

OFFICIAL STATEMENT DATED JANUARY 12, 2017

New Issue: Book-Entry-Only System

Ratings: Standard & Poor's: "A"

Moody's: "A1"

(See "OTHER RELEVANT INFORMATION – 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 document. Interest on the Series 2017B Bonds will be an item of tax preference for purpose of determining the alternative minimum tax imposed on individuals and corporations under section 57(a)(5) of the Code. See "TAX MATTERS" in this document for a discussion of Bond Counsel's opinion and certain collateral federal tax consequences.



CITY OF AUSTIN, TEXAS

(Travis, Williamson and Hays Counties)

\$185,300,000

**Airport System Revenue Bonds,
Series 2017A**

\$129,665,000

**Airport System Revenue Bonds,
Series 2017B (AMT)**

Dated: January 12, 2017; Interest to accrue from Date of Initial Delivery Due: As shown on the inside cover page

The \$185,300,000 City of Austin, Texas Airport System Revenue Bonds, Series 2017A (the "Series 2017A Bonds") and the \$129,665,000 City of Austin, Texas Airport System Revenue Bonds, Series 2017B (AMT) (the "Series 2017B Bonds") (and together with the Series 2017A Bonds, collectively referred to as the "Bonds"), are limited special obligations of the City of Austin, Texas (the "City"), issued pursuant to the ordinances adopted by the City on December 15, 2016 (the "Ordinances"). In the Ordinances, the City Council has delegated the authority to sell the Bonds to an Authorized Officer (as defined in the Ordinances), subject to the parameters set forth in the Ordinances.

Proceeds from the Bonds, together with other legally available funds, will be used for the purpose of (i) designing and constructing improvements to Austin-Bergstrom International Airport ("ABIA" or the "Airport"), as more fully described in "DESCRIPTION OF THE 2017 PROJECTS" in this document, (ii) making a deposit to the Debt Service Reserve Fund, (iii) funding capitalized interest on the Bonds, and (iv) paying certain costs of issuance incurred in connection with the issuance of the Bonds. See "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Selected Definitions" and "APPLICATION OF BOND PROCEEDS" in this document.

Interest on the Bonds is calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds will accrue from their date of initial delivery, and is payable on May 15, 2017 and semiannually thereafter on November 15 and May 15 of each year until maturity or prior redemption. The City intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer. See "DESCRIPTION OF THE BONDS – Book-Entry-Only System" in this document.

The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as more fully described in this document. See "DESCRIPTION OF THE BONDS – Redemption of the Bonds" in this document.

The Bonds, together with the Currently Outstanding Revenue Bonds (defined herein) and any Additional Revenue Bonds (defined in this document), when and if issued, are limited special obligations of the City payable from, and are equally and ratably secured by, a first lien on the Net Revenues (defined in this document) of the Airport System (defined in this document) and certain funds established by the Ordinances. No mortgage of any of the physical properties forming a part of the Airport System or any lien thereon or security interest therein has been given. **The Bonds are not general obligations of the City, and neither the taxing power of the City nor the State of Texas is pledged as security for the Bonds. See "SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS" in this document.**

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 City. See "APPENDIX D – Forms of Bond Counsel's Opinions" in this document. Certain legal matters will be passed upon for the City by Norton Rose Fulbright US LLP as disclosure counsel to the City, and for the underwriters listed below (the "Underwriters") by their counsel, Orrick, Herrington & Sutcliffe LLP. It is expected that the Bonds will be available for initial delivery to the Underwriters through DTC on or about February 2, 2017.

RBC Capital Markets

**Goldman, Sachs & Co.
Jefferies**

**Piper Jaffray & Co.
Siebert Cisneros Shank & Co., L.L.C.**

\$185,300,000
CITY OF AUSTIN, TEXAS
Airport System Revenue Bonds, Series 2017A

MATURITY SCHEDULE

Base CUSIP No. 052398 ⁽¹⁾

Maturity Date (<u>November 15</u>)	Principal <u>Amount</u>	Interest <u>Rate</u>	Initial <u>Yield</u>	CUSIP <u>Suffix</u> ⁽¹⁾
2026	\$5,190,000	5.000%	2.510%	ES9
2027	5,445,000	5.000	2.640 ⁽²⁾	ET7
2028	5,720,000	5.000	2.730 ⁽²⁾	EU4
2029	6,005,000	5.000	2.860 ⁽²⁾	EV2
2030	6,305,000	5.000	2.910 ⁽²⁾	EW0
2031	6,620,000	5.000	2.970 ⁽²⁾	EX8
2032	6,950,000	5.000	3.030 ⁽²⁾	EY6
2033	7,300,000	5.000	3.090 ⁽²⁾	EZ3
2034	7,665,000	5.000	3.150 ⁽²⁾	FA7
2035	8,050,000	5.000	3.200 ⁽²⁾	FB5
2036	8,450,000	5.000	3.240 ⁽²⁾	FC3
2037	8,875,000	5.000	3.270 ⁽²⁾	FF6

\$40,150,000 5.000% Term Bonds maturing November 15, 2041, priced to yield 3.310%, CUSIP Suffix FD1 ⁽¹⁾⁽²⁾

\$62,575,000 5.000% Term Bonds maturing November 15, 2046, priced to yield 3.360%, CUSIP Suffix FE9 ⁽¹⁾⁽²⁾

(Interest to accrue from the Date of Initial Delivery)

- ⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP numbers (Copyright 2016, CUSIP Global Services) are provided by CUSIP Global Services (“CGS”). CGS is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. These CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for the CGS database. The CUSIP numbers herein are provided for convenience of reference only. CUSIP numbers are subject to change. None of the City, the Financial Advisor or the Underwriters shall be responsible for the selection or correctness of CUSIP numbers set forth in this document.
- ⁽²⁾ Yield priced to November 15, 2026, the first optional call date. See “DESCRIPTION OF THE BONDS – Redemption of the Bonds” in this document.

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\$129,665,000
CITY OF AUSTIN, TEXAS
Airport System Revenue Bonds, Series 2017B (AMT)

MATURITY SCHEDULE

Base CUSIP No. 052398 ⁽¹⁾

<u>Maturity Date</u> <u>(November 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u> ⁽¹⁾
2026	\$3,630,000	5.000%	2.840%	FG4
2027	3,810,000	5.000	2.950 ⁽²⁾	FH2
2028	4,005,000	5.000	3.050 ⁽²⁾	FJ8
2029	4,200,000	5.000	3.130 ⁽²⁾	FK5
2030	4,410,000	5.000	3.190 ⁽²⁾	FL3
2031	4,635,000	5.000	3.250 ⁽²⁾	FM1
2032	4,865,000	5.000	3.310 ⁽²⁾	FN9
2033	5,110,000	5.000	3.370 ⁽²⁾	FP4
2034	5,365,000	5.000	3.430 ⁽²⁾	FQ2
2035	5,630,000	5.000	3.480 ⁽²⁾	FR0
2036	5,915,000	5.000	3.520 ⁽²⁾	FS8
2037	6,210,000	5.000	3.550 ⁽²⁾	FV1

\$28,095,000 5.000% Term Bonds maturing November 15, 2041, priced to yield 3.570%, CUSIP Suffix FT6 ⁽¹⁾⁽²⁾

\$43,785,000 5.000% Term Bonds maturing November 15, 2046, priced to yield 3.620%, CUSIP Suffix FU3 ⁽¹⁾⁽²⁾

(Interest to accrue from the Date of Initial Delivery)

- ⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP numbers (Copyright 2016, CUSIP Global Services) are provided by CGS. CGS is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. These CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for the CGS database. The CUSIP numbers herein are provided for convenience of reference only. CUSIP numbers are subject to change. None of the City, the Financial Advisor, or the Underwriters shall be responsible for the selection or correctness of CUSIP numbers set forth in this document.
- ⁽²⁾ Yield priced to November 15, 2026, the first optional call date. See “DESCRIPTION OF THE BONDS – Redemption of the Bonds” in this document.

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

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

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

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

The information and expressions of the opinions in this Official Statement are subject to change without notice and neither the delivery of this Official Statement nor any sale made under the Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the other matters described since the date in this Official Statement.

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

Certain statements contained in this Official Statement, including the appendices, are not historical facts but are forecasts and “forward-looking statements.” No assurance can be given that the future results discussed in this document will be achieved, and actual results may differ materially from the forecasts described in this document. In this respect, the words “estimate,” “forecast,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by the statements. All estimates, projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. The City specifically disclaims any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Official Statement, except to the extent expressly required by the City’s continuing disclosure agreement described in this document.

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

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE BONDS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL, OR STATE SECURITIES AUTHORITY OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

References in this document to web site addresses are not hyperlinks, and information and representations contained on such websites are not included in or incorporated into this Official Statement. This Official Statement is not to be construed as a contract between the City and Bondholders.

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CITY OF AUSTIN, TEXAS

Elected Officials

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

Appointed Officials

Elaine Hart, CPA	Interim City Manager ⁽²⁾
Robert Goode.....	Assistant City Manager
Sue Edwards	Assistant City Manager
Bert Lumbreras.....	Assistant City Manager
Rey Arellano.....	Assistant City Manager
Mark Washington.....	Assistant City Manager
Greg Canally	Interim Chief Financial Officer ⁽²⁾
Ed Van Eenoo.....	Deputy Chief Financial Officer
Anne Morgan	City Attorney
Jannette Goodall	City Clerk

⁽²⁾ On September 1, 2016, the Austin City Council appointed Ms. Elaine Hart to the position of Interim City Manager, effective October 1, 2016, following the resignation of former City Manager Marc Ott. Mr. Greg Canally was appointed Interim Chief Financial Officer, also effective October 1, 2016.

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OFFICIAL STATEMENT

relating to

CITY OF AUSTIN, TEXAS

(Travis, Williamson and Hays Counties)

\$185,300,000

**Airport System Revenue Bonds,
Series 2017A**

\$129,665,000

**Airport System Revenue Bonds,
Series 2017B (AMT)**

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page and the appendices to this Official Statement, is to set forth information concerning the City of Austin, Texas (the “City”), the Airport System (as defined in the Ordinances mentioned below), and the City’s Airport System Revenue Bonds, Series 2017A (the “Series 2017A Bonds”) and Airport System Revenue Bonds, Series 2017B (AMT) (the “Series 2017B Bonds”, and together with the Series 2017A Bonds, collectively referred to in this document as the “Bonds”). The Bonds are limited special obligations of the City issued pursuant to the ordinances adopted by the City on December 15, 2016 (the “Ordinances”). Unless otherwise indicated, capitalized terms used in this Official Statement shall have the meanings established in the Ordinances. The definitions of certain terms used in the Ordinances and in this Official Statement are included in “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES – Selected Definitions” in this document.

The Bonds are being issued pursuant to Chapter 1371, Texas Government Code, as amended (“Chapter 1371”), Chapter 22, Texas Transportation Code, as amended, and the Ordinances. In the Ordinances, the City Council has delegated the authority to sell the Bonds to an Authorized Officer, subject to the parameters set forth in the Ordinances.

Proceeds from the Bonds, together with other legally available funds, will be used for the purpose of (i) planning, acquiring, establishing, constructing, improving, or equipping Austin-Bergstrom International Airport (“ABIA” or the “Airport”), the major component of the Airport System, (ii) making a deposit to the Debt Service Reserve Fund, (iii) funding capitalized interest on the Bonds and (iv) paying certain costs incurred in connection with the issuance of the Bonds. See “DESCRIPTION OF THE 2017 PROJECTS,” and “APPLICATION OF BOND PROCEEDS” in this document.

The Bonds, together with the Currently Outstanding Revenue Bonds, are secured by and payable from a first lien on the Net Revenues (as defined in this document) of the Airport System. Under certain circumstances, the Ordinances permit the issuance of Additional Revenue Bonds which rank on a parity with the Currently Outstanding Revenue Bonds. The Bonds are being issued as Additional Revenue Bonds. See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS – Additional Revenue Bonds” in this document. As defined in the Ordinances, the “Currently Outstanding Revenue Bonds” include the Series 2005 Bonds, the Series 2013 Bonds, the Series 2013A Bonds, and the Series 2014 Bonds described below. As of December 1, 2016, the outstanding principal balance of the Series 2005 Bonds was \$179,075,000, the outstanding principal balance of the Series 2013 Bonds was \$56,410,000, the outstanding principal balance of the Series 2013A Bonds was \$17,988,000, and the outstanding principal balance of the Series 2014 Bonds was \$244,495,000. The Currently Outstanding Revenue Bonds, the Bonds and any Additional Revenue Bonds are referred to in the Ordinances as the “Revenue Bonds,” and the Ordinances, the ordinances pursuant to which the Currently Outstanding Revenue Bonds were issued and any ordinances pursuant to which any Additional Revenue Bonds are issued, are referred to as “Revenue Bond Ordinances.”

Amendments to Revenue Bond Ordinances

The Revenue Bond Ordinances pursuant to which the Series 2013 Bonds, the Series 2013A Bonds and the Series 2014 Bonds were issued and the Ordinances pursuant to which the Bonds are to be issued include amendments to the existing Revenue Bond Ordinances, including those for the Series 2005 Bonds. **By acceptance of the Bonds, each Owner of a Bond (i) irrevocably and specifically consents to and approves amendments to the Ordinances and the ordinances governing the issuance of Revenue Bonds as described below, (ii) irrevocably appoints the Aviation Director as its true and lawful attorney-in-fact to evidence an Owner’s specific consent to and approval of the amendments described below, and (iii) confirms all actions taken by the Aviation Director as attorney-in-fact**

for the Owner. The amendments described below were so approved by the Owners of the Series 2014 Bonds, the Series 2013 Bonds and the Series 2013A Bonds, but have not been approved by the Owners of the Series 2005 Bonds or by the Bond Insurer. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES” in this document.

The amendments are as follows:

Amend Section 6.01(e) of the Ordinances and the Revenue Bond Ordinances pursuant to which the Currently Outstanding Revenue Bonds were issued as shown below (deletions shown as ~~strike through~~ and additions underlined):

“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.”

Amend Section 9.03 of the Ordinance and the Revenue Bond Ordinances pursuant to which the Currently Outstanding Revenue Bonds were issued 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 to Section 6.01(e) will become effective once the consent of 66 2/3% of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding is received. Since there are no Prior Lien Bonds now Outstanding, the reference to Prior Lien Bonds above is of no force and effect. The amendment to Section 9.03 will become effective once 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 Bond Insurer to each amendment will be required to be obtained.

Upon the issuance of the Bonds, the percentage of bondholders of the Currently Outstanding Revenue Bonds and the Bonds who have consented or will have been deemed to have consented to the amendments described above is 78.0%.

See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES – Amendments to Revenue Bond Ordinances” in this document.

Report of the Airport Consultant

In connection with its planned issuance of the Bonds, the City retained LeighFisher (the “Airport Consultant”) to review the Airport’s capital improvement program, funding plan and existing contractual and other arrangements and to evaluate the ability of the City to generate sufficient Gross Revenue during a 2017-2023 forecast period to pay Operation and Maintenance Expenses, Debt Service and Debt Service coverage and its other Airport-related obligations. A copy of the Report of the Airport Consultant (the “Report”) is included in this Official Statement as APPENDIX A and should be read in its entirety.

DESCRIPTION OF THE 2017 PROJECTS

In response to the request of airlines operating at ABIA for additional space, as well as the significant increase in passenger growth at ABIA, the City is undertaking the design and construction of a new parking garage, expansion of the passenger terminal, including the addition of new gates, and replacement or rehabilitation of utility systems and other terminal infrastructure. The terminal projects and the parking garage project (collectively, the “2017 Projects”), which the City expects to complete by the end of summer 2019, are part of the City’s 2016-2020 Airport capital improvement program that also includes improvements to the airfield, additional infrastructure improvements in the terminal and landside infrastructure renewal and replacement projects.

- Airport Terminal/Apron Expansion and Improvement Project - The Airport Terminal/Apron Expansion and Improvement Project is being designed to include nine new passenger gates, four of which will be flexible in design to accommodate both domestic and international flights. The project scope also includes utility and infrastructure upgrades to support the new expansion and renovation work in the ticket lobby to match new

technology in order to improve customer service and balance the space needs for passengers and airlines and expansion of the aircraft parking apron by approximately 40 acres to provide additional space for concourse and remain-overnight aircraft parking and taxi lanes and also to provide additional water quality detention ponds to support deicing facilities. The Airport Terminal/Apron Expansion and Improvement Project also includes terminal mechanical system improvements, baggage claim level infrastructure improvements and terminal roof replacement. A portion of the costs of these terminal projects will be paid from proceeds of the Series 2017B Bonds.

The City currently expects that the Airport Terminal Expansion and Improvements portion of the project will be completed and in use by the end of 2018 and that the remaining Apron Expansion portion will be completed in the Summer of 2019.

- Parking Garage Project Construction - Proceeds of the Series 2017A Bonds are to be applied to pay a portion of the costs of constructing a new, approximately 6,000-space, six-level parking garage, at the Lot A site north of the existing parking garage and west of the new rental car facility, and improvements to the roadways and entry plazas for the newly constructed garage. The garage is scheduled to be completed in November 2018.

See “THE AIRPORT SYSTEM – Airport Facilities” and “CAPITAL IMPROVEMENT PROGRAM” in this document and “FINANCIAL ANALYSIS – 2016-2020 Project” in APPENDIX A.

APPLICATION OF BOND PROCEEDS

The following table sets forth the anticipated application of proceeds of the Bonds of each series.

	Series 2017A Bonds	Series 2017B Bonds
Sources:		
Principal Amount	\$185,300,000.00	\$129,665,000.00
Original Issue Premium	28,019,508.25	16,439,968.50
Total Sources	<u>\$213,319,508.25</u>	<u>\$146,104,968.50</u>
Uses:		
Deposit to Project Account	\$180,483,502.07	\$117,685,773.59
Deposit to Capitalized Interest Account ⁽¹⁾	16,895,389.93	17,198,315.56
Deposit to Debt Service Reserve Fund	14,454,711.95	10,114,788.05
Costs of Issuance ⁽²⁾	1,485,904.30	1,106,091.30
Total Uses	<u>\$213,319,508.25</u>	<u>\$146,104,968.50</u>

(1) Includes amounts to pay interest through the estimated completion dates of the projects financed with the Series 2017A and the Series 2017B Bonds.

(2) Includes Underwriters' discount, rating agency fees and paying agent and legal expenses.

DESCRIPTION OF THE BONDS

General

The Bonds of each series will be issued in the aggregate principal amount and at the interest rates, and will mature in the amounts and on the dates, as set forth on the inside cover pages of this Official Statement. The Bonds will be issuable in principal denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds will accrue from their date of delivery to the underwriters listed on the cover page hereof (the “Underwriters”), and will be payable on May 15, 2017, and on each November 15 and May 15 thereafter (each such date is referred to as an “Interest Payment Date”) until maturity or prior redemption. The Bonds initially will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Purchases by beneficial

owners of the Bonds (the “Beneficial Owners”) are to be made in book entry form. See “Book-Entry-Only System” in this document.

Payment of the Bonds

The principal of the Bonds shall be payable in lawful money of the United States of America at the corporate trust office in Dallas (the “Designated Payment/Transfer Office”) of Amegy Bank (the “Paying Agent/Registrar”), and the interest on the Bonds shall be paid by check or draft mailed, by first-class mail, by the Paying Agent/Registrar to the respective registered owners thereof at their addresses as they appear on the registration books kept by the Paying Agent/Registrar pertaining to the registration of the Bonds on the last Business Day of the month next preceding an Interest Payment Date. In lieu of mailing such interest payment, such other method may be used at the risk and expense of a registered owner, if requested by the registered owner and acceptable to the Paying Agent/Registrar. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, any payment to the securities depository, or its nominee or registered assigns, shall be made in accordance with arrangements between the City and the securities depository. See “Book-Entry-Only System” in this document.

Redemption of the Bonds

Optional Redemption

The City reserves the right, at its option, to redeem the Bonds of either series in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on November 15, 2026, or any date thereafter, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the City shall determine the respective series, maturities and amounts to be redeemed and, if less than all of a maturity and series is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in book-entry-only form) shall determine by lot or other customary random selection method the Bonds, or portions thereof, within the maturity and series to be redeemed.

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

Mandatory Sinking Fund Redemption

The Series 2017A Bonds having stated maturities of November 15 in each of the years 2041 and 2046 respectively (the “Series 2017A Term Bonds”), are subject to mandatory redemption in part prior to maturity at the redemption price of 100% of the principal amount thereof plus accrued interest to the date fixed for redemption on November 15 in each of the years and in principal amounts as follows:

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5.000% Series 2017A Term Bond due November 15, 2041		5.000% Series 2017A Term Bond due November 15, 2046	
<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2038	\$9,315,000	2042	\$11,325,000
2039	9,780,000	2043	11,890,000
2040	10,270,000	2044	12,485,000
2041 [†]	10,785,000	2045	13,110,000
		2046 [†]	13,765,000

[†] Stated maturity.

The Series 2017B Bonds having stated maturities of November 15 in each of the years 2041 and 2046 respectively (the “Series 2017B Term Bonds” and together with the Series 2017A Term Bonds, the “Term Bonds”) are subject to mandatory redemption in part prior to maturity at the redemption price of 100% of the principal amount thereof plus accrued interest to the date fixed for redemption on November 15 in each of the years and in principal amounts as follows:

5.000% Series 2017B Term Bond due November 15, 2041		5.000% Series 2017B Term Bond due November 15, 2046	
<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2038	\$6,520,000	2042	\$7,925,000
2039	6,845,000	2043	8,320,000
2040	7,185,000	2044	8,735,000
2041 [†]	7,545,000	2045	9,175,000
		2046 [†]	9,630,000

[†] Stated maturity.

Approximately 45 days prior to each mandatory redemption date of the Term Bonds, the Paying Agent/Registrar shall select by lot the numbers of the Term Bonds within the series and stated applicable maturity to be redeemed on the next following November 15 from moneys set aside for that purpose in the Debt Service Fund; *provided*, that during any period in which ownership of the Term Bonds is determined only by a book entry at a securities depository for the Term Bonds, the particular Term Bonds shall be selected in accordance with the arrangements between the City and the securities depository.

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

Notice of Redemption

Not less than thirty (30) days prior to a redemption date, the City shall cause a written notice of such redemption to be sent by United States mail, first class postage prepaid, to the registered owners of each Bond to be redeemed at the address shown on the registration books maintained by the Paying Agent/Registrar and subject to the terms and provisions relating thereto contained in the Ordinances. If a Bond (or any portion of its principal sum) shall have been called for redemption and notice of its redemption given, then on the redemption date the Bond (or the portion of its principal sum to be redeemed) shall become due and payable (unless in the case of optional redemption funds are not available for the payment of the redemption price on the date of redemption), and interest on the Bond shall cease to accrue from and after the redemption date of the Bond, provided moneys for the payment of the redemption price and the interest on the principal amount to be redeemed to the date of redemption are held by the Paying Agent/Registrar.

Any notice of redemption shall state the redemption date, the redemption price, the amount of accrued interest payable on the redemption date, the place at which Bonds are to be surrendered for payment and, if less than the entire principal amount of a Bond is to be redeemed, the portion thereof to be redeemed. Any notice given as provided in this paragraph

shall be conclusively presumed to have been duly given, whether or not the registered owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the redemption price of the Bonds to be redeemed, plus accrued interest to the date fixed for redemption. When the Bonds have been called for redemption in whole or in part and due provision has been made to redeem them, the Bonds or portions thereof so redeemed shall no longer be regarded as Outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the registered owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Limitation on Transfer of Bonds Called for Redemption

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption; provided, however, this limitation on transferability shall not be applicable to an exchange by the registered owner of the unredeemed balance of a Bond redeemed in part.

Defeasance of Bonds

The Ordinances provide that the City may discharge its obligation to the Owners of any or all of the Bonds to pay Debt Service, or any portion of the Debt Service, by (1) 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 (2) depositing either with the Paying Agent/Registrar or with any national banking association with capital and surplus in excess of \$100,000,000 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, will no longer be regarded to be Outstanding or unpaid.

“Defeasance Obligations” means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, and (c) 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 are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent. There is no assurance that the ratings for any Defeasance Obligation will maintain any particular rating category. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES – Discharge by Deposit” in this document.

Book-Entry-Only System

The City has elected to utilize the book-entry-only system of The Depository Trust Company, New York, New York (“DTC”), as described under this heading. The City is obligated to timely pay the Paying Agent/Registrar the amount due under the Ordinances. See “Paying Agent/Registrar” below. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owner of the Bonds are described in this Official Statement.

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

The City cannot and does not give any assurance that (1) DTC will distribute payment of debt service on the 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 Bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative

of DTC. One fully-registered certificate will be issued for each maturity of each series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Participants.

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

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

Paying Agent/Registrar

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

Transfer, Exchange and Registration

In the event the book-entry-only system should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar at the Designated Payment/Transfer Office and any 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 the registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the Designated Payment/Transfer Office, or sent by United States mail, first class postage prepaid, to the new registered owner or its designee. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount and series as the Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" above in this document for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS

Pledge of Net Revenues

The Bonds and the Currently Outstanding Revenue Bonds, together with any Additional Revenue Bonds (if and when issued), are secured by and payable from a first lien on the Net Revenues. The City covenants and agrees in the Revenue Bond Ordinances that Gross Revenues shall be deposited and paid into the special funds established and confirmed in the Revenue Bond Ordinances and shall be applied in order to provide for the payment of all Operation and Maintenance Expenses of the Airport System and to provide for the payment of Debt Service on the Revenue Bonds, Credit Agreement Obligations (as defined below in this document under "– Credit Agreement Obligations") relating to outstanding Revenue Bonds, and the payment when due of Administrative Expenses. See "– Flow of Funds" and "– Credit Agreement Obligations" below in this document.

“Gross Revenues” includes 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 are 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 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 are considered Gross Revenues; or (j) Other Available Funds transferred to the Revenue Fund as provided in the Revenue Bond Ordinances.

“Net Revenues” means that portion of Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses of the Airport System. Debt Service is payable prior to the payment of any Administrative Expenses. See “Flow of Funds” below. For the definitions of “Operation and Maintenance Expenses” and “Administrative Expenses,” see “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES.”

The Ordinances do not constitute a mortgage of any of the physical properties forming a part of the Airport System or create any lien thereon or security interest therein. The Bonds are not general obligations of the City, and neither the taxing power of the City nor the State of Texas is pledged as security for the Bonds.

As of the date of this Official Statement, the Currently Outstanding Revenue Bonds and the Swap Agreement entered into 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 Net Revenues. See “OUTSTANDING REVENUE BONDS, CREDIT AGREEMENT OBLIGATIONS AND SPECIAL FACILITIES BONDS – Outstanding Revenue Bonds” and “– Financial Transactions Related to the Series 2005 Bonds – 2005 Swap Agreement.” The City has reserved the right to issue, for any lawful Airport System purpose, 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. See “Subordinate Obligations” below in this document. 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 Net Revenues only after the payment of all Revenue Bonds and Subordinate Obligations. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES - Funds and Flow of Funds.” The City transfers Net Revenues to pay debt service on 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.

Use of Passenger Facility Charges

In the Revenue Bond Ordinances 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 PFCs 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%. 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 ("FAA"). See "CAPITAL IMPROVEMENT PROGRAM – Passenger Facility Charges" and "REGULATION – Passenger Facility Charges" in this document.

The City is currently seeking approval from the FAA to use PFCs to fund a portion of the 2017 Projects and to pay a portion of the debt service on the Bonds. Upon approval, the City intends to set aside PFCs to pay PFC-eligible debt service on the Bonds in accordance with the covenant described above. See "CERTAIN INVESTMENT CONSIDERATIONS – Availability of PFCs and PFC Approval," "APPENDIX A – REPORT OF THE AIRPORT CONSULTANT – Exhibit F" and "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES – Use of Passenger Facility Charges" in this document.

The proceeds of the PFCs are not part of the Net Revenues pledged by the City to the payment of Revenue Bonds, including the Bonds. Pursuant to the terms of the Revenue Bond Ordinances, PFCs are expressly excluded from the definition of "Gross Revenues." Consistent with the definition of "Debt Service Requirements" in the Revenue Bond Ordinances, debt service on Revenue Bonds for which PFCs have been appropriated and deposited into a dedicated fund or account, the proceeds of which are required to be transferred into the Debt Service Fund or directly to the Paying Agent/Registrar for such Revenue Bonds, is excluded from the calculation of Debt Service Requirements. See "– Rate Covenant", "– Additional Revenue Bonds" and the definition of "Debt Service Requirements" in "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES – Selected Definitions" in this document.

