge debt service

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

Credit Risk

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

Concentration of Credit Risk

Operating Funds

At September 30, 2016, the operating funds held investments with more than five percent of the total portfolio in securities of the following issuers (in millions): Federal Farm Credit Bank (\$303.2 or 15%), Federal Home Loan Bank (\$287.2 or 14%), Federal Home Loan Mortgage Corporation (\$250.2 or 13%), and Federal National Mortgage Association (\$160.1 or 8%).

Special Projects or Special Purpose Funds

At September 30, 2016, the Austin Energy Strategic Reserve Fund held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Home Loan Bank (\$30.0 or 16%), Federal Home Loan Mortgage Corporation (\$20.1 or 11%), and Federal National Mortgage Association (\$55.0 or 29%).

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

Interest Rate Risk

Operating Funds

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

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

Debt Service Funds

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

Debt Service Reserve Funds

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

Special Projects or Special Purpose Funds

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

Special Purpose Funds - Austin Energy Strategic Reserve Fund

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

Special Purpose Funds - Austin Energy Nuclear Decommissioning Trust Funds (NDTF)

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

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

Special Purpose Funds - Investments Held by Trustee

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

c -- Investment and Deposits

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

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

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

Deposits

The September 30, 2016 carrying amount of deposits at the bank and cash on hand are as follows (in thousands):

	Governmental Activities	Business-type Activities	Total
Cash			
Unrestricted	\$ 64	61	125
Restricted	--	4,972	4,972
Cash held by trustee			
Restricted	7,030	--	7,030
Pooled cash	1,672	3,802	5,474
Total deposits	<u>\$ 8,766</u>	<u>8,835</u>	<u>17,601</u>

All bank accounts were either insured or collateralized with securities held by the City or its agents in the City's name at September 30, 2016.

4 – PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The adjusted assessed value for the roll as of January 1, 2015, upon which the 2016 levy was based, was \$110,526,026,399.

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

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

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

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

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

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

The City has reserved a portion of the taxes collected for lawsuits filed by certain taxpayers against the appraisal districts challenging assessed values in the government-wide financial statements.

5 – CAPITAL ASSETS AND INFRASTRUCTURE

Governmental Activities

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

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

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

(2) Components of accumulated depreciation/amortization increases:

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

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Total

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

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

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

(2) Components of accumulated depreciation/amortization increases:

Business-type Activities:

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

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Austin Energy

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

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

(1) Components of accumulated depreciation/amortization increases:

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

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Austin Water Utility

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

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

(1) Components of accumulated depreciation/amortization increases:

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

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport

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

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

(1) Components of accumulated depreciation/amortization increases:
Current year depreciation

\$ 28,092

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

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

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

(1) Increases and decreases do not include transfers (at net book value) between nonmajor enterprise funds.

(2) Components of accumulated depreciation/amortization increases:

Current year depreciation	
Convention Center	\$ 9,112
Environmental and health services	8,613
Public recreation	834
Urban growth management	11,677
Total increases in accumulated depreciation/amortization	<u>\$ 30,236</u>

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Capitalized Interest

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

<u>Enterprise Funds</u>	
Major fund:	
Airport	\$ 1,282
Nonmajor enterprise funds:	
Convention Center	654
Drainage	727

Interest is not capitalized on governmental capital assets. In accordance with accounting for regulated operations, interest is also not capitalized for Austin Energy or Austin Water Utility capital assets.

Service Concession Arrangements

The City has recorded capital assets of \$148.6 million, other assets of \$12.6 million and deferred inflows of \$147.8 million derived from three service concession arrangements (SCA) described below. An SCA is an arrangement in which the City conveys use of a capital asset to an operator in exchange for significant consideration; where the operator is compensated from third parties; where the City may determine what services are provided, to whom and for what price; where the City retains a significant residual interest in the asset after the SCA terminates.

The City has had an agreement with the Friends of Umlauf Garden, Inc. since 1991 to manage and operate the Umlauf Sculpture Garden and Museum. The agreement extends through 2021 and is for the purpose of displaying the artistic works of Charles Umlauf for the public enjoyment and education. Structures, which are dedicated to the City, have been built on City-owned land and display City-owned artwork.

The City entered into an agreement with the Young Men's Christian Association (YMCA) in 2010 to develop and operate a new joint-use recreational facility for public use. The facility is owned by the City and operated by the YMCA under a 20 year agreement extending through 2032.

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

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

<u>Service Concession Arrangement</u>	<u>Asset Construction Cost</u>	<u>Beginning Accumulated Depreciation</u>	<u>Current Year Depreciation</u>	<u>Ending Accumulated Depreciation</u>	<u>Net Book Value</u>
Governmental Activities:					
Umlauf Sculpture Garden	\$ 2,337	1,398	59	1,457	880
YMCA Northeast Recreation Center	1,333	94	33	127	1,206
Business-type Activities:					
CONRAC facility	151,565	--	5,052	5,052	146,513
	<u>155,235</u>	<u>1,492</u>	<u>5,144</u>	<u>6,636</u>	<u>148,599</u>
<u>Service Concession Arrangement</u>	<u>Beginning Deferred Inflows</u>	<u>Beginning Accumulated Amortization</u>	<u>Current Year Amortization</u>	<u>Ending Accumulated Amortization</u>	<u>Ending Deferred Inflows</u>
Governmental Activities:					
Umlauf Sculpture Garden	2,337	1,862	78	1,940	397
YMCA Northeast Recreation Center	1,333	345	67	412	921
Business-type Activities:					
CONRAC facility	151,565	--	5,052	5,052	146,513
CONRAC base rent agreement	13,041	--	436	436	12,605
	<u>\$ 168,276</u>	<u>2,207</u>	<u>5,633</u>	<u>7,840</u>	<u>160,436</u>

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

Payments on bonds for governmental activities will be made from the general obligation debt service funds. Accrued compensated absences that pertain to governmental activities will be liquidated by the General Fund, special revenue funds, and internal service funds. Claims payable will be liquidated by internal service funds. Other liabilities that pertain to governmental activities will be liquidated by the General Fund, special revenue funds, general governmental capital improvement projects funds, and internal service funds.

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all limitations and restrictions.

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for these funds are included in governmental activities.

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2016, were as follows (in thousands):

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

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

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

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

6 – DEBT AND NON-DEBT LIABILITIES, continued
b -- Governmental Activities Long-Term Liabilities

General Obligation Bonds -- General obligation debt is collateralized by the full faith and credit of the City. The City intends to retire its general obligation debt, plus interest, from future ad valorem tax levies and is required by ordinance to create from such tax revenues a sinking fund sufficient to pay the current interest due thereon and each installment of principal as it becomes due. General obligation debt issued to finance capital assets of enterprise funds is reported as an obligation of these enterprise funds, although the funds are not obligated by the applicable bond indentures to repay any portion of principal and interest on outstanding general obligation debt. However, the City intends for the enterprise funds to meet the debt service requirements from program revenues.

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and assumed municipal utility district (MUD) bonds outstanding at September 30, 2016, including those reported in certain proprietary funds (in thousands):

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

(1) Interest is paid semiannually on March 1 and September 1.

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

(3) Includes Austin Water Utility principal of \$4,901 and interest of \$1,652 and Drainage Fund principal of \$2,754 and interest of \$928.

(4) Included with contractual obligations are Mueller Local Government Corporation contract revenue bonds.

6 – DEBT AND NON-DEBT LIABILITIES, continued

b -- Governmental Activities Long-Term Liabilities, continued

In October 2015, the City issued \$236,905,000 of Public Improvement and Refunding Bonds, Series 2015. The net proceeds of \$104,630,000 (after issue costs, discounts, and premiums) from the non-refunding portion of the issue will be used as follows: streets and signals (\$32,235,000), parks and recreation (\$17,275,000), central library (\$43,200,000), and facility improvements (\$11,920,000). The net proceeds of the refunding portion of \$158,626,892 were used to refund \$4,490,000 Certificates of Obligation, Series 2005, \$12,140,000 Public Improvement and Refunding Bonds, Series 2005, \$14,965,000 Certificates of Obligation Series 2006, \$27,900,000 Public Improvement Bonds, Series 2006, \$2,375,000 Certificates of Obligation, Series 2007, and \$87,945,000 Public Improvement Bonds, Series 2007. These bonds will be amortized serially on September 1 of each year from 2016 to 2035. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2016. Total interest requirements for these bonds, at rates ranging from 2.0% to 5.0%, are \$98,473,671.

In October 2015, the City issued \$10,000,000 of Public Improvement Taxable Bonds, Series 2015. The net proceeds of \$10,000,000 (after issue costs, discounts, and premiums) from the issuance were used for affordable housing. Interest is payable March 1 and September 1 of each year from 2016 to 2035, commencing on March 1, 2016. Principal payments are due September 1 of 2016, then each year on September 1 from 2018 to 2035. Total interest requirements for this obligation, at rates ranging from 2.9% to 4.3% are \$4,632,484.

In October 2015, the City issued \$43,710,000 of Certificates of Obligation, Series 2015. The net proceeds of \$50,351,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: watershed home buyouts (\$20,500,000), Waller Creek Tunnel (\$11,051,000), central library (\$12,500,000), and building and golf course improvements (\$6,300,000). These certificates of obligation will be amortized serially on September 1 of each year from 2016 to 2035. Interest is payable on March 1 and September 1 of each year, commencing on March 1, 2016. Total interest requirements for these obligations, at rates ranging from 2.0% to 5.0%, are \$25,524,363.

In October 2015, the City issued \$14,450,000 of Public Property Finance Contractual Obligations, Series 2015. The net proceeds of \$16,065,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: water and wastewater utility capital equipment (\$2,350,000), public works capital equipment (\$2,500,000), golf capital equipment (\$1,365,000), transportation capital equipment (\$695,000), and network equipment (\$9,155,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2016 to 2022. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2016. Total interest requirements for these obligations, at rates ranging from 2.0% to 5.0%, are \$2,728,846.

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

c -- Business-Type Activities Long-Term Liabilities

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

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

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

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

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

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

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

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

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the refunding revenue bonds outstanding at September 30, 2016 (in thousands):

Series	Fiscal Year	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1990B Refunding	1990	\$ 236,009	1,701	10,379 (2)	7.35%	11/15/2016-2017
1994 Refunding	1995	142,559	26,143	94,012 (2)	6.60%	5/15/2017-2019
1998 Refunding	1999	139,965	109,875	33,723 (1)	5.25%	5/15/2017-2025
1998A Refunding	1999	105,350	9,127	14,768 (2)	4.25%	5/15/2017-2020
			<u>\$ 146,846</u>			

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

(2) Interest requirements include accreted interest

Combined Utility Systems Debt -- Tax Exempt Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed \$400,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2016, were P-1 (Moody's Investors Service, Inc.), A-1 (Standard & Poor's), and F1 (Fitch). The notes are in denominations of \$100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of Austin Energy and Austin Water Utility.

At September 30, 2016, Austin Energy had outstanding tax exempt commercial paper notes of \$74,615,000 and Austin Water Utility had \$42,170,000 of commercial paper notes outstanding with interest ranging from 0.48% to 0.80%, which are adjusted daily. Subsequent issues cannot exceed the maximum rate of 12%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt. The associated letter of credit agreements have the following terms (in thousands):

Note Series	Liquidity Provider	Commitment Fee Rate	Remarketing	Remarketing Fee Rate	Outstanding	Expiration
Various	Bank of Tokyo Mitsubishi	0.41%	Goldman Sachs	0.05%	<u>\$ 116,785</u>	10/15/2017

These notes are payable at maturity to the holder at a price equal to principal plus accrued interest. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by the respective liquidity providers and become bank notes with principal to be paid in 12 equal, quarterly installments. Bank notes bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

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

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes (the “taxable notes”) in an aggregate principal amount not to exceed \$50,000,000 outstanding at any time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City’s electric system and the City’s water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2016, were P-1 (Moody’s Investors Service, Inc.), A-1 (Standard & Poor’s), and F1 (Fitch).

The taxable notes are issued in denominations of \$100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the taxable notes are payable from the combined net revenues of Austin Energy and Austin Water Utility.

At September 30, 2016, Austin Energy had outstanding taxable commercial paper notes of \$13,135,000 (net of discount of \$4,496) with interest rates ranging from 0.65% to 0.67%. The City intends to refinance maturing commercial paper notes by issuing long-term debt. The associated letter of credit agreement has the following terms (in thousands):

Note Series	Liquidity Provider	Commitment Fee Rate	Remarketing	Remarketing Fee Rate	Outstanding	Expiration
Various	Citibank	0.28%	Goldman Sachs	0.05%	\$ 13,135	10/15/2017

These taxable notes are payable at maturity to the holder at a price equal to the par value of the note. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by Citibank, NA and become bank notes with principal due immediately. Bank notes bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess note interest or the maximum rate.

The taxable notes are secured by a direct-pay Letter of Credit issued by Citibank, NA which permits draws for the payment of the Notes. Draws made under the Letter of Credit are immediately due and payable by the City from the resources more fully described in the Ordinance. A 36-month term loan feature is provided by this agreement.

Electric Utility System Revenue Debt -- General - The City is authorized by ordinance to issue electric utility system revenue obligations. Proceeds from these obligations are used only to fund electric capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of Austin Energy. Bond ratings at September 30, 2016, were A1 (Moody’s Investors Service, Inc.), AA- (Standard & Poor’s), and AA- (Fitch).

Electric Utility System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all electric system refunding revenue bonds outstanding at September 30, 2016 (in thousands):

Series	Fiscal Year	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2002A Refunding	2002	\$ 172,880	13,230	364 (1)	5.50%	11/15/2016
2006A Refunding	2007	137,800	4,360	109 (1)	5.00%	11/15/2016
2007 Refunding	2007	146,635	37,430	4,517 (1)	5.00%	11/15/2016-2020
2008 Refunding	2008	50,000	41,475	25,700 (1)	5.20 - 6.26%	11/15/2016-2032
2008A Refunding	2008	175,000	105,460	90,637 (1)	5.00 - 6.00%	11/15/2016-2038
2010A Refunding	2010	119,255	100,565	56,293 (1)	4.00 - 5.00%	11/15/2016-2040
2010B Refunding	2010	100,990	100,990	87,417 (1)	4.54 - 5.72%	11/15/2019-2040
2012A Refunding	2013	267,770	267,770	178,663 (1)	2.50 - 5.00%	11/15/2016-2040
2012B Refunding	2013	107,715	88,880	22,007 (1)	0.92 - 3.16%	11/15/2016-2027
2015A Refunding	2015	327,845	327,845	299,939 (1)	5.00%	11/15/2021-2045
2015B Refunding	2015	81,045	81,045	28,252 (1)	1.11 - 4.66%	11/15/2017-2037
			<u>\$ 1,169,050</u>			

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

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

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

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

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

Water and Wastewater System Revenue Debt -- General - The City is authorized by ordinance to issue Austin Water Utility revenue obligations. Proceeds from these obligations are used only to fund water and wastewater capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of the Austin Water Utility. Bond ratings at September 30, 2016, were Aa2 (Moody's Investors Service, Inc.), AA (Standard & Poor's), and AA- (Fitch).

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

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

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

Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2016 (in thousands):

Series	Fiscal Year	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2002A Refunding	2002	\$ 139,695	14,950	411 (1)	5.50%	11/15/2016
2004A Refunding	2005	165,145	14,010	2,110 (1)	5.00%	11/15/2016-2019
2006 Refunding	2006	63,100	2,935	73 (1)	5.00%	11/15/2016
2006A Refunding	2007	135,000	3,165	79 (1)	5.00%	11/15/2016
2007 Refunding	2008	135,000	6,275	334 (1)	5.25%	11/15/2016-2017
2008 Refunding	2008	170,605	113,890	38,539 (2)	0.01 - 0.65%	11/15/2016-2031 (3)
2009 Refunding	2009	175,000	129,980	50,497 (1)	4.00 - 5.13%	11/15/2016-2029
2009A Refunding	2010	166,575	143,645	100,582 (1)	4.00 - 5.00%	11/15/2016-2039
2010	2010	31,815	27,565	-- (4)	0.00%	11/15/2016-2041
2010A Refunding	2011	76,855	72,730	55,348 (1)	5.00 - 5.13%	11/15/2016-2040
2010B Refunding	2011	100,970	98,410	82,337 (1)	2.91 - 6.02%	11/15/2016-2040
2011 Refunding	2012	237,530	236,530	161,459 (1)	2.00 - 5.00%	11/15/2016-2041
2011 Revenue	2012	18,485	12,977	1,953 (5)	2.80%	12/1/2016
2011 Revenue	2012	2,332	1,143	172 (5)	2.80%	12/1/2016
2012 Refunding	2012	336,820	287,125	181,204 (1)	2.50 - 5.00%	11/15/2016-2042
2013A Refunding	2013	282,460	276,535	191,850 (1)	3.00 - 5.00%	11/15/2016-2043
2014 Refunding	2014	282,205	282,205	222,627 (1)	4.00 - 5.00%	5/15/2018-2043
2015A Refunding	2015	249,145	249,145	119,672 (1)	2.00 - 5.00%	11/15/2016-2036
2015B Refunding	2015	40,000	38,920	2,818 (1)	0.98 - 2.54%	5/15/2017-2021
2016 Refunding	2016	247,770	247,770	234,418 (1)	5.00%	11/15/2019-2045
			<u>\$ 2,259,905</u>			

- (1) Interest is paid semiannually on May 15 and November 15.
- (2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate of 3.60% in effect at the end of the fiscal year.
- (3) Series matures on May 15 of the final year.
- (4) Zero interest bond placed with Texas Water Development Board.
- (5) Special Assessment Revenue Bonds.

Series 2008 refunding bonds are variable rate demand bonds. The associated letter of credit agreement has the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
2008	Citibank	0.28%	Goldman Sachs	0.05%	\$ 113,890	10/15/2018

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by the respective liquidity providers and become bank bonds with principal to be paid in equal semi-annual installments over a 5-year amortization period. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

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

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

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

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

- (1) Gross revenue includes revenues from operations and interest income.
- (2) Excludes depreciation.
- (3) Excludes other postemployment benefits and net pension liability accruals.
- (4) The coverage calculation presented considers all Water and Wastewater debt service obligations, regardless of type or designation. This methodology closely approximates but does not follow exactly the coverage calculation required by the master ordinance.

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

The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2016 (in thousands):

Series	Fiscal Year	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2005 Refunding	2008 (1)	\$ 281,300	181,925	42,012 (2)	0.02 - 0.59%	11/15/2016-2025
2013 Revenue	2013	60,000	59,120	9,197 (3)	2.25%	11/15/2016-2028 (4)
2013A Refunding	2014	35,620	34,368	570 (3)	1.56%	11/15/2016-2018
2014 Revenue	2015	244,495	244,495	256,023 (3)	5.00%	11/15/2026-2044
			<u>\$ 519,908</u>			

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

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

The Series 2005 refunding bonds that were remarketed in 2008 are variable rate demand bonds. These bonds are separated into 4 subseries with a total principal amount of \$181,925,000. The associated letter of credit agreement has the following terms (in thousands):

<u>Bond Sub-Series</u>	<u>Liquidity Provider</u>	<u>Commitment Fee Rate</u>	<u>Remarketing Agent</u>	<u>Remarketing Fee Rate</u>	<u>Outstanding</u>	<u>Expiration</u>
2005-1	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	\$ 45,500	10/15/2018
2005-2	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	45,450	10/15/2018
2005-3	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	45,500	10/15/2018
2005-4	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	45,475	10/15/2018
					<u>\$ 181,925</u>	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds or if the agreement expires with no new agreement in place, the bonds will be purchased by the respective liquidity provider and become bank bonds with principal to be paid in annual installments over the remaining life of the bond series beginning on the first business day of the month six months following the triggering repayment event. Thus, under any circumstance, no principal payments will be due within a year of September 30, 2016. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

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

Airport Revenue Debt -- Pledged Revenues - The net revenue of the Airport Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding (including revenue bonds and revenue notes). The table below represents the pledged amounts at September 30, 2016 (in thousands):

<u>Gross Revenue (1)</u>	<u>Other Available Funds (2)</u>	<u>Operating Expense (3)(4)</u>	<u>Net Revenue and Other Available Funds</u>	<u>Debt Service Requirement (5)</u>	<u>Revenue Bond Coverage</u>
\$ 137,826	3,700	82,330	59,196	14,800	4.00

(1) Gross revenue includes revenues from operations and interest income.

(2) Pursuant to the bond ordinance, in addition to gross revenue, the Airport is authorized to use "other available funds" in the calculation of revenue bond coverage not to exceed 25% of the debt service requirements.

(3) Excludes depreciation.

(4) Excludes other postemployment benefits and net pension liability accruals.

(5) Excludes debt service amounts paid with passenger facility charge revenues and restricted bond proceeds applied to current interest payments.

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

Nonmajor Fund Debt:

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

Bond ratings at September 30, 2016, for the revenue bonds and subordinate lien bonds were, respectively, Aa3 and A1 (Moody's Investors Service, Inc.), and AA- and A (Standard & Poor's).

The following table summarizes Convention Center refunding revenue bonds outstanding at September 30, 2016 (in thousands):

Series	Fiscal Year	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2005 Refunding	2005	\$ 36,720	30,510	11,772 (1)	4.00 - 5.00%	11/15/2016-2029
2008AB Refunding	2008	125,280	93,155	21,819 (2)	0.01 - 0.68%	11/15/2016-2029
2012 Refunding	2012	20,185	17,945	6,591 (1)	2.50 - 5.00%	11/15/2016-2029
2013 Refunding	2014	26,485	18,390	1,873 (1)	4.00 - 5.00%	11/15/2016-2019
			<u>\$ 160,000</u>			

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

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

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

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

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds or if the agreement expires with no new agreement in place, the bonds will be purchased by the respective liquidity provider and become bank bonds with principal to be paid in equal semi-annual installments over a 5-year amortization period beginning six months from the triggering repayment event. Thus, under any circumstance, no principal payments will be due within a year of September 30, 2016. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

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

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

Fiscal Year Ended September 30	Governmental Activities (in thousands)					
	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 58,614	44,419	5,890	6,330	11,764	3,453
2018	57,671	42,180	5,932	6,136	13,325	3,092
2019	62,118	39,916	6,169	5,937	12,245	2,667
2020	64,996	37,349	6,334	5,726	10,424	2,283
2021	68,522	34,387	6,594	5,504	7,905	1,936
2022-2026	343,986	124,634	37,611	23,530	22,041	6,253
2027-2031	274,600	55,124	43,127	15,212	15,990	2,041
2032-2036	104,740	9,878	31,561	6,584	2,085	70
2037-2041	--	--	13,455	1,550	--	--
	<u>1,035,247</u>	<u>387,887</u>	<u>156,673</u>	<u>76,509</u>	<u>95,779</u>	<u>21,795</u>
Less: Unamortized bond discounts	(141)	--	--	--	(8)	--
Add: Unamortized bond premiums	73,452	--	9,528	--	5,241	--
Net debt service requirements	<u>1,108,558</u>	<u>387,887</u>	<u>166,201</u>	<u>76,509</u>	<u>101,012</u>	<u>21,795</u>

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

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

Fiscal Year Ended September 30	Business-type Activities (in thousands)					
	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 3,406	1,017	2,141	2,260	12,082	1,241
2018	3,725	870	2,223	2,195	11,050	922
2019	3,171	715	2,321	2,128	9,195	605
2020	3,118	586	2,421	2,052	6,851	339
2021	3,254	443	2,541	1,970	3,285	162
2022-2026	5,939	551	14,658	8,333	1,669	73
2027-2031	--	--	17,252	4,921	--	--
2032-2036	--	--	9,589	1,424	--	--
2037-2041	--	--	1,090	105	--	--
2042-2046	--	--	--	--	--	--
	<u>22,613</u>	<u>4,182</u>	<u>54,236</u>	<u>25,388</u>	<u>44,132</u>	<u>3,342</u>
Less: Unamortized bond discounts	(6)	--	--	--	--	--
Add: Unamortized bond premiums	1,466	--	4,578	--	1,405	--
Net debt service requirements	<u>24,073</u>	<u>4,182</u>	<u>58,814</u>	<u>25,388</u>	<u>45,537</u>	<u>3,342</u>

Fiscal Year Ended September 30	Other Tax Supported Debt		Commercial Paper Notes (1)		Revenue Bonds (2)(3)	
	Principal	Interest	Principal	Interest	Principal	Interest
	2017	539	470	129,920	67	178,415
2018	545	467	--	--	133,517	238,511
2019	455	575	--	--	132,734	207,346
2020	776	258	--	--	169,308	179,557
2021	820	226	--	--	184,730	168,360
2022-2026	4,520	584	--	--	982,425	711,811
2027-2031	--	--	--	--	906,320	490,754
2032-2036	--	--	--	--	602,980	319,828
2037-2041	--	--	--	--	609,756	160,685
2042-2046	--	--	--	--	355,524	37,379
	<u>7,655</u>	<u>2,580</u>	<u>129,920</u>	<u>67</u>	<u>4,255,709</u>	<u>2,743,120</u>
Less: Unamortized bond discounts	--	--	(4)	--	(2,066)	--
Add: Unamortized bond premiums	--	--	--	--	324,849	--
Net debt service requirements	<u>\$ 7,655</u>	<u>2,580</u>	<u>129,916</u>	<u>67</u>	<u>4,578,492</u>	<u>2,743,120</u>

- (1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt. (Continued)
- (2) A portion of these bonds are variable rate bonds with rates ranging from 0.01% to 0.68%.
- (3) Portions of these bonds are Special Assessment Revenue Bonds.

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

Business-type Activities, continued
(in thousands)

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

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

Business-type Activities: Austin Energy
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Commercial Paper Notes (1)		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
	2017	\$ 127	9	87,750	53	44,278
2018	115	7	--	--	39,376	59,398
2019	109	5	--	--	41,632	54,834
2020	50	2	--	--	47,368	53,011
2021	4	--	--	--	46,866	51,084
2022-2026	--	--	--	--	263,390	219,663
2027-2031	--	--	--	--	267,435	154,914
2032-2036	--	--	--	--	192,010	101,711
2037-2041	--	--	--	--	179,105	52,170
2042-2046	--	--	--	--	130,085	16,757
	<u>405</u>	<u>23</u>	<u>87,750</u>	<u>53</u>	<u>1,251,545</u>	<u>824,670</u>
Less: Unamortized bond discounts	--	--	(4)	--	(292)	--
Add: Unamortized bond premiums	1	--	--	--	87,937	--
Net debt service requirements	<u>406</u>	<u>23</u>	<u>87,746</u>	<u>53</u>	<u>1,339,190</u>	<u>824,670</u>

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

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

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

Business-type Activities: Austin Water Utility
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Contractual Obligations		Other Tax Supported Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 856	75	1,830	221	345	301
2018	599	35	1,608	174	349	299
2019	101	7	1,352	126	291	368
2020	64	5	1,052	83	497	165
2021	36	2	671	50	525	145
2022-2026	13	1	594	28	2,894	374
2027-2031	--	--	--	--	--	--
2032-2036	--	--	--	--	--	--
2037-2041	--	--	--	--	--	--
2042-2046	--	--	--	--	--	--
	<u>1,669</u>	<u>125</u>	<u>7,107</u>	<u>682</u>	<u>4,901</u>	<u>1,652</u>
Less: Unamortized bond discounts	--	--	--	--	--	--
Add: Unamortized bond premiums	84	--	333	--	--	--
Net debt service requirements	<u>1,753</u>	<u>125</u>	<u>7,440</u>	<u>682</u>	<u>4,901</u>	<u>1,652</u>

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

- (1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.
- (2) Portions of these bonds are variable rate bonds with rates of 0.01% - 0.65%.
- (3) Portions of these bonds are Special Assessment Revenue Bonds.

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

Business-type Activities: Airport
(in thousands)

Fiscal Year Ended September 30	General Obligation		Revenue Bonds (1)	
	Bonds		Principal	Interest
	Principal	Interest		
2017	\$ 24	2	21,940	21,211
2018	21	2	23,744	20,757
2019	20	1	24,249	19,897
2020	10	--	26,135	18,933
2021	2	--	26,150	17,954
2022-2026	1	--	137,610	74,802
2027-2031	--	--	59,825	56,282
2032-2036	--	--	56,465	43,281
2037-2041	--	--	72,050	27,292
2042-2046	--	--	71,740	7,393
	<u>78</u>	<u>5</u>	<u>519,908</u>	<u>307,802</u>
Less: Unamortized bond discounts	--	--	(314)	--
Add: Unamortized bond premiums	2	--	26,901	--
Net debt service requirements	<u>80</u>	<u>5</u>	<u>546,495</u>	<u>307,802</u>

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

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

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

Business-type Activities: Nonmajor Enterprise
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
	2017	\$ 2,399	931	2,141	2,260	10,252
2018	2,990	826	2,223	2,195	9,442	748
2019	2,941	702	2,321	2,128	7,843	479
2020	2,994	579	2,421	2,052	5,799	256
2021	3,212	441	2,541	1,970	2,614	112
2022-2026	5,925	550	14,658	8,333	1,075	45
2027-2031	--	--	17,252	4,921	--	--
2032-2036	--	--	9,589	1,424	--	--
2037-2041	--	--	1,090	105	--	--
	<u>20,461</u>	<u>4,029</u>	<u>54,236</u>	<u>25,388</u>	<u>37,025</u>	<u>2,660</u>
Less: Unamortized bond discounts	(6)	--	--	--	--	--
Add: Unamortized bond premiums	1,379	--	4,578	--	1,072	--
Net debt service requirements	<u>21,834</u>	<u>4,029</u>	<u>58,814</u>	<u>25,388</u>	<u>38,097</u>	<u>2,660</u>

Fiscal Year Ended September 30	Other Tax Supported Debt		Revenue Bonds (1)		Total Nonmajor Enterprise Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
	2017	194	169	12,150	5,940	27,136	10,320
2018	196	168	12,605	5,469	27,456	9,406	36,862
2019	164	207	13,120	4,949	26,389	8,465	34,854
2020	279	93	13,685	4,389	25,178	7,369	32,547
2021	295	81	9,080	3,921	17,742	6,525	24,267
2022-2026	1,626	210	50,900	13,960	74,184	23,098	97,282
2027-2031	--	--	48,460	3,427	65,712	8,348	74,060
2032-2036	--	--	--	--	9,589	1,424	11,013
2037-2041	--	--	--	--	1,090	105	1,195
	<u>2,754</u>	<u>928</u>	<u>160,000</u>	<u>42,055</u>	<u>274,476</u>	<u>75,060</u>	<u>349,536</u>
Less: Unamortized bond discounts	--	--	(149)	--	(155)	--	(155)
Add: Unamortized bond premiums	--	--	3,152	--	10,181	--	10,181
Net debt service requirements	<u>\$ 2,754</u>	<u>928</u>	<u>163,003</u>	<u>42,055</u>	<u>284,502</u>	<u>75,060</u>	<u>359,562</u>

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

6 – DEBT AND NON-DEBT LIABILITIES, continued
e -- Defeased Bonds

Over time, the City has issued refunding bonds to advance refund certain public improvement bonds, certificates of obligation, and enterprise revenue bonds. The proceeds of the sale of the refunding bonds were deposited with an escrow agent in an amount necessary to accomplish the discharge and final payment of the refunded obligations. These funds are held by the escrow agent in an escrow fund and used to purchase direct obligations of the United States of America to be held in the escrow fund. The escrow fund is irrevocably pledged to the payment of the principal and interest on the refunded obligations.

On September 30, 2016, defeased bonds remaining unredeemed or unmatured are provided below (in thousands):

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

(1) The balances shown have been escrowed to their respective call dates.

7 – RETIREMENT PLANS
a -- General Information

Plan Description. The City participates in funding three contributory, defined benefit retirement plans: the City of Austin Employees' Retirement and Pension Fund (City Employees), the City of Austin Police Officers' Retirement and Pension Fund (Police Officers), and the Fire Fighters' Relief and Retirement Fund of Austin, Texas (Fire Fighters). An Independent Board of Trustees administers each plan. These plans are City-wide single employer funded plans each with a fiscal year end of December 31.

All three plans were created by state law and can be found in Vernon's Texas Civil Statutes as follows:

City Employees' Fund	Article 6243n
Police Officers' Fund	Article 6243n-1
Fire Fighters' Fund	Article 6243e.1

State law governs benefit and contribution provisions. Amendments may be made by the Legislature of the State of Texas.

Plan Financial Statements. The most recently available financial statements of the pension funds are for the year ended December 31, 2015. Stand-alone financial reports that include financial statements and supplementary information for each plan are publicly available at the locations and internet addresses shown below.

Plan	Address	Telephone
City of Austin Employees' Retirement and Pension Fund	418 E. Highland Mall Blvd. Austin, Texas 78752-3720 www.coaers.org	(512)458-2551
City of Austin Police Officers' Retirement and Pension Fund	2520 S. IH 35, Ste. 100 Austin, Texas 78704 www.ausprs.org	(512)416-7672
Fire Fighters' Relief and Retirement Fund of Austin, Texas	4101 Parkstone Heights Dr., Ste. 270 Austin, Texas 78746 www.afrs.org	(512)454-9567

Classes of Employees Covered. The three pension plans cover substantially all full-time employees. The City Employees' fund covers all regular, full-time employees working 30 hours or more except for civil service police officers and fire fighters. Membership in this fund is comprised of two tiers. Group A includes all employees hired before January 1, 2012. Group B includes all employees hired on or after this date. The Police Officers' fund covers all commissioned law enforcement officers and cadets upon enrollment in the Austin Police Academy. The Fire Fighters' fund covers all commissioned civil service and Texas state-certified fire fighters with at least six months of service employed by the Austin Fire Department.