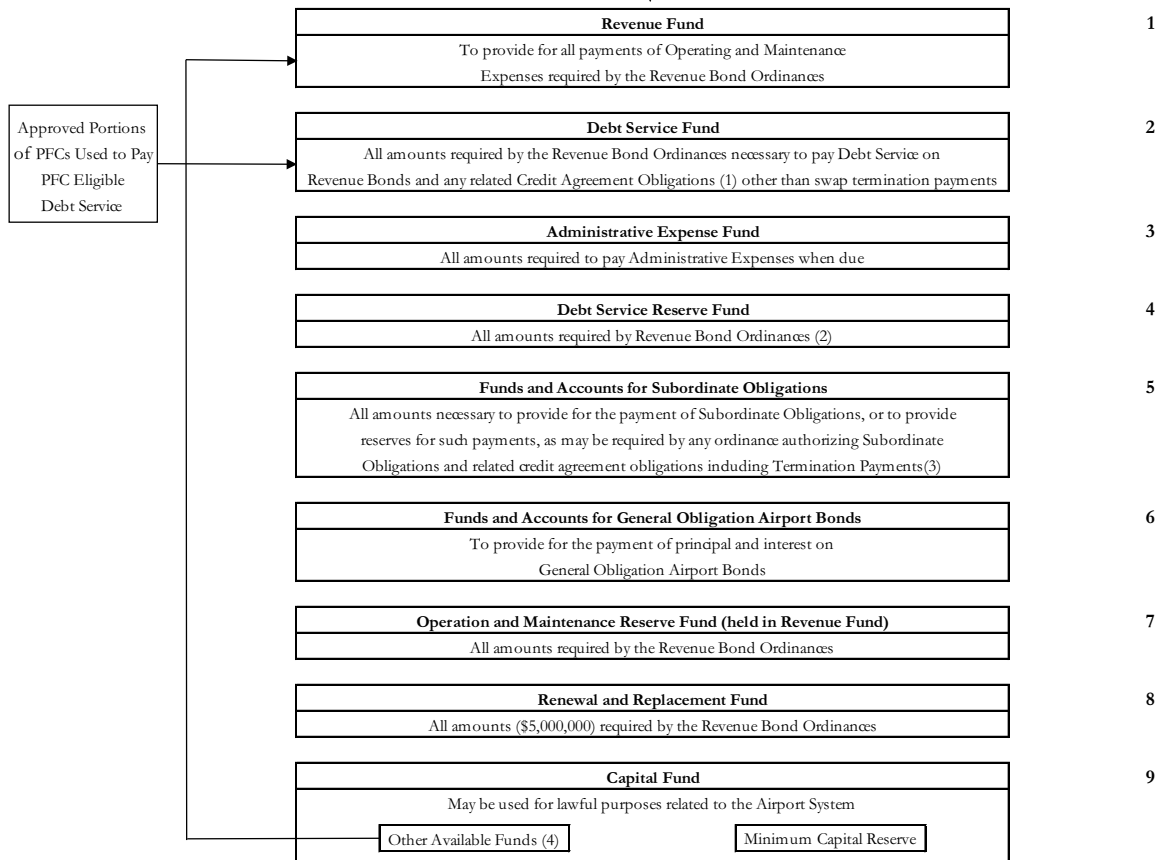
Flow of Funds

The 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. For descriptions of the special funds and accounts confirmed by the Ordinances and application of moneys in the Revenue Fund, see "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES – Funds and Flow of Funds" in this document.

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Flow of Funds
DEPOSIT GROSS REVENUES OF THE AIRPORT SYSTEM

*Priority Under
the Ordinance*



(1) See "OUTSTANDING REVENUE BONDS AND SPECIAL FACILITIES BONDS - Financial Transactions Related to the Series 2005 Bonds" in this document.
 (2) See "-Debt Service Reserve Fund" in this document.
 (3) See "-Subordinate Obligations" in this document.
 (4) See "HISTORICAL FINANCIAL DATA - Table 8" and the definition of "Other Available Funds" in APPENDIX C in this document.

Rate Covenant

The City covenants in the Revenue Bond Ordinances 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 pay 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 the Revenue Bonds for the Fiscal Year plus an amount equal to 100% of anticipated and budgeted Administrative Expenses for the Fiscal Year. See "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES – Particular Covenants – Rate Covenant" in this document.

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 its recommendations, if any, as to a revision of 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 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 as Debt Service is paid when due.

For purposes of the rate covenant described above, “Other Available Funds” is defined in the Ordinances as 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 that Fiscal Year to the Revenue Fund; but for purposes of the rate covenant and the determination of whether Additional Revenue Bonds may be issued as described below under “Additional Revenue Bonds,” in no event may this amount exceed 25% of the Debt Service Requirements for the Revenue Bonds for that Fiscal Year. The City has had a practice of transferring Other Available Funds to the Revenue Fund pursuant to the Revenue Bond Ordinances. See “HISTORICAL FINANCIAL DATA – Table 8 – Historical Debt Service Coverage” in this document.

Debt Service Reserve Fund

The Revenue Bond Ordinances establish a Debt Service Reserve Fund for the benefit of all Revenue Bonds and require that an amount equal to the Debt Service Reserve Fund Requirement be accumulated and maintained therein in accordance with the Revenue Bond Ordinances. The Revenue Bond Ordinances provide that the Debt Service Reserve Fund Requirement 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 regulations promulgated under the Code, exceed the least of (a) 10% of the stated principal amount of each issue of which the 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 the 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 regulations promulgated under the Code from time to time.

Pursuant to the Revenue Bond Ordinances, Additional Revenue Bonds may only be issued if provision is made in the Revenue Bond Ordinances authorizing the Additional Revenue Bonds proposed to be issued for 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. See “Additional Revenue Bonds” above in this document.

The Revenue Bond Ordinances provide that the Debt Service Reserve Fund Requirement may be funded by depositing to the Debt Service Reserve Fund either (i) proceeds of the applicable Revenue Bonds or other lawfully appropriated funds or (ii) a Debt Service Reserve Fund Surety Bond. The City may substitute at any time a Debt Service Reserve Fund Surety Bond for the funded amounts in the Debt Service Reserve Fund and apply the funds released to any of the purposes for which the related Revenue Bonds were issued or to pay debt service on the related Revenue Bonds.

In any month in which the Debt Service Reserve Fund contains less than the Debt Service Reserve Fund Requirement or in which the City is obligated to repay or reimburse any issuer of a Debt Service Reserve Fund Surety Bond (in the event the Debt Service Reserve Fund Surety Bond is drawn upon), then on or before the last Business Day of that 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 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 the Debt Service Reserve Fund shall be transferred to the Revenue Fund. But if and whenever the balance in the Debt Service Reserve Fund is reduced below this 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 amounts required to restore the Debt Service Reserve Fund to this amount and to pay reimbursement obligations within an 18 month period. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES – Funds and Flow of Funds – Debt Service Reserve Fund” in this document.

Upon the issuance of the Bonds, the aggregate Debt Service Reserve Requirement will be \$46,968,983. As of December 1, 2016, the Debt Service Reserve Fund is funded with \$14,717,358 of cash and a Debt Service Reserve Fund Surety Bond (the “2005 Reserve Policy”) issued by Assured Guaranty Municipal Corp (rated “A2” by Moody’s and “AA” by S&P) in the amount of \$25,536,833. For a description of the 2005 Reserve Policy, see “OUTSTANDING REVENUE BONDS, CREDIT AGREEMENT OBLIGATIONS AND SPECIAL FACILITIES BONDS – Financial Transactions Related to the Series 2005 Bonds – 2005 Reserve Policy” in this document. The City will deposit \$24,569,500 in the Debt Service Reserve Fund from a portion of the proceeds of the Bonds. See “APPLICATION OF BOND PROCEEDS” in this document. Upon making this deposit, the Debt Service Reserve Fund will be fully funded.

Remedies

If the City defaults in the payment of principal, interest or redemption price on the Bonds when due, or the City defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinances, or the City declares bankruptcy, the registered owners of the Bonds may seek a writ of mandamus to compel the City or City officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Ordinances and the City’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the courts, but may not be arbitrarily refused.

There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinances do not provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Ordinances, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. As described below, the outstanding Series 2005 Bonds are variable-rate bonds secured by letters of credit. Under some circumstances, including among others a default under the Reimbursement Agreement (as defined in this document) entered into in connection with the Series 2005 Bonds, the Series 2005 Bonds may be subject to mandatory tender for purchase and the increase of interest rates and acceleration of payment dates of the City’s reimbursement obligations to the provider of the letters of credit in connection with the Series 2005 Bonds. See “OUTSTANDING REVENUE BONDS, CREDIT AGREEMENT OBLIGATIONS AND SPECIAL FACILITIES BONDS” in this document.

The City may exercise authority to issue obligations and enter into credit agreements pursuant to Chapter 1371, secured by the Net Revenues of the Airport System. In the proceedings authorizing the issuance of obligations or the execution and delivery of credit agreements, the City may agree to waive sovereign immunity from suit or liability for the purposes of adjudicating a claim to enforce the credit agreement or obligation or for damages for breach of the credit agreement or obligation. The City has not waived the defense of sovereign immunity with respect to the Bonds under Chapter 1371. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the State legislature has effectively waived the City’s sovereign immunity from a suit for money damages outside of Chapter 1371, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or covenants contained in the Ordinances. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

The City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenue, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an

entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce any other remedies available to the registered owners would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors. See “CERTAIN INVESTMENT CONSIDERATIONS – Effect of a City Bankruptcy” in this document.

The Revenue Bond Ordinances provide that in the event of a payment default on any of the Bonds 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 Bonds 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 Bonds, 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 provided in the Revenue Bond Ordinances, and the application of such Gross Revenues in the manner required in the Revenue Bond Ordinances. See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS” below and “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES – Particular Covenants” in this document.

Additional Revenue Bonds

The Bonds will be issued as Additional Revenue Bonds, secured by a first lien on and pledge of the Net Revenues on parity with the Currently Outstanding Revenue Bonds.

The Revenue Bond Ordinances provide that the City may issue Additional Revenue Bonds payable from and secured on a parity with the Outstanding Revenue Bonds for any lawful Airport System purpose. However, the City may issue Additional Revenue Bonds only if, among other requirements, the following conditions are satisfied:

(a) 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) the City’s Chief Financial Officer or trustee, if one has been appointed, certifies 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; and

(c) 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) In lieu of the certification described in paragraph (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.

If Additional Revenue Bonds are being issued for the purpose of refunding less than all previously issued Revenue Bonds which are then Outstanding, neither of the certifications described in (c) or (d) above are required so long as the maximum annual Debt Service Requirements in any Fiscal Year after the issuance of the Additional Revenue Bonds will not exceed the maximum annual Debt Service Requirements in any Fiscal Year prior to the issuance of the Additional Revenue Bonds.

Upon implementation of the amendments to the Revenue Bonds Ordinances described above in this document under "INTRODUCTION – Amendments to Revenue Bond Ordinances," the immediately preceding paragraph will be amended as follows:

"If Additional Revenue Bonds are being issued for the purpose of refunding less than all previously issued 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."

In addition, Additional Revenue Bonds may only be issued if the Revenue Bond Ordinances authorizing the Additional Revenue Bonds proposed to be issued provide 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; and (2) satisfaction of the Debt Service Reserve Fund Requirement by not later than the date required by the Revenue Bond Ordinance authorizing such Additional Revenue Bonds. See "Debt Service Reserve Fund" above in this document.

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.

The Revenue Bond Ordinances further provide that 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 ("Completion Bonds"). Prior to the issuance of any series of Completion Bonds the City must provide:

(x) The certifications listed in paragraphs (a) and (b) above;

(y) 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 (defined below) 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

(z) 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.

“Airport Project” means the Airport or any other Airport System facility or project which is defined as an Airport Project in any ordinance authorizing the issuance of Additional Revenue Bonds for the purpose of financing the Airport Project.

See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES – Additional Bonds” in this document.

Credit Agreement Obligations

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.

“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.

“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. The “Series 2005 Swap Agreement” previously executed and delivered by the City with respect to the Series 2005 Bonds constitutes a Swap Agreement.

The City has entered into one Swap Agreement with Morgan Stanley Capital Services, Inc. which is currently outstanding in connection with the Series 2005 Bonds. If the rating of the counterparty is downgraded, the Swap Agreement may be terminated at the option of the City or if the letter of credit Bank requires the Bond Insurer to cancel the 2005 Bond Policy, as defined in this document, in which case current market conditions would determine whether the City will owe a termination payment to the Counterparty or be entitled to receive a termination payment from the Counterparty. See “OUTSTANDING REVENUE BONDS, CREDIT AGREEMENT OBLIGATIONS AND SPECIAL FACILITIES BONDS – Financial Transactions Related to the Series 2005 Bonds.” Any such termination payment is a “Termination Payment” under the Revenue Bond Ordinance pursuant to which the Series 2005 Bonds were issued and is a Subordinate Obligation not on a parity with Revenue Bonds. See “Subordinate Obligations” and “OUTSTANDING REVENUE BONDS, CREDIT AGREEMENT OBLIGATIONS AND SPECIAL FACILITIES BONDS – Financial Transactions Related to the Series 2005 Bonds – 2005 Swap Agreement” in this document.

Contingent Payment 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. These agreements include interest rate swap agreements and other similar agreements, letter of credit and line of credit agreements for advances of funds to the City in connection with its Bonds and other obligations, and other agreements. See “Credit Agreement Obligations” in this document. The contracts and agreements may provide for contingent payments that may be conditioned upon the credit ratings of the City and/or of the other parties to the contract or agreement, maintenance by the City of specified financial ratios, the inability of the City to obtain long-term refinancing for shorter-term obligations or liquidity arrangements, and other factors. The payments may be payable on a parity with debt service on the Bonds, including any payments made pursuant to a Swap Agreement. The City has no present intentions of entering into any additional agreement of the nature described in this paragraph.

The amount of any such contingent payments may be substantial. To the extent that the City did not have sufficient funds on hand to make any such payment, it is likely that the City would seek to borrow such amounts through the issuance of Additional Revenue Bonds or Subordinate Obligations.

The City has certain contingent payment obligations pursuant to the Reimbursement Agreement and a Swap Agreement entered into by the City in connection with the Series 2005 Bonds. See “OUTSTANDING REVENUE BONDS, CREDIT AGREEMENT OBLIGATIONS AND SPECIAL FACILITIES BONDS – Financial Transactions Related to the Series 2005 Bonds” in this document.

Subordinate Obligations

The City has reserved the right to issue or incur, for any lawful Airport System purpose, bonds, notes or other obligations, including reimbursement obligations and obligations pursuant to credit agreements and interest rate hedges, 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 Bonds, Currently Outstanding Revenue Bonds, and any Additional Revenue Bonds. Although such obligations are referred to in the 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. No Subordinate Obligations are currently outstanding. See “DEBT SERVICE REQUIREMENTS” in this document. The Revenue Bond Ordinances provide that Termination Payments in connection with Swap Agreements constitute Subordinate Obligations. See “Credit Agreement Obligations.” The City has entered into a Swap Agreement in connection with the Series 2005 Bonds and any Termination Payments under such Swap Agreement will constitute Subordinate Obligations. See “OUTSTANDING REVENUE BONDS, CREDIT AGREEMENT OBLIGATIONS AND SPECIAL FACILITIES BONDS – Financial Transactions Related to the Series 2005 Bonds – 2005 Swap Agreement” in this document. The City has signed a letter of intent to incur a Subordinate Obligation in connection with the refinancing of bonds issued in 1999 to finance the construction of a hotel at ABIA. See “OUTSTANDING REVENUE BONDS, CREDIT AGREEMENT OBLIGATIONS AND SPECIAL FACILITIES BONDS – Subordinate Obligations to Support Austin Airport Hotel Refinancing” in this document.

OUTSTANDING REVENUE BONDS, CREDIT AGREEMENT OBLIGATIONS AND SPECIAL FACILITIES BONDS

Outstanding Revenue Bonds

Four series of Revenue Bonds are outstanding as of December 1, 2016: the Series 2005 Bonds, the Series 2013 Bonds, the Series 2013A Bonds, and the Series 2014 Bonds. As of December 1, 2016, the outstanding principal amount of the Series 2005 Bonds was \$179,075,000, the outstanding principal amount of the Series 2013 Bonds was \$56,410,000, the outstanding principal amount of the Series 2013A Bonds was \$17,988,000, and the outstanding principal amount of the Series 2014 Bonds was \$244,495,000.

The Series 2005 Bonds are variable rate demand obligations that were issued in four sub-series each with a final maturity of November 15, 2025. The payment when due of debt service on the Series 2005 Bonds of each subseries and the payment of the purchase price of Series 2005 Bonds tendered for purchase and not remarketed is secured by letters of credit issued by Sumitomo Mitsui Banking Corporation, acting through its New York Branch (“SMBC”). Unless terminated or renewed earlier, each letter of credit expires on October 15, 2018. See “Financial Transactions Related to the Series 2005 Bonds” below in this document.

The Series 2013 Bonds are a fixed rate direct placement loan with Prosperity Bank and have a final maturity of May 15, 2028. The Series 2013A Bonds are a fixed rate direct placement loan with Bank of America Merrill Lynch and have a final maturity of November 15, 2018. The Series 2014 Bonds were publicly offered, and are fixed-rate bonds with a final maturity of November 15, 2044.

The Series 2013 Bonds were issued for the purpose of designing and constructing improvements to the Airport, making a deposit to the Debt Service Reserve Fund and paying certain costs of issuance. The Series 2013A Bonds were issued for the purpose of refunding the Prior Lien Bonds to realize a net present value savings and paying certain costs of issuance. The Series 2014 Bonds were issued for the purpose of designing and constructing improvements to the Airport, making a deposit to the Debt Service Reserve Fund, funding capitalized interest and paying certain costs of issuance.

The City anticipates that it will issue approximately \$181,635,000 principal amount of Additional Revenue Bonds in 2018.

Financial Transactions Related to the Series 2005 Bonds

Letters of Credit and Reimbursement Agreement

In connection with the substitution on June 18, 2014 of letters of credit issued by SMBC for the then-existing Liquidity Facility for the Series 2005 Bonds, the City entered into a Letter of Credit and Reimbursement Agreement (the "Reimbursement Agreement") with SMBC. Pursuant to the terms of the Reimbursement Agreement, SMBC issued four separate letters of credit, one for each sub-series of the Series 2005 Bonds, to provide both liquidity and credit support for each sub-series of the Series 2005 Bonds (the "Letters of Credit"). Payment of scheduled principal of and interest on the Series 2005 Bonds, together with the purchase price of Series 2005 Bonds subject to optional or mandatory tender for purchase which are not remarketed, will be payable from amounts received pursuant to draws under the applicable Letter of Credit. If a Letter of Credit is drawn upon to pay debt service or the purchase price of tendered Series 2005 Bonds of a sub-series, and the funds received from such draw are not promptly repaid by the City, SMBC will become the owner of the applicable sub-series of Series 2005 Bonds. Series 2005 Bonds tendered for purchase will be paid first, from the proceeds of remarketing, if any, and second, from a liquidity drawing on the applicable Letter of Credit.

Each Letter of Credit is stated to expire on October 15, 2018 unless extended or terminated earlier in accordance with its terms and the terms of the Reimbursement Agreement.

Pursuant to the Reimbursement Agreement, each Letter of Credit terminates upon the occurrence of an event of default under the Reimbursement Agreement. Events of default under the Reimbursement Agreement include, among others: nonpayment on Bonds or Bank Bonds or any Drawing or Liquidity Advance (each as defined in the Reimbursement Agreement); any representation or warranty is untrue when made; nonpayment of amounts payable under the Reimbursement Agreement or the Bank Fee Agreement (as defined in the Reimbursement Agreement) for six (6) Business Days; default in performance of specified covenants; termination of the Revenue Bonds Ordinance under which the Series 2005 Bonds were issued; bankruptcy of the City; a final judgment in an aggregate amount of \$5,000,000 or more payable from Net Revenues is entered and unvacated for sixty (60) days; an event of default under the Revenue Bonds Ordinance under which the Series 2005 Bonds were issued; the long-term unenhanced rating assigned to any of the City's debt payable from Net Revenues is reduced below "Baa2" by Moody's or below "BBB" by S&P or is suspended or withdrawn by Moody's or S&P; the 2005 Bond Policy (as defined in this document under "– Bond Insurance Policy") is canceled or terminated other than pursuant to the Reimbursement Agreement; payment default on any other long-term indebtedness payable from Net Revenues; or invalidity of the Reimbursement Agreement or certain provisions of the Revenue Bonds Ordinance under which the Series 2005 Bonds were issued.

Upon an event of default under the Reimbursement Agreement, in addition to other remedies specified in the Reimbursement Agreement, SMBC may cause a mandatory tender of all of the Series 2005 Bonds and may declare all obligations of the City under the Reimbursement Agreement to be immediately due and payable.

The Reimbursement Agreement provides that SMBC may also cause a mandatory tender of all of the Series 2005 Bonds if an Insurer Event of Default or an Insurer Downgrade Event (each as defined in the Reimbursement Agreement) occurs, or the City fails to pay the Letter of Credit Fee pursuant to the Reimbursement Agreement.

2005 Bond Policy

At the time of the issuance of the Series 2005 Bonds, a financial guaranty insurance policy (the "2005 Bond Policy") was issued by Financial Security Assurance Inc. to guarantee the scheduled payment of principal of and interest on the Series 2005 Bonds when due. In 2009, Assured Guaranty Municipal Corp. ("AGM") succeeded to the interests of Financial Security Assurance Inc. under the 2005 Bond Policy, the 2005 Swap Policy and the 2005 Reserve Policy (each as defined below in this document).

2005 Swap Agreement

In connection with the issuance of the Series 2005 Bonds, the City entered into a Swap Agreement (the "2005 Swap Agreement") with Morgan Stanley Capital Services, Inc. (the "Counterparty"). In connection with the 2005 Swap Agreement, a financial guaranty insurance policy (the "2005 Swap Policy") was issued under which AGM (as successor to

Financial Security Assurance Inc.) is obligated to make certain payments in relation to certain events occurring with respect to the 2005 Swap Agreement. The 2005 Swap Policy insures the City's obligation to make scheduled payments under the 2005 Swap Agreement but does not insure Termination Payments.

In connection with the 2005 Swap Agreement, the City is obligated to make payments to the Counterparty calculated on a notional amount equal to the scheduled outstanding principal amount of the Series 2005 Bonds and a fixed interest rate of 4.051% per annum, and the Counterparty is obligated to make reciprocal payments to the City calculated on a notional amount equal to the scheduled outstanding principal amount of the Series 2005 Bonds and a variable rate equal to 71% of the one-month London Interbank Borrowing Rate ("LIBOR") for U.S. deposits. Payments are made on a net basis on the first day of each month, ending in November 2025. Interest on the Series 2005 Bonds is determined in a manner that differs from the LIBOR index used to calculate amounts payable to the City under the terms of the 2005 Swap Agreement. On the effective date of the 2005 Swap Agreement, the Counterparty was rated "Aa3" by Moody's, "AA-" by S&P and "AA-" by Fitch. The City entered into the 2005 Swap Agreement in conjunction with the issuance of the Series 2005 Bonds in order to effect and quantify a debt service savings on outstanding bonds that were refunded with the proceeds of the Series 2005 Bonds. Payments to be made by the City, if any, under the terms of the 2005 Swap Agreement (other than a termination payment as discussed below) constitute Credit Agreement Obligations and are therefore payable solely from and equally and ratably secured by a lien on the Net Revenues of equal rank and dignity with the lien and pledge securing the payment of the Revenue Bonds. See "APPENDIX B – AUDITED FINANCIAL STATEMENTS – Note 9b – Variable Rate Debt Management Program" in this document for a discussion relating to the valuation of and risks associated with the 2005 Swap Agreement. As of September 30, 2016, the net aggregate monthly payments the City has made to the Counterparty under the 2005 Swap Agreement equal \$77,460,328.60.

If either party to the 2005 Swap Agreement commits an event of default, suffers a reduction in credit worthiness, or merges with a materially weaker entity, or in certain other circumstances, the 2005 Swap Agreement may be terminated at the option of the other party. Accordingly, no assurance can be given that the 2005 Swap Agreement will continue in existence until November 2025. If the 2005 Swap Agreement is terminated, then current market conditions will determine whether the City will owe a termination payment to the Counterparty or be entitled to receive a termination payment from the Counterparty. Such termination payment generally would be based on the market value of the 2005 Swap Agreement on the date of termination and could be substantial. As of November 30, 2016, PFM has advised the City that the market value of the 2005 Swap Agreement is (\$26,841,632.61).

In addition, a partial termination of the 2005 Swap Agreement could occur to the extent any Series 2005 Bonds are redeemed pursuant to the City exercising its right to effect an optional redemption of the Series 2005 Bonds. If an optional redemption were to occur, termination payments related to the portion of the 2005 Swap Agreement to be terminated will be owed by either the City or the Counterparty, depending on the existing market conditions. The obligation of the City to pay a termination payment to the Counterparty could result in the City issuing Additional Revenue Bonds or Subordinate Obligations to enable the City to make such a termination payment. Any termination payment the City may become obligated to pay under the terms of the 2005 Swap Agreement is not covered by the 2005 Swap Policy, and would be a "Termination Payment" under the Revenue Bond Ordinances, treated as a Subordinate Obligation.

2005 Reserve Policy

In connection with the issuance of the Series 2005 Bonds a Debt Reserve Fund Surety Bond was issued (the "2005 Reserve Policy"). AGM (as successor to Financial Security Assurance Inc.) is obligated under the terms of the 2005 Reserve Policy to make payments in the event conditions specified in the ordinance relating to the Series 2005 Bonds occur which would result in a draw on the Debt Service Reserve Fund being necessary to pay debt service on the Series 2005 Bonds. See "SECURITY AND SOURCES OF REPAYMENT FOR THE BONDS – Debt Service Reserve Fund" in this document. The Cancellation Agreement described below in this document provides that upon the cancellation of the 2005 Reserve Policy in accordance with the terms of the Cancellation Agreement (unless an Insurer Event of Default has occurred and is continuing), the 2005 Reserve Policy shall be cancelled by a date that is not more than three years after the Cancellation Date, and the City shall (i) beginning with the first full calendar month following the Cancellation Date, commence funding on a monthly basis an amount sufficient so that the Debt Service Reserve Fund Requirement established in support of the Series 2005 Bonds is established (without giving effect to the 2005 Reserve Policy) by the date that is three years after the Cancellation Date and (ii) restore any draw on the Debt Service Reserve Fund from over a period of no more than eighteen (18) months as required by the Ordinances. The City further agrees in the Cancellation Agreement not to issue any Additional Revenue Bonds payable from the 2005 Reserve Policy.

SMBC, the City, the paying agent and tender agent, and AGM have entered into a Second Amended and Restated Bond Insurance Policy Cancellation Agreement (the “Cancellation Agreement”). Under certain conditions as described in the Cancellation Agreement, SMBC may direct the cancellation of the 2005 Bond Policy, which will effect a mandatory tender of the Series 2005 Bonds. No draws upon the 2005 Bond Policy may occur once SMBC has directed the cancellation of the 2005 Bond Policy. Should AGM have made payments, directly or indirectly, on account of principal of or interest on Series 2005 Bonds to any holder of the Series 2005 Bonds (the “Holder”) prior to the date the 2005 Bond Policy is cancelled (the “Cancellation Date”), AGM will be (a) subrogated to the rights of the Holder to receive the amount of such payment from the City, and (b) deemed the Holder of such Series 2005 Bonds for all purposes under the Series 2005 Ordinance, including, without limitation, the direction of remedies, the voting or giving consent with respect to remedies and other actions or inactions that may require voting or consent, and the filing of proofs of claim and other indicia of ownership in any insolvency proceeding. AGM also will be entitled to receive the amount of principal and interest as provided in the Series 2005 Bond Ordinance and the Series 2005 Bonds, and the parties to the Cancellation Agreement will otherwise treat AGM as the owner of such rights to the amount of such payment. The Cancellation Agreement also provides for cancellation of the 2005 Reserve Policy under certain circumstances.

Swap Management Agreement

The City and AGM, in connection with the delivery of the letters of credit described above, have entered into a Second Amended and Restated Agreement Regarding Insured Swap Transaction (City of Austin) (the “Swap Management Agreement”), in which the City may be required to terminate the 2005 Swap Policy if the 2005 Bond Policy is cancelled under the terms of the Cancellation Agreement. The Swap Management Agreement provides that upon the termination of the 2005 Bond Policy pursuant to the Cancellation Agreement, the City shall provide AGM with (i) on a monthly basis, a statement of the estimated aggregate mark-to-market value of the 2005 Swap Agreement and (ii) notice at such time, if any, as the aggregate mark-to-market value of the 2005 Swap Agreement is negative \$100,000 or an amount more favorable to the City within two (2) Business Days of that being the case. Unless AGM directs or agrees otherwise, not later than the earlier of (a) ten (10) Business Days after the first date on which the estimated aggregate mark-to-market value of the 2005 Swap Agreement payable by the City is zero or on which such estimated aggregate mark-to-market value is positive to the City and (b) three (3) years of the date of the cancellation of the 2005 Bond Policy pursuant to the Cancellation Agreement, the City shall do one of the following: (1) designate an early termination date, or other optional termination, with respect to the 2005 Swap Agreement, or (2) deliver to AGM the original 2005 Swap Policy together with an instrument from the Counterparty satisfactory to AGM deeming the 2005 Swap Agreement to no longer be insured and releasing AGM from all further liability under the 2005 Swap Policy. The Swap Management Agreement does provide, however, that in the event the 2005 Bond Policy is cancelled as a result of the occurrence of an Insurer Event of Default, the City shall not be obligated to perform its obligations described in the immediately preceding sentence.