Benefits Provided. Each plan provides service retirement, death, and disability benefits as shown in the following chart. For the City Employees' fund, vesting occurs after 5 years of creditable service. For the other two systems, vesting occurs after 10 years of creditable service. For all three systems, creditable service includes employment at the City plus purchases of certain types of service where applicable. Withdrawals from the systems include actual contributions plus interest at varying rates depending on the system. This applies to both non-vested employees who leave the City as well as vested employees who leave the City and wish to withdraw their contributions. In addition, each plan offers various Deferred Retirement Option Programs (DROP). These are not included in the discussion of benefits provided.

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

	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>
Eligibility	Group A members qualify for retirement benefits at age 62; age 55 with 20 years creditable service; or any age with 23 years creditable service. No reduced benefits are available. Group B members qualify for normal retirement benefits at age 65 with 5 years creditable service or at age 62 with 30 years creditable service. Reduced benefits are available at age 55 with 10 years of creditable service.	Members are eligible for retirement benefits at any age with 23 years creditable service (excluding pre-membership military service), age 55 and 20 years creditable service (excluding pre-membership military service), or age 62 and any number of creditable service years.	Members are eligible for normal retirement benefits upon the earlier of age 50 with 10 years of service or 25 years of service regardless of age. Members are eligible for early retirement at 45 with 10 years of service or with 20 years of service regardless of age.
Calculation	Average of 36 highest months of base pay multiplied by years and months of creditable service multiplied by 3.0% for Group A and 2.5% for Group B.	Average of 36 highest months of base salary plus longevity pay multiplied by years and months of service multiplied by 3.2%.	Average of 36 highest months of base salary plus longevity pay multiplied by years of service multiplied by 3.3% with a \$2,000 monthly minimum.
Death Benefits	Retiree or active member eligible for retirement, \$10,000 lump sum and continuation of benefits to beneficiary if this option was selected. If not eligible for retirement, refund of accumulated deposits plus death benefit from COAERS equal to those deposits excluding purchases of time.	For retirees and members eligible for retirement, \$10,000 lump sum and the member's accrued benefit as of the date of death based on annuity selected. Non-vested members receive the greater of \$10,000 or twice the amount of the member's accumulated contributions.	Surviving spouse receives 75% of retiree benefits based on the greater of 20 years or years of service at time of death. If surviving spouse exists, each dependent receives 15% of the payment paid to the surviving spouse. If no surviving spouse exists, dependents split equally the amount that would have been paid to surviving spouse.
Disability Benefits	After approved for disability benefits, active members may choose from several different disability retirement options. Must have 5 years of service if disability is not job related.	After approved for disability benefits, if disability is the result of employment duties, benefit is based on the greater of 20 years or normal retirement calculation. Must have 10 years of service if disability is not job related.	For the first 30 months, eligible for retiree benefits based on the greater of service at time of disability or 20 years. After 30 months, continuance of annuity may be reevaluated.
Cost of Living Adjustments (COLA)	The plan does not require COLAs. Such increases must be deemed sustainable by the actuary and approved by the City Council and Board of Trustees of the fund. The most recent COLA was put into effect in 2002.	The plan does not require COLAs. Such increases must be approved by the Board of Trustees and the actuary of the fund. The most recent COLA was put into effect in 2007.	The plan does not require COLAs. Such increases must be approved by the Board of Trustees and the actuary of the fund. The most recent COLA was put into effect for 2015.

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

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

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

Contributions. For all three systems, minimum contributions are determined by the enabling legislation cited above. In certain cases the City may contribute at a level greater than that stated in the law. While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted.

	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>
Employee contribution (percent of earnings)	8.00%	13.00%	18.20% (1)
City contribution (percent of earnings)	18.00% (2)	21.313%	22.05%
City contributions year ended September 30, 2016 (in thousands)	\$102,609	33,141	19,145

(1) A rate of 18.70% was effective October 1, 2016.

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

The City's net pension liability was measured as of December 31, 2015 for all three systems. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date for the City Employees' fund. For the other two systems, the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 using the final 2015 assumptions and then was rolled forward to the plan's year ending December 31, 2015.

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

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

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

7 – RETIREMENT PLANS, continued

b -- Net Pension Liability

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

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

The following provides asset allocations and long-term expected real rate of return for each asset class for the three funds.

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

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

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

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of each of the pension funds of the City calculated using the long-term expected rate of return on pension plan investments, as well as what the net pension liability (in thousands) would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher than the current rate.

	<u>1% Decrease</u>		<u>Current Discount</u>		<u>1% Increase</u>	
	<u>Rate</u>	<u>Net Pension Liability</u>	<u>Rate</u>	<u>Net Pension Liability</u>	<u>Rate</u>	<u>Net Pension Liability</u>
City Employees	6.50%	\$ 1,654,883	7.50%	\$ 1,246,992	8.50%	\$ 906,949
Police Officers	6.80%	500,407	7.80%	384,735	8.80%	286,545
Fire Fighters	6.70%	224,760	7.70%	128,407	8.70%	47,350

Pension Plan Fiduciary Net Position. Detailed information about the pension plans' fiduciary net position is available in the separately issued financial report of each of the pension systems. These reports are available as explained in General Information (part a) of this footnote.

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

Schedule of Changes in Net Pension Liability. Changes in net pension liability for all three funds and the City for the measurement period ended December 31, 2015 are as follows (in thousands):

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

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

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

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

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

Changes to assumptions included:

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

The Fire Fighters' fund had no significant changes of assumptions or other inputs and no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

c -- Pension Expense

Total pension expense recognized by the City for the fiscal year ended September 30, 2016, was comprised of the following (in thousands):

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

7 – RETIREMENT PLANS, continued

d -- Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

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

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

The portion of deferred outflows of resources that will be recognized in pension expense is as follows (in thousands):

<u>Fiscal Year Ended September 30</u>	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>	<u>Total</u>
2017	\$ 90,722	14,346	15,401	120,469
2018	90,722	14,346	15,401	120,469
2019	90,503	14,346	15,401	120,250
2020	70,425	12,000	12,252	94,677
2021	5,491	1,804	1,442	8,737
Thereafter	--	5,803	2,884	8,687
Total	\$ 347,863	62,645	62,781	473,289

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

8 – OTHER POSTEMPLOYMENT BENEFITS

a -- Description

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

8 – OTHER POSTEMPLOYMENT BENEFITS, continued
a – Description, continued

The City is under no obligation to pay any portion of the cost of other postemployment benefits for retirees or their dependents. Allocation of City funds to pay other postemployment benefits is determined on an annual basis by the City Council as part of the budget approval process on a pay-as-you-go basis.

The City recognizes the cost of providing these benefits to active employees as an expense and corresponding revenue in the Employee Benefits Fund; no separate plan report is available. The City pays actual claims for medical and 100% of the retiree's life insurance premium. Group dental and vision coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental and vision premium.

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

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

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

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year and the two preceding years are as follows (in thousands):

Year Ended September 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 124,861	27%	690,265
2015	126,916	31%	777,699
2016	125,199	31%	863,584

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

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

(1) UAAL - Unfunded Actuarial Accrued Liability

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information, presents multiyear information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

8 – OTHER POSTEMPLOYMENT BENEFITS, continued
d -- Actuarial Methods and Assumptions

Projections of benefits are based on the plan in place at the time of the valuation and include the type of benefits provided at the valuation date and the cost sharing pattern between the employer and plan members at that time. The actuarial calculations of the OPEB plan reflect a long-term perspective and utilize actuarial methods and assumptions that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities.

e -- Funding Policy

The actuarial cost method and significant assumptions underlying the actuarial calculation are as follows:

OPEB	
Actuarial valuation date	October 1, 2014
Actuarial cost method	Projected Unit Credit
Amortization method	Level Percentage Open
Remaining amortization period	30 years
Asset valuation method	N/A
Investment rate of return	4.21%
Inflation rate	None
Salary increase	None
Payroll Increase	None
Health care cost trend rate	6.5% in 2016, decreasing 0.5% per year for four years to an ultimate trend of 5.0% in 2019

9 – DERIVATIVE INSTRUMENTS

The City has derivatives in two hedging programs: Energy Risk Management Program and Variable Rate Debt Management Program.

In accordance with GAAP, the City is required to report the fair value of all derivative instruments on the statement of net position. All derivatives must be categorized into two basis types – (1) hedging derivative instruments and (2) investment derivative instruments. Hedging derivative instruments significantly reduce an identified financial risk by substantially offsetting changes in cash flows or fair values of an associated hedgeable item. Investment derivative instruments are entered into primarily for income or profit purposes or they are derivative instruments that do not meet the criteria of an effective hedging derivative instrument. Changes in fair value of hedging derivative instruments are deferred on the statement of net position, and changes in fair value of investment derivative instruments are recognized as gains or losses on the statement of activities.

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

a -- Energy Risk Management Program

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

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

Hedging Derivative Instruments

Natural Gas Derivatives

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

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

Premiums paid for options are deferred until the contract is settled. As of September 30, 2016, \$139 thousand in premiums was deferred. As of September 30, 2016, the fair value of Austin Energy's futures, options, swaps and congestion revenue rights, was an unrealized loss of \$24.2 million, of which \$26.1 million is reported as derivative instruments in liabilities and \$1.9 million is reported as derivative instruments in assets. The fair values of these derivative instruments are deferred until future periods on the statement of net position using deferred outflows and deferred inflows.

Congestion Revenue Rights Derivatives

Preassigned Congestion Revenue Rights (PCRRs) and Congestion Revenue Rights (CRRs) function as financial hedges against the cost of resolving congestion in the Electric Reliability Council of Texas (ERCOT) market. These instruments allow Austin Energy to hedge expected future congestion that may arise during a certain period. CRRs are purchased at auction, annually and monthly at market value. Municipally owned utilities are granted the right to purchase PCRRs annually at 10-20% of the cost of CRRs. The instruments exhibit all three characteristics - settlement, leverage, and net settlement - to classify them as derivative instruments.

As of September 30, 2016, PCRRs had a fair value of \$570 thousand and CRRs had a fair value of \$751 thousand, and both are reported as derivative instruments. The market value for CRRs and PCRRs is calculated using the implied market value (the difference between future proxy sink price and source price) multiplied by the number of open positions, hierarchy level 2 market approach. The difference in the prices represents what the expected cost of congestion will be for that given point in time.

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

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

- (1) Volume in MMBTUs
- (2) IntercontinentalExchange
- (3) Volume in MWHs

Austin Energy routinely purchases derivative instruments. The outstanding hedging derivative instruments were purchased at various dates.

The realized gains and losses related to the hedging activity derivative instruments are netted to fuel expense in the period realized.

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

Risks

Credit Risk. Credit risk is the risk of loss due to a counterparty defaulting on its obligations. Austin Energy's fuel derivative contracts expose Austin Energy to custodial credit risk on Exchange Traded derivative positions. In the event of default or nonperformance by brokers or the exchange, Austin Energy's operations will not be materially affected. However, Austin Energy does not expect the brokerages to fail to meet their obligations given their high credit ratings and the strict and deep credit requirements upheld by NYMEX, of which these brokerage houses are members. At September 30, 2016, the brokerages had credit ratings of A.

The over-the-counter agreements expose Austin Energy to credit risk; however, at September 30, 2016, none of the counterparties had outstanding obligations with Austin Energy. The contractual provisions applied to these contracts under the International Swaps and Derivatives Association (ISDA) agreement include collateral provisions. At September 30, 2016, no collateral was required under these provisions.

The congestion revenue rights expose Austin Energy to custodial credit risk in the event of default or nonperformance by ERCOT. In the event of default or nonperformance, Austin Energy's operations will not be materially affected. However, Austin Energy does not expect ERCOT to fail in meeting their obligations as they are a regulatory entity of the State of Texas.

Termination Risk. Termination risk is the risk that a derivative will terminate prior to its scheduled maturity due to a contractual event. Contractual events include illegality, tax and credit events upon merger and other events. Termination risk for exchange-traded instruments is greatly reduced by the strict rules and guidelines set up by the exchange, which is governed by the Commodity Futures Trade Commission. Austin Energy's exposure to termination risk for over-the counter agreements is minimal due to the high credit rating of the counterparties and the contractual provisions under the ISDA agreement applied to these contracts. Termination risk is associated with all of Austin Energy's derivatives up to the fair value of the instrument.

Netting Arrangements. Austin Energy enters into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by or owed to the non-defaulting party.

Basis Risk. Austin Energy is exposed to basis risk on its fuel hedges because the expected commodity purchases being hedged will price based on a delivery point (WAHA/Katy/HSC) different than that at which the financial hedging contracts are expected to settle NYMEX (Henry Hub). As of September 30, 2016, the NYMEX price was \$2.95 per MMBTU (one million British thermal unit, a measurement of heating value), the WAHA Hub price was \$2.80 per MMBTU, Katy was \$2.81 per MMBTU, and the HSC Hub price was \$2.94 per MMBTU.

Investment Derivative Instruments

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

Risks

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

b -- Variable Rate Debt Management Program
Hedging Derivative Instruments

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

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

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

On September 30, 2016, the City had the following outstanding interest rate swap hedging derivative instruments (in thousands):

Item	Related Variable Rate Bonds	Terms	Effective Date	Maturity Date	Notional Amount	Fair Value
Business-Type Activities - Hedging derivatives:						
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	Pay 3.600%, receive SIFMA swap index	5/15/2008	5/15/2031	\$ 113,890	(23,426)
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Pay 4.051%, receive 71% of LIBOR	8/17/2005	11/15/2025	181,925	(32,027)
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Pay 3.251%, receive 67% of LIBOR	8/14/2008	11/15/2029	93,155	(15,071)
					<u>\$ 388,970</u>	<u>(70,524)</u>

All swaps are pay-fixed interest rate swaps. All were entered into with the objective of hedging changes in the cash flows on the related variable rate debt.

The fair value of the City's interest rate swap hedging derivative instruments is reported as derivative instruments in liabilities with an offsetting adjustment to deferred outflow of resources. The table below provides for the fair value and changes in fair value of the City's interest rate swap agreements as of September 30, 2016 (in thousands):

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

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

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

Risks

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

The counterparty credit ratings for the City's interest rate swap hedging derivative instruments at September 30, 2016, are included in the table below:

Item	Related Variable Rate Bonds	Counterparty	Counterparty Ratings		
			Moody's Investors Service, Inc	Standard & Poor's	Fitch, Inc
Business-Type Activities:					
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	Goldman Sachs Bank USA	A1	A-	A
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Morgan Stanley Capital Services, LLC	A3	BBB+	A
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Morgan Keegan Financial Products (MKFP)	Baa2	BBB+	A-

Swap agreements for all three swaps contain collateral agreements with the counterparties. These swap agreements require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreements. For Swap AIR1, the City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/S&P. For Swap HOT1, the credit support provider of MKFP is Deutsche Bank AG, New York Branch (DBAG). This swap requires collateralization of the fair value of the swap should DBAG's credit rating fall below the applicable thresholds in the agreement.

Swap payments and associated debt. The net cash flows for the City's interest rate swap hedging derivative instruments for the year ended September 30, 2016, are included in the table below (in thousands):

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

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

Basis and interest rate risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City does not bear basis risk on Swap WW2. At September 30, 2016, the City bears basis risk on the two remaining swaps. These swaps have basis risk since the City receives a percentage of LIBOR to offset the actual variable rate the City pays on the related bonds. The City is exposed to basis risk should the floating rate that it receives on a swap drop below the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

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

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

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

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

Investment Derivative Instruments

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

c – Swap Payments and Associated Debt

As of September 30, 2016, debt service requirement of the City's variable rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows (as rates vary, variable rate bond interest payments and net swap payments will vary):

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

10 – DEFICITS IN FUND BALANCES AND NET POSITION

At September 30, 2016, the following funds reported deficits in fund balances/net position (in thousands). Management intends to recover these deficits through future operating revenues, transfers, or debt issues.

<u>Nonmajor Governmental</u>	<u>Deficit</u>
Special Revenue Funds:	
Auto Theft Interdiction	\$ 23
Neighborhood Housing & Conservation	6,326
City Hall	21
Capital Projects Funds:	
Other funds	
General government projects	538
Public Works	218
Watershed Protection	718
City Hall, plaza, parking garage	7,032
Internal Service Funds	
Capital Projects Management	1,808
Nonmajor Enterprise	
Austin Resource Recovery	50,773
Transportation	25,616

11 – INTERFUND BALANCES AND TRANSFERS

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

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

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

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

11 – INTERFUND BALANCES AND TRANSFERS, continued

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

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

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

12 – SELECTED REVENUES
a -- Major Enterprise Funds

Austin Energy and Austin Water Utility

The Texas Public Utility Commission (PUC) has jurisdiction over electric utility wholesale transmission rates. On June 3, 2014, the PUC approved the City's most recent wholesale transmission rate of \$1.160111/KW. Transmission revenues totaled approximately \$76 million in 2016. The City Council has jurisdiction over all other electric utility rates and over all water and wastewater utility rates and other services. The Council determines electric utility and water and wastewater utility rates based on the cost of operations.