Special Facilities Bonds

The City has reserved the right to issue from time to time, in one or more series, Special Facilities Bonds as provided in the Ordinances to finance and refinance the cost of any Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Bonds shall be payable solely from payments by Special Facilities lessees and/or other security not provided by the City. The Revenue Bond Ordinances provide that in no event will any Gross Revenues or any other amounts held in any other fund or account maintained by the City as security for the Currently Outstanding Revenue Bonds, the Bonds and any Additional Revenue Bonds or for the construction, operation, maintenance or repair of the Airport System be pledged to the payment of Special Facilities Bonds. The City has issued and there is currently outstanding one series of Special Facilities Bonds, the City of Austin, Texas, Rental Car Special Facility Revenue Bonds, Taxable Series 2013 (the “Rental Car Special Facilities Bonds”). The Rental Car Special Facilities Bonds are payable only from certain pledged revenues, consisting of rental car daily usage fees charged and collected and to be charged and collected by concessionaire rental car companies using rental car facilities at the Airport pursuant to concession agreements, any contingent fees payable by concessionaires under such concession agreements, any amounts drawn under separate letters of credit delivered by concessionaires, rental payments for parking garage vehicle staging lanes and staging spaces required pursuant to such concession agreements and investment earnings on such revenues. The Net Revenues of the Airport System have not been pledged, and no other general or special revenues of the Airport System have been pledged, as security for the payment of the Rental Car Special Facilities Bonds. The Rental Car Special Facilities Bonds are not general obligations of the City. See “SECURITY AND SOURCES OF REPAYMENT FOR THE BONDS – Pledge of Net Revenues” in this document.

Subordinate Obligation to Support Austin Airport Hotel Refinancing

General

In 1998, the City created Austin-Bergstrom Landhost Enterprises, Inc. (“ABLE”), a non-profit public facility corporation; acting on behalf of the City, to issue revenue bonds to finance the construction and equipping of a hotel at the airport (“Airport Hotel Bonds”).

In 1999, ABLE issued: (1) senior “A” Airport Hotel Bonds in the amount of \$38,785,000 secured by a senior lien pledge of hotel revenue, and (2) Bonds in the amount of \$3,730,000 secured by a subordinate lien pledge of hotel revenue. The Airport Hotel Bonds are limited obligations and payable by ABLE solely from hotel revenue.

Since 2004, ABLE has not generated sufficient cash flow to pay debt service on the Airport Hotel Bonds due to the large debt issuance, high interest rates, and other economic factors, and ABLE has at certain times failed to pay when due principal and interest on both series of Airport Hotel Bonds. The failure to pay debt service when due on the Airport Hotel Bonds is an event of default under the indenture pursuant to which the Airport Hotel Bonds were issued.

Current Condition of the Airport Hotel

In 2014, significant damage to the roof of the airport hotel was caused by a hail storm and one of six energy recovery units located on the hotel roof failed. The energy recovery units extract hot air and humidity from the building and are a necessary feature of the hotel’s heating and cooling system in maintaining air balance and moisture levels of the building.

The roof and energy recovery unit were replaced after some delays due to additional storm damage to the roof and funding concerns by holders of the Airport Hotel Bonds. In 2015, non-toxic mold was identified in the hotel atrium. Mold remediation is estimated to cost approximately \$4 million which includes replacing the hotel’s heating, ventilating, and air conditioning (HVAC) system, skylight and stucco repairs, and other related mechanical repairs.

Plan to Refinance Airport Hotel Debt and Provide Additional Funds For Repairs and Capital Improvements

As of December 1, 2016, ABLE’s total outstanding debt is more than \$62.4 million in principal and interest. The Department of Aviation has assisted ABLE in its negotiations with holders of the Airport Hotel Bonds to: (1) refinance the Airport Hotel Bonds and (2) finance the necessary repairs and capital improvements the hotel requires to continue operating in a first class manner with Hilton standards.

In August 2016, the City, the Airport, ABLE, and the holder of the Airport Hotel Bonds executed a letter of intent including the following financing structure:

1. ABLE will issue new bonds in the estimated amount of \$46 million.
2. The Airport will transfer Net Revenues on a subordinate basis to support new bonds by replenishing amounts drawn on the Hotel Bond debt service reserve fund.
3. New bonds will buy out holders of Airport Hotel Bonds with \$30 million.
4. ABLE and bondholders will split the cost to replace HVAC and remediate mold in hotel. The bondholders’ portion (\$1.0 million) will be funded from moneys then available in the ABLE Renewal and Replacement Fund held by the hotel bond trustee. ABLE’s portion (\$3.0 million) was funded from proceeds of a loan from the City. 50% of ABLE’s portion will be reimbursed if the new bonds are issued before July 1, 2017.
5. Airport to advance up to \$3M to start repairs immediately. Funds were provided August 2016. Project is currently underway with Project Manager evaluating engineering and design proposals.
6. Airport will be reimbursed from new bonds for the funds advanced to start repairs.
7. New bonds will provide \$9M for hotel remodel and other capital improvements.

DEBT SERVICE REQUIREMENTS

Bond Year Ending <u>November</u> <u>15th</u>	Outstanding <u>Revenue Bonds</u>	Series 2017A Bonds			Series 2017B Bonds			<u>Total Debt</u> <u>Service</u>
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2017	\$45,027,237	-	7,283,319	7,283,319	-	5,096,555	5,096,555	\$57,407,111
2018	45,054,897	-	9,265,000	9,265,000	-	6,483,250	6,483,250	60,803,147
2019	46,042,333	-	9,265,000	9,265,000	-	6,483,250	6,483,250	61,790,583
2020	45,045,718	-	9,265,000	9,265,000	-	6,483,250	6,483,250	60,793,968
2021	43,315,222	-	9,265,000	9,265,000	-	6,483,250	6,483,250	59,063,472
2022	43,336,956	-	9,265,000	9,265,000	-	6,483,250	6,483,250	59,085,206
2023	43,368,703	-	9,265,000	9,265,000	-	6,483,250	6,483,250	59,116,953
2024	43,398,366	-	9,265,000	9,265,000	-	6,483,250	6,483,250	59,146,616
2025	43,424,560	-	9,265,000	9,265,000	-	6,483,250	6,483,250	59,172,810
2026	25,640,413	5,190,000	9,265,000	14,455,000	3,630,000	6,483,250	10,113,250	50,208,663
2027	25,641,313	5,445,000	9,005,500	14,450,500	3,810,000	6,301,750	10,111,750	50,203,563
2028	25,644,438	5,720,000	8,733,250	14,453,250	4,005,000	6,111,250	10,116,250	50,213,938
2029	20,232,750	6,005,000	8,447,250	14,452,250	4,200,000	5,911,000	10,111,000	44,796,000
2030	20,229,250	6,305,000	8,147,000	14,452,000	4,410,000	5,701,000	10,111,000	44,792,250
2031	20,232,750	6,620,000	7,831,750	14,451,750	4,635,000	5,480,500	10,115,500	44,800,000
2032	20,231,750	6,950,000	7,500,750	14,450,750	4,865,000	5,248,750	10,113,750	44,796,250
2033	20,230,250	7,300,000	7,153,250	14,453,250	5,110,000	5,005,500	10,115,500	44,799,000
2034	20,232,000	7,665,000	6,788,250	14,453,250	5,365,000	4,750,000	10,115,000	44,800,250
2035	20,230,500	8,050,000	6,405,000	14,455,000	5,630,000	4,481,750	10,111,750	44,797,250
2036	20,229,500	8,450,000	6,002,500	14,452,500	5,915,000	4,200,250	10,115,250	44,797,250
2037	20,227,500	8,875,000	5,580,000	14,455,000	6,210,000	3,904,500	10,114,500	44,797,000
2038	20,228,000	9,315,000	5,136,250	14,451,250	6,520,000	3,594,000	10,114,000	44,793,250
2039	20,229,250	9,780,000	4,670,500	14,450,500	6,845,000	3,268,000	10,113,000	44,792,750
2040	20,229,500	10,270,000	4,181,500	14,451,500	7,185,000	2,925,750	10,110,750	44,791,750
2041	20,232,000	10,785,000	3,668,000	14,453,000	7,545,000	2,566,500	10,111,500	44,796,500
2042	20,229,750	11,325,000	3,128,750	14,453,750	7,925,000	2,189,250	10,114,250	44,797,750
2043	20,231,000	11,890,000	2,562,500	14,452,500	8,320,000	1,793,000	10,113,000	44,796,500
2044	20,233,500	12,485,000	1,968,000	14,453,000	8,735,000	1,377,000	10,112,000	44,798,500
2045	-	13,110,000	1,343,750	14,453,750	9,175,000	940,250	10,115,250	24,569,000
2046	-	13,765,000	688,250	14,453,250	9,630,000	481,500	10,111,500	24,564,750
	\$798,629,404	\$185,300,000	\$199,610,319	\$384,910,319	\$129,665,000	\$139,677,305	\$269,342,305	\$1,452,882,028

THE AIRPORT SYSTEM

The Airport primarily serves origin and destination (“O&D”) passengers, estimated by the Airport Consultant to have accounted for approximately 95% of enplaned passengers in the City’s fiscal year ended September 30, 2015, with the remaining 5% passengers connecting between flights. Approximately 98% of enplaned passengers in fiscal year 2015 were domestic passengers who live in or who are visiting the Airport System’s five-county service area, and approximately 2% were international passengers. See “AIRPORT SERVICE REGION” and “AIRPORT ACTIVITY” in this document.

Airport Facilities

The Airport System is comprised of airport, heliport and aviation facilities or any interest therein owned, operated or controlled in whole or in part by the City and as defined in the Revenue Bond Ordinances, includes ABIA, but expressly excludes any heliport or heliports operated by City departments other than the Aviation Department and also excludes the Mueller Property and the Austin consolidated rental car facility, which was constructed by the City with proceeds of special facility revenue bonds. ABIA is classified by the FAA as a medium hub airport and according to Airports Council International, ABIA is the 38th largest airport in the United States based on calendar year 2015 total passengers.

ABIA opened in 1999 at the site of the former Bergstrom Air Force Base, replacing Robert Mueller Municipal Airport. The 700-acre Mueller Airport site, approximately three miles from downtown Austin, is being redeveloped as a mixed-use urban community by the City under a public-private partnership agreement. The Mueller Airport property has no aviation facilities and is not part of the Airport System.

ABIA 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.

As described below in this document and in the Report, the Airport also includes a second passenger terminal, the 30,000 square-foot South Terminal, which currently is being renovated. In March 2016, the City entered into a South Terminal

concession and lease agreement with the parent company of LoneStar Airport Holdings, LLC. for an initial 30-year term. The South Terminal, which has been closed since 2009, is being renovated to include 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. As described below, the City expects that renovations of the South Terminal will be completed in March 2017 and that a number of low-cost carriers currently operating from the Terminal will transfer to the South Terminal when the South Terminal reopens. See “AIRPORT REVENUES AND AGREEMENTS – South Terminal” below in this document and “APPENDIX A – REPORT OF THE AIRPORT CONSULTANT – Financial Analysis – South Terminal” in this document.

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 (the “CONRAC garage”), and in surface lots served by shuttle buses. The parking garage provides 3,654 spaces for short-term and valet public parking. The first level of the garage is at the same level as the arrivals roadway and baggage claim level of the terminal. The third level of the garage is at the same level as the departures roadway and concourse level of the terminal.

The CONRAC garage opened in September 2015 and provides 3,200 rental car spaces and 900 public parking spaces on five levels. When the rental car garage opened, the 1,100 spaces on the third level of the existing garage were converted to use for public parking so that the rental garage project resulted in a net increase of 2,100 spaces for rental car parking and 2,000 spaces for public parking. The consolidated rental car garage was financed with the proceeds of bonds that are Special Facilities Bonds payable primarily from customer facility charges (“CFCs”), and parking garage rental fees and concession fees. See “OUTSTANDING REVENUE BONDS AND SPECIAL FACILITIES BONDS – Special Facilities Bonds” above and “AIRPORT REVENUES AND AGREEMENTS – Rental Car Company Agreements” below in this document.

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. See “APPENDIX A – REPORT OF THE AIRPORT CONSULTANT – Airline Traffic Analysis – Airport Facilities” in this document.

AIRPORT MANAGEMENT

The Department of Aviation is a department within the City. See “THE CITY” in this document. The operations of the Department of Aviation are managed by the Executive Director of Aviation who is appointed by the City Manager. The Executive Director of Aviation sets rates and charges for the Airport. Biographical information concerning the Executive Director of Aviation and other key employees of the Department of Aviation is provided below.

Jim Smith, Executive Director of Aviation. Mr. Smith is responsible for the City’s Department of Aviation. He served in executive capacities in Norfolk, Virginia and Dayton, Ohio before joining the City in 1984. Since coming to Austin he has served as Director of Planning and Development, Director of Public Works and Transportation, Assistant City Manager and now Executive Director of the Department of Aviation. He has a Bachelor of Science Degree from the City University of New York and a Master of Public Administration Degree from the University of Dayton.

Patti Edwards, LAP, Director, Chief Operating Officer. Ms. Edwards is responsible for the day to day operations of the airport. This includes overseeing several areas responsible for maintenance, operations, security, parking, and information technology. In addition to working with departmental staff, she is the airport liaison with the TSA, CBP, Austin Police Department, and Austin Fire Department. She has been employed by the City’s Aviation Department for over 20 years and has been in her current position since November 2005. Ms. Edwards has over 32 years of experience in Facilities and Project management. She is an active member of BOMA, IFMA Airport Council, ACI and AAAE and has earned the Airport Council International certification as an “International Airport Professional”.

Jamy Kazanoff, Assistant Director, Aviation Business Development & Customer Relations. Ms. Kazanoff is responsible for airport marketing, business development and community relations for ABIA. She oversees the areas of marketing, art and music, air service development, media relations and serves as the point of contact with many Austin-area business and community groups. She has been employed by the City’s Aviation Department for 26 years. Ms. Kazanoff has over 30 years of marketing and business development experience, serving in account executive positions with advertising agencies in the private sector. She is actively involved in the Airports Council International (ACI) International Air Service Committee, serving as Chairwoman in 2016. She is also active in ACI’s Marketing and Communications Program, Central Texas

Regional Partnership, Austin Airport Task Force, and Austin Hospitality Council. She is a graduate of the University of Texas at Austin with a Bachelor of Journalism degree, Public Relations.

David Arthur, CPA, Assistant Director and Chief Financial Officer. Mr. Arthur is responsible for overall financial management of the Airport System, including financial accounting and reporting, day to day fiscal operations, budgeting, grants administration and airport rate setting. Before joining the City's Aviation Department in July 2009, he served the Houston Airport System in Financial and Management positions, most recently as Assistant Director, Finance and Budget. He is a graduate of Northwest Missouri State University and a Certified Public Accountant and has earned the Airport Council International certification as an "International Airport Professional".

Shane Harbinson, Assistant Director, Planning & Engineering. Mr. Harbinson is responsible for Airport Planning, Development and Environmental Services. Mr. Harbinson has served in airport positions at Minneapolis St. Paul International and Midland International in Midland, Texas before joining the City in 1999. Since coming to the City, he has served as Operations Coordinator, Noise Abatement Officer, Airport Planner, Manager of Airport Operations, Assistant Director of Operations and Security, and now Assistant Director of Planning & Engineering. He is a graduate of Saint Cloud State University, Saint Cloud, Minnesota, with a Bachelor of Science in Aviation. He is active in the American Association of Airport Executives and Airport's Council International.

Donnell January, Deputy Chief Operations Officer, Maintenance and Facilities. Mr. January is responsible for all Maintenance and Facility Services at ABIA. He oversees the areas of Airline Maintenance, Building Maintenance, Airside Maintenance, Landside Maintenance, Facility Services, Motor-pool and the Sign Shop. He joined the Department of Aviation in 2005, and has over 20 years of management experience. Since joining the Aviation Department, Mr. January has served as Division Manager implementing and maintaining the new in-line baggage handling system. Mr. January has a Bachelor of Science Degree from the College of Engineering Technology at Prairie View A&M University, Prairie View, Texas.

Ghizlane Badawi, Deputy Chief Operating Officer, Airport Operations. Mrs. Badawi is responsible for airport operations, security, asset management, safety, ground transportation, and guest services. She has been employed by the City's Aviation Department for over nine years, serving as Internal Auditor, Business Process Consultant Senior, Chief Administrative Officer, and now Deputy Chief Operating Officer. Mrs. Badawi's previous work experience includes banking, insurance, auditing, consulting, information technology, sales, and customer service. She is an active member of the American Association of Airport Executives (AAAE), Airports Council International (ACI), Association of Airport Internal Auditors (AAIA), and Risk and Insurance Management Society (RIMS). She has a Bachelor of Business Administration Degree from Al Akhawayn University, Morocco and a Master of Business Administration Degree from Quinnipiac University, Hamden, Connecticut. She has earned Aviation Safety and Security Certification from the Viterbi School of Engineering, University of Southern California, is a Certified Internal Controls Auditor, and has earned RIMS certification as a Certified Risk Management Professional.

Susana Carbajal, Assistant Director, Support Services. Ms. Carbajal manages the airport's business development, tenant management, advertising and marketing, business assurance, administration, legal services, and governmental affairs. Prior to working at Austin-Bergstrom International Airport, Susana served as Chief Counsel for the 2008 Democratic National Convention. She began her legal career as an attorney at the law firm of Brown McCarroll, LLP (now Husch Blackwell, LLP) in Austin, Texas where she focused on corporate reorganization, bankruptcy, and commercial litigation. She served at The White House for President Bill Clinton in the Office of Presidential Personnel. Susana graduated magna cum laude from American University in Washington, D.C. and from The University of Texas School of Law.

AIRPORT SERVICE REGION

Primary Service Region

The Airport's primary service region is the 4,220-square-mile, 5-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. As noted by the Airport Consultant, in general the population and economy of an airport's service region are the primary determinants of passenger

and cargo traffic through an O&D airport. See “APPENDIX A – REPORT OF THE AIRPORT CONSULTANT – AIRLINE TRAFFIC ANALYSIS – Airport Service Region” in this document for demographic and economic information about the Airport’s primary service area.

Nearby Airports

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). See “APPENDIX A – REPORT OF THE AIRPORT CONSULTANT – AIRLINE TRAFFIC ANALYSIS – Airport Service Region” in this document.

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AIRPORT ACTIVITY

Table 1 summarizes growth in the numbers of passenger enplanements at the Airport and the growth in enplanements per departures between the Airport’s fiscal years 2000 and 2016. As shown in Table 1, passenger enplanements in fiscal year 2015 increased by 9.8% as compared to enplanements in 2014 and increased by approximately 6.7% in fiscal year 2016. Among the 30 U.S. airports classified by the FAA as “medium hubs” (U.S. airports that process between 0.25% and 1.0% of revenue passenger boardings annually, whether scheduled or not), the increase in enplanements at the Airport during calendar year 2015 (11.1%) was second only to the increase at Dallas Love Field (55.7%), which experienced significant growth in 2015, the first full calendar year following the elimination of certain restrictions imposed by the Wright Amendment. See “Historical Airline Traffic” in this document.

Table 1
Historical Airline Traffic
Austin-Bergstrom International Airport
 (For Fiscal Years Ended September 30)

Fiscal <u>Year</u>	Enplaned <u>Passengers</u> (a)	Annual Increase <u>(Decrease)</u>	Passenger Aircraft Departures		Enplaned Passengers per <u>Departure</u>
			<u>Annual</u>	<u>Average Daily</u>	
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
		<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.

Source: City of Austin, Aviation Department records.

As of November 1, 2016, the following U.S and foreign-flag airlines provide scheduled passenger service, charter passenger service and all-cargo service at the Airport. As described below and in Appendix A, the City expects that Frontier Airlines and perhaps other low-costs carriers will move to the South Terminal.

Table 2
List of Airlines

<u>Passenger Airlines (a)</u>	<u>All-Cargo Airlines</u>
AeroMexico	Ameriflight
Air Canada	Atlas Air
Alaska Airlines(c)	Baron Aviation Services
Allegiant Air	Cargolux Airlines International
American Airlines	Federal Express
Ameristar Jet Charter(b)	Kalitta Air
Atlas Air(b)	Nippon Cargo Airlines
Branson Air Express	Qatar Airways
British Airways	Singapore Airlines Cargo
Condor	Sky Lease Cargo
Delta Airlines	United Parcel Services
Frontier Airline	AirBridge Cargo
jetBlue	
Kalita Charters(b)	
Miami Air(b)	
Omni Air(b)	
Public Charters, operating as	
Texas Sky(b)	
Republic Airlines	
Singapore Airlines	
Southwest Airlines	
Sun Country Airlines(b)	
United Airlines	
Virgin America (c)	
Volaris	
Eastern AirLines Group	
Xtra Airways/Casino Express	

(a) Includes regional affiliates.

(b) Provides charter service.

(c) On December 14, 2016, Alaska Airlines purchased Virgin America. Alaska has reported that the two airlines likely will not operate under one certificate until sometime in 2018.

Source: City of Austin, Department of Aviation records.

- As of July 2016, two airlines provided nonstop daily international service from ABIA. British Airways serves London Heathrow (since March 2014) and Air Canada Serves Toronto (since May 2015).
- Condor commenced operations at the Airport in June 2016 with twice-weekly seasonal service to Frankfurt, Germany;
- Effective August 2016, Volaris started non-stop services three days per week to Guadalajara;
- In November 2016, Aeromexico launched non-stop service to Mexico City four times per week; and
- Allegiant started twice-weekly service to Albuquerque in June 2016 and twice-weekly service to Pittsburgh in December 2016.

Table 3 presents the airlines' shares of enplaned passengers for Fiscal Years 2000-2016.

Table 3
Airline Market Shares
Austin-Bergstrom International Airport
(For Fiscal Years Ended September 30)

<u>Airline (a)</u>	<u>2000</u>	<u>2005</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Southwest	34.6%	33.1%	36.8%	36.8%	37.8%	39.0%	38.1%	36.6%	38.4%
American	33.2%	30.3%	25.5%	24.8%	24.0%	23.4%	22.4%	21.8%	20.8%
United	16.4%	14.1%	16.4%	16.3%	16.7%	16.0%	16.5%	16.8%	15.7%
Delta	14.9%	15.5%	10.4%	11.4%	11.8%	12.1%	12.2%	12.1%	12.0%
JetBlue	--	--	5.8%	5.9%	6.1%	6.3%	5.6%	4.8%	4.5%
Frontier	--	2.2%	2.5%	2.7%	2.3%	1.7%	1.8%	2.8%	2.5%
Alaska	--	--	2.4%	2.1%	1.2%	1.1%	1.1%	1.2%	1.7%
Virgin America	--	--	--	--	-	0.3%	0.9%	1.8%	1.6%
British Airways	--	--	--	--	-	--	0.7%	1.0%	1.0%
Allegiant	--	--	--	--	--	--	0.6%	1.0%	1.3%
Condor	--	--	--	--	-	--	0.1%	0.0%	0.1%
Air Canada	--	--	--	--	-	--	--	0.1%	0.3%
Other (b)	<u>0.9%</u>	<u>4.7%</u>	<u>0.2%</u>	<u>0.1%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.1%</u>	<u>0.1%</u>
Airport Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Notes: Columns may not add to totals shown because of rounding. Shares include shares of affiliates of airlines shown, if any. Percentages of "0.0" indicate a value of less than 0.05%.

(a) Includes regional affiliates and airlines that merged during the 2000-2016 period.

(b) The high percentage for 2005 is mainly accounted for by Mesa Airlines and SkyWest Airlines, which operated as affiliates of various Signatory Airlines.

Source: City of Austin, Department of Aviation records.

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Table 4 presents historical aircraft operations (landings and takeoffs) for Fiscal Years 2000 – 2016.

Table 4
Historical Aircraft Operations
Austin-Bergstrom International Airport
(For Fiscal Years Ended September 30)

<u>Fiscal Year</u>	<u>Air Carrier</u>	<u>Air Taxi/Commuter</u>	<u>General Aviation</u>	<u>Military</u>	<u>Total</u>	<u>Annual Increase/ (Decrease)</u>
2000	99,631	16,416	82,757	5,059	203,863	
2001	102,661	15,766	98,428	7,720	224,575	10.2%
2002	93,206	17,628	97,451	8,333	216,618	(3.5)%
2003	92,602	21,993	89,087	13,797	217,479	0.4%
2004	92,298	26,048	86,238	15,708	220,292	1.3%
2005	101,296	27,242	79,738	10,386	218,662	(0.7)%
2006	94,611	24,973	80,523	7,312	207,419	(5.1)%
2007	100,672	28,177	73,450	5,679	207,978	0.3%
2008	106,362	30,820	75,470	5,103	217,755	4.7%
2009	94,484	17,157	59,601	5,882	177,124	(18.7)%
2010	92,372	17,433	57,463	6,899	174,167	(1.7)%
2011	95,095	18,466	59,696	6,879	180,136	3.4%
2012	96,823	15,962	50,867	5,828	169,480	(5.9)%
2013	101,006	16,979	52,582	6,698	177,265	4.6%
2014	103,710	17,289	51,231	6,994	179,224	1.1%
2015	112,079	15,830	54,401	7,771	190,081	6.1%
2016	114,150	16,194	51,231	10,435	192,010	1.0%
	<u>Average Annual Percent Increase (Decrease)</u>					
2000-2003	(2.4)%	10.2%	2.5%	39.7%	2.2%	
2003-2008	2.8%	7.0%	(3.3)%	(18.0)%	0.0%	
2008-2009	(11.2)%	(44.3)%	(21.0)%	15.3%	(18.7)%	
2009-2016	2.7%	(0.8)%	(2.1)%	8.5%	1.2%	

Note: Calculated percentages may not match those shown because of rounding.
Source: City of Austin, Department of Aviation records.

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The following table presents historical aircraft landed weight (expressed in 1,000-pound units) for Fiscal Years 2000 – 2016. Landed weight, which is used to calculate landing fees, is recorded according to the aircraft’s certificated maximum gross landing weight, as determined by the FAA. As noted in Appendix A, changes in landed weight affect the landing fee rates but under the airline agreements described below, increased landed weight does not increase landing fee revenue to the Airport but instead reduces the landing fee rate for the airlines. See “AIRLINE REVENUES AND AGREEMENTS – Passenger and Cargo Airline Agreements” below in this document and “FINANCIAL ANALYSIS – Airline Agreement” in in this document.

Table 5
Historical Aircraft Landed Weight
Austin-Bergstrom International Airport
(For Fiscal Years Ended September 30)
(in 1,000-pound units)

Fiscal <u>Year</u>	Passenger <u>Airlines</u>	All-Cargo <u>Airlines</u>	<u>Total</u>	Annual Increase/ <u>(Decrease)</u>
2000	5,266,397	985,074	6,251,471	
2001	5,526,750	997,993	6,524,743	4.4%
2002	4,982,674	875,652	5,858,326	(10.2)
2003	4,844,743	768,318	5,613,062	(4.2)
2004	4,824,584	723,773	5,548,357	(1.2)
2005	5,061,919	743,608	5,805,526	4.6
2006	5,163,142	592,220	5,755,362	(0.9)
2007	5,578,438	543,275	6,121,713	6.4
2008	5,758,583	601,430	6,360,014	3.9
2009	5,249,325	439,566	5,688,891	(10.6)
2010	5,143,676	397,117	5,540,793	(2.6)
2011	5,353,345	405,953	5,759,298	3.9
2012	5,394,633	420,904	5,815,537	1.0
2013	5,688,131	434,382	6,122,513	5.3
2014	5,944,339	433,628	6,377,968	4.2
2015	6,598,612	492,026	7,090,637	11.2
2016	6,939,722	481,109	7,420,831	4.7
	<u>Average Annual Percent Increase (Decrease)</u>			
2000-2003	(2.7)%	(7.9)%	(3.5)%	
2003-2008	3.5%	(4.8)%	2.5%	
2008-2009	(8.8)%	(26.9)%	(10.6)%	
2009-2016	4.1%	1.3%	3.9%	

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

Source: City of Austin, Department of Aviation records.

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AIRPORT REVENUES AND AGREEMENTS

As described below and in Appendix A, approximately 42% of Airport revenues are derived from the Airport's agreements with the airlines for use by the airlines of the Airfield Area and for their use of exclusive and preferential space in the Terminal and aircraft loading positions on the Terminal apron. The Airfield Area, as defined in the agreements, includes the runways, taxiways and facilities at the Airport for the purpose of controlling and assisting arrivals, departures and operations of aircraft using the Airport. In general, rate-setting at the Airport for use of the airfield area is "residual" (the airlines have primary responsibility and risk for costs (including allocated debt service and coverage) and expenses and the benefit from non-airline revenues attributed to the Airfield) and is "compensatory" (the City has the responsibility and risk) in connection with revenues and costs and expenses of the Terminal and other non-Airfield parts of the Airport.