Under a bill passed by the Texas Legislature in 1999, municipally-owned electric utilities such as the City's utility system have the option of offering retail competition after January 1, 2002. As of September 30, 2016, the City has elected not to enter the retail market, as allowed by state law.

Electric rates include a fixed-rate component and cost-adjustment factors that allow for recovery of power supply, regulatory, and community benefit costs. If actual power supply costs differ from amounts billed to customers, then regulatory assets or deferred inflows are recorded by Austin Energy. The power supply factor is reviewed annually or when over- or under-recovery is more than 10% of expected power supply costs. Any over- or under-collections of the power supply, regulatory, or community benefit costs are applied to the respective cost-adjustment factor.

Airport

The City has entered into certain lease agreements as the lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In the fiscal year 2016, the Airport fund revenues included minimum concession guarantees of \$20,856,591.

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

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

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

Projection of minimum future rentals for the Austin-Bergstrom Landhost Enterprises, Inc. is based on the current adjusted minimum rent for the period January 1, 2010 through December 31, 2015. The minimum rent is adjusted every five years commensurate with the percentage increase in the Consumer Price Index (CPI) – Urban Wage Earners and Clerical workers, U.S. Owner Average, published by the U.S. Department of Labor Bureau of Labor Statistics over the five-year period.

b -- Operating Lease Revenue

The City has entered into various lease agreements as the lessor of office space, antenna space and ground leases. Minimum guaranteed income on these non-cancelable operating leases is as follows (in thousands):

Fiscal Year Ended September 30	Future Lease Receivables
2017	\$ 2,123
2018	1,773
2019	1,686
2020	1,627
2021	1,187
2022-2026	5,091
Totals	<u>\$ 13,487</u>

13 – COMMITMENTS AND CONTINGENCIES

a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with LCRA. Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. A management committee of four members governs FPP; each participant administratively appoints two members. As managing partner, LCRA is responsible for the operation of the project and appoints project management.

Austin Energy's investment is financed through operations, revenue bonds, or commercial paper, which are repaid by Austin Energy (see Note 6), and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's pro-rata interest in FPP was \$32.5 million as of September 30, 2016. The decrease in the pro-rata interest from 2015 is primarily due to a decrease in coal inventory and construction work in progress. The pro-rata interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements. The original cost of Austin Energy's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of the City in accordance with its accounting policies.

13 – COMMITMENTS AND CONTINGENCIES, continued
b -- South Texas Project

Austin Energy is one of three participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are NRG South Texas LP and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2016, Austin Energy's investment in the STP was approximately \$375.4 million, net of accumulated depreciation.

Effective November 17, 1997, the participation agreement among the owners of STP was amended and restated, and the STP Nuclear Operating Company (STPNOC), a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. Each participant is responsible for its STP funding. The City's portion is financed through operations, revenue bonds, or commercial paper, which are repaid by Austin Energy (see Note 6). In addition, each participant has the obligation to finance any deficits that may occur.

Each participant appoints one member to the board of directors of STPNOC, as well as one other member to the management committee. A member of the management committee may serve on the board of directors in the absence of a board member. The City's portion of STP is classified as plant in service, construction in progress, and nuclear fuel inventory. Nuclear fuel includes fuel in the reactor as well as nuclear fuel in process.

STP requested a 20-year license extension for units 1 & 2 with the Nuclear Regulatory Commission (NRC). The current licenses expire in 2027 and 2028, respectively. Final license issuances are dependent upon the Waste Confidence Decision; however, licensing reviews and proceedings continue to move forward.

c -- South Texas Project Decommissioning

Austin Energy began collecting in rates and accumulating funds for decommissioning STP in 1989 in an external trust. The Decommissioning Trust assets are reported as restricted investments held by trustee. The related liability is reported as a decommissioning liability payable. Excess or unfunded liabilities related to decommissioning STP will be adjusted in future rates so that there are sufficient funds in place to pay for decommissioning. At September 30, 2016, the trust's assets were in excess of the estimated liability by \$31.5 million which is reported as part of deferred inflows of resources (in thousands):

Decommissioning trust assets	\$ 210,545
Pro rata decommissioning liability	<u>(179,017)</u>
	<u>\$ 31,528</u>

STP is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit a certificate of financial assurance to the NRC for plant decommissioning every two years or upon transfer of ownership. The certificate provides reasonable assurance that sufficient funds are being accumulated to provide the minimum requirement for decommissioning mandated by the NRC. The most recent annual calculation of financial assurance filed on December 31, 2014, showed that the trust assets exceeded the minimum required assurance by \$24.7 million.

d -- Purchased Power

Austin Energy has commitments totaling \$6.5 billion to purchase energy and capacity through purchase power agreements. This amount includes provisions for wind power through 2041, landfill power through 2017, biomass through 2032, and solar through 2042.

e -- Decommissioning and Environmental/Pollution Remediation Contingencies

Austin Energy may incur costs for environmental/pollution remediation of certain sites including the Holly, Fayette, and Decker Power Plants. At September 30 2016, the financial statements includes a \$7.3 million short-term decommissioning liability related to Holly and a \$400 thousand short-term environmental liability related to Fayette and Decker, classified as other liabilities. The amount is based on 2016 cost estimates to perform remediation and decommissioning. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

13 – COMMITMENTS AND CONTINGENCIES, continued

e -- Decommissioning and Environmental/Pollution Remediation Contingencies, continued

Austin Water Utility closed the Green Water Treatment Plant (GWTP) on September 23, 2008. The total decommissioning cost to close the GWTP was \$10.6 million. Plant decommissioning reached final completion in fiscal year 2012. During fiscal year 2013, redevelopment activities of the former GWTP site triggered the recognition of an additional \$3.1 million in environmental liabilities related to additional remediation of the site. The financial statements include a liability of approximately \$1.1 million at September 30, 2016. Austin Water Utility anticipates payment of these costs in 2017. The amount is based on 2016 cost estimates to perform remediation and decommissioning. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

f -- Arbitrage Rebate Payable

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

g -- Federal and State Financial Assistance Programs

The City participates in a number of federally assisted and state grant programs, financed primarily by the U.S. Housing and Urban Development Department, U.S. Health and Human Services Department, and U.S. Department of Agriculture. The City's programs are subject to program compliance audits by the grantor agencies. Management believes that no material liability will arise from any such audits.

h -- Capital Improvement Plan

As required by charter, the City has a *Capital Improvements Program* plan (capital budget) covering a five-year period which details anticipated spending for projects in the upcoming and future years. The City's 2016 Capital Budget has substantial contractual commitments relating to its capital improvement plan.

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

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

13 – COMMITMENTS AND CONTINGENCIES, continued
i -- Encumbrances

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

	<u>Encumbrances</u>
General Fund	\$ 16,373
Nonmajor governmental	
Special Revenue	22,900
Capital Projects	99,802
	<u>\$ 139,075</u>

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

j -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, a portion of these future closure and postclosure care costs are reported as an operating expense in each period as incurred in the Austin Resource Recovery Fund, a nonmajor enterprise fund. Substantial closure occurred in fiscal year 2011. Flooding in fiscal year 2015 has delayed final closure, which is expected in fiscal year 2018. While the landfill only reached 99.04% capacity, the City is no longer accepting waste. The amount of costs reported, based on landfill capacity of 100% as of September 30, 2016, is as follows (in thousands):

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

These amounts are based on the 2016 cost estimates to perform closure and postclosure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

k -- Risk-Related Contingencies

The City uses internal service funds to account for risks related to health benefits, third-party liability, and workers' compensation. The funds are as follows:

<u>Fund Name</u>	<u>Description</u>
Employee Benefits	City employees and retirees may choose a self-insured PPO, HMO, or CDHP with HSA for health coverage. Approximately 24% of City employees and 31% of retirees use the HMO option; approximately 71% of City employees and 68% of retirees use the PPO option; and approximately 5% of City employees and 0.17% of retirees use the CDHP with HSA option. Costs are charged to City funds through a charge per employee per pay period.
Liability Reserve	This self-insured program includes losses and claims related to liability for bodily injury, property damage, professional liability, and certain employment liability. Premiums are charged to other City funds each year based on historical costs.
Workers' Compensation	Premium charges for this self-insured program are assessed to other funds each year based on the number of full-time equivalent (FTE) employees per fund.

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

The City purchases stop-loss insurance for the City's PPO and HMO. This stop-loss insurance covers individual claims that exceed \$500,000 per calendar year, up to a maximum of \$5 million. In fiscal year 2016, sixteen claims exceeded the stop-loss limit of \$500,000; during fiscal year 2015, fourteen claims exceeded the stop-loss limit of \$500,000, and during fiscal year 2014, sixteen claims exceeded the stop-loss limit of \$500,000. City coverage is unlimited for lifetime benefits. The City does not purchase stop-loss insurance for workers' compensation claims.

The City is self-insured for much of its risk exposure; however, the City purchases commercial insurance coverage for loss or damage to real property, theft and other criminal acts committed by employees, and third party liability associated with the airport, owned aircraft, and electric utility operations. There have been no claims settlements in excess of the purchased insurance coverage for the last three years. The City also purchases insurance coverage through a program that provides workers' compensation, employer's liability, and third party liability coverage to contractors working on designated capital improvement project sites.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund. Claims liabilities for the Liability Reserve Fund are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. Possible losses are estimated to range from \$49.3 to \$56.7 million. In accordance with GAAP, \$49.3 million is recognized as claims payable in the financial statements with \$24.5 million recognized as a current liability and \$24.8 million recognized as long term. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

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

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

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

l -- Redevelopment of Robert Mueller Municipal Airport

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

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

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

The development contains over 1.33 million square feet of civic, institutional, hotel and Class A office space and approximately 602,000 square feet of retail space that is either complete or under construction. Over 80 employers provide approximately 5,000 jobs at Mueller. From the start of home sales in 2007, the community has been well received. As of September 30, 2016, approximately 1,529 single-family homes and 1,981 multi-family units were either complete or under construction. Catellus has also started the infrastructure for an additional 195 single-family homes.

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

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

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

In July 2013, the City issued \$12,590,000 of Special Assessment Revenue Bonds, Series 2013 related to the Estancia Hill Country Public Improvement District. The bonds are special obligations of the City payable solely from the assessments levied against parcels within the Public Improvement District and other pledged funds held under the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. The City is acting as an agent for the property owners within the district in collecting the future assessments, forwarding collections to trustees, approving bond proceed disbursements, and initiating any future foreclosures. At September 30, 2016, annual future installments of \$23,500,825 remain to be billed against the original levied assessments of \$27,039,350. The aggregate principal outstanding at September 30, 2016 is \$11,960,000.

n -- Capital Leases

The City has entered into a lease agreement to finance equipment for business-type activities. This lease agreement qualifies as a capital lease for accounting purposes and has been recorded at the present value of the future minimum lease payments at their inception date. The lease agreement ends in 2031. See Note 6 for the debt service requirements on this lease.

The following summarizes capital assets recorded at September 30, 2016, under capital lease obligations (in thousands):

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

o -- Operating Leases

The City is committed under various leases for building and office space, tracts of land and rights-of-way, and certain equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2016, was \$21.3 million.

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

14 – LITIGATION

A number of claims and lawsuits against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and City management are of the opinion that settlement of these claims and lawsuits will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2016. These liabilities, reported in the government-wide statement of net position, include amounts for claims and lawsuits settled subsequent to year-end.

15 – CONDUIT DEBT

The City has issued several series of housing revenue bonds to provide for low cost housing. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. As of September 30, 2016, \$71.8 million in housing revenue bonds were outstanding with an original issue value of \$80.5 million.

Revenue bonds have been issued by various related entities to provide for facilities located at the airport and convention center. These bonds are special limited obligations payable solely from and secured by a pledge of revenue to be received from agreements between the entities and various third parties. As of September 30, 2016, \$146.7 million in revenue and revenue refunding bonds were outstanding with an original issue value of \$148.6 million.

The above bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements.

16 – SEGMENT INFORMATION – CONVENTION CENTER

The Convention Center provides event facilities and services to its customers. Below are the condensed financial statements for this segment (in thousands):

Condensed Statement of Net Position	
ASSETS	
Current assets	\$ 133,834
Capital assets	216,202
Other noncurrent assets	13,344
Total assets	<u>363,380</u>
Deferred outflows of resources	<u>34,997</u>
LIABILITIES	
Other current liabilities	22,206
Other noncurrent liabilities	221,597
Total liabilities	<u>243,803</u>
Deferred inflows of resources	<u>270</u>
NET POSITION	
Net investment in capital assets	38,560
Restricted	24,907
Unrestricted	90,837
Total net position	<u>\$ 154,304</u>

16 – SEGMENT INFORMATION – CONVENTION CENTER, continued

Condensed Statement of Revenues, Expenses, and Changes in Net Position	
OPERATING REVENUES	
User fees and rentals	\$ 33,221
Total operating revenues	<u>33,221</u>
OPERATING EXPENSES	
Operating expenses before depreciation	48,401
Depreciation and amortization	9,112
Total operating expenses	<u>57,513</u>
Operating income (loss)	(24,292)
Nonoperating revenues (expenses)	(36,730)
Transfers	71,894
Change in net position	<u>10,872</u>
Total net position - beginning	143,432
Total net position - ending	<u>\$ 154,304</u>

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

17 – DISCRETELY PRESENTED COMPONENT UNITS

Condensed financial information is included below for the discretely presented component units of the City. See Note 1 for the additional information about how to obtain the complete financial statements of these organizations. The most recently available financial statements for Austin Bergstrom Landhost Enterprises, Inc. and Austin Convention Enterprises, Inc. are for the year ended December 31, 2015. The condensed financial statements of Waller Creek Local Government Corp. are presented for the year ended September 30, 2016 (in thousands):

Condensed Combining Statement of Net Position				
	Austin Bergstrom Landhost Enterprises, Inc.	Austin Convention Enterprises, Inc.	Waller Creek Local Government Corp.	Total
ASSETS				
Current assets	\$ 1,045	7,983	--	9,028
Capital assets	23,374	166,143	--	189,517
Noncurrent assets	2,005	73,727	--	75,732
Total assets	<u>26,424</u>	<u>247,853</u>	<u>--</u>	<u>274,277</u>
Deferred outflows of resources	<u>--</u>	<u>17,860</u>	<u>--</u>	<u>17,860</u>
LIABILITIES				
Current Liabilities	6,212	13,978	--	20,190
Bonds payable, net of discount and inclusive of premium	58,678	245,632	--	304,310
Noncurrent liabilities	7	--	--	7
Total liabilities	<u>64,897</u>	<u>259,610</u>	<u>--</u>	<u>324,507</u>
NET POSITION				
Net investment in capital assets	(35,305)	(65,435)	--	(100,740)
Restricted	--	21,427	--	21,427
Unrestricted (deficit)	(3,168)	50,111	--	46,943
Total net position	<u>\$ (38,473)</u>	<u>6,103</u>	<u>--</u>	<u>(32,370)</u>

17 – DISCRETELY PRESENTED COMPONENT UNITS, continued

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

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

18 – SUBSEQUENT EVENTS

a -- General Obligation Bond Issue

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

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

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

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

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

18 – SUBSEQUENT EVENTS, continued

b – Water and Wastewater – System Revenue Bond Issue

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

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

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

d – Airport – System Revenue Bond Issue

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

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

e – Austin Energy – System Revenue Bond Issue

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



**REQUIRED
SUPPLEMENTARY
INFORMATION**





General Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2016
(In thousands)

City of Austin, Texas
RSI

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

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

BUDGET BASIS REPORTING

a -- General

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

The General Fund, as reported in the financial statements is comprised of ten separately budgeted funds: the Budgetary General Fund, as budgeted by the City, plus the Budget Stabilization Reserve, Community Development Incentives, Economic Development, Economic Incentives Reserve, Emergency Reserve, Green Water Treatment Plant Land Sale Proceeds, Long Center Capital Improvements, Music Venue Assistance Program, and Neighborhood Housing and Community Development activities.

The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The expenditure budget for these general city requirements includes the following: tuition reimbursement (\$465,000), customer service call center (\$2,954,289) and interdepartmental charges (\$1,292,136).

b -- Budget Amendments

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

c -- Reconciliation of GAAP Basis and Budget Basis Amounts

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

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

RETIREMENT PLANS-TREND INFORMATION

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

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

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

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

RETIREMENT PLANS-TREND INFORMATION, continued

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

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

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

RETIREMENT PLANS-TREND INFORMATION, continued

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

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

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

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

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

RETIREMENT PLANS-TREND INFORMATION, continued

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

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

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

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

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

RETIREMENT PLANS-TREND INFORMATION, continued

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

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

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

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

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

Valuation Date: December 31 of each calendar year occurring during the fiscal year.
 Notes: Members and employers contribute based on statutorily fixed or negotiated rates. A funding period is solved for through open group projections.