Passenger and Cargo Airline Agreements

The signatory airlines, accounting for approximately 94% of enplaned passengers at the Airport in fiscal year 2016 (the "Signatory Airlines"), are parties to Use and Lease Agreements with the City (the "Signatory Airline Agreements") that have been continuing month-to-month since their scheduled expiration date of September 30, 2014. Five of the Signatory Airlines (American Airlines, Inc., Delta Airlines, Southwest Airlines, JetBlue, and United Airlines) executed an amendment to the Signatory Airline Agreement that extends the term for one year after the date of beneficial occupancy of the Airport Terminal Gate and Apron Expansion Project, clarifies the landing fee billing process to complement the Airports third-party landing fee management program and updates the minimum gate usage requirement (seven departures or 800 seats) for Preferential Use of a gate per day (up from five departures per day).

All-cargo carriers and other passenger airlines that serve the Airport ("Non-Signatory Airlines") operate under Airline Use and Operating Agreements (the "Operating Agreements") that with scheduled service provide for use of the airfield and the Terminal at the same rates as in the Signatory Airline Agreements. An airline without a Signatory Airline Agreement or Operating Agreement that lands at the Airport is charged a premium landing fee of twice the agreement rate.

The City expects that Frontier Airlines and Allegiant Air will relocate from the Terminal to the South Terminal and that Public Charters (Texas Sky) also may relocate to the South Terminal.

Landing Fees

Landing fees for use of the Airfield Area are payable monthly and are calculated by multiplying the then-current landing fee rate by the total number of thousand pound units of the maximum gross landing weight of the Airline's aircraft making fee landings at the Airport during the prior month. Landing fee rates are to be calculated (A) by adding (i) direct and indirect operations and maintenance costs allocable to the Airfield Area; (ii) annual amortization charges attributed to the Airfield Area; (iii) debt service attributed to the Airfield Area on Revenue Bonds (net of PFCs) and on City general obligation bonds issued for the Airport, and 25% coverage of Revenue Bonds attributed to the Airfield Area; and (iv) the Airfield Area's prorated share of any fund deposits required by the Revenue Bond Ordinances; and (B) by subtracting fuel flowage fees paid separately by the airlines. The total requirement for the Airfield Area is then divided by the total of the Signatory Airlines' and Non-Signatory Airlines' forecast landed weights. The Agreements provide for a year-end adjustment to landing fee charges to take into account actual total landed weight, including non-signatory carriers' actual landed weight).

Airline Terminal Rent and Other Charges

Terminal rents, aircraft parking fees and other charges for exclusive, preferential and shared use of the Terminal and the Terminal apron and use of the CBP facility are calculated to take into account capital, operating, operating reserve and debt service (net of PFCs), debt service coverage and amortization costs allocated to the Airline cost center and to Airline use. In addition to space rentals and apron parking fees, Airline Terminal fees and charges include fees to cover attributed operating expenses and reserves for gate loading bridges and baggage makeup equipment.

Terminal Concession and Other Non-Airline Business Agreements

Non-Airline Terminal revenue, parking and ground transportation revenue and other non-airline space and use leases and concession revenues at the Airport represent approximately 58% the Airport's operating revenue in fiscal year 2016.

Terminal Concession Agreements

The City has concession lease agreements with non-airline entities that operate, provide services or occupy space in the Terminal. Some of these agreements are interim or short-term agreements that terminate in November 2017, the estimated completion date of construction projects at the Terminal. The City has entered into new concession agreements, including agreements with prime concessionaires, with 10-year terms that are scheduled to begin on December 1, 2017 and end on

November 30, 2027. The interim and the new concession agreements provide for the payment of rent and for payment of concession fees equal to the greater of (1) the minimum annual guaranteed concession fee (generally, 85% of the prior year's annual percentage concession fee or the prior year's "MAG" concession fee) or (2) specified percentage concession fees that range from 16% to 20.5% of annual gross receipts (net of taxes and other items) from sales of different categories of products. See "APPENDIX A - NONAIRLINE REVENUE -- Terminal Concession Revenues" in this document.

Garage and Parking Agreements

The City receives revenue from approximately 14,300 public parking spaces provided by the City at the Airport and also privilege fees from operators of approximately 6,400 off-Airport parking spaces. The Terminal parking garage and surface parking lots provided by the City and the valet and shuttle services are managed by SP Plus Corporation pursuant to a five-year management contract that began in October 2016. Under the management contract, the operator is to be reimbursed for out-of-pocket expenses and receive a management fee. As noted below in Table 7 and in Exhibit E of Appendix A, parking revenue is the largest component of the Airport's non-Airline revenues.

In addition to the parking garage and lots managed for the City by SP Plus Corporation, the City and Scott Airport Parking LLC recently entered into a 30-year public-private partnership arrangement for a multi-phased parking lot and pet hotel with a total of approximately 2,100 spaces on 64 acres of Airport property. That arrangement requires the developer to pay percentage rent of between 1% and 10% of parking revenue and the greater of a MAG or 1% to 10% of pet hotel gross revenues.

Rental Car Company Agreements

The City has concession agreements with each of 11 on-Airport car rental companies that operate at the consolidated rental car facility (the "CONRAC"), and each of those 11 companies is also a subtenant under the City's master lease agreement with Austin CONRAC LLC. In addition to responsibilities related to the City's Special Obligation Bonds for the CONRAC facilities, the concession agreements provide for payments by the rental car companies to the City of privilege fees in the amount of 10% of the rental car company's gross receipts as defined in the concession agreement (or if greater, a MAG amount equal to 85% of the concession fee due for the immediately preceding concession agreement year) for the privilege of operating at the Airport and also require payments of ground rental for storage and maintenance facilities.

As described above, the rental car companies also agree to collect CFCs from all rental car customers, and to hold in trust and pay the CFCs to the City's trustee for the Special Obligation Bonds and to make lease and other payments in connection with the Master lease and financing of the Special Obligation Bonds. See "APPENDIX A - NONAIRLINE REVENUES – Rental Car Revenues" in document.

The City also collects privilege fees from off-Airport rental car companies in the amount of 8% of certain of the companies' gross receipts.

Ground Transportation

The City charges permit and access or trip fees for use of Airport and Terminal access roadways by taxis, shuttles, limousine services, charter service vehicles and transportation network companies.

General Aviation Agreements

The City has entered into 30-year leases with two fixed-base operators ("FBOs") for the operation and management of general aviation hangar facilities and taxiways at the Airport. The City receives ground rent, which may be increased annually if the CPI increases, and also a fee for each gallon of fuel delivered to the FBO facility ("fuel flowage fees").

South Terminal Arrangements

In March 2016, the City entered into a 30-year Lease and Concession Agreement (the "South Terminal Agreement") with the parent company of LoneStar Airport Holdings LLC (the "Concessionaire") to outsource the rehabilitation, development and operation of the South Terminal as a Limited Service Terminal, a terminal that is constructed and operated with fewer operational amenities (such as gates without passenger loading bridges) and that will support a lower cost structure. Construction and renovation of the South Terminal is scheduled to be substantially completed and the South Terminal is scheduled to reopen at the end of March 2017.

In addition to completing and operating the South Terminal, the Concessionaire has agreed to pay to the City rent equal to the greater of (1) \$300,000 per year, increased by any increases in the CPI ("fixed rent") or (2) variable rent equal to a

percentage of annual lease year gross revenues, as defined in the South Terminal Agreement, based upon the number of originating enplaned passengers enplaning at the South Terminal during the lease year. The percentage for the calculation of variable rent ranges from 0% of gross revenue for 0-399,000 enplaned passengers to 20% of gross revenue for more than 1,299,999 enplaned passengers.

The South Terminal Agreement requires the Concessionaire to prepare an FAA-compliant leasing program and permits the Concessionaire to determine and to charge various fees to air carriers using the South Terminal and for aircraft parking, to provide fee incentives and in lieu of permitting rental car companies to enter into separate agreements with the Concessionaire, provides for City to share rental car revenue (not including CFCs) based upon the number of enplaned passengers at the South Terminal. The revenue sharing amounts (which are to be treated as “gross revenue” when calculating variable rent) are to be payable monthly.

HISTORICAL FINANCIAL DATA

The City, as operator of the Airport System, currently accounts for its activities according to generally accepted accounting principles through an enterprise fund. Table 6 represents the historical operating results of the Airport enterprise fund for Fiscal Years 2011 through 2015 based on the audited financial statements of the City, as reported on by the City’s certified public accountants. The City’s audited financial statements for the Fiscal Year ended September 30, 2015 are included as APPENDIX B in this document.

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Table 6
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)

	2011	2012	2013	2014	2015
Revenue					
User fees and rental	\$89,548	\$95,904	\$103,515	\$108,960	\$119,969
Operating revenues	89,548	95,904	103,515	108,960	119,969
Expenses					
Operating expenses before depreciation	63,835	69,201	70,148	76,042	80,182
Depreciation	19,581	20,398	21,121	21,151	20,690
Total operating expenses	83,416	89,599	91,269	97,193	100,872
Operating income before nonoperating revenues (expenses) and operating transfers	6,132	6,305	12,246	11,767	19,097
Nonoperating revenues (expenses)					
Interest and other revenues	711	395	190	221	1,225
Interest on revenue bonds and other debt	(14,087)	(12,933)	(12,801)	(11,794)	(18,924)
Interest capitalized during construction	372	512	843	1,409	1,284
Passenger facility charges	17,430	18,414	19,506	19,806	22,384
Cost (recovered) to be recovered in future years	(229)	(220)	(207)	-	-
Other nonoperating expenses	(5,923)	537	(3,704)	(312)	(686)
Total nonoperating revenues (expenses)	(1,726)	6,705	3,827	9,330	5,283
Income (loss) before contributions and transfers	4,406	13,010	16,073	21,097	24,380
Capital contributions	5,479	9,030	4,598	4,808	8,405
Transfers In	-	-	-	3	-
Transfers Out	-	(6,395)	(72)	(793)	(52)
Change in net position	9,885	15,645	20,599	25,115	32,733
Total net position - beginning	468,819	478,704	494,349	512,535 ⁽¹⁾	517,020 ⁽²⁾
Total net position - ending	478,704	494,349	514,948	537,650	549,753

⁽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.

The information in the following table was derived from financial information maintained by the City's Department of Aviation, which was prepared according to generally accepted accounting principles. Table 7 presents the Airport revenue detail for Fiscal Years 2011 through 2015. The City's audited financial statements for the Fiscal Year ended September 30, 2015 are included as APPENDIX B in this document.

Table 7
Airport Revenue Detail by Fiscal Year
(Fiscal Year Ended September 30)
(in thousands)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Airline Revenue						
Landing Fees	\$18,762	\$19,403	\$19,738	\$21,431	\$20,852	\$22,720
Terminal Rental & Other Fees	19,564	22,385	24,029	23,154	23,424	26,906
Total Airline Revenue	<u>\$38,326</u>	<u>\$41,788</u>	<u>\$43,767</u>	<u>\$44,585</u>	<u>\$44,276</u>	<u>\$49,626</u>
Non-Airline Revenue						
Parking	\$25,201	\$28,416	\$31,568	\$32,155	\$33,723	\$ 36,586
Other Concessions	18,191	17,934	18,751	19,803	22,082	24,736
Other Rentals and Fees	1,559	1,410	1,818	6,972	8,879	9,020
Total Non-Airline Revenue	<u>\$44,951</u>	<u>\$47,760</u>	<u>\$52,137</u>	<u>\$58,930</u>	<u>\$64,684</u>	<u>\$70,343</u>
Total Revenue	<u>\$83,277</u>	<u>\$89,548</u>	<u>\$95,904</u>	<u>\$103,515</u>	<u>\$108,960</u>	<u>\$119,969</u>

Source: City of Austin, Department of Aviation

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The information set forth in Table 8 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 2011 through 2015. The amounts shown in Table 8 were determined in conformity with the requirements of the Ordinances and the Revenue Bond Ordinances. Pursuant to the terms of the Ordinances and 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 Ordinances and the Revenue Bond Ordinances. See the definitions of such terms in “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES” in this document.

Table 8
Historical Debt Service Coverage
(Fiscal Year Ended September 30)
(in thousands)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Gross Revenues	\$90,259	\$96,344	\$103,705	\$109,263	\$120,780
Other Available Funds ⁽¹⁾	3,739	3,594	3,805	3,620	3,551
Funds Available to Pay Debt Service	<u>\$93,997</u>	<u>\$99,938</u>	<u>\$107,511</u>	<u>\$112,883</u>	<u>\$124,331</u>
Operating Evenses ⁽²⁾	<u>(64,371)</u>	<u>(65,689)</u>	<u>(69,338)</u>	<u>(73,822)</u>	<u>(76,995)</u>
Net Available Revenue	\$29,626	\$34,249	\$38,172	\$39,061	\$47,336
Debt Service ⁽³⁾	\$14,955	\$14,375	\$15,221	\$14,480	\$14,205
Coverage	1.98	2.38	2.51	2.70	3.33

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- (1) Pursuant to the terms of the Ordinances and 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 C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES” in this document.
- (2) Amounts shown include “Operation and Maintenance Expenses” and “Administrative Expenses” (as such terms are defined in the Ordinances and the Revenue Bond Ordinances), and exclude depreciation and other unfunded post-employment benefits and pension obligation accruals. Pursuant to the terms of the Ordinances and 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. See “SECURITY AND SOURCES OF REPAYMENT FOR THE BONDS – Flow of Funds”, “– Rate Covenant” and “– Additional Revenue Bonds” in this document.
- (3) Amounts are net of PFCs used to pay debt service. See “SECURITY AND SOURCES OF REPAYMENT FOR THE BONDS – Use of Passenger Facility Charges” in this document.

Source: The City of Austin.

Historical Debt Service Coverage Information Contained in Audited Financial Statements

As described above, the amounts shown in Table 8 were determined in conformity with the requirements of the Ordinances and the Revenue Bond Ordinances. The City's audited financial statements for the Fiscal Year ended September 30, 2015, included as Appendix B, also contain historical debt service coverage information for the Outstanding Revenue Bonds. The debt service coverage reported in Note 6.c. on page 80 and in Table 17 of the statistical section of the audited financial statements include Other Available Funds as being 25% of the gross debt service on the Revenue Bonds, before deducting the amount of PFCs used to pay debt service. Pursuant to the terms of the Ordinances and 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 C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES" and "SOURCES OF REPAYMENT FOR THE BONDS – Use of Passenger Facility Charges" in this document.

See "REPORT OF THE AIRPORT CONSULTANT" and "APPENDIX B – AUDITED FINANCIAL STATEMENTS" in this document.

AIRLINE INFORMATION

Revenues of the Airport System may be affected by the ability of the airlines operating at ABIA, individually and collectively, to meet their respective obligations. Many of the airlines that serve the Airport (or their respective parent corporations) are subject to the information reporting requirements of the United States Securities Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the United States Securities and Exchange Commission (the "SEC"). Certain information, including financial information, as of particular dates concerning each of the airlines operating at ABIA (or their respective parent corporations) is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected in the Public Reference Room of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20659, and at the SEC's regional offices at 219 South Dearborn Street, Chicago, Illinois 60604; 26 Federal Plaza, New York, New York 10278; and 5757 Wilshire Boulevard, Suite 500 East, Los Angeles, California 90036-3648 and copies of such reports and statements can be obtained from the Public Reference Section of the SEC at the above address at prescribed rates. In addition, each airline operating at ABIA is required to file periodic reports of financial and operating statistics with the United States Department of Transportation (the "U.S. DOT"). Such reports can be inspected at the following location: Office of Aviation Information Management, Data Requirements and Public Reports Division, Research and Special Programs Administration, Department of Transportation, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from the U.S. DOT at prescribed rates.

REGULATION

The City operates the Airport pursuant to an airport operating certificate issued annually by the FAA after an on-site review. In addition to this operating certificate, the Airport is required to obtain, and or to comply with, other permits and/or authorizations from the FAA and other regulatory agencies and is bound by contractual agreements included as a condition to receiving grants under the FAA's grant programs. Federal law also governs certain aspects of rate-setting and restricts grants of exclusive rights to conduct an aeronautical activity at an airport that receives or has received federal grants and other property. All long-term facility planning is subject to the FAA's approval; the Airport's financial statements are subject to periodic review by the FAA; the City's use of Airport revenues and any revenue generated from sales of aviation fuel are subject to review by the FAA; and the City's use of PFC revenue and grant proceeds is also subject to FAA approval, audit and review. The City also is required to comply with the provisions of the federal Aviation and Transportation Security Act, with other federal security statutes and with the regulations of the Transportation Security Administration (the "TSA"). Security is regulated by the FAA and by the TSA.

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Rates and Charges and Revenue Use; Federal Statutes

Federal statutes and FAA regulations require that an airport maintain a rate structure that is as self-sustaining as possible and generally (with certain exceptions) limit the use of all revenue (including local taxes on aviation fuel and other airport-related receipts) generated by an airport receiving federal financial assistance to purposes related to the airport. The Federal Aviation Administration Authorization of 1994 as amended (the “FAA Act”) and the Airport and Airway Improvement Act of 1982 (the AAlA”) and regulations provide that for all airports, with certain exceptions, the use of airport revenue (and taxes on aviation fuel) for purposes other than the capital or operating costs of the airport, the local airport system or other local facilities owned or operated by the airport owner or operator and directly and substantially related to the air transportation of passengers or property is unlawful revenue diversion and provide for monetary penalties and other remedies in the event of violations.

The FAA Act, other federal statutes and FAA regulations also provide that, without air carrier approval, an airport may not include in its rate base debt service allocable to projects not yet completed and in service. In addition, the FAA Act, the AAlA and regulations include provisions addressing the requirements that airline rates and charges set by airports receiving federal assistance be “reasonable,” and the FAA Act authorize the U.S. Secretary of Transportation to review rates and charges complaints brought by air carriers. During the pendency of a complain, an airport is required to provide a surety bond, letter of credit or other form of security to ensure that the disputed portion of the fee is reimbursed to air carriers should the rates and charges be found to be unreasonable. To date, no rate complaints have been filed against the Airport. The FAA Act excludes certain fees from the airport fee-challenge process, including fees imposed pursuant to a written agreement with air carriers using airport facilities. It is the City’s understanding that so long as the signatory airline agreements are in effect, under most circumstances the fee-challenge provisions of the FAA Act will not affect the airline rates and charges set by the City.

Passenger Facility Charges

PFCs are fees collected from enplaned paying passengers to finance eligible, approved airport-related project costs, subject to FAA regulation. Airport operators are required to apply to the FAA for approval before imposing or using PFCs. The FAA has authorized the City to impose a PFC of \$4.50 per paying enplaned passenger, the maximum allowable under current law.

PFCs are imposed by the City, collected by the airlines from paying passengers enplaning at the Airport and remitted to the City (net of a handling fee, currently equal to \$0.11 for each PFC collected). The annual amount of PFCs collected by the City depends upon the number of passenger enplanements at the Airport and the timely remittance of PFCs by the airlines. No assurance can be given that PFCs will actually be received in the amounts or at the times contemplated by the City in its capital funding plans. In addition, the FAA may terminate or reduce the City’s authority to impose PFCs, subject to informal and formal procedural safeguards, if the FAA determines that the City has violated certain provisions of federal law or the PFC or other federal regulations, or if the FAA determines that PFC revenue is not being used for approved PFC projects or that implementation of such projects did not begin within the time frames specified in the PFC statute or the PFC regulations. Future PFC applications may be denied if the FAA determines that the City violated any of its federal grant assurances or violated certain federal statutes and regulations applicable to airports. Amounts received or receivable under the PFC program are also subject to audit and adjustment by the FAA. The City has never been found in violation of or been notified by the FAA as being out of compliance with federal grant assurances or applicable federal statutes and regulations. See “CAPITAL IMPROVEMENT PROGRAM – Passenger Facility Charges” below and “Application of PFC Revenues” in Appendix A in this document.

Federal and State Noise Regulation

State statutes and administrative regulations require all airports in the State to institute noise abatement programs under certain circumstances. The City instituted a noise abatement program, which has been in effect for approximately 17 years. The Airport noise program was originally established under Federal Aviation Regulation Part 150 and has been updated several times, most recently by an update completed and approved by the FAA in 2008.

The United States Congress enacted the Airport Noise and Capacity Act of 1990 (“ANCA”) to balance local needs for airport noise abatement with the needs of the national air transportation system. ANCA established criteria and standards

that are intended to ensure an airport operator does not impose local restrictions that negatively affect the national air transportation system. Airport management believes that the Airport is in material compliance with ANCA, and there is no pending litigation known to the City challenging noise levels of airborne aircraft.

The City, including the Airport, also is regulated by the federal Environmental Protection Agency and by the State in connection with various environmental matters, including the handling of deicing materials and airline fuels and lubricants, protection of wetlands and other natural habitats, disposing of stormwater and construction wastewater runoff and noise abatement programs.

CAPITAL IMPROVEMENT PROGRAM

The City continually develops and monitors a list of capital projects and assesses the timing of implementing these projects based on funding availability and needs. These projects comprise the Airport's Capital Improvement Program ("CIP") for the period ending 2020. The current CIP is \$801,036,000 and includes the 2017 Projects. Also included are projects that are anticipated to be funded, all or in part, by an Airport System bond issue projected to be issued in 2018. Certain of the federal grants and PFCs described in the table below either have not been applied for or the application for such sources is pending. See "CERTAIN INVESTMENT CONSIDERATIONS – Availability of Funding for the Capital Improvement Program" in this document. Provided below is a table of the estimated funding plan for the CIP:

	Project Costs	Federal	PFC revenues	Capital Fund	Revenue Bonds			
		Grants	pay-as-you-go ⁽¹⁾		Prior Bonds	2017A Bonds	2017B Bonds	2018 Bonds
Terminal and Apron Expansion and Improvement								
East concourse expansion	\$163,650,000	\$ -	\$56,000,000	\$ -	\$88,558,000	\$ -	\$19,092,000	\$ -
Aircraft parking apron expansion	113,255,000	39,660,000	-	-	13,494,000	-	60,101,000	-
Other terminal improvements	73,119,000	-	-	-	34,357,000	-	38,763,000	-
Subtotal	\$350,024,000	\$39,660,000	\$56,000,000	\$ -	\$136,409,000	\$ -	\$117,956,000	\$ -
Parking Garage	\$203,750,000	\$ -	\$ -	\$ -	\$23,000,000	\$180,750,000.00	\$ -	\$ -
Centralized Bag Handling System	100,000,000	10,000,000	-	-	-	-	-	90,000,000
Maintenance Facility	30,656,000	-	-	-	3,656,000	-	-	27,000,000
IT Facility	15,000,000	-	-	-	-	-	-	15,000,000
Administration Building	20,000,000	-	-	-	-	-	-	20,000,000
Other airfield projects	5,070,000	-	-	4,170,000	900,000	-	-	-
Other terminal projects	6,000,000	-	-	4,000,000	2,000,000	-	-	-
Other landside projects	15,750,000	-	-	4,550,000	11,200,000	-	-	-
Information technology projects	43,291,000	-	-	43,291,000	-	-	-	-
Capital equipment and vehicles	11,495,000	-	-	11,495,000	-	-	-	-
Total	\$801,036,000	\$49,660,000	\$56,000,000	\$67,506,000	\$177,165,000	\$180,750,000	\$117,956,000	\$152,000,000

Source: City of Austin, Department of Aviation, December 16, 2016.

Note: It is expected that PFC revenues will be available to pay eligible portions of debt service on the 2017 Bonds.

- (1) Does not include PFCs that will be used to pay debt service. PFCs are expected to be used to pay eligible portions of 2017B debt service; no PFCs will be used to pay 2017A debt service.

Passenger Facility Charges

The City has approval from the FAA to impose a PFC per eligible enplaned passenger at the Airport. The PFC was imposed at \$3.00 in August 1995 and increased to \$4.50 in April 2004. The cumulative amount of PFC approvals received by the City is \$353,389,005. Through September 30, 2015, cumulative PFC revenues, including investment earnings, totaled \$289,423,676. Under FAA approvals received to date, the City is authorized to impose the PFC up through an estimated date of June 2018. The City has applied PFCs toward project costs on a pay-as-you-go basis and has set aside and applied PFCs toward the following year's PFC-eligible Airport System Revenue Bond debt service, up to the maximum eligible amount. The City intends to continue such application of PFC revenues in accordance with the covenant of the City contained in the Ordinances. See "SOURCES OF REPAYMENT FOR THE BONDS – Use of Passenger Facility Charges" in this document. Provided below is a table showing the City's PFC revenues, including investment earnings, and the amount set aside for debt service on Revenue Bonds in Fiscal Years 2009-2015 for the payment of debt service due on Revenue Bonds during the next succeeding Fiscal Year.

Table 9
PFC Detail by Fiscal Year

<u>Fiscal Year</u>	<u>PFC Revenues</u>	<u>Amount Set Aside and Applied Toward Debt Service</u> ⁽¹⁾
2009	\$16,249,735	\$11,525,909
2010	17,222,017	12,045,971
2011	17,581,883	12,045,493
2012	18,494,930	11,032,005
2013	19,581,247	11,135,562
2014	19,855,510	11,082,223
2015	22,487,714	12,154,525

(1) The “Amount Set Aside and Applied Toward Debt Service” is an amount budgeted in the prior fiscal year for the payment of projected Debt Service in the ensuing Fiscal Year. At the conclusion of the following Fiscal Year, this number is updated to reflect the actual transfer to Debt Service.

The proceeds of the PFCs are not part of the Net Revenues pledged by the City to the payment of Revenue Bonds, including the Bonds. Pursuant to the terms of the Ordinances, PFCs are expressly excluded from the definition of “Gross Revenues.” Consistent with the definition of “Debt Service Requirements” in the Ordinances, debt service on Revenue Bonds for which PFCs have been appropriated and deposited into a dedicated fund or account, the proceeds of which are required to be transferred into the Debt Service Fund or directly to the Paying Agent/Registrar for such Revenue Bonds, is excluded from the calculation of Debt Service Requirements. See “– Rate Covenant”, “– Additional Revenue Bonds” and the definition of “Debt Service Requirements” in “APPENDIX C –SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES – Selected Definitions.”

The City has formally requested approval from the FAA to use PFCs to fund a portion of the 2017 Projects and to pay a portion of the debt service on the Bonds. Upon approval, the City intends to set aside PFCs to pay PFC-eligible debt service on the Bonds in accordance with the covenant described above. See “CERTAIN INVESTMENT CONSIDERATIONS – Availability of PFCs and PFC Approval” in this document.

REPORT OF THE AIRPORT CONSULTANT

APPENDIX A, which is part of this Official Statement, contains the Report prepared by the Airport Consultant. The Report provides information regarding the Airport System, the 2017 Projects, historical and forecast air traffic activity for the 2017-2023 fiscal-year period, historical financial information and forecasts of financial results for the Airport System for the forecast period. As noted in the Report, the forecasts were based upon information and assumptions provided by or reviewed with and agreed to by Airport management and reflect Airport management’s expected course of action during the forecast period and in Airport management’s judgment, present fairly the expected financial results of the Airport. The key factors and assumptions that are significant to the forecasts are set forth in the Report.

The Report should be read in its entirety for an understanding of the assumptions and rationale underlying the financial forecasts. As noted in the Report, any forecast is subject to uncertainties. Some of the assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances may occur. Therefore, there will be differences between the forecast and actual results, and those differences may be material. See “CERTAIN INVESTMENT CONSIDERATIONS – Forward-Looking Statements” and “-Assumptions in the Airport Consultant’s Report” in this document.

The following table provides the debt service coverage estimates and projections from the Report. See “APPENDIX A – REPORT OF THE AIRPORT CONSULTANT – Financial Analysis – Exhibit G” in this document. Such table is qualified in its entirety by reference to the complete copy of the Report attached as APPENDIX A to this document. The information set forth in the following table was calculated in the same manner as the historical debt service coverage information set forth in Table 8 (prepared by the City) above in this document.

Debt Service Coverage Estimates and Projections from the Report

	Estimated	Forecast					
	FY 2017 ⁽¹⁾	FY 2018 ⁽¹⁾	FY 2019 ⁽¹⁾	FY 2020 ⁽¹⁾	FY 2021 ⁽¹⁾	FY 2022 ⁽¹⁾	FY 2023 ⁽¹⁾
Gross Revenues	\$142,678,000	\$149,381,000	\$160,796,000	\$169,191,000	\$181,342,000	\$189,237,000	\$196,775,000
Less: Operation and Maintenance Expenses	(95,815,000)	(99,460,000)	(111,367,000)	(116,289,000)	(121,089,000)	(126,059,000)	(131,203,000)
Net Revenues	\$46,863,000	\$49,921,000	\$49,429,000	\$52,902,000	\$60,253,000	\$63,178,000	\$65,572,000
Other Available Funds ⁽²⁾	6,182,000	6,647,000	8,902,000	10,852,000	11,835,000	11,764,000	11,768,000
Net Revenues plus Other Available Funds	\$53,045,000	\$56,568,000	\$58,331,000	\$63,754,000	\$72,088,000	\$74,942,000	\$77,340,000
Less: Administrative Expenses (net of payments from PFC revenues) ⁽³⁾	(746,000)	(737,000)	(659,000)	(567,000)	(476,000)	(390,000)	--
Subtotal	\$52,299,000	\$55,831,000	\$57,672,000	\$63,187,000	\$71,612,000	\$74,552,000	\$77,340,000
Revenue Bond debt service	\$36,649,000	\$37,244,000	\$48,237,000	\$64,483,000	\$69,433,000	\$69,759,000	\$69,790,000
Less: Paid from PFC revenues	(11,920,000)	(10,656,000)	(12,628,000)	(21,077,000)	(22,092,000)	(22,702,000)	(22,719,000)
Revenue Bond Debt Service Requirements ⁽⁴⁾	\$24,729,000	\$26,588,000	\$35,609,000	\$43,406,000	\$47,341,000	\$47,057,000	\$47,071,000
Debt service coverage	2.11	2.10	1.62	1.46	1.51	1.58	1.64
Debt service coverage requirement	1.25	1.25	1.25	1.25	1.25	1.25	1.25

Source: Report of the Airport Consultant

- (1) Amounts shown for Fiscal Years 2017 are estimates, and amounts for fiscal years 2018 through 2023 are forecasts.
- (2) Pursuant to the terms of the Ordinances and 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 C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES" in this document.
- (3) Pursuant to the terms of the Ordinances and the Revenue Bond Ordinances, moneys on deposit in the Revenue Fund are used to pay Debt Service on Revenue Bonds (including the Bonds) and any related Credit Agreement Obligations, prior to being used to pay Administrative Expenses. Further, pursuant to the terms of the Ordinances and the Revenue Bond Ordinances, Administrative Expenses are included in the coverage calculations for the purpose of determining compliance with the City's rate covenant, but Administrative Expenses are not included in the coverage calculations for the purpose of issuing Additional Revenue Bonds. See "SECURITY AND SOURCES OF REPAYMENT FOR THE BONDS – Flow of Funds," "– Rate Covenant" and "– Additional Revenue Bonds" in this document. In addition, amounts shown are net of PFCs used to pay Administrative Expenses.
- (4) Amounts are net of PFCs used to pay debt service. See "SOURCES OF REPAYMENT FOR THE BONDS – Use of Passenger Facility Charges" in this document.

CERTAIN INVESTMENT CONSIDERATIONS

General

Investment in the Bonds involves risks, some of which are described below, in Appendix A or elsewhere in this document. Prospective investors are advised to consider the following factors, among others, and other information in this document, including all of the Appendices, in evaluating whether to purchase Bonds. The factors discussed below are not meant to be a comprehensive or exhaustive list of all of the risks that should be considered, and the order in which these investment risks are presented does not necessarily reflect their relative importance. Any one or more of the risks and other considerations discussed below, among others, could lead to a decrease in the market value and/or in the marketability or liquidity of the Bonds, and no assurance can be given that other risk factors and investment considerations will not become material in the future.

The principal of and interest on the Bonds are payable pursuant to the Ordinances solely from the Net Revenues of the Airport System and moneys on deposit in the Debt Service Fund and the Debt Service Reserve Fund. The ability to pay debt service on the Bonds will depend on the receipt of sufficient Gross Revenues, including the receipt of PFC revenues, a portion of which the City has covenanted in the Ordinances to set aside for payment of the Revenue Bonds, including the Bonds.

The Airport System's ability to generate Gross Revenues, and any PFC 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. To the extent the Airport System is unable to make up for revenue shortfalls, the City's ability to pay debt service on the Bonds may be adversely affected.

In considering the matters set forth in this Official Statement, prospective investors should carefully review all investment considerations set forth throughout this Official Statement (including especially in Appendix A of this Official Statement), and should specifically consider certain risks associated with investment in the Bonds. There follows a summary of some, but not necessarily all, of the possible investment considerations and risks which should be carefully evaluated by prospective purchasers of the Bonds prior to the purchase thereof. Moreover, the order in which investment considerations are presented in this caption is not intended to reflect either the likelihood that a particular event will occur or the relative significance of such an event. The Bonds may not be suitable investments for all persons. Prospective purchasers should be able to evaluate the risks and merits of an investment in the Bonds and should confer with their own legal and financial advisors before considering a purchase of the Bonds.

Limited Obligations

The Bonds, together with the Currently Outstanding Revenue Bonds and any Additional Revenue Bonds, when and if issued, are limited special obligations of the City payable from, and equally and ratably secured by, a first lien on the Net Revenues of the Airport System and the Debt Service Fund and Debt Service Reserve Fund established in the Ordinances. No mortgage of any of the physical properties forming a part of the Airport System or any lien thereon or security interest therein has been given. **The Bonds are not general obligations of the City, and neither the taxing power of the City nor the State of Texas is pledged as security for the Bonds.** See "SECURITY AND SOURCES OF REPAYMENT FOR THE BONDS" in this document.

No Acceleration

The Bonds are not subject to acceleration under any circumstances or for any reason, including without limitation, on the occurrence or continuance of an event of default in the payment of debt service on any of the Revenue Bonds (including the Bonds) or a default in the performance of any duty or covenant provided by law, in the Current Revenue Bond Ordinances or in the Ordinances. Upon the occurrence of such an event of default, Owners of the Bonds would only be entitled to principal and interest payments on the Bonds as they come due. In the event of multiple defaults in payment of principal or interest on the Bonds, Owners of the Bonds could be required to bring a separate action for each payment not made.

In addition, although the Bonds and outstanding fixed-rate Revenue Bonds are not subject to acceleration following a default (or a rating downgrade), the Series 2005 Bonds, which are variable-rate bonds, are subject to mandatory tender, in the event the letters of credit supporting the payment of the principal of and interest on the Series 2005 Bonds expire or terminate early and are not replaced or in the event the 2005 Swap Agreement is terminated. In such event, unless the Series 2005 Bonds are remarketed or converted to a mode that does not require liquidity support, principal of the Series 2005 Bonds would be payable over five years or less.

Under certain circumstances, Owners of the Bonds may not be able to pursue certain actions or remedies or to enforce covenants contained in the Ordinances. In addition, since Net Revenues are that portion of Gross Revenues that remain after paying Operation and Maintenance Expenses of the Airport System, and the City is not subject to involuntary bankruptcy proceedings, the City may be able to continue indefinitely collecting Gross Revenues and applying them to the operation of the Airport System even if an event of default has occurred and no payments are being made on the Bonds. See "DESCRIPTION OF THE BONDS – Remedies" and "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES" in this document.

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Factors Affecting the Airline Industry

General

Key factors that affect airline traffic at the Airport and the financial condition of the airlines, and, therefore, the amount of Net Revenues available for payment of the Revenue Bonds (including the Bonds), include: local, regional, national and international economic and political conditions; international hostilities; world health concerns; aviation security concerns; airline service and routes; airline airfares and competition; airline industry economics, including labor relations and costs; availability and price of aviation fuel (including the ability of airlines to hedge fuel costs); regional, national and international environmental regulations; airline consolidation and mergers; capacity of the national air traffic control and airport systems; capacity of ABIA; competition from neighboring airports; and business travel substitutes, including teleconferencing, videoconferencing and web-casting.

The airline industry is highly cyclical and is characterized by intense competition, high operating and capital costs and varying demand. Passenger and cargo volumes are highly sensitive to general and localized economic trends, and passenger traffic varies substantially with seasonal travel patterns. The profitability of the airline industry can fluctuate dramatically from quarter to quarter and from year to year, even in the absence of catastrophic events such as the terrorist attacks of September 11, 2001 and the economic recession that occurred between 2008 and 2009. Other business decisions by airlines, such as the reduction or elimination of service to unprofitable markets could affect airline operations in the future.

In addition to revenues received from the airlines, the City derives a substantial portion of its revenues from parking operations, food and beverage concessions, retail concessions, car rental companies, and others. See Tables 6 and 7 in “HISTORICAL FINANCIAL DATA” in this document. Declines in passenger traffic at ABIA may adversely affect the commercial operations of many of such concessionaires. While the City’s agreements with retail, food and beverage concessionaires as well as car rental companies require them to pay a minimum annual guarantee, severe financial difficulties could lead to a failure by a concessionaire or rental car company to make the required payments or could lead to the cessation of operations of such concessionaire or rental car company.

Many of these factors are outside the City’s control. Changes in demand, decreases in aviation activity and their potential effect on enplaned passenger traffic at Airport may result in reduced Gross Revenues and PFCs. Following are just a few of the factors affecting the airline industry including, regional and national economic conditions, costs of aviation fuel, airline concentration, international conflicts and threats of terrorism and structural changes in the travel market. See also “- Aviation Security and Health Safety Concerns” below for additional discussion on the costs of security.

Economic Conditions

Historically, the financial performance of the air transportation industry has correlated with the state of the national and global economies. Between 2008 and 2009, the U.S. economy experienced a recession, which was followed by weak economic growth. While the economy has recovered since 2009, any substantial deterioration in the level of regional or national economic activity in the future could have an adverse impact on the air transportation industry.

Cost of Aviation Fuel

Airline earnings are significantly affected by changes in the price of aviation fuel. According to Airlines for America (an airline trade association, formerly known as Air Transport Association of America), fuel, along with labor costs, is one of the largest cost components of airline operations, and continues to be an important and uncertain determinate of an air carrier’s operating economics. There has been no shortage of aviation fuel since the “fuel crisis” of 1974, but any increase in fuel prices causes an increase in airline operating costs. Fuel prices continue to be susceptible to, among other factors, political unrest in various parts of the world (particularly in the oil-producing nations in the Middle East and North Africa), Organization of Petroleum Exporting Countries policy, the rapid growth of economies such as China and India, the levels of inventory carried by industries, the amounts of reserves maintained by governments, disruptions to production and refining facilities and weather.

Between early 2011 and mid-2014, fuel prices were relatively stable, partly as a result of increased oil supply from U.S. domestic production. As of mid-2014, average fuel prices were approximately three times those prevailing at the end of 2003. Beginning in mid-2014, an imbalance between worldwide supply and demand resulted in a precipitous decline in the price of oil and aviation fuel. Decreased demand from China and other developing countries, combined with a continued

surplus in the worldwide supply (and the potential for further surpluses from Iran as trade sanctions are lifted) resulted in further reductions in fuel prices in 2015. The average price of aviation fuel mid-2016 was approximately 50% of the price at mid-2014. The reduction in fuel prices is having a positive effect on airline profitability as well as far-reaching implications for the global economy. While fuel prices have declined significantly in the past few years, significant and prolonged increases in the cost of aviation fuel in the future could have an adverse impact on airline profitability.

Airline Concentration; Effect of Airline Industry Consolidation

The airline industry continues to evolve as a result of competition and changing demand patterns and it is possible the airlines serving the Airport could consolidate operations through acquisition, merger, alliances and code share sales strategies. Examples of airlines mergers occurring over the last several years include: (a) in 2008, Delta acquired Northwest and its affiliated air carriers, Mesaba, Pinnacle (now known as Endeavor) and Compass; (b) on October 1, 2010, United Airlines and Continental Airlines merged and United Airlines and Continental Airlines began operating as a single airline (under the United brand) in March 2012; (c) on May 2, 2011, Southwest acquired Air Tran, and Southwest and Air Tran began operating as a single airline (under the Southwest brand) in March 2012; and (d) effective December 9, 2013, AMR Corporation, along with its subsidiaries American Airlines and American Eagle, merged with US Airways Group, Inc. The American Airlines and US Airways merger was completed in October 2015. As of the date of this Official Statement, none of these mergers have had any material impact on airline service or enplanements at ABIA. In April 2016, Alaska Air Group, parent of Alaska Airlines, announced that it will acquire Virgin American Airlines. This acquisition closed on December 14, 2016; however, they will not operate under one certificate until 2018. Alaska Airlines and Virgin America both serve the Airport, accounting for 1.7% and 1.6% of total enplaned passengers, respectively, in FY 2016. While prior mergers have not had any material impact on airline service and enplanements at the Airport or on Gross Revenues, future mergers or alliances among airlines operating at the Airport may result in fewer flights or decreases in gate utilization by one or more airlines. Such decreases could result in reduced Gross Revenues, reduced PFC collections and/or increased costs for the other airlines serving ABIA.

International Conflict and the Threat of Terrorism

The increased threat of terrorism has had, and may continue to have, a negative impact on air travel. The City cannot predict the likelihood of future incidents similar to the terrorist attacks of September 11, 2001, the likelihood of future air transportation disruptions or the impact on the City or the airlines operating at the Airport from such incidents or disruptions.

Structural Changes in the Travel Market

Many factors have combined to alter consumer travel patterns. The threat of terrorism against the United States remains high. As a result, the federal government has mandated various security measures that have resulted in new security taxes and fees and longer passenger processing and wait times at airports. Both add to the costs of air travel and make air travel less attractive to consumers relative to ground transportation, especially to short-haul destinations. Additionally, consumers have become more price-sensitive. Efforts of airlines to stimulate traffic by heavily discounting fares have changed consumer expectations regarding airfares. Consumers have come to expect extraordinarily low fares. In addition, the availability of fully transparent price information on the internet now allows quick and easy comparison shopping, which has changed consumer purchasing habits. Consumers have shifted from purchasing paper tickets from travel agencies or airline ticketing offices to purchasing electronic tickets over the internet. This has made pricing and marketing even more competitive in the U.S. airline industry. Finally, smaller corporate travel budgets, combined with the higher time costs of travel, have made business customers more amenable to communications substitutes such as tele- and video-conferencing.

Effect of Airline Bankruptcies

A bankruptcy of a Signatory Airline (or of a non-signatory airline or any other tenant or concessionaire at the Airport) can result in significant delays, significant additional expense and/or significant reductions in payments, or even in nonpayments, to the City and consequently in a reduction in the amount of Net Revenues of the Airport.

Although with an O&D airport (like the Airport) that has residual ratemaking for costs of the airfield and preferential use agreement, leases and other agreements at the terminals, expectations would be that the amounts other airlines would be required to pay for use of the airfield would be sufficient to make up any shortfalls attributable to an airline in bankruptcy

and that payments by other airlines and concessionaires in the terminals would be adequate to pay terminal-related expenses and debt service, but the other airlines likely would not be required to make up for unpaid post-bankruptcy usage and rental of terminal and concourse space and ramps, and no assurances can be given that the other airlines would be able to pay such additional amounts when needed, particularly if the bankruptcy occurred during a period in which many of the airlines and other users were struggling.

Airline Leases and Executory Contracts.

In the event a Signatory Airline seeks protection under the United States Bankruptcy Code (the “Bankruptcy Code”), the Signatory Airline or its bankruptcy trustee would be required to determine whether to assume or reject its Signatory Airline Agreement or any other lease from the City of non-residential real property or an executory contract (such as a license) within 120 days or later, if ordered by the bankruptcy court. In the case of any other agreements with the City, a debtor airline would not be required to assume or reject its agreement prior to the confirmation of a plan of reorganization.

If the agreement is assumed, the airline would be required to cure any prior defaults and to provide “adequate assurance” of future performance. What constitutes “adequate assurance” is up to the Bankruptcy Court, however, and may not be adequate for the City’s purposes. Even if all such amounts ultimately are paid, the City could experience long delays in collecting such amounts. If an agreement such as an unexpired lease is rejected, the City would have an unsecured claim for damages, the amount of which would be limited to the amounts unpaid prior to the bankruptcy plus the greater of one year’s rent or 15% of the total remaining lease payments, not to exceed three years. It is likely that the amount received following the rejection of a lease or of an executory contract would be materially less than the face amount of the claim. In addition, until the assumption or rejection of an agreement, a debtor airline would not be permitted, absent a court order, to make any payments on account of goods or services (including landing fees and accrued rent) provided prior to the bankruptcy. See “–Automatic Stay, Preference Claims and PFC Issues” in this document.

Financing Leases and Other Financing Contracts.

Although the City believes that most of its arrangements with the Signatory Airlines (and with the non-signatory airlines and Airport tenants and concessionaires) are executory contracts or leases of non-residential real property, a bankruptcy court could determine that a contract or lease instead is a financing device. If a lease or other agreement is treated as a financing device, the airline, tenant or concessionaire may keep and use the asset but debt service may be suspended in whole or in part during the course of the bankruptcy and in the end, the amount of the debt and the payment schedule and level may be reduced or extended as part of a reorganization plan. The determination by the court of the type of agreement and the nature of a transaction in many cases is a fact-intensive, laborious and time-consuming matter. It is not uncommon for a bankrupt tenant or customer to contend that a “lease” really is a financing device so that the tenant can decline to make periodic rental payments during the period the issue is being considered by the court.

Automatic Stay, Preference Claims and PFC Issues.

Upon the filing of a bankruptcy proceeding, Section 362 of the Bankruptcy Code stays virtually all creditor actions to litigate to judgment or to collect on a debt, to remove a non-paying tenant from possession or to exercise any other remedies. This automatic stay can result in lengthy delays in a creditor’s ability to exercise its rights. The Bankruptcy Code also provides that any payments made to the creditor within 90 days (365 days for “insiders”) before the bankruptcy are subject to recovery by the debtor as a “preferential payment.”

The PFC Act and FAA regulations provide that PFC revenue collected by the airlines (other than the handling fee and interest collected on unremitted proceeds) constitute a trust fund held for the beneficial interest of the eligible agency imposing the PFC (the City), and FAA regulations require the airlines to account for PFC collections separately and to disclose in financial statements the existence and amount regarded as trust funds. The airlines, however, are permitted to commingle PFC collections with other airline funds, and bankruptcy courts have not fully addressed such trust arrangements.

In connection with proceeds held by airlines in bankruptcy outside of the United States, the City cannot predict what types of orders or relief could be issued by foreign tribunals or the extent of delays in connection with such proceedings or the extent to which such orders would be enforceable in the United States.

Regardless of any specific adverse determinations and delays in an airline bankruptcy proceeding, the fact of an airline bankruptcy proceeding, particularly a bankruptcy of a Signatory Airline, could have a material adverse effect on the liquidity and value of the Bonds.

Effect of Other Tenant or Concessionaire Bankruptcies

A bankruptcy of a non-airline tenant or concessionaire would raise challenges similar to those described above in connection with airline bankruptcies. Many of the major rental car companies operating at the Airport filed for bankruptcy in recent years, and it is possible that rental car companies will file for bankruptcy in the future. Although the City's CFC agreements with the rental car companies contain trust language similar to the language contained in the PFC Act and in FAA regulations for PFCs, no statute protects CFCs, and it is not certain that federal courts would respect the intent of such arrangements for CFCs, particularly since rental car companies are permitted to commingle CFCs with their own funds.

Effect of a City Bankruptcy

Under current Texas law, cities are authorized to file bankruptcy petitions under Chapter 9 of the Bankruptcy Code. In the event the City becomes a debtor in a bankruptcy case, the owners of the Bonds may encounter significant payment delays and significant risks of nonpayment. Bond owners may not have a lien on Net Revenues unless a bankruptcy court determines that the Net Revenues are "special revenues" within the meaning of the Bankruptcy Code. No assurance can be given that a court would make such a determination. Revenues are held by the City and applied to payment of Costs of Operation and Maintenance before being transferred to the paying agent/registrant. Even if a court determines that Revenues are "special revenues," no assurance can be given that the court would not permit the City to use such Revenues to pay costs of operating the non-airport facilities before being transferred to pay debt service on Bonds. If Net Revenues are not "special revenues" or if Revenues are applied to pay operating costs of other City facilities, there could be very significant delays or reductions in payments or nonpayment of the Bonds. A bankruptcy of the City also would trigger cross defaults under many of the City's other agreements, which also would lead to the possibility of additional delays and significant losses.

Aviation Security Concerns

Concerns about the safety of airline travel and the effectiveness and inconvenience of security precautions influence passenger travel behavior and air travel demand. Intensified security precautions instituted by government agencies, airlines and airport operators have vastly increased costs, some of which have been or will be passed on to travelers and airlines. No assurance can be given that these precautions will be successful or that the increased costs or uncertainty will not materially affect travel demand or profitability. Another terrorist attack or any other event that undermines confidence in the safety of air travel likely would have an immediate and material effect on air travel demand.

Changes in Financial Markets and Financial Condition of Parties Dealing with the City

2005 Reserve Policy.

The City has satisfied a portion of the Reserve Fund Requirement with a surety bond. See "SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS — Debt Service Reserve Fund" in this document. If the provider of the surety bond becomes insolvent as the earlier provider did, the City may not be able to draw upon the surety bond in the event Net Revenues are insufficient to pay 2005 Bonds or the related Swap Agreement. See "OUTSTANDING REVENUE BONDS, CREDIT AGREEMENT OBLIGATIONS AND SPECIAL FACILITIES BONDS – Financial Transactions Related to the Series 2005 Bonds – 2005 Reserve Policy" in this document.

2005 Swap Agreement.

The City pays amounts calculated at fixed interest rates and receives amounts calculated at variable interest rates under the 2005 Swap Agreement. The City generally expects that the variable rates it receives under the 2005 Swap Agreement will be roughly equal to the variable rates payable on the Series 2005 Bonds. Disruptions in the bond or swap markets, however, or a deterioration in the rating or financial strength of the bank whose letters of credit secure payments on the related Series 2005 Bonds may cause the variable rates the City receives to be lower than the variable rates the City pays, increasing debt service costs to the City above the level the City currently anticipates. In addition, the 2005 Swap

Agreement has and is expected to continue to have a negative fair value. As a result, the City likely will be required to pay substantial amounts if the 2005 Swap Agreement is terminated prior to its scheduled termination date. The 2005 Swap may be terminated for a variety of reasons including events that are beyond the City's control, such as adverse changes in the credit quality of the City's counterparty or of the City, or because the City chooses to or is required to refinance or change the interest rate mode of the Series 2005 Bonds. See "OUTSTANDING REVENUE BONDS, CREDIT AGREEMENT OBLIGATIONS AND SPECIAL FACILITIES BONDS – Financial Transactions Related to the Series 2005 Bonds – 2005 Reserve Policy" and "APPENDIX B – AUDITED FINANCIAL STATEMENTS – Note 9" in this document.

Delays and Cost Increases; Additional Indebtedness

The estimated costs of and schedules for the 2017 Projects and the City's other capital improvement projects are subject to a number of uncertainties. The City's ability to complete the 2017 Projects and the other projects may be adversely affected by a number of factors, including: (i) estimating errors, (ii) design and engineering errors, (iii) changes to the scope of the projects, (iv) delays in contract awards, (v) material and/or labor shortages, (vi) unforeseen site conditions, (vii) adverse weather conditions, earthquakes or other casualty events, (viii) contractor defaults, (ix) labor disputes, (x) unanticipated levels of inflation and (xi) environmental and/or permitting issues. No assurance can be given that the 2017 Projects and the City's other projects will not cost more than the current budgets for these projects. The City expects to fund its other project costs with a combination of PFCs, available Net Revenues, proceeds from the sale of the Bonds and in 2018 proceeds from the sale of Additional Revenue Bonds, federal grants and investment income. In the event one or more of these funding sources is not available to the City in the amount or on the schedule contemplated by the City and assumed in the Report, the implementation of some of the projects may be delayed. Any schedule delays or cost increases could result in the need to issue Additional Bonds or other obligations and may result in increased costs that cannot be recovered from the airlines.

Aviation Security and Health Safety Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions, particularly in the context of potential international hostilities and terrorist attacks, may influence passenger travel behavior and air travel demand. These concerns intensified in the aftermath of the events of September 11, 2001 and again in 2014 following the high profile disappearance of Malaysia Airlines Flight 370 and the crash of Malaysia Airlines Flight 17. Travel behavior may be affected by anxieties about the safety of flying and by the inconveniences and delays associated with more stringent security screening procedures, both of which may give rise to the avoidance of air travel generally and the switching from air to surface travel modes.

Safety concerns in the aftermath of the terrorist attacks in September 2001 were largely responsible for the steep decline in airline travel nationwide in 2002. Since 2001, government agencies, airlines, and airport operators have upgraded security measures to guard against future terrorist incidents and maintain confidence in the safety of airline travel. These measures include strengthened aircraft cockpit doors, changed flight crew procedures, increased presence of armed sky marshals, federalization of airport security functions under the TSA, more effective dissemination of information about threats, more intensive screening of passengers, baggage, and cargo, and deployment of new screening technologies. The airlines and the federal government were primarily responsible for, and bore most of the capital costs associated with, implementing the new security measures. No assurance can be given that these precautions will be successful. Also, the possibility of intensified international hostilities and further terrorist attacks involving or affecting commercial aviation are a continuing concern that may affect future travel behavior and airline passenger demand.

Public health and safety concerns have also affected air travel demand from time to time. In 2003, concerns about the spread of severe acute respiratory syndrome (SARS) led public health agencies to issue advisories against nonessential travel to certain regions of the world. In 2009, while the United States Centers for Disease Control and Prevention ("CDC") and the World Health Organization ("WHO") did not recommend that people avoid domestic or international travel, concerns about the spread of influenza caused by the H1N1 virus reduced international air travel, particularly to and from Mexico and Asia. More recently, the CDC has issued travel alerts in 2016 warning pregnant women to avoid travel to areas where outbreaks of the Zika virus, which has been linked to birth defects, are occurring. The lists of such areas includes more than 50 countries and certain locations in Miami, Florida. While the Airport is not in an area of concern identified by the CDC, further spread of the virus could impact the Airport by reducing travel to affected regions. This disease or future pandemics may lead to a decrease in air traffic, at least for a temporary period, which in turn could cause a decrease in passenger activity at the Airport. The City is unable to predict how serious the impact of the Zika virus or

future pandemic may become, what effect it may have on air travel to and from the Airport, and whether any such affects will be material.

Regulations and Restrictions Affecting the Airport

The operations of the Airport System are affected by a variety of contractual, statutory and regulatory restrictions and limitations including, without limitation, the provisions of the Airline Agreements and the Operating Agreements, the federal acts authorizing the imposition, collection and use of PFCs and extensive federal legislation and regulations applicable to all airports in the United States. In the aftermath of the terrorist attacks of September 11, 2001, ABIA also has been required to implement enhanced security measures mandated by the FAA, the Department of Homeland Security and Department of Aviation management.

It is not possible to predict whether future restrictions or limitations on Airport System operations will be imposed, whether future legislation or regulations will affect anticipated federal funding or PFC collections for capital projects for the Airport System, whether additional requirements will be funded by the federal government or require funding by the City, or whether such restrictions or legislation or regulations would adversely affect Net Revenues. See “- Aviation Security and Health Safety Concerns” above in this document, “CAPITAL IMPROVEMENT PROGRAM” and “CAPITAL IMPROVEMENT PROGRAM – Passenger Facility Charges” in this document.

Ability to Meet Rate Covenant

As described in “SECURITY AND SOURCES OF REPAYMENT OF THE BONDS – Rate Covenant” in this document, the City has covenanted in the Ordinances 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 rate covenant set forth in the Ordinances is met. In addition to Net Revenues, the City expects to use approximately \$10.7 million to \$22.7 million of PFCs in each of the Fiscal Years between 2017 and 2023, respectively, to pay a portion (approximately 26.2% - 32.7%) of the Debt Service on the Revenue Bonds. If PFCs have been appropriated and deposited into a dedicated fund or account, the proceeds of which are required to be transferred into the Debt Service Fund or directly to the Paying Agent/Registrar for the Revenue Bonds, the principal and/or interest on such Revenue Bonds is excluded from the calculation of Debt Service Requirements; thus decreasing Debt Service Requirements and increasing debt service coverage for purposes of the rate covenant under the Ordinances. See “SECURITY AND SOURCES OF REPAYMENT FOR THE BONDS – Use of Passenger Facility Charges” and “Availability of PFCs and PFC Approval” in this document.

If Net Revenues (and PFCs expected to be used to pay debt service) were to fall below the levels necessary to meet the rate covenant in any Fiscal Year, the Ordinances provide for procedures under which the City would retain and request an Airport Consultant to make recommendations as to the revision of the City’s rentals, rates, fees and other charges, its Operating and Maintenance Expenses or the method of operation of the Airport System in order to satisfy as quickly as practicable the rate covenant set forth in the Ordinances. The Ordinances provide that 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 Ordinances even if the resulting Net Revenues plus Other Available Funds are not sufficient to be in compliance with the rate covenant set forth in the Ordinances, so long as Debt Service is paid when due.

Increasing the schedule of rentals, rates, fees and other charges for the use of the Airport System and for services rendered by the City in connection with the Airport System is subject to contractual, statutory and regulatory restrictions (see “— Regulations and Restrictions Affecting the Airport” above in this document). Implementation of an increase in the schedule of rentals, rates, fees and other charges for the use of the Airport System could have a detrimental impact on the operation of the Airport System by making the cost of operating at the Airport System unattractive to airlines, concessionaires and others in comparison to other airports, or by reducing the operating efficiency of the Airport System. Notwithstanding this potential detrimental impact, the Airline Agreements acknowledge the existence of the rate covenant under the Ordinances and include an agreement by the Signatory Airlines to pay such rentals, rates, fees and charges.