A new set of assumptions was adopted for the December 31, 2015 actuarial valuation and will be reflected for the Actuarially Determined Contribution (ADC) determined for the 2016 plan year. The 2016 assumptions apply to the portion of the employer's ADC contributed during the period January 1, 2016 to September 30, 2016.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method: Entry Age Normal (all years)
 Asset Valuation Method: 20% of market plus 80% of expected actuarial value (all years)
 Inflation: 2.75% for 2016 and 3.25% for 2015
 Salary Increases: 4.00% to 6.25% for 2016 and 4.50% to 6.00% for 2015
 Investment Rate of Return: 7.50% for 2016 and 7.75% for 2015
 Retirement Age: 2016 - Experience-based table of rates that are gender specific. Updated for December 31, 2015 valuation pursuant to an experience study for the 5-year period ending December 31, 2015.
 2015 - For previous valuation updated on December 31, 2012 valuation pursuant to an experience study of the 5-year period ending December 31, 2011.
 Mortality: For 2016 RP-2014 Mortality Table with Blue Collar adjustment. Generational mortality improvements in accordance with Scale BB are projected from the year 2014.
 For 2015 RP-2000 Mortality Table with White Collar adjustment and multipliers of 110% for males and 120% for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.

Other Information: There were no benefit changes during the periods displayed.

RETIREMENT PLANS-TREND INFORMATION, continued

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

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

- (1) "Covered-employee payroll" for 2015 was restated to "covered payroll" to conform with the requirements of GASB Statement No. 82.
 (2) Statutorily required contribution for Police Officers decreased from 21.63% in 2015 to 21.313% in 2016

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

OTHER POSTEMPLOYMENT BENEFITS-TREND INFORMATION

Under GAAP, the City is required to have an actuarial valuation of its other postemployment benefits program every other year. The Schedule of Funding Progress for other postemployment benefits is as follows (in thousands):

Fiscal Year Ended September 30	Valuation Date, October 1	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
2011	2010	\$ --	1,404,692	1,404,692	0.0%	668,679	210.1%
2013	2012	--	1,384,490	1,384,490	0.0%	696,559	198.8%
2015	2014	--	1,449,238	1,449,238	0.0%	775,527	186.9%

- (1) UAAL – Unfunded Actuarial Accrued Liability (Excess)

Supplementary information for the OPEB plan can be found in Note 8.

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APPENDIX H

SUMMARY OF CERTAIN PROVISIONS OF THE REVENUE BOND ORDINANCES

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SUMMARY OF CERTAIN PROVISIONS OF THE REVENUE BOND ORDINANCES

General

The following constitutes a summary of certain portions of the Revenue Bond Ordinances. This summary should be qualified by reference to other provisions of the Revenue Bond Ordinances referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Revenue Bond Ordinances in this Official Statement are, separately and in whole, qualified by reference to the exact terms of the Revenue Bond Ordinances, a copy of which may be obtained from the City.

Selected Definitions

“Additional Revenue Bonds” means the additional parity revenue bonds permitted to be issued by the City pursuant to the Revenue Bond Ordinances.

“Administrative Expense Fund” means the fund so designated in the Revenue Bond Ordinances.

“Administrative Expenses” means the fees, expenses, and indemnification liabilities payable to the Persons to whom fees and expenses are due and owing in connection with the Revenue Bonds and Credit Agreement Obligations incurred in connection with a related series of Revenue Bonds, including, but not limited to the fees and expenses of the Paying Agent/Registrars, the Credit Providers, the rebate analysts, the remarketing agents and the tender agents, and of which the City is given actual notice at least thirty (30) days prior to the date payment of these amounts is due.

“Airport” means the air carrier airport developed, constructed and operated by the City pursuant to the city-wide election held within the City on May 1, 1993, and designated as the Austin-Bergstrom International Airport (ABIA).

“Airport Consultant” means a nationally recognized independent firm, person or corporation having a widely known and favorable reputation for special skill, knowledge and experience in methods of developing, operating and financing of airports of approximately the same size as the properties constituting the Airport System.

“Airport System” means all airport, heliport and aviation facilities, now or from time to time owned, operated or controlled in whole or in part by the City, including the Airport, together with all properties, facilities and services of the Airport, and all additions, extensions, replacements and improvements to the Airport, and all services currently provided, or to be provided, by the City in connection with the Airport, but expressly excluding (i) any heliport or heliports operated by City Departments other than the Aviation Department, (ii) the Austin consolidated rental car facility, financed by the issuance of City of Austin, Texas Rental Car Special Facility Revenue Bonds, Taxable Series 2013, as Special Facilities, and (iii) the Mueller Airport Property.

“Aviation Director” means the Executive Director of the City’s Department of Aviation, or any successor or person acting in that capacity.

“Bond Insurer” means Assured Guaranty Municipal Corp. (the successor to Financial Security Assurance, Inc., a New York stock insurance company), or any successor to or assigned of Assured Guaranty Municipal Corp.

“Bonds” means the City of Austin, Texas, Airport System Revenue Bonds, Series 2017A and the City of Austin, Texas, Airport System Revenue Bonds, Series 2017B (AMT), authorized by the ordinances adopted by the City on City on December 15, 2016.

“Business Day” means any day other than a Saturday, Sunday or legal holiday or other day on which banking institutions in the City, or in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are generally authorized or obligated by law or executive order to close.

“Capital Fund” means the fund so designated in the Revenue Bond Ordinances.

“Capitalized Interest Account” means the account so designated in the Revenue Bond Ordinances.

“Code” means the Internal Revenue Code of 1986.

“Construction Fund” means the fund so designated in the Revenue Bond Ordinances.

“Credit Agreement” means (i) any agreement of the City entered into in connection with and for the purpose of (A) enhancing or supporting the creditworthiness of a series of Revenue Bonds or (B) providing liquidity with respect to Revenue Bonds which by their terms are subject to tender for purchase, and which, by its terms, creates a liability on the part of the City on a parity with the Revenue Bonds to which it relates, and (ii) a Swap Agreement.

“Credit Agreement Obligations” means any amounts payable by the City under and pursuant to a Credit Agreement other than amounts payable as an Administrative Expense.

“Currently Outstanding Revenue Bonds” means the Series 2005 Bonds, the Series 2013 Bonds and the Series 2013A Bonds.

“Debt Service” means (i) with respect to a series of Revenue Bonds, an amount equal to the Principal Installment, redemption premium, if any, and interest on such Revenue Bonds, (ii) with respect to a Credit Agreement other than a Swap Agreement, amounts payable as Credit Agreement Obligations, and (iii) with respect to a Swap Agreement, regularly scheduled amounts payable by the City under a Swap Agreement, so long as the counterparty is not in default (specifically excluding Termination Payments, which shall constitute Subordinate Obligations).

“Debt Service Fund” means the fund so designated in the Revenue Bond Ordinances.

“Debt Service Requirements” means for any particular period of time, an amount equal to the sum of the following for such period with respect to all or any portion of Revenue Bonds or Credit Agreement Obligations, as applicable, then Outstanding:

A. That portion of interest which would accrue with respect to Revenue Bonds during such period if interest were deemed to accrue only during the 6 month period prior to its payment (12 month period in the case of capital appreciation or compound interest bonds), plus

B. That portion of the principal amount of Revenue Bonds which would accrue during such period if principal was deemed to accrue only during the 12 month period prior to its scheduled payment date (either at maturity or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory Revenue Bond redemptions),

less and except any such interest or principal for the payment of which provision has been made by: (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest or principal either from proceeds of bonds, from interest earned or to be earned thereon, from Airport System funds other than Net Revenues, or from any combination of such sources; and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a dedicated fund or account (including, without limitation, the Capitalized Interest Account), the proceeds of which are required to be transferred as needed into the Debt Service Fund or directly to the Paying Agent/Registrar for the Revenue Bonds.

“Debt Service Reserve Fund” means the fund so designated in the Revenue Bond Ordinances.

“Debt Service Reserve Fund Requirement” means the amount required to be maintained in the Debt Service Reserve Fund. This amount shall be computed and recomputed annually as a part of the City’s budget process and upon the issuance of each series of Revenue Bonds to be the arithmetic average of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Revenue Bonds then Outstanding including the series of Revenue Bonds then being issued. In no event, however, will the amount deposited in the Debt Service Reserve Fund that is allocable to the Revenue Bonds or Additional Revenue Bonds, in accordance with section 1.148-6 of the regulations promulgated under the Code, exceed the least of: (a) 10% of the stated principal amount of each issue of which such Revenue Bonds or Additional Revenue Bonds are a part; (b) the maximum annual principal and interest requirements of the issue; or (c) 125% of the average annual principal and interest requirements of the issue, unless there is received an opinion of nationally recognized bond counsel to the effect that such additional amount will not cause the Revenue Bonds and any Additional Revenue Bonds to be “arbitrage bonds” within the meaning of section 148 of the Code and the related regulations promulgated from time to time.

“Debt Service Reserve Fund Surety Bond” means any surety bond or insurance policy having a rating in the highest respective rating categories by Moody’s and Standard & Poor’s issued to the City for the benefit of the Owners of the Revenue Bonds to satisfy any part of the Debt Service Reserve Fund Requirement as provided in the Revenue Bond Ordinances.

“Defeasance Obligations” means: (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States; (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their purchase, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent; and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date council adopts or approves the proceedings authorizing the financial arrangements, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent.

“Federal Payments” means those funds received by the Airport System from the federal government or any agency of the federal government as payments for the use of any facilities or services of the Airport System.

“Fiscal Year” means the City’s fiscal year as from time to time designated by the City, which is currently October 1 to September 30.

“General Obligation Airport Bonds” means those bonds or other obligations of the City secured by a levy of ad valorem taxes from time to time issued or to be issued by the City for Airport System purposes.

“Gross Revenues” means all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to all or any part of the Airport System, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport System, or otherwise, and includes, except to the extent expressly excluded below, all revenues received by the City from the Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport System, or for any service rendered by the City in the operation of the Airport System, interest and other income realized from the investment or deposit of amounts required to be transferred or credited to the Revenue Fund. Gross Revenues **expressly excludes**:

- (a) proceeds of any Revenue Bonds and Subordinate Obligations;
- (b) interest or other investment income derived from Revenue Bonds and Subordinate Obligation proceeds deposited to the credit of a construction fund, and all other interest or investment income not required to be transferred or credited to the Revenue Fund;
- (c) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport System facilities, except to the extent any such monies shall be received as payments for the use of the Airport System facilities;
- (d) any revenues derived from any Special Facilities (e.g. customer facility charges) which are pledged to the payment of Special Facilities Bonds;
- (e) insurance proceeds other than loss of use or business interruption insurance proceeds;
- (f) the proceeds of the passenger facility charge (PFC) currently imposed by the City and any other per-passenger charge as may be lawfully authorized;
- (g) sales and other taxes collected by the Airport System on behalf of the State of Texas and any other taxing entities;
- (h) Federal Payments received by the Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Bonds to be includable within the gross income of the Owners thereof for federal income tax purposes;
- (i) the proceeds received by the City from the sale or other disposition of Airport System property, except amounts representing interest or finance charges in a deferred sale or other similar method of conveyance where a portion of the sale price is payable on a deferred basis, in which case any interest or finance charges shall be considered Gross Revenues; and
- (j) Other Available Funds transferred to the Revenue Fund as provided in the Revenue Bond Ordinances.

“Interest Payment Date” means each May 15 and November 15, commencing May 15, 2017, until maturity or prior redemption of the Bonds.

“Minimum Capital Reserve” means an amount, designated by the Aviation Director not less frequently than annually at the end of each Fiscal Year, but in any event not more than \$100,000 each Fiscal Year, necessary to accumulate or to reaccumulate in the Capital Fund a reserve in an amount not less than \$1,000,000.

“Moody’s” means Moody’s Investors Service, Inc., its successors and assigns, and if this corporation shall for any reason no longer perform the functions of a securities rating agency, “Moody’s” shall refer to any other nationally recognized securities rating agency designated by the City.

“Mueller Airport Property” means the property and facilities that comprised the former Robert Mueller Municipal Airport, located within the City. The Mueller Airport Property is not part of the Airport System.

“Net Revenues” means that portion of the Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses of the Airport System.

“Operation and Maintenance Expenses” means all reasonable and necessary current expenses of the City, paid or accrued, of operating, maintaining and repairing the Airport System, including, without limitation, those reasonably allocated City overhead expenses relating to the administration, operation and maintenance of the Airport System; insurance and fidelity bond premiums; payments to pension and other funds and to any self-insurance fund; any general and excise taxes or other governmental charges imposed by entities other than the City; any required rebate of any portion of interest income to the federal government which is payable from Gross Revenues or the Revenue Fund; costs of contractual and professional services, labor, materials and supplies for current operations, including the costs of direct City services rendered to the Airport System as are requested from the City by the Airport System and as are reasonably necessary for the operation of the Airport System; costs of issuance of Revenue Bonds and Subordinate Obligations for the Airport System (except to the extent paid from the proceeds); fiduciary costs; costs of collecting and refunding Gross Revenues; utility costs; any lawful refunds of any Gross Revenues; and all other administrative, general and commercial expenses, but **excluding**:

- (a) any allowance for depreciation;
- (b) costs of capital improvements;
- (c) reserves for major capital improvements, Airport System operations, maintenance or repair;
- (d) any allowance for redemption of, or payment of interest or premium on, Revenue Bonds and Subordinate Obligations;
- (e) any liabilities incurred in acquiring or improving properties of the Airport System;
- (f) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases;
- (g) any charges or obligations incurred in connection with any lawful Airport System purpose, including the lease, acquisition, operation or maintenance of any facility or property benefiting the Airport System, provided that the payment of such charges or obligations is expressly agreed by the payee to be payable solely from proceeds of the Capital Fund;
- (h) liabilities based upon the City's negligence or other ground not based on contract; and
- (i) so long as Federal Payments are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

"Operation and Maintenance Reserve Fund" means the fund so designated and created within the Revenue Fund in the Revenue Bond Ordinances.

"Other Available Funds" means any amount of unencumbered funds accumulated in the Capital Fund in excess of the Minimum Capital Reserve which, before the beginning of any Fiscal Year, are designated by the City as Other Available Funds and transferred at the beginning of such Fiscal Year to the Revenue Fund, but in no event may this amount exceed twenty-five percent (25%) of the Debt Service Requirements for the Revenue Bonds for such Fiscal Year for purposes of Sections 5.03 (Rate Covenant) and 6.01 (Additional Revenue Bonds) of the Revenue Bond Ordinances.

"Outstanding" when used with reference to any Revenue Bonds or Subordinate Obligations means, as of a particular date, all those obligations Revenue Bonds or Subordinate Obligations delivered except: (a) any obligation paid, discharged or cancelled by or on behalf of the City at or before that date; (b) any obligation defeased pursuant to the defeasance provisions of the ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any obligation in lieu of or in substitution for which another obligation was delivered pursuant to the ordinance authorizing the issuance of the obligation.

"Owner" or "Registered Owner,"" when used with respect to any Revenue Bond means the person or entity in whose name the Revenue Bond is registered in the Register. Any reference to a particular percentage or proportion of the Owners means the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Revenue Bonds then Outstanding under the Revenue Bond Ordinances.

"Paying Agent/Registrar" means, for the Bonds, Wilmington Trust, National Association, Dallas, Texas, and its successors in that capacity.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision of the government.

"Qualified Put" means any agreement, however denominated, provided by a qualifying financial institution (as described in the next sentence) which contractually commits to purchase, upon no more than seven days' notice, for not less than a stated price any class or amount of investment securities or other authorized investments of the City at any time that such investment securities or investments must be liquidated in order to make cash transfers from the fund or account that holds such investments. A Qualified Put may be entered into only with a qualifying financial institution which is (a) a domestic bank the long-term debt of which is rated at least "AA" by Standard & Poor's and "Aa" by Moody's, or (b) a foreign bank the long-term debt of which is rated "AAA" by Standard & Poor's and at least "Aa" by Moody's, or at least "AA" by Standard & Poor's and "Aaa" by Moody's, or (c) a financial institution the long-term debt of which is rated at least "A" by both Standard & Poor's and Moody's and agrees to collateralize its obligations under such agreement by lodging with a third party trustee, escrow agent, custodian or other financial third party direct obligations of the United States of America or its agencies with a market value equal to 102% of the difference between the face amount of its purchase obligation under the agreement and the market value of the investment securities to which the agreement relates (based upon periodic market valuations at least monthly). A Qualified Put may be integrated into any investment authorized under Texas law, such as a repurchase agreement.

"Renewal and Replacement Fund" means the fund so designated in the Revenue Bond Ordinances.

“Renewal and Replacement Fund Requirement” means the amount required to be maintained in the Renewal and Replacement Fund pursuant to the Revenue Bond Ordinances, or any greater amount required by any ordinance authorizing any series of Additional Revenue Bonds.

“Revenue Bond Ordinances” means the ordinances authorizing the issuance of the Series 2005 Bonds, the Series 2013 Bonds, the Series 2013A Bonds, the Series 2014 Bonds, the Bonds and any ordinances pursuant to which Additional Revenue Bonds are issued.

“Revenue Bonds” means the Currently Outstanding Revenue Bonds, the Bonds and each series of bonds, notes or other obligations, other than Credit Agreement Obligations, which the City has reserved the right to issue or incur from time to time pursuant to the Revenue Bond Ordinances, payable from and secured by a first lien on and pledge of Net Revenues.