Availability of PFCs and PFC Approval

In addition to the use of Net Revenues, the City expects to use between \$10.7 million and \$22.7 million of PFCs each Fiscal Year between Fiscal Years 2017 and 2023, to pay a portion of the debt service on the Revenue Bonds (including the

Bonds). See “SECURITY AND SOURCES OF REPAYMENT FOR THE BONDS – Use of Passenger Facility Charges” and “Ability to Meet Rate Covenant” in this document. Additionally, the City expects to use approximately \$56.0 million of PFCs to fund a portion of the Planned CIP Projects, including the 2017 Projects. See “CAPITAL IMPROVEMENT PROGRAM” in this document.

The proceeds of the PFCs are not part of the Net Revenues pledged by the City to the payment of Revenue Bonds, including the Bonds. Pursuant to the terms of the Ordinances, PFCs are expressly excluded from the definition of “Gross Revenues”. Consistent with the definition of “Debt Service Requirements” in the Ordinances, debt service on Revenue Bonds for which PFCs have been appropriated and deposited into a dedicated fund or account, the proceeds of which are required to be transferred into the Debt Service Fund or directly to the Paying Agent/Registrar for such Revenue Bonds, is excluded from the calculation of Debt Service Requirements. See “SECURITY AND SOURCES OF REPAYMENT FOR THE BONDS – Rate Covenant” and “– Additional Revenue Bonds” in this document and the definition of “Debt Service Requirements” in “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES – Selected Definitions” in this document. As described in “CAPITAL IMPROVEMENT PROGRAM – Passenger Facility Charges,” under FAA approvals received to date, the City is authorized to impose the PFC through an estimated date of June 2018. **The City is currently seeking approval from the FAA to use PFCs to fund a portion of the 2017 Projects and to pay a portion of the debt service on the Bonds. No assurance can be given that the FAA will approve the amounts for the projects contained in the application.**

The amount of PFC revenue received by the City in future years will vary based upon the actual number of PFC-eligible passenger enplanements at ABIA. No assurance can be given that any level of enplanements will be realized. See “- Factors Affecting the Airline Industry” above in this document. See also “CAPITAL IMPROVEMENT PROGRAM - Passenger Facility Charges” and “- Ability to Meet Rate Covenant” above in this document. Additionally, the FAA may terminate the City’s authority to impose the PFC, subject to informal and formal procedural safeguards, if (a) PFC revenues are not being used for approved projects in accordance with the FAA’s approval, the PFC Act or regulations promulgated by the FAA under authority of the PFC Act (“PFC Regulations”), or (b) the City otherwise violates the PFC Act or the PFC Regulations. The City’s authority to impose a PFC may also be terminated if the City violates certain provisions of the ANCA and its implementing regulations relating to the implementation of noise and access restrictions for certain types of aircraft. The regulations under ANCA also contain procedural safeguards to ensure that the City’s authority to impose a PFC would not be summarily terminated. No assurance can be given that the City’s authority to impose a PFC will not be terminated by Congress or the FAA, that the PFC program will not be modified or restricted by Congress or the FAA so as to reduce PFC revenues available to the City or that the City will not seek to decrease the amount of PFCs to be collected, provided such decrease does not violate the City’s covenant in the Ordinances. A shortfall in PFC revenues may cause the City to increase rates and charges at ABIA to meet the debt service requirements on the Revenue Bonds (including the Bonds) that the City plans to pay from PFCs, and/or require the City to identify other sources of funding for its capital program (including the 2017 Projects), including issuing Additional Revenue Bonds and/or Subordinate Obligations, to finance the pay-as-you-go projects currently expected to be paid with PFC revenues.

Availability of Funding for the Capital Improvement Program

The City’s plan of finance assumes that proceeds of Revenue Bonds, PFC revenues on a pay-as-you-go basis, federal grants, and other available revenues of the City (including certain amounts to be on deposit in the Repair and Replacement Fund and the Capital Fund), will be received by the City in certain amounts and at certain times to pay the costs of the planned projects described in “CAPITAL IMPROVEMENT PROGRAM” (the “Planned CIP Projects”) in this document. No assurance can be given that these sources of funding will be available in the amounts or on the schedule assumed. See “Availability of PFCs and PFC Approval” above in this document.

The City formally submitted a PFC application to the FAA November 1, 2016 and will receive approval/disapproval from the FAA by February 26, 2017.

To the extent that any portion of the funding assumed in the plan of finance for the Planned CIP Projects is not available as anticipated, the City may be required to defer or remove certain of the Planned CIP Projects or issue additional Revenue Bonds and/or Subordinate Obligations to pay the costs of such Planned CIP Projects.

Federal Funding Considerations

The City depends upon federal funding for the Airport not only in connection with grants and PFC authorizations but also because it is federal funding that provides for TSA, air traffic control and other FAA staffing and facilities. The FAA currently operates under the FAA Extension, Safety, and Security Act of 2016, which extends the authorization of the FAA Modernization and Reform Act of 2012. The FAA Extension, Safety, and Security Act of 2016 extends the FAA's authority and provides funding through September 2017. Federal funding also is impacted by sequestration under the federal Budget Control Act of 2011. Except to the extent changed by Congress from time to time, sequestration is a multi-year process and could continue to affect FAA, TSA and Customs and Border Control budgets and staffing, which results in staffing shortages and furloughs and traffic delays at the Airport and also nationwide. Some of the TSA funding shortages are being addressed by increasing the amount (and removing the cap) on the security fees on tickets, but such fees have been controversial and no assurance can be given that such fees will be sufficient or that the increased ticket costs will not result in lower passenger enplanements.

Forward-Looking Statements

This Official Statement, including the Appendices and the documents incorporated by reference herein, contain "forward-looking statements," which generally can be identified with words or phrases such as "anticipates," "believes," "could," "estimates," "expects," "foresees," "may," "plan," "predict," "should," "will" or other words or phrases of similar import. All statements included in this Official Statement, including the Appendices hereto, that any person expects or anticipates will, should or may occur in the future, including but not limited to, the projections in the Airport Consultant's Report, are forward-looking statements. These statements are based on assumptions and analysis made by the City and the Airport Consultant, as applicable, in light of their experience and perception of historical trends, current conditions and expected future developments as well as other factors they believe are appropriate in the circumstances. However, whether actual results and developments will conform with expectations and predictions is subject to a number of risks and uncertainties, including, without limitation, the information discussed under "CERTAIN INVESTMENT CONSIDERATIONS" in this document as well as additional factors beyond the City's control. The risk factors and assumptions described under such caption and elsewhere in this Official Statement could cause actual results to differ materially from those expressed in any forward-looking statement. All of the forward-looking statements made in this Official Statement and any Appendices hereto are qualified by these cautionary statements. There can be no assurance that the actual results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Net Revenues or the operations of ABIA. All subsequent forward-looking statements attributable to the City or persons acting on its behalf are expressly qualified in their entirety by the factors and assumptions described above and in any documents containing those forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City does not assume any obligation to update any such forward-looking statements.

The forward-looking statements are necessarily based on various assumptions and estimates that are inherently subject to numerous risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

Any financial projections set forth in this Official Statement were not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to the prospective financial information. The City's independent auditors have not compiled, examined, or performed any procedures with respect to the prospective financial information contained in this Official Statement, nor have they expressed any opinion or any other form of assurance on such information or its achievability. The City's independent auditors have not been consulted in connection with the preparation of any financial projections contained in this Official Statement and the City's independent auditors assume no responsibility for its content.

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Assumptions in the Airport Consultant's Report

As noted in the Report, any forecast is subject to uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances may and are likely to occur. Therefore, the actual results achieved during the forecast period will vary, and the variations may be material. See "REPORT OF THE AIRPORT CONSULTANT" and "APPENDIX A – REPORT OF THE AIRPORT CONSULTANT" in this document.

Future and Proposed Legislation

The Texas Legislature will convene its Regular Session of the 85th Legislature in January 2017. The City makes no representations or predictions concerning the substance or effect of any legislation that may be proposed and ultimately passed in such Regular Session or any special session that may convene after the end of the Regular Session, or how any such legislation would affect the Net Revenues or the financial condition or operations of ABIA.

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.

LITIGATION

It is the opinion of the City Attorney and ABIA management that, as of the date of this Official Statement, there is no pending litigation against the City that would have a material adverse financial impact upon ABIA or its operations.

CONTINUING DISCLOSURE OF INFORMATION

The Ordinances include the following agreement by the City for the benefit of the Owners and beneficial owners of the Bonds. The Ordinances require the City to observe the agreement for so long as it remains an "obligated person" with respect to the Bonds. The City agrees in the Ordinances to give notices of any Bond calls and any defeasance that cause the City to be no longer an "obligated person." Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB").

Annual Reports

In the Ordinances, the City agrees to provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes (i) the portions of the financial statements of the City in APPENDIX B and (ii) all quantitative financial information and operating data with respect to the City of the general type included in the main text of the Official Statement within the various tables (numbered 1 through 9). The City agrees to update and provide this financial and operating data as of the end of each Fiscal Year within six months after the end of each Fiscal Year and the financial statements within 12 months after the end of each Fiscal Year. The City is to provide the updated information to the MSRB through its Electronic Municipal Market Access ("EMMA") information system.

The City may provide updated information in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) if it is available to the public on the MSRB's internet website or filed with the SEC, as permitted by Rule 15c2-12 (the "Rule"), promulgated by the SEC. The Ordinances provide that the updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided at that time, the City is to provide notice that the audited financial statements are not available and provide unaudited financial information of the type described in the various tables (numbered 1 through 9) in this Official Statement and "unaudited financial statements" by the required time, and is to provide audited financial statements for the applicable Fiscal Year, when and if the audit report on the financial statements becomes available. The term "unaudited financial statements" means unaudited financial statements and tables described in the previous sentences. Any such financial statements will be prepared in accordance

with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current Fiscal Year is October 1 to September 30. Accordingly, it must provide updated information by March 31 of each year unless the City changes its Fiscal Year. If the City changes its Fiscal Year, it will be required to notify the MSRB of the change.

Disclosure Event Notices

The City agrees to notify the MSRB, in a timely manner not in excess of ten Business Days after the occurrence of the event, of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material. The City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data by the time required by the Ordinances.

As used in clause 12 above, the phrase "bankruptcy, insolvency, receivership or similar event" means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if jurisdiction has been assumed by leaving the City Council and official or officers of the City in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. As defined in the Ordinances, the term "Business Day" means a day other than a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the City or 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.

Availability of Information

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

Limitations and Amendments

The City has agreed to update information and to provide notices of certain specified events only as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. In the Ordinances, the City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although Owners of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure provisions of the Ordinances from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described in this Official Statement in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the Owners of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or

(b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Owners and beneficial owners of the Bonds. The City may also amend or repeal the continuing disclosure provisions of the Ordinances if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

The City did not file its unaudited or audited financial statements for the Fiscal Year ended September 30, 2011 by the required deadline of March 31, 2012. The audited financial statements of the City for such Fiscal Year were filed in April 2012. Annual financial information and operating data of the City were filed by the required time in accordance with the City’s continuing disclosure agreements in the above-cited year in which the audited financial statements were filed after March 31. The City filed an event notice in connection with the late filing. In addition, multiple rating changes occurred with respect to certain obligations of the City between 2009 and 2013, in 2015 and in 2016, and the City did not file event notices with respect to certain of such rating changes. [Subsequently, notices of such rating changes that occurred in 2015 and 2016 were filed.] The City has filed event notices with respect to the current ratings of certain of its outstanding obligations. In its annual financial information and operating data filings for the City’s electric system and water and wastewater system revenue bonds, for the year 2011, the City omitted a table relating to the City’s equity in its electric utility and water and wastewater systems. While the information contained in such table was generally obtainable from its audited financial statements for such years, the City has, since its Fiscal Year 2012 filing, included this table in its annual financial information and operating data filings for the City’s electric system and water and wastewater system revenue bonds. Also, the City inadvertently omitted several tables from the annual financial information and operating data filing for the March 31, 2013 continuing disclosure report relating to certain obligations of the City. The City filed the omitted information on May 14, 2014. With respect to the City’s continuing disclosure reports regarding its outstanding Airport System Revenue Bonds, the City determined that (i) a table regarding detailed Airport revenues was inadvertently omitted from such reports that were filed in 2012 and 2013, however, the total of such Airport revenues was included in such annual filings and such table was included in subsequent annual continuing disclosure reports and (ii) a table had transposed years in the presentation of data in such report that was filed in 2015, and the City filed corrected information for such table on May 8, 2015. The City has implemented procedures to ensure timely filing of all future financial information and event notices.

TAX MATTERS

Series 2017A Bonds

On the date of initial delivery of the Series 2017A Bonds, McCall, Parkhurst & Horton L.L.P., Bond Counsel to the City, 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 Series 2017A Bonds will be excludable from the “gross income” of the holders thereof, and (ii) the Series 2017A 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 City will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Series 2017A Bonds. See “APPENDIX D – Forms of Bond Counsel’s Opinions” in this document.

Interest on the Series 2017A 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.

Series 2017B Bonds

On the date of initial delivery of the Series 2017B Bonds, Bond Counsel will render their opinion that, in accordance with Existing Law, interest on the Series 2017B Bonds for federal income tax purposes will be excludable from the “gross income” of the holders thereof, except for any holder who is treated pursuant to section 147(a) of the Internal Revenue Code of 1986 (the “Code”) as a “substantial user” of the Project or, a “related person” to such user. Except as stated

above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the AMT Bonds. See "APPENDIX D – Forms of Bond Counsel's Opinions" in this document.

Interest on the Series 2017B Bonds is an item of tax preference, as defined in section 57(a)(5) of the Code, for purposes of determining the alternative minimum tax imposed on individuals and corporations.

General

In rendering its opinions, Bond Counsel (a) will rely upon information furnished by the City, and particularly written representations of officers and agents of the City 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 each series of the Bonds and (b) will assume continuing compliance with covenants of the City 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 of either series could be affected by future events. However, future events beyond the control of the City, 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 City 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 of either series.

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 City 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 of either series.

A ruling was not sought from the Internal Revenue Service (the "IRS") by the City 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 of either series, 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 City as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

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.

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

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.

INVESTMENTS

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

Legal Investments

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

- (1) obligations of the United States or its agencies and instrumentalities, including letters of credit;
- (2) direct obligations of the State of Texas or its agencies and instrumentalities;
- (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
- (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities,

- including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by explicit full faith and credit of the United States;
- (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent;
 - (6) bonds issued, assumed or guaranteed by the State of Israel;
 - (7) certificates of deposit meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by a combination of cash and the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits or (ii) that are invested by the City through a depository institution that has its main office or a branch office in the State of Texas and that otherwise meets the requirements of the PFIA;
 - (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas;
 - (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency;
 - (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank;
 - (11) no-load money market mutual funds registered with and regulated by the SEC that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share;
 - (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and
 - (13) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than "AAA", "AAA-m" or at an equivalent rating by at least one nationally recognized rating service.

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

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

- (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool
- (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City;
- (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and
- (iv) the agreement to lend securities has a term of one year or less.

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

The City is specifically prohibited from investing in:

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

Investment Policies

Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield and maturity; and also that address the quality and capability of investment personnel. The policy includes a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement must describe the investment objectives for the particular fund using the following priorities: (1) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield.

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

Under State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly, the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City; (2) that all investment officers jointly prepared and signed the report; (3) the beginning market value and the ending value of each pooled fund group; (4) the book value and market value of each separately listed asset at the end of the reporting period; (5) the maturity date of each separately invested asset; (6) the account or fund or pooled fund group for which each individual investment was acquired; and (7) the compliance of the investment portfolio as it relates to (a) adopted Investment Strategy Statements and (b) State law. No person may invest City funds without express written authority of the City Council or the Chief Financial Officer of the City.

Additional Provisions

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

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Current Investments

As of December 31, 2016, the City's investable funds were invested in the following categories.

<u>Type of Investment</u>	<u>Percentage</u>
U. S. Treasuries	10.5%
U. S. Agencies	46.1%
Money Market Funds	3.6%
Local Government Investment Pools	39.8%

The dollar weighted average maturity for the combined City investment portfolios is 290 days. The City prices the portfolios weekly utilizing a market pricing service.

THE CITY

Administration

Incorporated in 1839, the City operates under a Council-Manager form of government under its home rule charter. As a result of an amendment to the Austin City Charter approved at an election held in November, 2012, the configuration of the City Council has changed from a seven member council, comprised of a Mayor and six council members elected at large, to an 11 member council, with the Mayor to be elected at large, and the remaining members to be 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. See "APPENDIX A – "GENERAL INFORMATION REGARDING THE CITY – General Information" in this document.

By charter, the City Council appoints a City Manager for an indefinite term who acts as the chief administrative and executive officer of the City. The duties include, among others, the supervision of all City departments, the preparation and administration of an annual budget and the preparation of a report on the finances and administrative activities of the City. 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 past member of Government Finance Officers Association's Committee on Economic Development and Capital Planning. Prior to his work in municipal government, Mr. Canally worked as a project manager/economist for HDR Engineering, working with all levels of government to implement Water Planning solutions in Texas. Mr. Canally holds a Bachelor of Science in Economics from Villanova University and a Master of Science in Economics from the University of Texas at Austin.

Services Provided by the City

The City's major activities include police and fire protection, emergency medical services, parks and libraries, public health and social services, planning and zoning, general administrative services, solid waste disposal, and maintenance of bridges,

streets and storm drains. The City owns and operates several major enterprises, including Austin Energy, 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, 2015. 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 18.2% of payroll, and the City contributes 22.05%. The Police Officers contribute 13.0% and the City contributes 21.313% of payroll.

During fiscal 2015, the City implemented Governmental Accounting Standards Board Statement ("GASB") No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71 ("GASB 71"), Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68, which increased the net pension liability in the financial statements by \$1.2 billion over the previously reported net pension obligation.

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, 2014 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, 2013 using the final 2014 assumptions and then was rolled forward to the plan's year ending December 31, 2014.

The COAERS, as of December 31, 2014, had a net pension liability of \$884.3 million with a plan fiduciary net position as a percentage of the total pension liability of 71.4%. The Police Officers' Fund, as of December 31, 2014, had a net pension liability of \$333.6 million with a plan fiduciary net position as a percentage of the total pension liability of 65.7%. The Firefighters' Fund, as of December 31, 2014 had a net pension liability of \$72.0 million with a plan fiduciary net position as a percentage of the total pension liability of 91.6%.

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

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability. As of December 31, 2014, the amortization period of the unfunded actuarial accrued liability for the COAERS was 24 years, for the Police Officers' Fund was 28.6 years and the Firefighters' Fund was 10.57 years.

As of December 31, 2014, the actuarial accrued liability for the COAERS was \$3,094,055,712 and the funded ratio was 70.9%. The actuarial accrued liability for the Police Officers' Fund was \$968,340,394 and the funded ratio was 67.5%. The actuarial accrued liability for the Firefighters' Fund was \$868,146,375 and the funded ratio was 90.9%.

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

On June 8, 2016, the COAERS Board of Trustees received an annual financial report of COAERS for the fiscal year ended December 31, 2015. The report stated that as of December 31, 2015, COAERS had a net pension liability of \$1.247 billion with a plan fiduciary net position as a percentage of the total pension liability of 63.2%. Additionally, the actuarial accrued liability for the COAERS was \$3,391,796,116 and the funded ratio was 68.0%.

On August 9, 2016, the Police Officers' Fund Board received an annual financial report of the Police Officers' Fund for the fiscal year ended December 31, 2015. The report stated that as of December 31, 2015, the Police Officers' Fund 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%. Additionally, the actuarial accrued liability for the Police Officers' Fund was \$1,036,118,138 and the funded ratio was 66.6%. The report's numbers reflect changes to benefit provisions and actuarial assumptions that were adopted since the prior valuation for fiscal year ended December 31, 2014.

On August 10, 2016, the Firefighters' Fund Board received an annual financial report of the Firefighters' Fund for the fiscal year ended December 31, 2015. The report stated that as of December 31, 2015, the Firefighters' Fund 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%. Additionally, the actuarial accrued liability for the Firefighters' Fund was \$921,875,579 and the funded ratio was 89.9%.

Other Post-Employment Benefits

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 \$39.5 million for 4,431 retirees in 2015 and \$33.3 million for 4,189 retirees in 2014. As of September 30, 2015, the net OPEB obligation is \$777.7 million.

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

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to third party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund’s operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately \$9.3 million for claims and damages at the end of fiscal year 2015. Employee injuries are covered by the Workers’ Compensation Fund, and health claims are protected by the Employee Benefits Fund.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received a rating of “A” by S&P Global Ratings (“S&P”), and a rating of “A1” 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 City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by 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.

Registration and Qualification

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

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

authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Legal Matters

The delivery of the Bonds of each series 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 City payable from sources and in the manner described in this Official Statement and in the Ordinances. Issuance of the Bonds is also subject to receipt of the approving opinions of Bond Counsel. The forms of Bond Counsel's opinions are included in this document as APPENDIX D. The legal opinions of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System.

Bond Counsel was engaged by, and only represents, the City. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained 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 "INTRODUCTION", "DESCRIPTION OF THE BONDS" (except for the information under the subcaptions "Remedies" and "Book-Entry-Only System"), "SECURITY AND SOURCES OF REPAYMENT FOR THE BONDS," "CONTINUING DISCLOSURE OF INFORMATION" (except for the subsection "Compliance with Prior Undertakings"), "TAX MATTERS," the information under the subcaptions "OTHER RELEVANT INFORMATION – Registration and Qualification," "– Legal Investments and Eligibility to Secure Public Funds in Texas," and "– Legal Matters," and under "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES," 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 and the Ordinances. In addition, certain legal matters will be passed upon (i) for the Underwriters by Orrick, Herrington & Sutcliffe LLP, counsel to the Underwriters, and (ii) for the City by Norton Rose Fulbright US LLP, as Disclosure Counsel for the City. Any opinion of Underwriters' Counsel will be rendered solely to the Underwriters, and any opinion of Underwriters' 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 Underwriters 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.

Financial Advisor

Public Financial Management, Inc. ("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.

Financial Information and Independent Auditors

The financial data listed as fiscal year 2016 has been derived from the unaudited internal records of the City. The City's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor the forward-looking financial information, nor have they expressed any opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited financial information. The unaudited information is preliminary and is subject to change as a result of the audit and may differ from the audited financial statements when they are released.

The financial statements of the City included in APPENDIX B to this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, to the extent and for the period indicated in their report which contains an explanatory paragraph regarding the City's implementation of Governmental Accounting Standards Board Statements No.

68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27, and No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68 during the year ended September 30, 2015.

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2017A Bonds from the City at a price equal to \$185,300,000, plus an original premium of \$28,019,508.25 and less an underwriting discount of \$843,976.40 and to purchase the Series 2017B Bonds at a price equal to \$129,665,000, plus an original premium of \$16,439,968.50 and less an underwriting discount of \$590,579.40. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters. The Underwriters will be obligated to purchase all of the Bonds of each respective series if any Bonds of each respective series are purchased.

The Underwriters have provided the following paragraphs for inclusion in the Official Statement, and the City takes no responsibility for the accuracy thereof.

Jefferies has entered into an agreement (the “Agreement”) with E*TRADE Securities LLC (“E*TRADE”) for the retail distribution of municipal securities. Pursuant to the Agreement, Jefferies will sell Bonds to E*TRADE and will share a portion of its selling concession compensation with E*TRADE.

The Underwriters and their respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriters and their respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriters and their respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the City. The Underwriters and their respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the City.

Authenticity of Financial Data and Other Information

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

Certification of the Official Statement

This Official Statement, and the execution and delivery of this Official Statement was approved and authorized by an Authorized Officer of the City pursuant to the provision of the Ordinances adopted by the City Council on December 15, 2016.

/s/ Steve Adler

Mayor
City of Austin, Texas

ATTEST:
/s/ Annette Goodall

City Clerk
City of Austin, Texas

APPENDIX A

REPORT OF THE AIRPORT CONSULTANT

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Appendix A

REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

CITY OF AUSTIN, TEXAS

AIRPORT SYSTEM REVENUE BONDS
Series 2017A and Series 2017B (AMT)

Prepared for

City of Austin, Texas

Prepared by

LeighFisher
Burlingame, California

January 3, 2017

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January 3, 2017

Mr. James W. Smith
Executive Director
Austin-Bergstrom International Airport
3600 Presidential Boulevard, Suite 411
Austin, Texas 78719

**Re: Report of the Airport Consultant
City of Austin, Texas
Airport System Revenue Bonds
Series 2017A and Series 2017B (AMT)**

Dear Mr. Smith:

We are pleased to submit this Report of the Airport Consultant on the proposed issuance of Airport System Revenue Bonds by the City of Austin, Texas (the City). Austin-Bergstrom International Airport (the Airport or ABIA) comprises the Airport System operated by the City through its Aviation Department. The Airport is a self-sufficient enterprise. This letter and the accompanying attachment and financial exhibits constitute our report.

The City's proposed Airport System Revenue Bonds, Series 2017A are being issued in the approximate principal amount of \$203,055,000 to fund certain of the costs of constructing a new parking garage.

The City's proposed Airport System Revenue Bonds, Series 2017B (AMT) are being issued in the approximate principal amount of \$143,740,000 to fund certain of the costs of enlarging the passenger terminal and making other improvements to the Airport in 2016 through 2020. These proposed bonds are referred to herein as the 2017A-B Bonds. The report also addresses Airport System Revenue Bonds that the City plans to issue in 2018 (the 2018 Bonds) in the approximate principal amount of \$181,635,000 to fund certain of the costs of making other improvements to the Airport in 2016 through 2020, including maintenance and IT facilities, a centralized baggage handling system, and a new administration building. The projects to be funded in part with the proceeds of the proposed 2017A-B Bonds and planned 2018 Bonds are referred to collectively in this report as the 2016-2020 Project.

The elements of the 2016-2020 Project, their estimated costs, and the funding plan are summarized in the attachment and in Exhibit A.* The estimated sources and uses of

*All financial exhibits are provided at the end of the attachment, "Background, Assumptions, and Rationale for the Financial Forecasts."

Mr. James W. Smith
January 3, 2017

funds from the sale of the proposed 2017A-B Bonds and planned 2018 Bonds are shown in Exhibit B. The forecast Debt Service Requirements of all outstanding Revenue Bonds, proposed 2017A-B Bonds, and planned 2018 Bonds are shown in Exhibit C.

Revenue Bond Ordinances

The 2017A-B Bonds are to be issued under the terms of a Revenue Bond Ordinance, adopted by the City on December 15, 2016, which is substantially in the form of Bond Ordinances authorizing the issuance by the City of its Airport System Refunding Revenue Bonds, Series 2005(AMT) (the 2005 Refunding Bonds), Airport System Revenue Bonds, Series 2013 (the 2013 Bonds), Airport System Refunding Revenue Bonds, Series 2013A (the 2013A Refunding Bonds), and Airport System Revenue Bonds, Series 2014 (the 2014 Bonds). The Revenue Bond Ordinances authorizing the issuance of the 2005 Refunding Bonds, 2013 Bonds, 2013A Refunding Bonds, the 2014 Bonds and proposed 2017A-B Bonds are collectively referred to as the Revenue Bond Ordinances. Capitalized terms are used in this report as defined in the Revenue Bond Ordinances or in the Airline Agreement (discussed later), except as defined otherwise.

Outstanding Bonds

As of November 16, 2016, the City had outstanding Revenue Bonds as follows:

Series	Principal amount	Effective interest rate	Final maturity (November 15)
2005 Refunding Bonds	\$ 179,075,000	4.05%	2025
2013 Bonds	56,410,000	2.25	2028
2013A Refunding Bonds	17,988,000	1.56	2018
2014 Bonds	<u>244,495,000</u>	5.00	2044
	<u>\$497,968,000</u>		

The 2005 Refunding Bonds bear interest at variable rates and are subject to the provisions of an interest rate Swap Agreement that has the effect of converting the City’s variable-rate obligation to a fixed-rate obligation. The 2013 Bonds, 2013A Refunding Bonds, and 2014 Bonds were issued at fixed interest rates.

Gross and Net Revenues

The proposed 2017A-B Bonds and planned 2018 Bonds are to be Additional Revenue Bonds under the Revenue Bond Ordinances and are to be secured by and payable from the Net Revenues of the Airport System (Gross Revenues less Operation and Maintenance Expenses) on a parity with all outstanding Revenue Bonds.

Mr. James W. Smith
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Gross Revenues are defined in the Revenue Bond Ordinances to be, with certain exclusions, all revenues derived directly or indirectly from the operation and use of the Airport System. Expressly excluded from Gross Revenues are, among other amounts, (1) passenger facility charge (PFC) revenues, (2) rental car customer facility charge (CFC) revenues and any other revenues derived from Special Facilities, and (3) Other Available Funds transferred to the Revenue Fund (all as discussed later). Operation and Maintenance Expenses are defined in the Revenue Bond Ordinances to exclude operating and maintenance expenses for Special Facilities payable by lessees under Special Facilities Leases.