“Revenue Fund” means the fund so designated in the Revenue Bond Ordinances.

“Series 2005 Bonds” means the City of Austin, Texas, Airport System Refunding Revenue Bonds, Series 2005 (AMT), outstanding, as of August 1, 2017, in the aggregate principal amount of \$179,075,000.

“Series 2013 Bonds” means the City of Austin, Texas, Airport System Revenue Bonds, Series 2013, outstanding, as of August 1, 2017, in the aggregate principal amount of \$56,410,000.

“Series 2013A Bonds” means the City of Austin, Texas, Airport System Revenue Bonds, Series 2013A, outstanding, as of August 1, 2017, in the aggregate principal amount of \$17,988,000.

“Series 2014 Bonds” means the City of Austin, Texas, Airport System Revenue Bonds, Series 2014 (AMT), outstanding, as of August 1, 2017, in the aggregate principal amount of \$244,495,000.

“Special Facilities” means structures, hangars, aircraft overhaul, maintenance or repair shops, heliports, hotels, storage facilities, garages, inflight kitchens, training facilities and any and all other facilities and appurtenances being a part of or related to the Airport System, the cost of the construction or other acquisition of which is financed with the proceeds of Special Facilities Bonds.

“Special Facilities Bonds” means those bonds from time to time hereafter issued by the City pursuant to the appropriate provisions of the Revenue Bond Ordinances.

“Special Facilities Lease” means any lease or agreement pursuant to which a Special Facility is leased by the City to the lessee in consideration for which the lessee agrees to pay (i) all debt service on the Special Facilities Bonds issued to finance the Special Facility (which payments are pledged to secure the Special Facilities Bonds) and (ii) the operation and maintenance expenses of the Special Facility.

“Standard & Poor’s” or “S&P” means S&P Global Ratings, a division of S&P Global Inc., its successors and assigns, and if such entity shall for any reason no longer perform the functions of a securities rating agency, “Standard & Poor’s” and “S&P” shall refer to any other nationally recognized securities rating agency designated by the City.

“Subordinate Obligations” means each series of bonds, notes or other obligations, including reimbursement obligations and obligations pursuant to credit agreements and interest rate hedges, which the City has reserved the right to issue or incur from time to time pursuant to the Revenue Bond Ordinances as Subordinate Obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Revenue Bonds.

“Swap Agreement” means a Credit Agreement, approved (if required) in writing by the Bond Insurer, with respect to a series of Revenue Bonds pursuant to which the City has entered into an interest rate exchange agreement or other interest rate hedge agreement for the purpose of converting in whole or in part the City’s fixed or variable interest rate liability on all or a portion of the Revenue Bonds to a fixed or variable rate liability (including converting a variable rate liability to a different variable rate liability). For the purpose of this definition, a counterparty is not qualified unless it holds, on the date of execution of a Swap Agreement, a current rating by at least two of the following three rating agencies: Moody’s, and by Standard & Poor’s, and by Fitch Ratings, or their respective successors, at least equal to the rating of each such rating agency assigned to the Revenue Bonds without reference to any Credit Agreement.

“Termination Payment” means an amount owed by the City to a counterparty pursuant to a Swap Agreement incurred in connection with the termination of the Swap Agreement and which, on the date of execution of the Swap Agreement, is not an amount representing a regularly scheduled payment under the Swap Agreement. “Termination Payment” shall not include any amount representing an Administrative Expense.

Funds and Flow of Funds

Funds. The Revenue Bond Ordinances creates the Revenue Fund, including the Operation and Maintenance Reserve Fund therein, the Debt Service Fund, the Debt Service Reserve Fund, the Administrative Expense Fund, the Renewal and Replacement Fund, the Capital Fund, including a Capital Improvement Account therein, and the Construction Fund, including the Capitalized Interest Account and the Series 2014

Project Account therein. The City may create additional accounts and subaccounts in any of the funds, including accounts or subaccounts for accumulating rebatable arbitrage payable to the federal government, so long as they are not inconsistent with the Revenue Bond Ordinances.

The Revenue Fund, including the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund, the Capital Fund and the Construction Fund (other than any Capitalized Interest Account in the Construction Fund) shall be maintained as separate funds or accounts on the books of the City and all amounts credited to the Funds and Accounts shall be maintained in an official depository bank of the City. The Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund shall be maintained at an official depository bank of the City or in a trustee bank designated by the City separate and apart from all other funds and accounts of the City. The Debt Service Fund and the Debt Service Reserve Fund shall constitute trust funds which shall be held in trust for the owners of the Revenue Bonds and the proceeds of which shall be pledged, as herein provided, to the payment of the Revenue Bonds. The Administrative Expense Fund shall constitute trust funds which shall be held in trust for the payment of Administrative Expenses to Persons entitled to those Administrative Expenses.

Flow of Funds. Gross Revenues shall be deposited as received by the City into the Revenue Fund. In addition, the City may deposit into the Revenue Fund any Federal Payments not restricted for capital purposes, provided that, so long as the Federal Payments are excluded from the definition of Gross Revenues, the Federal Payments shall be applied solely to the payment of Operation and Maintenance Expenses or capital expenditures and never constitute Net Revenues. Other Available Funds may also be deposited into the Revenue Fund. Moneys from time to time credited to the Revenue Fund shall be applied as follows in the following order of priority:

- (a) First, to provide for all payments of Operation and Maintenance Expenses required by the Revenue Bond Ordinances.
- (b) Second, to transfer all amounts to the Debt Service Fund required by the Revenue Bond Ordinances and any related Credit Agreement Obligations.
- (c) Third, to transfer all amounts to the Administrative Expense Fund required to pay Administrative Expenses to the Persons entitled to payment when due.
- (d) Fourth, to transfer all amounts to the Debt Service Reserve Fund required by the Revenue Bond Ordinances.
- (e) Fifth, to transfer all amounts necessary to provide for the payment of Subordinate Obligations, or to provide reserves for payment, as may be required by any ordinance authorizing Subordinate Obligations and related credit agreement obligations.
- (f) Sixth, to transfer all amounts necessary to provide for the payment of principal of and interest on General Obligation Airport Bonds.
- (g) Seventh, to transfer all amounts to the Operation and Maintenance Reserve Fund required by the Revenue Bond Ordinances.
- (h) Eighth, to transfer all amounts to the Renewal and Replacement Fund required by the Revenue Bond Ordinances.
- (i) Ninth, the balance shall be transferred to the Capital Fund.

Debt Service Fund. On the date of initial delivery of the Bonds, there shall be transferred from the Capitalized Interest Account to the Debt Service Fund the amount necessary to pay interest coming due on the Bonds on their first Interest Payment Date. Thereafter, to the extent moneys remain on deposit in the Capitalized Interest Account, on the Business Day immediately following an Interest Payment Date, there shall be transferred from the Capitalized Interest Account to the Debt Service Fund amounts available to pay the interest coming due on the Bonds on the next succeeding Interest Payment Date.

On or before the last Business Day of each month so long as any Revenue Bonds remain Outstanding, after making all required payments of Operation and Maintenance Expenses, there shall be transferred into the Debt Service Fund from the Revenue Fund the amount to cause the balance in the Debt Service Fund to equal the Debt Service on all Revenue Bonds and Credit Agreement Obligations accrued, but unpaid, through the end of the current month on all Revenue Bonds and Credit Obligations reasonably expected to accrue and be payable on or before the last Business Day of the next succeeding month.

Debt Service Reserve Fund. The City shall establish and maintain a balance in the Debt Service Reserve Fund equal to the Debt Service Reserve Fund Requirement. Each increase in the Debt Service Reserve Fund Requirement resulting from the issuance of Additional Revenue Bonds shall be funded at the time of issuance and delivery of the series of Additional Revenue Bonds by depositing to the credit of the Debt Service Reserve Fund either: (A) proceeds of the Additional Revenue Bonds and/or other lawfully appropriated funds in not less than the amount which will be sufficient to fund fully the Debt Service Reserve Fund Requirement; or (B) a Debt Service Reserve Fund Surety Bond sufficient to provide that portion of the Debt Service Reserve Fund Requirement. The City further expressly reserves the right to substitute at any time a Debt Service Reserve Fund Surety Bond for any funded amounts in the Debt Service Reserve Fund and to apply the funds thereby released, to the greatest extent permitted by law, to any of the purposes for which the related Revenue Bonds. The City shall not employ any Debt Service Reserve Fund Surety Bond unless: (i) the City officially finds that the purchase of the Debt Service Reserve Fund Surety Bond is cost effective; (ii) the Debt Service Reserve Fund Surety Bond does not impose upon the City a repayment obligation (in the event the Debt

Service Reserve Fund Surety Bond is drawn upon) greater than can be funded in 18 monthly installments as provided below, payable out of Net Revenues on a parity with the monthly deposits that are otherwise required to be made to the Debt Service Reserve Fund; and (iii) that any interest due in connection with the repayment obligations does not exceed the highest lawful rate of interest which may be paid by the City at the time of delivery of the Debt Service Reserve Fund Surety Bond.

In any month in which the Debt Service Reserve Fund contains less than the Debt Service Reserve Fund Requirement for the Revenue Bonds or in which the City is obligated to repay or reimburse any issuer of a Debt Service Reserve Fund Surety Bond (in the event such Debt Service Reserve Fund Surety Bond is drawn upon), then on or before the last Business Day of such month, after making all required transfers to the Debt Service Fund and the Administrative Expense Fund, the City shall transfer into the Debt Service Reserve Fund from the Revenue Fund, in approximately equal monthly installments, amounts sufficient to enable the City within an 18 month period to reestablish in the Debt Service Reserve Fund the Debt Service Reserve Fund Requirement for the Revenue Bonds and satisfy any repayment obligations to the issuer of any Debt Service Reserve Fund Surety Bond. After this amount has been accumulated in the Debt Service Reserve Fund and after satisfying any repayment obligation to any Debt Service Reserve Fund Surety Bond issuer and so long thereafter as the Debt Service Reserve Fund contains this amount and all repayment obligations have been satisfied, no further transfers shall be required to be made, and any excess amounts in such Fund shall be transferred to the Revenue Fund. But if and whenever the balance in the Debt Service Reserve Fund is reduced below such amount or any Debt Service Reserve Fund Surety Bond repayment obligations arise, monthly transfers to the Debt Service Reserve Fund shall be resumed and continued in such amounts as shall be required to restore the Debt Service Reserve Fund to this amount and to pay this reimbursement obligations within an 18 month period.

The City shall use the Debt Service Reserve Fund to pay the principal of and interest on the Revenue Bonds and the Credit Agreement Obligations at any time the amount available in the Debt Service Fund is insufficient for this purpose, and to make any payments required to satisfy repayment obligations to issuers of Debt Service Reserve Fund Surety Bonds. The City may use the Debt Service Reserve Fund to make the final payments for the retirement or defeasance of Revenue Bonds, related Credit Agreement Obligations and Administrative Expenses.

Funds and Accounts for Subordinate Obligations. On or before the last Business Day of each month, after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund, the City shall transfer into the funds and accounts as the City may establish pursuant to an ordinance authorizing the issuance or incurrence of Subordinate Obligations, the amounts required pursuant to the ordinance authorizing the issuance or incurrence of Subordinate Obligations to provide for the payment, or to provide reserves for the payment, of the Subordinate Obligations.

Administrative Expense Fund. On or before the last Business Day of each month, after making all required transfers to the Debt Service Fund, the City shall transfer to the Administrative Expense Fund an amount equal to the Administrative Expenses expected to be paid to the Persons entitled to payment in the next succeeding month. Amounts on deposit in the Administrative Expense Fund shall be applied solely to the payment of Administrative Expenses.

General Obligation Airport Bonds. On or before the last Business Day of each month, so long as any General Obligation Airport Bond remains outstanding, after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund, the Administrative Expense Fund and any other fund and account established by ordinances authorizing the issuance of Revenue Bonds and Subordinate Obligations, the City shall transfer from the Revenue Fund, to the extent amounts are available, the amounts necessary to provide for the payment, when due, of principal of and interest on General Obligation Airport Bonds.

Operation and Maintenance Reserve Fund. The City shall fund and maintain a balance of money and investments in the Operation and Maintenance Reserve Fund at least equal to two months current Operation and Maintenance Expenses, which amount shall annually be re-determined by the Aviation Director at the time the recommended budget for the Airport System is submitted to Council, based upon either the Aviation Director's recommended budget for Operation and Maintenance Expenses or the Aviation Director's estimate of actual Operation and Maintenance Expenses for the then current Fiscal Year. On or before the last Business Day of each month, after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund, and any required transfers for Subordinate Obligations or General Obligation Airport Bonds as provided in the Revenue Bond Ordinances, there shall be transferred from the Revenue Fund, to the extent amounts are available, to the Operation and Maintenance Reserve Fund an amount equal to 1/12th of the deficiency, if any, in the Operation and Maintenance Reserve Fund as of the last day of the previous Fiscal Year until the required balance in the Operation and Maintenance Reserve Fund is established or reestablished. Amounts from time to time credited to the Operation and Maintenance Reserve Fund may be used at any time: first, to pay for any Operation and Maintenance Expenses for which amounts are not otherwise available in the Revenue Fund; second, to pay any costs or expenses payable from the Renewal and Replacement Fund for which there are insufficient amounts in the Renewal and Replacement Fund; and third, to the extent any amounts are remaining, to be transferred to the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund or any similar fund created to provide for the payment, and reserves for the payment of Subordinate Obligations and General Obligation Airport Bonds to the extent of any deficiency in any of these funds.

Renewal and Replacement Fund. The City has established the Renewal and Replacement Fund Requirement to be \$5,000,000. On or before the last Business Day of each month, if the Renewal and Replacement Fund contains less than the Renewal and Replacement Fund Requirement, then after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund, the Administrative Expense Fund, and any required transfers for Subordinate Obligations or General Obligation Airport Bonds as hereinabove provided, and to the Operation and Maintenance Reserve Fund, the City shall transfer from the Revenue Fund, to the extent funds are available, to the Renewal and Replacement Fund an amount equal to 1/12th of the deficiency (being the amount by which the Renewal and Replacement Fund Requirement exceeded the unappropriated balance therein) as of the last day of the previous Fiscal Year and, at the discretion of the City, to pay directly from the Revenue Fund any other costs that could be paid from amounts on deposit in the Renewal and Replacement Fund. The City is required to make these transfers into the Renewal and Replacement Fund until such time as the Renewal and Replacement Fund Requirement has again been

accumulated in the Renewal and Replacement Fund. Amounts from time to time credited to the Renewal and Replacement Fund may be used at any time: first, to pay for any costs of replacing depreciable property and equipment of the Airport System and making repairs, replacements or renovations of the Airport System; second, to pay any Operation and Maintenance Expenses for which insufficient amounts are available in the Revenue Fund; and third, to the extent any amounts are remaining, to be transferred to the Debt Service Fund, the Debt Service Reserve Fund, the Administrative Expense Fund or any similar fund created to provide for the payment, and reserves for the payment, of Subordinate Obligations and General Obligation Airport Bonds to the extent of any deficiency.

Capital Fund. After the City makes all payments and transfers required by the Revenue Bond Ordinances, at least annually it shall also transfer all amounts remaining in the Revenue Fund to the Capital Fund; provided, however, that no transfers shall be made to the Capital Fund unless the Debt Service Reserve Fund contains the Debt Service Reserve Fund Requirement and all Administrative Expenses have been paid. Amounts credited to the Capital Improvement Account may be used only for lawful purposes relating to the Airport System, including without limitation, to pay for any capital expenditures or to pay costs of replacing any depreciable property or equipment of the Airport System, to make any major or extraordinary repairs, replacements or renewals of the Airport System, to acquire land or any interest in such land, to pay costs necessary or incident to the closing or disposition of any facility of the Airport System and, at the City's discretion, to be designated as Other Available Funds to be transferred to the Revenue Fund.

Construction Fund. From the proceeds of each series of Revenue Bonds (other than any refunding bonds) there shall be deposited into the Capitalized Interest Account (if any) established in the Construction Fund for that series the amount of capitalized interest required by the ordinance authorizing issuance of the series of Revenue Bonds. The amounts may be applied to pay interest on the series of Revenue Bonds as provided in the authorizing ordinance.

From the proceeds of each series of Revenue Bonds (other than any refunding bonds) there shall be deposited into the applicable Project Account established in the Construction Fund the amounts as shall be provided in the ordinance authorizing the series of Revenue Bonds. The amounts may be applied to pay costs of establishing, improving, enlarging, extending, and repairing the Airport System or any project to become part of the Airport System, to reimburse advances made by the City for such costs, to pay costs of issuance of Revenue Bonds and to pay any other capital costs of the Airport System as provided in the ordinance authorizing the series of Revenue Bonds.