Passenger Facility Charge Revenues

The City has authority from the Federal Aviation Administration (FAA) to impose a PFC of \$4.50 per eligible enplaned passenger at the Airport and to use PFC revenues to pay debt service on certain outstanding Revenue Bonds. Under the Revenue Bond Ordinances, PFC revenues are not a part of Gross Revenues but may be set aside during a Fiscal Year for the payment of Revenue Bond debt service in the following Fiscal Year. Revenue Bond debt service paid from such set-aside PFC revenues is deducted in the calculation of Debt Service Requirements and debt service coverage for such following Fiscal Year. The City has submitted its formal application to the FAA for approval to use PFC revenues to pay debt service on the 2017B Bonds and pay-as-you-go costs of the 2016-2020 Project. FAA approval is expected within the next 90 days. The forecast sources and uses of PFC revenues are shown in Exhibit F, assuming continued imposition of a \$4.50 PFC and the use of PFC revenues to pay debt service to the maximum PFC-eligible amount.

Rental Car Customer Facility Charge Revenues

As of December 1, 2016, the City had outstanding \$143,770,000 principal amount of its Rental Car Special Facility Revenue Bonds, Taxable Series 2013 (the 2013 Rental Car Special Facility Bonds) issued to pay certain of the costs of constructing a consolidated rental car center at the Airport. The 2013 Rental Car Special Facility Bonds are secured by and payable from revenues derived from a CFC collected by the rental car companies from all Airport rental car customers, currently assessed at a rate of \$5.95 per rental car transaction-day. Under the Revenue Bond Ordinances, the 2013 Rental Car Special Facility Bonds are not Revenue Bonds secured by the Net Revenues of the Airport System and CFC revenues are not included in Gross Revenues. In this report, rental car operations were considered insofar as they may affect Net Revenues, but the adequacy of CFC revenues to meet the debt service requirements of the 2013 Rental Car Special Facility Bonds was not analyzed.

Mr. James W. Smith
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Rate Covenant

Under Section 5.03 of the Revenue Bond Ordinances, the City covenants that it will impose and collect rentals, rates, fees, and other charges for the use of the Airport System so that in each Fiscal Year, Net Revenues will be at least sufficient to equal the larger of either:

- (a) 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
- (b) An amount that, together with Other Available Funds, is not less than 125% of the Debt Service Requirements of Revenue Bonds plus 100% of budgeted Administrative Expenses for the Fiscal Year.

The amount specified in Section 5.03(b) is forecast to be the larger. Such provision of the Revenue Bond Ordinances is referred to in this report as the Rate Covenant. The City's Fiscal Year (FY) is the 12 months ended September 30.

Other Available Funds

For the purposes of the Rate Covenant, Other Available Funds are defined in the Revenue Bond Ordinances as unencumbered amounts in the Capital Fund in excess of the Minimum Capital Reserve, up to a maximum of 25% of the Debt Service Requirements of Revenue Bonds for a Fiscal Year, that are designated by the City as Other Available Funds and transferred at the beginning of such Fiscal Year to the Revenue Fund. Such transfer has the effect of providing "rolling" debt service coverage to contribute to meeting the 125% requirement of the Rate Covenant.

Forecasts of debt service coverage calculated according to the requirements of the Revenue Bond Ordinances and demonstrating compliance with the Rate Covenant are presented in Exhibit G.

Mr. James W. Smith
January 3, 2017

Airline Use and Lease Agreement

Most of the airlines serving the Airport operate under the provisions of an Airline Use and Lease Agreement (the Airline Agreement) that became effective in October 2009 with an initial five-year term that, under its terms, continues month-to-month.

Airlines that are signatory to the Airline Agreement are:

- American Airlines
- Delta Air Lines
- Frontier Airlines
- JetBlue Airlines
- Southwest Airlines
- United Airlines.

These six airlines, referred to collectively in this report as the Signatory Airlines, accounted for approximately 94% of passengers enplaned at the Airport in FY 2016.

An amendment to the Airline Agreement has been executed by American Airlines, Delta Air Lines, Southwest Airlines and United Airlines to (a) extend the term of the Agreement for an additional one year after the Date of Beneficial Occupancy of the Terminal and Apron Expansion Project, (b) clarify the landing fee billing process to complement the Airport's third-party landing fee management program, and (c) update the minimum gate usage requirement for preferential use of gate rights.

The amendment increases minimum gate usage for an airline to obtain or maintain preferential use rights of a gate from an average of 6 departures to 7 departures or 800 seats per gate per day.

JetBlue is expected to execute the amendment to the Airline Agreement by December 31, 2016.

Under the Airline Agreement, landing fees are set in accordance with cost-center residual principles and terminal rentals and other airline charges are set according to compensatory principles. Coverage at 25% debt service allocable to the airline cost centers is included in the airline rate base. For the purposes of this report, it was assumed that the provisions of the Airline Agreement relating to the calculation of airline rentals, fees, and charges will remain substantively unchanged through the forecast period. The Airline Agreement does not require majority-in-interest or other approvals of capital projects or financings.

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January 3, 2017

South Terminal

In March 2016, the City entered into a new 30-year agreement and lease on the South Terminal (a 30,000 square foot building developed in 2008 as a joint venture with a low-cost airline) to Lone Star Airport Holdings, LLC. It is anticipated that Frontier Airlines and Allegiant Air will relocate from the Barbara Jordan Terminal (the main passenger terminal building), freeing up gate space while allowing the two airlines to reduce their operating costs and potentially increase services at the Airport. Public Charters, which operates as Texas Sky, is also considering relocating to the South Terminal. The building is scheduled to undergo an approximate \$12 million renovation funded by Lone Star Holdings prior to opening on March 31, 2017. Lone Star Holdings is owned by Highstar Capital (an independent infrastructure investment firm). Highstar is a 50% owner of the privatized Luis Munoz Marin International Airport in San Juan, Puerto Rico.

A more complete description of the South Terminal is provided in the Financial Analysis section of this report (see page 57).

Scope of Report

This report was prepared to evaluate the ability of the City to generate Gross Revenues from the Airport System sufficient to pay Operation and Maintenance Expenses; pay the Debt Service Requirements of outstanding Revenue Bonds, the proposed 2017A-B Bonds, and planned 2018 Bonds; and meet the debt service coverage requirements of the Rate Covenant.

In preparing the report, we analyzed:

- Future airline traffic demand at the Airport, giving consideration to the demographic and economic characteristics of the Airport service region, historical trends in airline traffic, and other factors that will affect future traffic
- Estimated sources and uses of funds for the 2016-2020 Project and associated annual Debt Service Requirements
- Historical and estimated future PFC revenues and the use of certain of such revenues to pay Revenue Bond debt service
- Historical relationships among revenues, expenses, and airline traffic at the Airport
- The facilities to be provided as part of the 2016-2020 Project and other operational considerations affecting revenues and expenses

Mr. James W. Smith
January 3, 2017

- The City’s policies and contractual agreements relating to the use and occupancy of Airport facilities, including the calculation of airline rentals, fees, and charges under the Airline Agreement; the operation of concession privileges; and the leasing of buildings and grounds

We also identified key factors upon which the future financial results of the Airport may depend and formulated assumptions about those factors. On the basis of those assumptions, we assembled the financial forecasts through FY 2023 presented in the exhibits at the end of the report. Estimates of project costs, financing assumptions, and debt service were provided by the sources noted in the exhibits.

Forecast Debt Service Coverage

Exhibit G and the following tabulation present the forecasts of Revenue Bond debt service coverage, showing that the 125% coverage requirement of the Rate Covenant is exceeded in each year of the forecast period.

	Estimated FY 2017	Forecast					
		FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Gross Revenues	\$142,678,000	\$149,381,000	\$160,796,000	\$169,191,000	\$181,342,000	\$189,237,000	\$196,775,000
Less: Operation and Maintenance Expenses	(95,815,000)	(99,460,000)	(111,367,000)	(116,289,000)	(121,089,000)	(126,059,000)	(131,203,000)
Net Revenues	\$46,863,000	\$49,921,000	\$49,429,000	\$52,902,000	\$60,253,000	\$63,178,000	\$65,572,000
Other Available Funds	6,182,000	6,647,000	8,902,000	10,852,000	11,835,000	11,764,000	11,768,000
Net Revenues plus Other Available Funds	\$53,045,000	\$56,568,000	\$58,331,000	\$63,754,000	\$72,088,000	\$74,942,000	\$77,340,000
Less: Administrative Expenses (net of payments from PFC revenues)	(746,000)	(737,000)	(659,000)	(567,000)	(476,000)	(390,000)	--
Subtotal [A]	\$52,299,000	\$55,831,000	\$57,672,000	\$63,187,000	\$71,612,000	\$74,552,000	\$77,340,000
Revenue Bond debt service	\$36,649,000	\$37,244,000	\$48,237,000	\$64,483,000	\$69,433,000	\$69,759,000	\$69,790,000
Less: Paid from PFC revenues	(11,920,000)	(10,656,000)	(12,628,000)	(21,077,000)	(22,092,000)	(22,702,000)	(22,719,000)
Revenue Bond Debt Service Requirements	[B] \$24,729,000	\$26,588,000	\$35,609,000	\$43,406,000	\$47,341,000	\$47,057,000	\$47,071,000
Debt service coverage [A/B]	2.11	2.10	1.62	1.46	1.51	1.58	1.64
Debt service coverage requirement	1.25	1.25	1.25	1.25	1.25	1.25	1.25

* * * * *

The forecasts are based on information and assumptions that were provided by or reviewed with and agreed to by Airport management. The forecasts reflect Airport management’s expected course of action during the forecast period and, in Airport management’s judgment, present fairly the expected financial results of the Airport. Those key factors and assumptions that are significant to the forecasts are set forth in the attachment, “Background, Assumptions, and Rationale for the Financial

Mr. James W. Smith
January 3, 2017

Forecasts.” The attachment should be read in its entirety for an understanding of the forecasts and the underlying assumptions.

In our opinion, the underlying assumptions provide a reasonable basis for the forecasts. However, any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur. Therefore, there will be differences between the forecast and actual results, and those differences may be material. Neither LeighFisher nor any person acting on our behalf makes any warranty, express or implied, with respect to the information, assumptions, forecasts, opinions, or conclusions disclosed in this report. We have no responsibility to update this report to reflect events and circumstances occurring after the date of the report.

We appreciate the opportunity to serve as the City’s Airport Consultant for the financing of the 2016-2020 Project.

Respectfully submitted,

A handwritten signature in cursive script that reads "Leigh Fisher".

LEIGHFISHER

Attachment

BACKGROUND, ASSUMPTIONS, AND RATIONALE
FOR THE FINANCIAL FORECASTS

REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

CITY OF AUSTIN, TEXAS

AIRPORT SYSTEM REVENUE BONDS
Series 2017A and Series 2017B (AMT)

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AIRPORT FACILITIES

Austin-Bergstrom International Airport opened in 1999 at the site of the former Bergstrom Air Force Base, replacing Robert Mueller Municipal Airport. The 700-acre Mueller Airport site, approximately three miles from downtown Austin, was successfully redeveloped as a mixed-use urban community by the City of Austin under a public-private partnership agreement. The Mueller Airport property is not part of the Airport System.

ABIA is classified as a medium hub by the Federal Aviation Administration (FAA) and 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 and Texas State Highway 130 (SH 130 Toll Road) approximately six miles to the east.

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.

PASSENGER TERMINAL AND APRON

Figure 1 shows a site plan of the Airport's four-level, 736,000-square-foot Barbara Jordan passenger terminal and adjacent automobile parking facilities.

Level 1, the baggage claim level, provides 149,000 square feet of space for baggage claim devices and lobby, and support facilities. The baggage claim level accommodates a 33,000-square-foot Customs and Border Protection (CBP) facility for the processing of international arriving 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" aircraft 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 or domestic service (providing access to the CBP facility), and access to Gate 1 at the apron level.

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

As discussed in the later section, “2016-2020 Project,” the terminal has been or is to be expanded at the baggage claim, apron, and concourse levels to accommodate an additional nine gates, additional passenger security screening facilities, and larger CBP facilities. As shown on Figure 1, the Terminal East Infill project is complete and the Terminal East Concourse Expansion is to be completed in October 2018.

Table 1 summarizes terminal gate use by airline in terms of average daily departures and departing seats per gate. Of the 25 gates at the terminal, 20 are leased on a preferential-use basis and 5 are operated by the City on a shared-use basis under the provisions of a City policy intended to make most efficient use of the gates while ensuring the equitable treatment of all airlines. Gates 1, 2, and 3, which provide access to the CBP facility for arriving international passengers, are operated as shared-use gates.

AUTOMOBILE PARKING

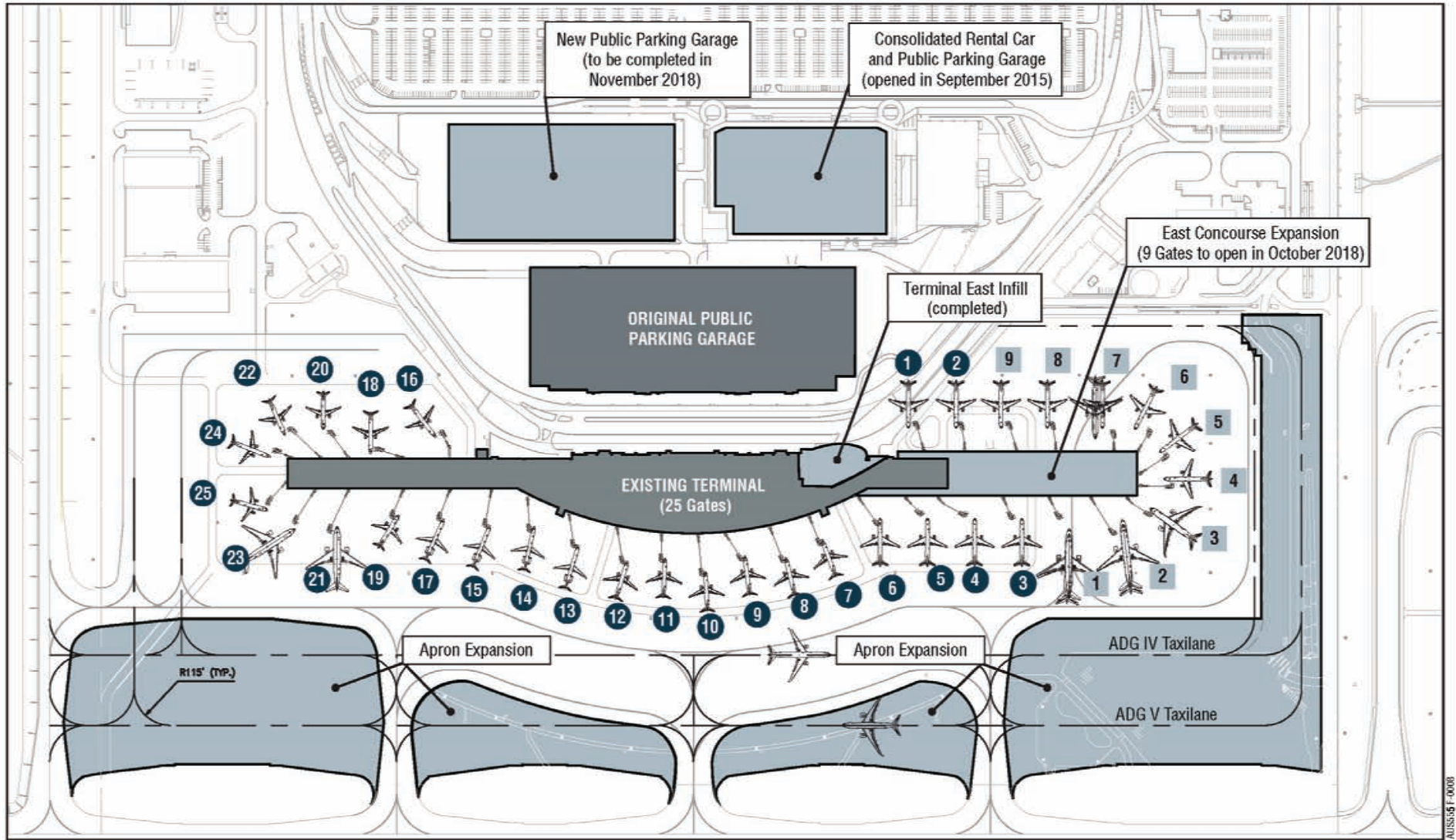
Approximately 14,300 public and 1,500 employee parking spaces are provided on Airport property in a three-level parking garage adjacent to the terminal, the consolidated rental car garage, and in surface lots served by shuttle buses. The parking garage provides 3,654 spaces for short-term and valet public parking. The first level of the garage is at the same level as the arrivals roadway and baggage claim level of the terminal. The third level of the garage is at the same level as the departures roadway and concourse level of the terminal.

The consolidated rental car garage opened in September 2015 and provides 3,200 rental car spaces and 900 public parking spaces on five levels. When the rental car garage opened, the 1,100 spaces on the third level of the existing garage were converted to use for public parking so that the rental car garage project resulted in a net increase of 2,100 spaces for rental car parking and 2,000 spaces for public parking.

As discussed in the later section, “2016-2020 Project,” a second dedicated automobile parking garage with approximately 6,000 public parking spaces on six levels is to be constructed as part of the 2016-2020 Project. This project is expected to be completed in November 2018.

In addition to the public parking facilities provided by the Airport, the City and Scott Parking LLC have entered into a public-private-partnership arrangement for a 2,000 space surface automobile parking lot. This on-Airport parking lot (located between the Barbara Jordan Terminal and the Hilton Hotel) opened in November 2016.

Employee Parking, with approximately 1,500 spaces, is provided on-Airport in Lot J.



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Figure 1
PASSENGER TERMINAL AND 2016-2020 PROJECT
Austin-Bergstrom International Airport

Table 1
GATE DISTRIBUTION AND USE BY AIRLINE
 Austin-Bergstrom International Airport
 July 2016

	Number of gates	Average daily (a)			Departing seats per gate
		Departures	Departures per gate	Departing seats	
Leased gates					
Southwest	6	59.6	9.9	8,682	1,447
American	5	32.3	6.5	4,315	863
United	5	29.5	5.9	3,078	616
Delta	3	19.0	6.3	2,515	838
JetBlue	<u>1</u>	<u>7.0</u>	7.0	<u>1,029</u>	1,029
Subtotal, leased gates	20	147.3	7.4	19,619	981
Shared-use gates					
Frontier		3.5		559	
Virgin America		1.8		274	
British Airways		1.0		225	
Alaska		2.7		372	
Allegiant		<u>1.9</u>		<u>311</u>	
Subtotal, shared-use gates	<u>5</u>	<u>10.9</u>	2.2	<u>1,740</u>	348
Airport total	25	158.3	6.3	21,359	854

Note: Columns may not add to totals shown because of rounding.

(a) Scheduled departures and seats on domestic and international flights. Some flights of the six Signatory Airlines operate from shared-use gates, so that the average numbers of departures and departing seats per gate shown overstate the true number for the 20 leased gates and understate the true numbers for the 5 shared-use gates.

Sources: Average daily departures and seats: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed May 2016.

Number of leased gates by airline (as of September 2016): City of Austin, Aviation Department records.

AIR CARGO

Air cargo facilities occupy approximately 61 acres on the northern boundary of the Airport site, adjacent to SH 71. Air freight and mail carried on all-cargo aircraft, which accounts for approximately 73% of air cargo enplaned and deplaned at the Airport, is handled at these facilities. Four air cargo buildings with a combined floor area of 230,000 square feet and 34 acres of apron for aircraft parking are provided. The facilities are managed by Aeroterm and Lynxs Group CargoPort. FedEx and UPS Air Cargo account for approximately 85% of air cargo at the Airport.

Air cargo carried in the bellies of passenger aircraft is handled at two buildings with a combined floor area of 60,000 square feet occupying 5 acres immediately west of the passenger terminal apron. These facilities are managed by Airport Facilities Company.

GENERAL AVIATION

General and business aviation at the Airport is served by two full-service fixed-base operators (FBOs), Atlantic Aviation Services and Signature Flight Support, at sites adjacent to Runway 17L-35R. Atlantic Aviation occupies a 47-acre site with five 12,000-square-foot hangars, a 14,000-square-foot terminal building, fuel storage facilities, and a 10-acre aircraft parking apron. Signature Flight Support occupies a 46-acre site with five 12,000-square-foot hangars, a 9,000-square-foot terminal building, fuel storage facilities, and a 9-acre aircraft parking apron. Three T-hangar buildings contiguous with the Signature Flight Support facility provide hangars for 54 aircraft. The Airport anticipates a third FBO, Million Air, will be operating from a new 49 acre site in FY 2019. Approximately 120 general aviation aircraft are based at the Airport.

OTHER AIRPORT FACILITIES

Texas State Department of Transportation. The State Aviation Division's Flight Services Section occupies a 13-acre site east of Runway 17L-35R with aircraft hangars, fueling facilities, a terminal building, and an aircraft parking apron where aircraft used by State officials and employees are operated and maintained.

Texas Air National Guard. The Guard occupies a 60-acre site at the southern boundary of the Airport site for its Army Aviation Support Facility (AASF) with aircraft hangars and maintenance facilities, helicopter parking aprons, and administrative buildings. Adjacent to the site is a U.S. Armed Forces Reserve Center.

Federal Aviation Administration (FAA). An FAA Terminal Radar Approach Control (TRACON) facility is located at the Airport Traffic Control Tower.

Aviation Support. Support facilities include an aircraft fuel storage facility with two above-ground storage tanks with a combined capacity of 1.2 million gallons operated by Aircraft Service International Group; an airline ground service equipment (GSE) maintenance building; an in-flight catering building occupied by Sky Chefs; and Aviation Department operations, maintenance, and engineering facilities. The Airport is planning to construct a new \$30.7 million consolidated maintenance facility, as part of the 2016-2020 Project, in 2019 for use by Aviation Department maintenance and operations staff.

Nonaeronautical facilities. Nonaeronautical facilities on Airport property include a 262-room Hilton hotel at the entrance to the Airport, rental car service and storage facilities, and a City of Austin employee training facility (Learning and Research Center). Infrastructure is in place to support future commercial and other development, including ABIA Retail. The City and ABIA Retail, LLC entered into a

public-private-partnership arrangement for a phased development of 13 acres on-Airport. Phase 1 includes a 3 acre development of a gas station, convenience store, restaurant, cell phone lot, and public restrooms. Phase 1 has an expected completion date of summer 2017. Phase 2 includes the development of a new 140 room Hyatt Hotel. The hotel is expected to be completed in early 2018.

AIRLINE TRAFFIC ANALYSIS

AIRPORT SERVICE REGION

The Airport's primary service region is the 4,220-square-mile, 5-county Austin-Round Rock Metropolitan Statistical Area (the MSA), shown on Figure 2. According to the U.S. Department of Commerce, Bureau of the Census, the estimated population of the MSA in 2015 was 2,001,000.

Nearby Airports

As shown on Figure 2, the nearest airports classified as large or medium hub airports by the FAA are those serving San Antonio (a medium hub approximately 80 road miles to the southwest), 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).

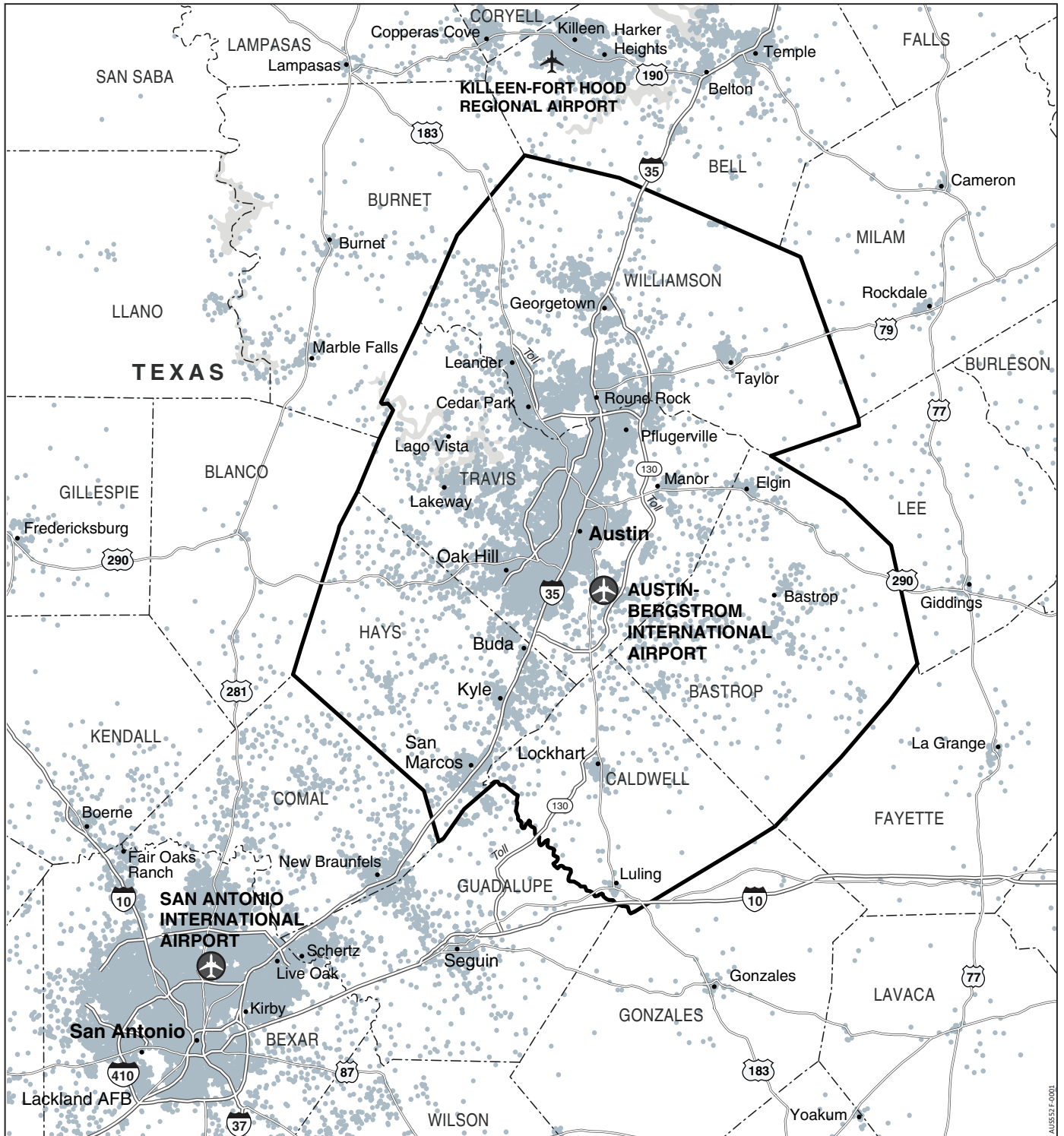
Table 2 provides data on airline service and passenger numbers at ABIA and selected other Texas airports.

San Antonio International Airport serves the San Antonio-New Braunfels MSA with a 2015 population of approximately 2.4 million (compared with approximately 2.0 million for the MSA served by ABIA). Passengers originating their journeys from the Austin and San Antonio airport service regions have airline service options from either airport. As shown in Table 2, in July 2016, 40% more scheduled departing seats were provided from ABIA than from San Antonio International and, between FY 2000 and FY 2015, the number of domestic originating passengers at ABIA increased 52% compared with 10% at San Antonio International.

Killeen-Fort Hood Regional Airport, 75 road miles to the north of the Airport, is classified as a nonhub airport by the FAA. The Killeen airport is conveniently accessible to northern parts of the MSA, but, as shown in Table 2, provides only limited regional airline service.

DEMOGRAPHIC AND ECONOMIC PROFILE

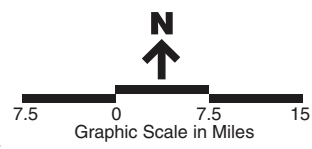
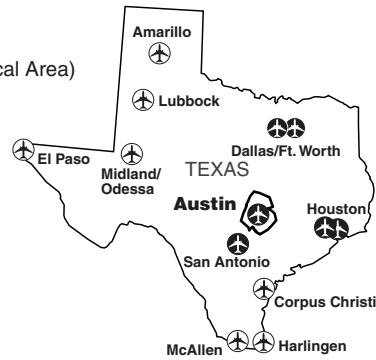
In general, the population and economy of an airport's service region are the primary determinants of originating passenger numbers at the airport. Connecting passenger numbers are primarily determined by airline decisions to provide connecting service at the airport. As discussed in the later section "Historical Airline Traffic," approximately 95% of ABIA's passengers are originating, with only 5% connecting between flights. Approximately 52% of originating passengers are residents of the MSA and 48% are visitors.



LEGEND

- Airport Service Region (Austin-Round Rock-San Marcos Metropolitan Statistical Area)
- Population density: 1 dot represents 100 people
- Large or medium hub airport as defined by the FAA for 2015
- Small hub airport as defined by the FAA for 2015
- Other commercial service airport
- County boundary

Source: U.S. Census data, 2010.