The Revenue Bond Ordinances establish within the Construction Fund two accounts, the Series 2014 Project Account and the Capitalized Interest Account. Moneys in the Series 2014 Project Account shall be used to pay costs of constructing the improvements at the Airport consistent with the purpose for which the Bonds are issued. Moneys in the Capitalized Interest Account shall be held for the purpose of paying interest on the Bonds during the construction of the improvements and for one year after the improvements have been constructed, and shall be transferred from time to time to the Debt Service Fund in the manner provided in the Revenue Bond Ordinances.

Mueller Airport Disposition Fund. The Robert Mueller Municipal Airport was closed for aviation purposes and the Mueller Airport Property was transferred out of the Airport System and is no longer part of the Airport System. In connection with the transfer of the Mueller Airport Property, the City deposited certain funds into the Mueller Disposition Fund. These funds, together with any other amounts deposited into the Mueller Disposition Fund, may be used for the payment or reimbursement of all costs and expenses incurred by the City necessary or incident to the closing of Robert Mueller Municipal Airport to aviation purposes and the disposition of the Mueller Airport Property. Any amounts remaining will be transferred to the City's aviation department.

Investment of Funds; Transfer of Investment Income. Money in all Funds and Accounts shall, at the option of the City, be invested in the manner provided by Texas law; provided, that all such deposits and investments shall be made in a manner that the money required to be expended from any Fund will be available at the proper time or times. Moneys in the Funds and Accounts may be subjected to further investment restrictions imposed from time to time by ordinances authorizing the issuance of Revenue Bonds and Subordinate Obligations. All such investments shall be valued no less frequently than once per Fiscal Year at market value, except that: (i) any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount, and (ii) any investments which are subject to a Qualified Put may continuously be valued at the amount at which they can be put or sold under the terms of such Qualified Put. For purposes of maximizing investment returns, money in the Funds may be invested, together with money in other Funds or with other money of the City, in common investments or in a common pool of such investments maintained by the City at an official depository of the City or in any fund or investment vehicle permitted by Texas law, which shall not be deemed to be a loss of the segregation of the money or Funds provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which the money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. If and to the extent necessary, such investments or participations therein shall be promptly sold to prevent any default.

All interest and income derived from deposits and investments credited to any of the following funds and accounts shall be applied as follows, except as provided in the following paragraph.

<u>Source of Interest or Income</u>	<u>Fund or Account to which such Interest or Income should be Credited</u>
Revenue Fund	Remains in Revenue Fund
Administrative Fund	Revenue Fund
Debt Service Reserve Fund	Remains in fund until the Debt Service Reserve Fund Requirement is satisfied; thereafter to the Revenue Fund
Operation and Maintenance Reserve Fund	Remains in fund until fully funded; thereafter, to the Revenue Fund
Renewal and Replacement Fund	Remains in fund until Renewal and Replacement Fund Requirement is met; thereafter, to the Revenue Fund
Capital Fund - Capital Improvement Account	Remains in the fund or in the appropriate fund or account therein

Any interest and income derived from deposits and investments of any amounts credited to any Fund or Account may be: (i) transferred into any rebate account or subaccount; and (ii) paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required to comply with any covenant contained in the Revenue Bond Ordinances or required in order to prevent interest on any bonds payable from Net Revenues from being includable within the gross income of the Owners thereof for federal income tax purposes.

So long as any Revenue Bond remains Outstanding, all uninvested moneys on deposit in, or credited to, the Funds and Accounts established or confirmed in the Revenue Bond Ordinances shall be secured by the pledge of security, as provided by Texas law.

Additional Bonds

Additional Revenue Bonds. The City reserves the right to issue, for any lawful Airport System purpose, one or more installments of Additional Revenue Bonds payable from and secured on a parity with the Outstanding Revenue Bonds; provided, however, that no series of Additional Revenue Bonds shall be issued unless:

- (a) No Default. The City Manager and the Aviation Director certify that, upon the issuance of such Additional Revenue Bonds, the City will not be in default under any term or provision of any Revenue Bonds then Outstanding or any ordinance pursuant to which any Revenue Bonds were issued unless the default will be cured by the issuance of the Additional Revenue Bonds.
- (b) Proper Fund Balances. The City's Chief Financial Officer or trustee, if one has been appointed, shall certify that, upon the issuance of Additional Revenue Bonds, the Debt Service Fund will have the required amounts on deposit and that the Debt Service Reserve Fund will contain the applicable Debt Service Reserve Fund Requirement or the amount as is required to be funded at that time.
- (c) Projected Coverage for Additional Revenue Bonds. An Airport Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues, together with the estimated Other Available Funds, of the Airport System for each of three consecutive Fiscal Years beginning in the earlier of
 - (i) the first Fiscal Year following the estimated date of completion and initial use of all revenue producing facilities to be financed with Additional Revenue Bonds, based upon a certified written estimated completion date by the consulting engineer for the facility or facilities, or
 - (ii) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the Additional Revenue Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of the Additional Revenue Bonds, investment income on such Additional Revenue Bonds or from other appropriated sources (other than Net Revenues),

are equal to at least 125% of the Debt Service Requirements on all Outstanding Revenue Bonds scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the Additional Revenue Bonds to be issued.

- (d) Alternate Coverage for Additional Revenue Bonds. In lieu of the certification described in (c) above, the City's Chief Financial Officer may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues, together with Other Available Funds, of the Airport System were equal to at least 125% of the maximum Debt Service Requirements on all Revenue Bonds scheduled to occur

in the then current or any future Fiscal Year after taking into consideration the issuance of the Additional Revenue Bonds proposed to be issued.

- (e) Refunding Bonds. If Additional Revenue Bonds are being issued for the purpose of refunding less than all previously issued Prior Lien Bonds or Revenue Bonds which are then Outstanding, neither of the certifications described in (c) or (d) above are required so long as the ~~maximum annual aggregate Debt Service Requirements in any Fiscal Year~~ after the issuance of the Additional Revenue Bonds ~~will do not exceed the maximum annual aggregate Debt Service Requirements in any Fiscal Year~~ prior to the issuance of the Additional Revenue Bonds; provided, that the annual debt service on the refunding bonds in any Fiscal Year will not be more than 10% higher than it is in any other Fiscal Year.
- (f) Bond Ordinance Requirements. Provision is made in the Revenue Bond Ordinances authorizing the Additional Revenue Bonds proposed to be issued for (1) additional payments into the Debt Service Fund sufficient to provide for any principal and interest requirements resulting from the issuance of the Additional Revenue Bonds including, in the event that interest on the additional series of Revenue Bonds is capitalized and/or to be paid from investment earnings, a requirement for the transfer from the capitalized interest fund or account and/or from the construction fund to the Debt Service Fund of amounts fully sufficient to pay interest on such Additional Revenue Bonds during the period specified in the Revenue Bond Ordinance and (2) satisfaction of the Debt Service Reserve Fund Requirement by not later than the date required by the Revenue Bond Ordinances or any other Revenue Bond Ordinance authorizing Additional Revenue Bonds.
- (g) Special Provisions for Completion Bonds. The provisions of paragraphs (c) and (d) above shall not apply to the issuance of Completion Bonds in accordance with the provisions of the Revenue Bond Ordinances.

Completion Bonds. The City reserves the right to issue one or more series of Revenue Bonds to pay the cost of completing any Project for which Revenue Bonds have previously been issued.

Prior to the issuance of any series of Completion Bonds the City must provide, in addition to all of the applicable certificates required above for the issuance of Additional Revenue Bonds, the following documents:

- (a) a certificate of the consulting engineer engaged by the City to design the Project for which the Completion Bonds are to be issued stating that the Airport Project has not materially changed in scope since the issuance of the most recent series of Revenue Bonds for such purpose (except as permitted in the applicable ordinance authorizing the Revenue Bonds) and setting forth the aggregate cost of the Airport Project which, in the opinion of such consulting engineer, has been or will be incurred; and
- (b) a certificate of the Aviation Director (i) stating that all amounts allocated to pay costs of the Airport Project from the proceeds of the most recent series of Revenue Bonds issued in connection with the Airport Project for which the Completion Bonds are being issued were used or are still available to be used to pay costs of the Airport Project; (ii) containing a calculation of the amount by which the aggregate cost of that Airport Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Airport Project paid to such date plus the moneys available at such date within any construction fund or other like account applicable to the Airport Project plus any other moneys which the Aviation Director, in his discretion, has determined are available to pay such costs in any other fund; and (iii) certifying that, in the opinion of the Aviation Director, the issuance of the Completion Bonds is necessary to provide funds for the completion of the Airport Project.

For purposes of this Section, the term "Airport Project" means the Airport or any other Airport System facility or project which shall be defined as an Airport Project in any ordinance authorizing the issuance of Additional Revenue Bonds for the purpose of financing the Airport Project. Any such ordinance may contain such further provisions as the City shall deem appropriate with regard to the use, completion, modification or abandonment of the Project.

Subordinate Obligations. The City reserves the right to issue or incur, for any lawful Airport System purpose, Subordinate Obligations and credit agreement obligations related to the Subordinate Obligations, secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the liens on Net Revenues securing payment of the Revenue Bonds.

Special Facilities Bonds. The City reserves the right in the Revenue Bond Ordinances to issue from time to time, in one or more series, Special Facilities Bonds to finance and refinance the cost of any Special Facilities, including all required reserves, all related costs of issuance and other reasonably related amounts, provided that such Special Facilities Bonds shall be payable solely from payments by lessees under Special Facilities Leases and/or other security not provided by the City. In no event shall Gross Revenues or any other amounts held in any other fund or account maintained by the City as security for the Revenue Bonds or for the construction, operation, maintenance or repair of the Airport System be pledged to the payment of Special Facilities Bonds. Unless expressly provided to the contrary in the Revenue Bond Ordinances, no default with respect to a Special Facilities Bond shall constitute a default under the Revenue Bond Ordinances.

Credit Agreements. To the fullest extent permitted by applicable law, the City expressly reserves the right to purchase and/or enter into Credit Agreements in connection with any series of Revenue Bonds and to pledge to and secure the payment of related Credit Agreement Obligations from Net Revenues and the various funds and accounts established or referred to in the Revenue Bond Ordinances to the extent

permitted by the Revenue Bond Ordinances, and any of the City's other ordinances authorizing the issuance of Additional Revenue Bonds and to enter into credit agreements in connection with any series of Subordinate Obligations.

Particular Covenants

Annual Budget. So long as any Revenue Bond or Credit Agreement Obligation remains Outstanding, the Aviation Director shall, prior to the commencement of each Fiscal Year, prepare and delivery to the chief budget officer of the City, for submission to Council, a recommended annual budget for the Airport System for that Fiscal Year. The City shall adopt annual budgets for the Airport System for each Fiscal Year, containing an estimate of Gross Revenues and only those budgeted expenditures as will produce Net Revenues in an amount not less than the Debt Service and Administrative Expenses when due and make the required deposits to the Debt Service Reserve Fund. After the adoption of the annual Airport System budget by the City, the total expenditures for Operation and Maintenance Expenses will not exceed the total expenditures authorized for the purposes described in the budget, as the budget may from time to time be amended.

Rate Covenant. The City covenants that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year the Net Revenues will be at least sufficient to equal the larger of either:

- (i) all amounts required to be deposited in the Fiscal Year to the credit of the Debt Service Fund, the Debt Service Reserve Fund, and the Administrative Expense Fund and to any debt service or debt service reserve fund or account for Subordinate Obligations, or
- (ii) an amount, together with Other Available Funds, not less than 125% of the Debt Service Requirements for Revenue Bonds for such Fiscal Year plus an amount equal to 100% of anticipated and budgeted Administrative Expenses for the Fiscal Year.

If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for the Fiscal Year, must request an Airport Consultant to make any recommendations to revise the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Airport System in order to satisfy as quickly as practicable the foregoing requirements. Copies of the request and the recommendations of the Airport Consultant shall be filed with the City Clerk. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Revenue Bond Ordinances even if the resulting Net Revenues plus Other Available Funds are not sufficient to be in compliance with the covenant set forth above, so long Debt Service is paid when due.

Sale or Encumbrance of Airport System. Except for the use of the Airport System or services pertaining to the Airport System in the normal course of business, the City covenants that neither all nor a substantial part of the Airport System will be sold, leased, mortgaged, pledged, encumbered, alienated, or otherwise disposed of until all Revenue Bonds, Credit Agreement Obligations and Administrative Expenses have been paid in full, or unless provision for payment has been made, and the City shall not dispose of its title to the Airport System or to any useful part thereof, including, without limitation, any property necessary to the operation and use of the Airport System, except for the execution of leases, licenses, easements, or other agreements in connection with the operation of the Airport System by the City, or in connection with any Special Facilities, except for any pledges of and liens on revenues derived from the operation and use of all or part of the Airport System, or any Special Facilities, for the payment of Revenue Bonds, Credit Agreement Obligations, Administrative Expenses, Special Facilities Bonds and any other obligations pertaining to the Airport System, and except as otherwise provided in the next two paragraphs.

The City may sell, exchange, lease, or otherwise dispose of, or exclude from the Airport System, any property constituting a part of the Airport System which the Aviation Director certifies: (i) to be no longer useful in the construction or operation of the Airport System; (ii) to be no longer necessary for the efficient operation of the Airport System; or (iii) to have been replaced by other property of at least equal value. The net proceeds of the sale or disposition of any Airport System property (or the fair market value of any property so excluded) pursuant to this paragraph shall be used for the purpose of replacing properties at the Airport System, shall be paid into the Capital Fund - Capital Improvement Account or shall be applied to retire or pay principal of or interest on Revenue Bonds.

Nothing in the Revenue Bond Ordinances prevents any transfer of all or a substantial part of the Airport System to another body corporate and politic (including, but not necessarily limited to, a joint action agency or an airport authority) which assumes the City's obligations under the Revenue Bond Ordinances and in any ordinance authorizing the issuance of Revenue Bonds, in whole or in part, if: (i) in the written opinion of the Airport Consultant, the ability to meet the rate covenant and other covenants under the Revenue Bond Ordinances and in any ordinance authorizing the issuance of Revenue Bonds, are not materially and adversely affected; and (ii) in the written opinion of nationally recognized bond counsel, the transfer and assumption will not cause the interest on any Revenue Bonds that were issued as "tax-exempt bonds" within the meaning of the regulations promulgated under the Code to be includable in gross income of the Owners of the Revenue Bonds for federal income tax purposes. Following the transfer and assumption, all references to the City, City officials, City ordinances, City budgetary procedures and any other officials, actions, powers or characteristics of the City shall be deemed references to the transferee entity and comparable officials, actions, powers or characteristics of the entity. In the event of any transfer and assumption, nothing in the Revenue Bond Ordinances shall prevent the retention by the City of any facility of the Airport System if, in the written opinion of the Airport Consultant, the retention will not materially and adversely affect nor unreasonably restrict the transferee entity's ability to comply with the requirements of the rate covenant and the other covenants of the Revenue Bond Ordinances and in any Revenue Bond Ordinance.

Insurance. The City covenants and agrees that it will keep the Airport System insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties, to the extent that the insurance is available; provided, however, that if any insurance is not commercially available or not available on

more favorable economic terms, the City may elect to be self-insured in whole or in part against the risk or loss that would otherwise be covered by insurance, in which case the City will establish reserves for such risk or loss in amounts the City determines to be appropriate. All net proceeds of property or casualty insurance shall be applied to repair or replace the insured property that is damaged or destroyed or to make other capital improvements to the Airport System or to redeem Revenue Bonds. Proceeds of business interruption insurance may be credited to the Revenue Fund.

Accounts, Records, and Audits. The City covenants and agrees that it will maintain a proper and complete system of records and accounts pertaining to the Gross Revenues and the operation of the Airport System in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the Gross Revenues and the Airport System. After the close of each Fiscal Year, the City shall cause an audit report of the records and accounts described in the preceding sentence to be prepared by an independent certified public accountant or independent firm of certified public accountants, which may be part of an overall audit report of the City and/or other of its enterprise funds. All expenses of obtaining such reports shall constitute Operation and Maintenance Expenses of the Airport System.

Owner' Remedies. The Revenue Bond Ordinances are a contract between the City and the Owners of the Revenue Bonds and the holders of related Credit Agreement Obligations from time to time outstanding and the Revenue Bond Ordinances shall be and remain irrevocable until the Revenue Bonds, the related Credit Agreement Obligations and Administrative Expenses shall be fully paid or discharged or provision for their payment shall have been made as provided in the Revenue Bond Ordinances. In the event of a default in the payment of Debt Service on any of the Revenue Bonds or Credit Agreement Obligations or a default in the performance of any duty or covenant provided by law or in the Revenue Bond Ordinances, the Owner or Owners of any of the Revenue Bonds, and the holders of any Credit Agreement Obligations and the Persons to whom Administrative Expenses are owed may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Revenue Bonds or holder of Credit Agreement Obligations or Person to whom Administrative Expenses are owed, may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under the Revenue Bond Ordinances, including the making of reasonably required rates and charges for the use and services of the Airport System, the deposit of the Gross Revenues into the special funds herein provided, and the application of such Gross Revenues in the manner required in the Revenue Bond Ordinances.

Notwithstanding the provisions of the foregoing paragraph: (i) acceleration as a remedy is expressly denied; (ii) no grace period for a default in the performance of any duty or covenant shall exceed 30 days, nor shall any grace period be extended for more than 60 days without the written consent of the Bond Insurer (to the extent consent is required); and (iii) no grace period is permitted with respect to a default in the payment of Debt Service or the payment of Administrative Expenses when due. For purposes of exercising the rights of Owners upon the occurrence of an event of default described in the immediately preceding paragraph, the Bond Insurer shall be deemed to be the sole holder of the Series 2005 Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners are entitled to take pursuant to the Revenue Bond Ordinances.

Legal Holidays. If any date on which a payment of Debt Service is due is not a Business Day, then such payment need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of scheduled payment of Debt Service.

Discharge By Deposit

The City may discharge its obligation to the Owners of any or all of the Bonds to pay Debt Service, or any portion by depositing with the Paying Agent/Registrar cash in an amount equal to the Debt Service of the Bonds to the date of maturity or redemption, or any portion of the Bonds to be discharged, or by depositing either with the Paying Agent/Registrar or with any national banking association with capital and surplus in excess of \$100,000,000, pursuant to an escrow or trust agreement, cash and/or Defeasance Obligations in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of Debt Service on the Bonds to the date of maturity or redemption or any portion thereof to be discharged. Upon such deposit, the Bonds, or any portion thereof, shall no longer be regarded to be Outstanding or unpaid. In case any Bonds are to be redeemed on any date prior to their maturity, the City shall give to the Paying Agent/Registrar irrevocable instructions to give notice of redemption of Bonds to be so redeemed in the manner required in the Revenue Bond Ordinances. Any determination not to redeem Bonds that is made in conjunction with the payment arrangements described above shall not be irrevocable, provided that: (1) in the proceedings providing for the payment arrangements, the City expressly reserves the right to call the Bonds for redemption; (2) the City gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the payment arrangements; and (3) the City directs that notice of the reservation be included in any redemption notices that it authorizes.

Prior to the defeasance of the Bonds: (i) a report of an independent firm of nationally recognized certified public accountants (Accountant) verifying the sufficiency of the escrow established to pay the Bonds in full on the respective maturity or redemption date (Verification) will be obtained by the City; (ii) an escrow agreement will be executed and delivered by the City; and (iii) an opinion of nationally recognized bond counsel to the effect that the Bonds are no longer "Outstanding" under this Ordinances will be obtained by the City. Each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the City.

Amendments

Alteration of Rights and Duties. The rights, duties, and obligations of the City and the Owners of the Bonds and the holders of Credit Agreement Obligations related to the Bonds, and Persons to whom Administrative Expenses are owed, are subject in all respects to all

applicable federal and state laws including, without limitation, the provisions of federal law regarding the composition of indebtedness of political subdivisions, as the same now exist or may hereafter be amended.

Amendment of the Revenue Bond Ordinances Without Consent. The City may, without the consent of or notice to any of the Owners of the Bonds, amend the Revenue Bond Ordinances for any one or more of the following purposes:

- (a) to cure any ambiguity, defect, omission or inconsistent provision in the Revenue Bond Ordinances or in the ordinances authorizing the issuance of Revenue Bonds; or to comply with any applicable provision of law or regulation of Federal agencies, or to obtain the approving opinion of the Attorney General of Texas as required by law; provided, however, that such action shall not adversely affect the interests of the Owners of the Revenue Bonds;
- (b) to change the terms or provisions of the Revenue Bond Ordinances to the extent necessary to prevent the interest on the Revenue Bonds from being includable within the gross income of the Owners thereof for federal income tax purposes;
- (c) to grant to or confer upon the Owners of the Revenue Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Revenue Bonds;
- (d) to add to the covenants and agreements of the City contained in the Revenue Bond Ordinances other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City in the Revenue Bond Ordinances;
- (e) to amend any provisions of the Revenue Bond Ordinances relating to the issuance of Revenue Bonds and Subordinate Obligations, or the incurrence of and security for reimbursement obligations in connection therewith, so long as to do so does not cause any reduction in any rating assigned to the Outstanding Revenue Bonds by any major municipal securities evaluation service then rating any Series of the Revenue Bonds;
- (f) to subject to the lien and pledge of the Revenue Bond Ordinances additional Net Revenues which may include revenues, properties or other collateral; and
- (g) to amend the undertaking relating to continuing disclosure of information in Article Twelve of the Revenue Bond Ordinances to the extent permitted in Article Twelve.

Amendments of the Revenue Bond Ordinances Requiring Consent. The City may at any time adopt one or more ordinances amending, modifying, adding to or eliminating any of the provisions of the Revenue Bond Ordinances but, if the amendment is not of the character described above, only with the consent of the Owner or Owners given in accordance with the Revenue Bond Ordinances of not less than a majority of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding and affected by such amendment, modification, addition, or elimination; provided, however, that nothing in this paragraph shall permit (a) an extension of the maturity of the principal of or interest on any Revenue Bond issued hereunder, or (b) a reduction in the principal amount of any Revenue Bond or the rate of interest on any Revenue Bond, or (c) a privilege or priority of any Revenue Bond or Revenue Bonds over any other Revenue Bond or Revenue Bonds, or (d) a reduction in the percentage of aggregate principal amount of the Revenue Bonds required for consent to such amendment. See “- Consent to Certain

Consent of Owners. Any consent required by the preceding paragraph hereof by any Owner shall be in writing, may be in any number of concurrent writings of similar tenor, and may be signed by the Owner or its duly authorized attorney. Proof of the execution of any consent or of the writing appointing any such attorney and of the ownership of Revenue Bonds, if made in the following manner, shall be sufficient for any of the purposes of the Revenue Bond Ordinances, and shall be conclusive in favor of the City with regard to any action taken, suffered or omitted to be taken by the City under such instrument, namely:

- (a) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within that jurisdiction that the person signing the writing acknowledged its execution before him or her, or by affidavit of any witness to the execution.
- (b) The fact of the ownership by any person of any Revenue Bond and the date of the ownership of same may be proved by a certificate executed by an appropriate officer of the Paying Agent/Registrar, stating that on that date the Revenue Bond was registered in the name of that party in the Register.

In lieu of the foregoing the City may accept such other proofs of the foregoing as it shall deem appropriate.

Consents required pursuant to the subsection titled “Amendments of the Ordinances Requiring Consent” shall be valid only if given following the giving of notice by or on behalf of the City requesting the consent and setting forth the substance of the amendment of the Revenue Bond Ordinances in respect of which such consent is sought and stating that copies thereof are available at the office of the City Clerk for inspection. Such notice shall be given by certified mail to each Registered Owner of the Revenue Bonds affected at the address shown on the Register.

Revocation of Consent. Any consent by any Owner of a Revenue Bond shall be irrevocable for a period of 18 months from the date of mailing of the notice provided for in the Revenue Bond Ordinances, and shall be conclusive and binding upon all future Owners of the same Revenue Bond and any Revenue Bond delivered on transfer thereof or in exchange for or replacement of the Revenue Bond during this period. The consent may be revoked at any time after 18 months from the date of the first mailing of the notice by the Owner who gave the consent or by a successor in title, by filing notice with the Paying Agent/Registrar, but the revocation shall not be effective if the Owners of a majority in aggregate principal amount of the Revenue Bonds Outstanding as in the Revenue Bond Ordinances defined have, prior to the attempted revocation, consented to and approved the amendment.

Consent to Certain Amendments Given Through Ownership of Bonds. By acceptance of the Bonds, each Owner of a Bond: (i) irrevocably and specifically consents to and approves the amendments described in (1) and (2) below; (ii) irrevocably appoints the Aviation Director as its true and lawful attorney-in-fact for the limited purpose of executing the written instrument required by Section 9.04 of the Revenue Bond Ordinances to evidence the Owner's specific consent to and approval of the amendments described in (1) and (2) below; and (iii) confirms all actions taken by the Aviation Director as attorney-in-fact for the Owner, it being specifically provided that the Aviation Director need not consult with, or provide notice to, an Owner in connection with the actions taken by the Aviation Director under this Section. The power of attorney granted to the Aviation Director shall be limited to effecting the below amendments and is irrevocable for so long as any Bond remains Outstanding.

The amendments are:

(1) Amend Section 6.01(e) of this Ordinances and the Revenue Bond Ordinances to read:

"Refunding Bonds. If Additional Revenue Bonds are being issued for the purpose of refunding less than all previously issued Prior Lien Bonds or Revenue Bonds which are then Outstanding, neither of the certifications described in (c) or (d) above are required so long as the aggregate Debt Service Requirements after the issuance of the Additional Revenue Bonds do not exceed the aggregate Debt Service Requirements prior to the issuance of the Additional Revenue Bonds; provided, that the annual debt service on the refunding bonds in any Fiscal Year will not be more than 10% higher than it is in any other Fiscal Year."

(2) Amend Section 9.03 of this Ordinances and the Revenue Bond Ordinances by changing the phrase "66-2/3% of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding" to "a majority of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding".

The amendment described in clause (1) will become effective once the City determines that the consent of 66-2/3% of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding is received, and the amendment described in clause (2) will become effective once the City determines that the consent of 100% of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding is received. Since the Series 2005 Bonds are insured, the consent of the Insurer will be required to be obtained. Since there are no Prior Lien Bonds (as defined in the Series 2005 Bond Ordinance) now Outstanding, the reference to Prior Lien Bonds in clause (1) above is of no force and effect.

Use of Passenger Facility Charges

Consistent with the definitions of Debt Service Requirements and Gross Revenues, the City acknowledges and agrees that debt service with respect to the Revenue Bonds paid or to be paid from passenger facility charges is not included in the calculation of Debt Service Requirements. The City covenants and agrees, for the benefit of the Owners of the Revenue Bonds, that during each Fiscal Year the City will set aside from any passenger facility charges imposed by the City on enplaned passengers the lesser of (i) such passenger facility charges imposed and collected by the City or (ii) \$4.50 derived from each passenger facility charge ("PFC") so imposed and collected by the City for the payment of PFC-eligible debt service on the Revenue Bonds in the following Fiscal Year, unless the City receives a report from an Airport Consultant showing that an alternative use of all or a portion of the passenger facility charges will not reduce the forecast coverage of Debt Service Requirements with respect to the Revenue Bonds by forecast Net Revenues during the following Fiscal Year (or such longer forecast period as may be covered in the Airport Consultant's Report) to less than 125%.

APPENDIX I

FORM OF BOND COUNSEL'S OPINION

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Proposed Form of Opinion of Bond Counsel

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

AUSTIN-BERGSTROM LANDHOST ENTERPRISES, INC. AIRPORT HOTEL SENIOR REVENUE REFUNDING AND IMPROVEMENT BONDS, SERIES 2017 \$45,600,000

WE HAVE ACTED AS BOND COUNSEL for Austin-Bergstrom Landhost Enterprises, Inc. (the "Issuer") for the sole purpose of rendering an opinion with respect to the legality and validity of the Issuer's Airport Hotel Senior Revenue Refunding and Improvement Bonds, Series 2017 (the "Series 2017 Bonds") under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Series 2017 Bonds for federal income tax purposes, and for no other reason or purpose. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Issuer or the City of Austin, Texas (the "City"), or the disclosure thereof in connection with the sale of the Series 2017 Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Series 2017 Bonds. Our role in connection with the Official Statement prepared for use in connection with the sale of the Series 2017 Bonds has been limited as described herein.

WE HAVE EXAMINED the validity of the Series 2017 Bonds, bearing interest from their date of initial delivery to the initial purchasers of the Series 2017 Bonds, until maturity or redemption, at the interest rates set forth in the Indenture of Trust dated as of October 1, 2017 (the "Indenture") between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"). Interest on the Series 2017 Bonds is payable and the Series 2017 Bonds mature on the dates set forth in the Indenture and the Series 2017 Bonds are subject to optional redemption and extraordinary mandatory redemption prior to maturity in accordance with the terms and conditions stated on the face of the Series 2017 Bonds. The Series 2017 Bonds are issuable only as fully registered bonds in the denominations described in the Indenture.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas; a transcript of certified proceedings of the Issuer and other pertinent instruments authorizing and relating to the issuance of the Bonds, including one of the executed

Series 2017 Bonds; various certificates and resolutions executed by officers and representatives of the Issuer and the City; and other instruments authorizing and relating to the issuance of the Series 2017 Bonds.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that the Issuer is a nonprofit public facilities corporation duly organized, validly existing, and in good standing and functioning under and pursuant to Chapter 303 of the Texas Local Government Code, as amended, and all other applicable laws of the State of Texas; that the resolution authorizing the Series 2017 Bonds (the "Bond Resolution") has been duly and lawfully adopted by, and constitutes a valid and binding obligation of, the Issuer; and that the Series 2017 Bonds have been duly authorized, issued and delivered in accordance with Texas law and constitute legal, valid, binding and enforceable obligations of the Issuer in accordance with their terms. The principal of, redemption premium, if any, and interest on the Series 2017 Bonds are payable from, and secured by a lien on and pledge of, the Trust Estate (as defined in the Indenture), which includes the funds designated as "Revenues" (as defined in the Indenture) to be deposited with the Trustee pursuant to the Indenture, and amounts in certain funds established with the Trustee under the Indenture. The Issuer has agreed and is obligated to make transfers of Revenues to the Trustee under the Indenture for deposit into the Senior Debt Service Fund established by the Indenture in amounts sufficient to pay and redeem, or provide for the payment and redemption of, the principal of, redemption premium, if any, and interest on the Series 2017 Bonds, when due, as required by the Indenture. We do not, however, express any opinion nor make any comment with respect to the sufficiency of the security for or the marketability of the Series 2017 Bonds.

THE SERIES 2017 BONDS ARE FURTHER SECURED BY the Indenture whereunder the Trustee is custodian of the Senior Debt Service Fund, the Senior Debt Service Reserve Fund and the Rebate Fund (each created in the Indenture), and the Trustee is obligated to enforce the rights of the Issuer and the owners of the Series 2017 Bonds and to perform other duties, in the manner and under the conditions stated in the Indenture; and it is our further opinion that the Indenture has been duly and lawfully authorized, executed, and delivered by the Issuer, and that it is a valid and binding agreement of the Issuer enforceable against the Issuer in accordance with its terms and conditions. In addition, in the Grant Agreement between the Issuer and the City (the "Grant Agreement"), the City has agreed to consider, subject to annual appropriation by the City, to make a grant of surplus general airport revenues to the Issuer in the event that the Senior Debt Service Reserve Fund is not fully maintained in accordance with the terms of the Indenture.

IT IS FURTHER OUR OPINION that the Grant Agreement has been duly and lawfully authorized, executed, and delivered by the Issuer, and the Grant Agreement is the valid and binding agreement of the Issuer enforceable against the Issuer in accordance with its terms and conditions; and we are relying on the opinion of the Office of the City Attorney to the effect that the Grant Agreement has been duly and lawfully authorized, executed, and delivered by the City.

THE OWNERS OF THE SERIES 2017 BONDS shall never have the right to demand payment thereof out of any funds raised or to be raised by taxation, and the Series 2017 Bonds are payable solely from the sources described in the Indenture, and are not payable from any other funds or resources of the Issuer; and the Series 2017 Bonds and the interest thereon do not constitute, and

shall never be considered as, obligations of the State of Texas, or of the City or any other agency or political subdivision of the State of Texas.

THE ISSUER has reserved the right, subject to the restrictions stated in the Indenture, to issue additional parity revenue bonds ("Additional Bonds") which, when issued and delivered, together with the redemption premium, if any, and interest thereon, shall be payable from and secured by a lien on and pledge of the Trust Estate pursuant to the Indenture; in the same manner and to the same extent as, and be on a parity with, all then outstanding Series 2017 Bonds and Additional Bonds.

THE INDENTURE PERMITS, with certain exceptions as therein provided, the amendment thereof at any time by the Issuer with the consent of the registered owners of not less than a majority in aggregate principal amount of all Series 2017 Bonds and Additional Bonds at the time outstanding.

THE OPINIONS HEREINBEFORE EXPRESSED are qualified to the extent that the obligations of the Issuer, and the enforceability thereof, with respect to the Series 2017 Bonds and the Indenture are subject to applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally and to general principles of equity which may limit the availability of equitable remedies.

IN OUR OPINION, except as discussed below, the interest on the Series 2017 Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Series 2017 Bonds are not "specified private activity bonds" and that accordingly interest on the Series 2017 Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal income tax consequences of acquiring, carrying, owning or disposing of the Series 2017 Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations such as the Series 2017 Bonds will be included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Series 2017 Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Series 2017 Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Series 2017 Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Series 2017 Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Series 2017 Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Series 2017 Bonds and have relied solely on certificates executed by officials of the Issuer as to the availability and sufficiency of Revenues to make the payments of the debt service on the Bonds. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Series 2017 Bonds has been limited as described therein.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether the Service will commence an audit of the Series 2017 Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Series 2017 Bonds as includable in gross income for federal income tax purposes.

Respectfully,