Road miles from Austin to:	
Corpus Christi	221
Dallas (Love)	210
Dallas/Ft. Worth (DFW)	222
Houston (Bush)	161
Houston (Hobby)	167
Killeen-Fort Hood	75
Midland/Odessa	333
San Antonio	83

Figure 2
AIRPORT SERVICE REGION
Austin-Bergstrom International Airport

Table 2
AIRLINE SERVICE AT SELECTED TEXAS AIRPORTS
 July 2016 and Fiscal Year ended September 30

	AUS	DFW	IAH	HOU	DAL	SAT	GRK
Driving distance from AUS (miles)	--	222	161	167	210	83	75
Average daily departing seats (a)							
Domestic	20,937	96,355	48,607	22,224	26,452	14,377	567
International	<u>585</u>	<u>15,985</u>	<u>21,512</u>	<u>1,633</u>	--	<u>965</u>	--
Total	21,522	112,340	70,118	23,857	26,452	15,341	567
Average daily departures (a)							
Domestic	157.2	823.1	487.7	159.2	187.6	113.6	9.7
International	<u>3.7</u>	<u>102.4</u>	<u>147.9</u>	<u>11.2</u>	--	<u>8.0</u>	--
Total	160.9	925.4	635.5	170.4	187.6	121.6	9.7
Airports served nonstop (a)							
Domestic	46	153	114	45	52	32	3
International	<u>5</u>	<u>56</u>	<u>72</u>	<u>10</u>	--	<u>4</u>	--
Total	51	209	186	55	52	36	3
Domestic outbound O&D passengers (in thousands) (b)							
FY 2000	3,198	10,196	5,537	3,300	2,839	3,076	91
FY 2015	4,866	10,922	6,691	3,929	4,511	3,369	135
Percent change	52.2%	7.1%	20.8%	19.1%	58.9%	9.5%	48.8%

AUS = Austin-Bergstrom International Airport
 DFW = Dallas/Fort Worth International Airport
 IAH = George Bush Intercontinental Airport
 HOU = William P. Hobby Airport
 DAL = Dallas Love Field
 SAT = San Antonio International Airport
 GRK = Killeen-Fort Hood Regional Airport
 O&D = Origin and destination

Note: Columns may not add to totals shown because of rounding.

(a) OAG Aviation Worldwide Ltd, OAG Analyser database, accessed May 2016. Data shown are for scheduled domestic and international service in July 2016.

(b) U.S. Department of Transportation, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1, accessed May 2016. Data shown are for the 12 months ended September 30, 2015.

The following sections provide a discussion of the economic basis for passenger traffic at the Airport in terms of historical socioeconomic indicators for the MSA and the economic profile of the MSA by industry sector.

Historical Socioeconomic Data

Table 3 shows historical data on population, nonagricultural employment, and per capita income for the MSA and the nation.

Population. Since 1990, the MSA has been one of the fastest growing major metropolitan areas in the nation. Between 1990 and 2000, the population of the MSA increased an average of 4.0% per year, compared with an increase of 1.2% per year for the nation. Between 2000 and 2015, the population of the MSA increased an average of 3.1% per year, compared with an increase of 0.9% per year for the nation. Much of the MSA population growth resulted from in-migration caused by employment opportunities, a relatively low cost of living, and a high quality of life.

Austin's population is young, with 67.2% of the 2014 population under 45 (compared with 59.4% for the nation as a whole), and educated, with 41.5% of the adult population of the MSA holding a bachelor's or more advanced degree (compared with 30.1% for the nation).

According to research conducted by American City Business Journals, the Austin-Round Rock MSA is projected to grow at an annual rate of 2.8% between 2015 and 2040. This rate of growth would nearly double the MSA's population within 25 years.

Nonagricultural Employment. The MSA has similarly experienced much stronger growth in employment than for the nation as a whole. During and after the 2001 recession, MSA employment decreased more than for the nation as a whole, but since 2003, employment growth has been consistently stronger than for the nation. Employment in the MSA increased 16.1% between 2003 and 2007 (compared with a 5.8% increase for the nation), was less affected by the 2008-2009 recession, increasing 1.6% between 2007 and 2010 (compared with a 5.6% decrease for the nation), and increased 23.0% between 2010 and 2015 (compared with an 8.8% increase for the nation). Employment by industry sector is discussed in the later section "Economic Profile by Industry Sector."

Unemployment Rates. As shown on Figure 3, average unemployment rates for the MSA were consistently lower than those for the United States as a whole during the 1990s. However, the 2001 recession affected the MSA more severely than the nation, and MSA unemployment rates were similar to national rates between 2001 and 2007. The unemployment rate in the MSA increased sharply beginning in the third quarter of 2008, later than experienced in most of the nation, and peaked at 7.3% in the first quarter of 2010 (compared with a peak rate of 10.4% for the nation). Since then, the unemployment rate in the MSA has again been consistently lower than for the nation as a whole. In the second quarter of 2016, the MSA unemployment rate was 3.0%, compared with a national rate of 4.8%.

Per Capita Income. Strong economic growth in the MSA during the 1990s resulted in an average increase in per capita income of 3.4% per year, compared with 1.7% per year for the nation as a whole. However, between 2000 and 2010, per capita income for the MSA decreased an average of 0.6% per year (compared with an increase

of 0.4% per year for the nation). Between 2010 and 2014 (the latest year for which data are available), per capita income for the MSA recovered, increasing an average of 2.0% per year (compared with 1.3% per year for the nation). 2015 per capita income data are not yet available for the MSA.

Table 3
HISTORICAL SOCIOECONOMIC DATA
Austin-Round Rock MSA and United States

	Population (thousands) (a)		Nonagricultural employment (thousands) (b)		Per capita income (2015 dollars) (c)	
	MSA	United States	MSA	United States	MSA	United States
	1990	852	249,464	392	109,527	\$32,733
2000	1,265	282,162	680	132,024	45,514	42,121
2001	1,321	284,969	681	132,087	44,064	42,211
2002	1,348	287,625	664	130,649	41,713	41,916
2003	1,376	290,108	659	130,347	41,366	42,112
2004	1,410	292,805	674	131,787	41,731	43,057
2005	1,453	295,517	700	134,051	43,223	43,573
2006	1,515	298,380	731	136,453	44,275	44,845
2007	1,578	301,231	767	137,999	44,269	45,520
2008	1,634	304,094	786	137,242	45,377	45,225
2009	1,682	306,772	769	131,313	42,981	43,502
2010	1,728	309,347	780	130,361	43,488	43,779
2011	1,781	311,719	806	131,932	44,689	44,732
2012	1,835	314,103	839	134,175	46,786	45,697
2013	1,884	316,427	878	136,381	46,198	45,212
2014	1,943	318,907	918	138,958	47,082	46,104
2015	2,001	321,419	959	141,865	n.a.	47,669
	Average annual percent increase (decrease)					
1990-2000	4.0%	1.2%	5.6%	1.9%	3.4%	1.7%
2000-2003	2.8	0.9	(1.0)	(0.4)	(3.1)	(0.0)
2003-2007	3.5	0.9	3.9	1.4	1.7	2.0
2007-2010	3.1	0.9	0.6	(1.9)	(0.6)	(1.3)
2010-2015	3.0	0.8	4.2	1.7	2.0 (d)	1.7

MSA = Metropolitan Statistical Area comprising the 5 counties shown on Figure 2 for all years.

n.a. = not yet available.

Notes: Population numbers are estimated as of July 1 each year.

Calculated percentages may not match those shown because of rounding.

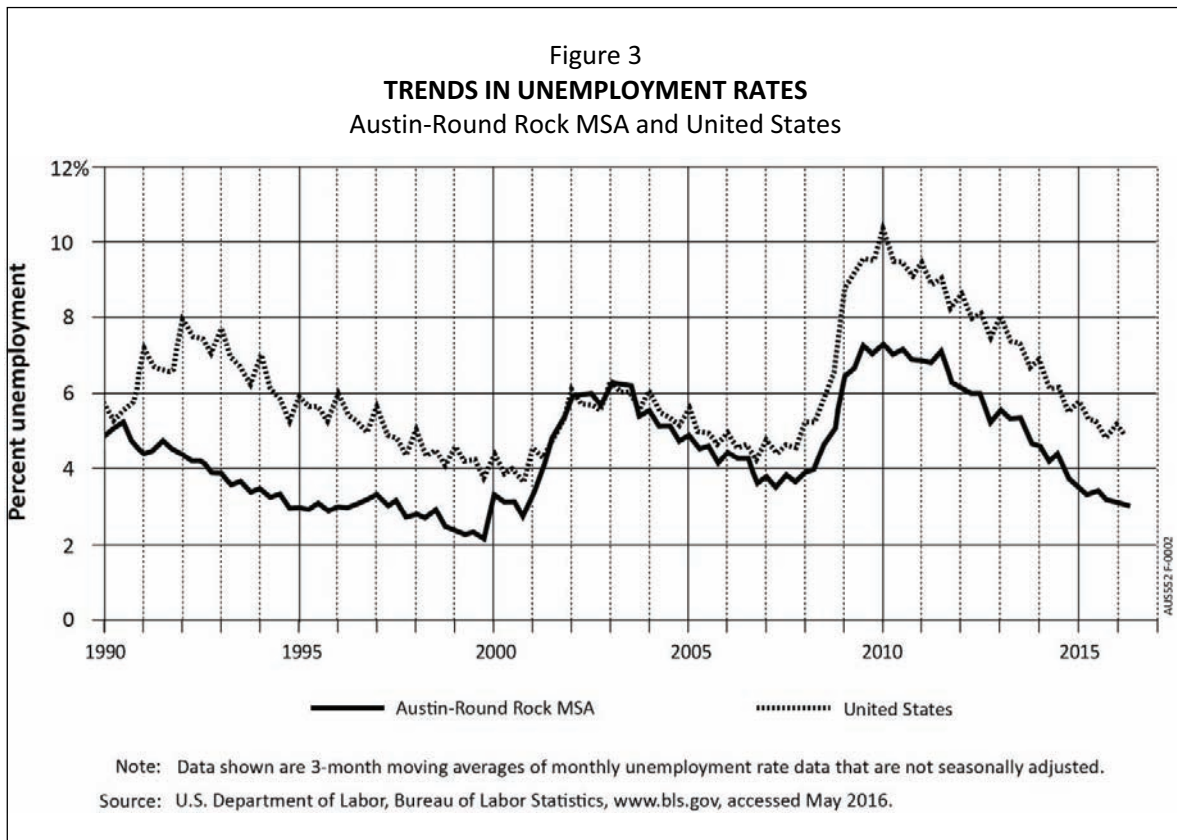
(a) Source: U.S. Department of Commerce, Bureau of the Census, www.census.gov, accessed April 2016.

(b) Source: U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed April 2016. Employment numbers were revised and differ from the 2014 report.

(c) Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov, accessed April 2016. Adjusted to 2015 dollars using the U.S. Department of Labor *Consumer Price Index for All Urban Consumers*.

(d) Represents average annual percent change from 2010-2014.

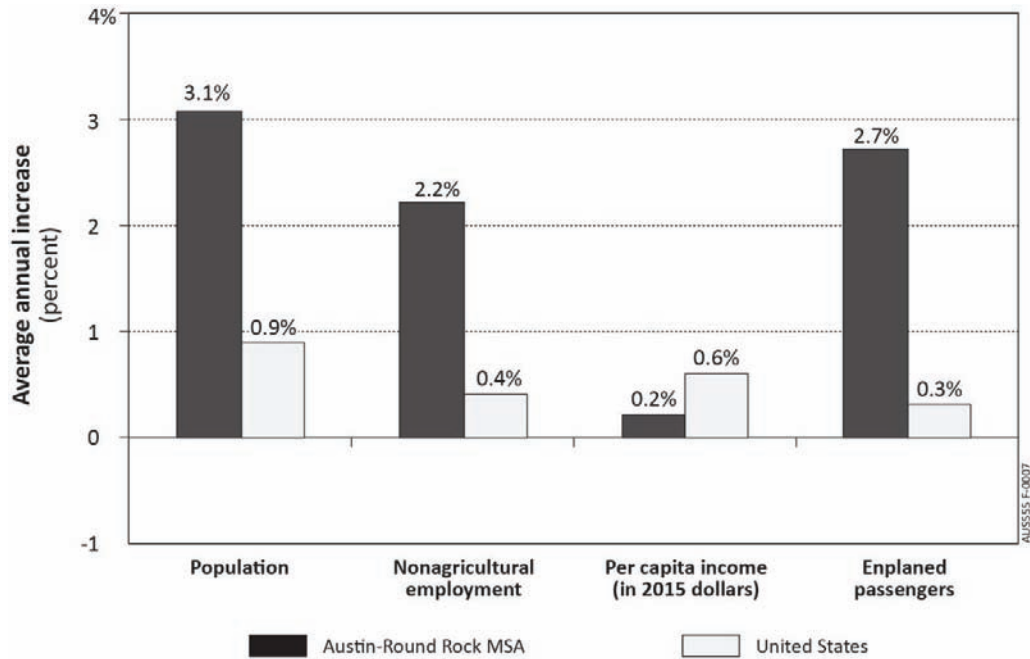
Cost of Living. The MSA has consistently had a lower cost of living than the nation as a whole, a key factor in attracting businesses and residents. The American Chamber of Commerce Researchers Association (ACCRA) reported a composite fourth quarter 2015 cost of living index of 96.0 for Austin, compared with a national index of 100.0. In particular, Austin ranks lower in housing costs. The fourth quarter 2015 ACCRA cost-of-housing index showed that average housing costs were 6.5% lower for Austin than for the nation as a whole.



Historical Socioeconomic Indicators and Enplaned Passengers

Figure 4 presents a comparison of historical growth rates for population, nonagricultural employment, per capita income, and enplaned passengers in the MSA and the United States between 2000 and 2014 (the most recent year for which complete data are available.) Over the 14 years, enplaned passenger numbers at the Airport increased at an average annual rate of 2.7%, comparable to the rates for population and employment in the MSA.

Figure 4
CHANGES IN ECONOMIC INDICATORS AND ENPLANED PASSENGERS
 Austin-Round Rock MSA and United States
 (2000-2014)



Sources: Population: U.S. Department of Commerce, Bureau of the Census, www.census.gov, accessed May 2016.
 Employment: U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed May 2016.
 Per capita income: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov, accessed May 2016. Adjusted to 2015 dollars using the U.S. Department of Labor, *Consumer Price Index for All Urban Consumers*.
 Enplaned passengers: City of Austin, Department of Aviation and U.S. Department of Transportation, Schedule T100, accessed May 2016.

Employment by Industry Sector

Table 4 presents the distribution of nonagricultural employment by industry sector in the MSA and the United States. The unique combination of industries within the MSA provided for comprehensive employment growth of 4.2% per year between 2010 and 2015. Over that period, the MSA experienced employment growth across all industry sectors.

Table 5 lists the largest private employers in the MSA in 2015. The companies listed accounted for approximately 8% of total nonagricultural employment in the MSA in 2015, with the remaining 92% accounted for by smaller businesses and organizations and public sector employers. The following sections provide a summary of each industry sector, discussed in order of MSA employment share.

Table 4
DISTRIBUTION OF NONAGRICULTURAL EMPLOYMENT BY INDUSTRY SECTOR
 Austin-Round Rock MSA and United States

	Austin-Round Rock MSA					United States				
	1990	2000	2007	2010	2015	1990	2000	2007	2010	2015
Services										
Professional and business	9.5%	13.9%	14.3%	14.5%	16.8%	9.9%	12.6%	13.0%	12.8%	13.9%
Education and health	9.2	9.2	10.1	11.3	11.6	10.1	11.6	13.5	15.3	15.5
Leisure and hospitality	9.0	9.0	10.3	11.0	12.0	8.5	9.0	9.7	10.0	10.7
Other	<u>3.9</u>	<u>3.3</u>	<u>3.7</u>	<u>4.3</u>	<u>4.2</u>	<u>3.9</u>	<u>3.9</u>	<u>4.0</u>	<u>4.1</u>	<u>4.0</u>
Subtotal services	31.6%	35.3%	38.4%	41.0%	44.7%	32.3%	37.1%	40.2%	42.3%	44.0%
Government	28.7	20.1	20.4	21.8	17.9	16.8	15.7	16.1	17.3	15.5
Trade, transportation, and utilities	15.7	16.5	17.3	17.1	17.2	20.7	19.9	19.3	18.9	19.0
Manufacturing	12.2	13.0	8.6	6.8	6.0	16.2	13.1	10.1	8.8	8.7
Financial activities	5.9	5.3	5.9	5.6	5.6	6.0	5.9	6.0	5.9	5.7
Mining, logging, and construction	3.4	6.1	6.5	5.2	5.8	5.5	5.6	6.1	4.8	5.1
Information	<u>2.7</u>	<u>3.6</u>	<u>2.9</u>	<u>2.6</u>	<u>2.8</u>	<u>2.5</u>	<u>2.7</u>	<u>2.2</u>	<u>2.1</u>	<u>1.9</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total employment (thousands)	392	680	767	780	959	109,487	131,881	137,645	129,917	141,865

MSA = Metropolitan Statistical Area.

Notes: Columns may not add to totals shown because of rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed April 2016.

Table 5
LARGEST AUSTIN AREA PRIVATE SECTOR EMPLOYERS
 2015

Company	Head- quartered in area	Fortune 500 company	Principal industry	Number of area employees
1 Dell, Inc.	*	(a)	Computer technology	13,000
2 Seton Healthcare Family			Health-care services	11,000
3 St. David's Healthcare	*		Health-care services	8,400
4 IBM Corporation		*	Information technology	6,000
5 Wal-Mart Stores Inc.		*	Retail	5,700
6 Freescale Semiconductor, Inc.	*		Semiconductors	5,000
7 Apple, Inc.		*	Information technology	4,000
8 AT&T, Inc.		*	Telecommunications	2,800
9 Whole Foods Market, Inc.	*	*	Supermarkets	2,500
10 Samsung Austin Semiconductor, LLC			Semiconductors	2,500
11 Advanced Micro Devices, Inc.		*	Semiconductors	2,000
12 Flextronics America			Electronic manufacturing services	2,000
13 Accenture Plc		*	Professional services	1,900
14 Lowes Companies, Inc.		*	Retail home improvement	1,800
15 Austin Regional Clinic PA	*		Health-care services	1,750
16 Wells Fargo		*	Financial services	1,600
17 Goodwill Industries of Central Texas, Inc.	*		Department store (nonprofit)	1,500
18 YMCA of Austin, Inc.	*		Fitness (nonprofit)	1,400
19 Applied Materials, Inc.		*	Semiconductors	1,400
20 The Progressive Group of Insurance Cos.		*	Insurance	1,400

Notes: Ranking of area employers based on number of employees as of June 2015. Government entities are not shown.

(a) Dell was a Fortune 500 company in 2013 and earlier, but was not listed as of 2014 because it is no longer a publically held company.

Sources: Company ranking: *Austin Business Journal*, "2015-16 Book of Lists." Only companies that responded to the survey are included.

Status as a Fortune 500 company for 2016: www.fortune.com, accessed April 2016.

Services. As in the United States as a whole, the services sector (professional, business, education, health, leisure, hospitality, and other services combined) is the largest industry sector in the MSA. Since 1990, the services sector has accounted for over half of the increase in MSA employment. The sector accounted for 44.7% of MSA employment in 2015, an increase from 31.6% in 1990.

In contrast to most other industry sectors, the services sector added jobs between 2007 and 2010, and strong growth continued between 2010 and 2015. Dell, headquartered in Round Rock, is the MSA's largest private sector employer, developing and manufacturing computer technology solutions and products. Other major employers

engaged in engineering, design, research, and development in the computer, data analytics, information technology and other high-technology industries are Apple, Advanced Micro Devices, Applied Materials, Hewlett-Packard, IBM, Intel, National Instruments, Oracle, and Samsung.

The University of Texas at Austin, with a 2015 student enrollment of approximately 51,000, is the seventh largest public university in the nation and employs approximately 24,000 people. The university is known as a world-class center of education and research and is an important contributor to the region's economy.

Research activities at the University of Texas at Austin and other universities and colleges have been the catalyst for the development of life sciences industries in the MSA. Approximately 200 companies provide 12,300 jobs in the biotechnology, pharmaceutical, medical device, healthcare information technology, and related industries. According to an economic analysis by TXP, Inc., the new Dell Medical School at the University of Texas, which accepted its first class in June 2016, is expected to result in the addition of 6,900 jobs in the health services subsector.

Tourism has become an important contributor to the MSA's economy. Austin bills itself as the "Live Music Capital of the World." Each spring the city hosts the South by Southwest (SXSW) Music-Film-Interactive conference and festival and each fall, it hosts the Austin City Limits Music Festival, a two-week-long celebration of music performance. In 2012, the 1,500-acre Circuit of the Americas motorsports venue opened. The venue hosts the annual U.S. Formula One Grand Prix race among other sports and entertainment events. The Austin Convention Center in downtown Austin provides 370,000 square feet of exhibit and meeting space convenient to 8,500 downtown hotel rooms.

Government. Austin is the capital of Texas, and the government sector accounted for 17.9% of MSA employment in 2015, compared with 15.5% for the nation as a whole. Government's share of MSA employment has decreased, from 28.7% in 1990, as the MSA's economy has diversified.

The State of Texas is the largest single employer in the MSA, with 47,000 employees (excluding the 24,000 employees at the University of Texas at Austin who are accounted for in the services sector). The largest local government employers are the City of Austin and the Austin and Round Rock independent school districts.

Trade, Transportation, and Utilities. The trade, transportation, and utilities sector accounts for a smaller share of employment in the MSA (17.2% in 2015) than in the nation as a whole (19.0%). Employment in the sector increased by 52,700 jobs between 2000 and 2015.

International trade is an important component of the MSA economy. Exports from the MSA include semiconductors, electronics, software, and information technology. A foreign trade zone covers the MSA and provides for the establishment of secure sites to allow qualifying export-import businesses to defer or avoid U.S. Customs

duties and certain other taxes. The economy of the MSA benefited from the 1993 passage of North American Free Trade Agreement (NAFTA), which reduced tariffs and trade barriers among Canada, Mexico, and the United States. The MSA's location on I-35 positions it to benefit particularly from trade with Mexico. Other important international trading partners are China, Taiwan, Malaysia, and South Korea.

Manufacturing. The manufacturing sector accounted for 6.0% of MSA employment in 2015, a lower share than for the nation as a whole (8.7%). MSA employment in the manufacturing sector decreased by 22,300 jobs between 2000 and 2007 and by a further 13,100 jobs between 2007 and 2010 before recording an increase of 4,800 jobs between 2010 and 2015. Over the 2007-2015 period as a whole, MSA employment in the manufacturing sector decreased by 8,300 jobs, the largest decrease in any sector.

Although still the largest private sector employer in the MSA, Dell has reduced its manufacturing employment in the MSA since 2007 as its share of the personal computer market has decreased and it has moved manufacturing overseas.

Mining, Logging, and Construction. The mining, logging, and construction sector accounted for 5.8% of MSA employment in 2015, higher than the sector's 2015 share of employment in the nation as a whole (5.1%).

Decreases in construction employment in the MSA during the 2008-2009 recession were smaller than in the nation as a whole, and housing prices were reduced less (in part because housing prices in the MSA did not increase as much as those in the nation during the residential housing boom). Between 2010 and 2015, sector employment in the MSA increased by 15,200 jobs, well above pre-recession levels.

Financial Activities. The financial activities sector accounted for 5.6% of MSA employment in 2015, close to the share for the nation as a whole (5.7%). Between 2000 and 2007, employment in the sector increased by 9,800 jobs. As a result of the national banking and credit crisis, between 2007 and 2010, the sector lost 2,200 jobs. Between 2010 and 2015, the sector fully recovered, gaining 10,300 jobs. Large employers in the sector are Charles Schwab, JP Morgan Chase, Progressive Insurance, State Farm Insurance, and Wells Fargo.

Information. The information sector accounted for 2.8% of MSA employment in 2015, higher than its share of national employment (1.9%). Between 2007 and 2015 the sector had a net gain of 4,600 jobs. Major employers in the information sector are AT&T, IBM, Hewlett-Packard, Intel, Oracle, Time Warner Cable, and Visa.

ECONOMIC OUTLOOK

Outlook for the U.S. Economy

Between the fourth quarter of 2007 and the second quarter of 2009, the U.S. economy as measured by real gross domestic product (GDP), contracted 4.1%. National GDP

growth resumed in the second half of 2009, job growth began in 2010, but not until 2014 did total employment exceed pre-recession levels.

Continued U.S. economic growth will depend on, among other factors, stable financial and credit markets, a stable value of the U.S. dollar versus other currencies, stable energy and other commodity prices, the ability of the federal government to reduce historically high deficits, inflation remaining within the range targeted by the Federal Reserve, and growth in the economies of foreign trading partners.

The Perryman Group published forecasts for the national economy in January 2016. As shown in Table 6, nationwide nonagricultural employment is forecast to increase 1.7% in 2016 and at an average annual rate of 1.7% in 2015 through 2020.

Table 6
EMPLOYMENT FORECASTS
Austin-Round Rock MSA and United States

	Historical average annual increase 2000-2015 (b)	Forecast annual increase (a)	
		2015-2016	2015-2020
Nonagricultural employment			
Austin-Round Rock MSA (c)	2.3%	2.7%	2.5%
United States	0.5	1.7	1.7

MSA = Metropolitan Statistical Area comprising the 5 counties shown on Figure 2 for all years

(a) Source: The Perryman Group: *The Perryman Economic Forecast, Fall 2015*, January 2016.

(b) Source: U.S. Department of Labor, Bureau of Labor Statistics (see Table 3).

(c) Forecast growth rate for wage and salary employment.

Outlook for the Austin-Round Rock MSA Economy

The Austin-Round Rock MSA experienced the effects of economic recession between 2007 and 2010, although job losses in the MSA were much less severe than for the nation as a whole and recovery from the recession was stronger. Indeed, the MSA’s economy has had one of the strongest recoveries among the nation’s 50 largest MSAs. The MSA’s nonagricultural employment in 2015 was 25.1% higher than the 2007 pre-recession level. For the nation, employment in 2015 was 2.8% higher than in 2007.

Continued economic growth in the MSA will generally depend on the same factors as those for the nation, although the MSA is seen as having particular advantages that will underpin its economic prosperity, in particular a business-friendly economic environment, relatively low living costs, and a quality of life that will allow a young, well-educated labor force to be attracted and retained. Industries that Austin targets for growth are advanced manufacturing, clean energy and power technologies, data management, life sciences, and creative and digital media.

As shown in Table 6, The Perryman Group forecasts that nonagricultural employment in the MSA will increase 2.7% in 2016 and then increase at a higher average rate (2.5%) than in the nation (1.7%) between 2015 and 2020.

HISTORICAL AIRLINE TRAFFIC

Enplaned Passengers

Table 7 presents historical data on numbers of enplaned passengers and passenger aircraft departures at the Airport. All data in this section are presented by the City's Fiscal Year (FY) ended September 30.

Between FY 2000 and FY 2003, the number of enplaned passengers at the Airport decreased at an average yearly rate of 3.5% as a result of the 2001 economic recession and the decline in airline travel following the September 11, 2001, attacks. With the return of passenger confidence in the security of airline travel and the widespread availability of low fares, traffic growth returned. Between FY 2003 and FY 2008, enplaned passenger numbers at the Airport increased an average of 6.4% per year, compared with 3.3% per year for the nation as a whole.

Between FY 2008 and FY 2009, enplaned passenger numbers at the Airport decreased 8.2% as the airlines reduced seat capacity in response to the contraction of demand during the 2008-2009 recession and increases in operating expenses. With the resumption of economic growth, enplaned passenger numbers at the Airport increased an average of 6.0% per year between FY 2009 and FY 2016, with the passenger number in FY 2016 exceeding the FY 2007 pre-recession number by 45.0%. Enplanements at the Airport increased 6.7% in FY 2016, the seventh consecutive fiscal year of enplanement growth. For the nation as a whole, the number of enplaned passengers in FY 2015 (the latest year for which data are available) was 3.9% above the FY 2007 number. The Airport accounted for 0.7% of passengers enplaned at all U.S. airports in FY 2015, an increase from 0.5% in FY 2000.

In FY 2015, approximately 95% of enplaned passengers at the Airport originated their airline travel at the Airport and 5% connected between flights.

Since 2001, growth in passenger numbers at ABIA has been among the strongest at medium-sized U.S. airports. Among the 30 U.S. airports classified as medium hubs by the FAA (those with between approximately 2 million and 7 million enplaned passengers), ABIA had the second largest absolute increase in the number of enplaned passengers between 2001 and 2015 (2.7 million). Between FY 2014 and FY 2015, the number of enplaned passengers at the Airport increased 9.8% while the number of enplaned passengers at all U.S. airports combined increased 4.4%.

Since FY 2000, the number of passenger aircraft departures at the Airport has increased an average rate lower than the rate of increase in enplaned passengers as the average seating capacity of airline aircraft serving the Airport and passenger load factors have both increased. The average number of passengers per departure increased from 79.0 in FY 2000 to 109.7 in FY 2016.

Airline Competition and Market Shares

Table 8 lists historical airline shares of enplaned passengers. Eight of the 10 largest U.S. passenger airlines (all except Spirit Airlines and Hawaiian Airlines) served the Airport as of July 2016. In all discussions of airline service and passenger traffic by airline in this report, unless otherwise noted, data for merged airlines are accounted for with the surviving airline (i.e., America West Airlines, Trans World Airlines, and US Airways with American; Northwest Airlines with Delta Air Lines; Continental Airlines with United Airlines; Midwest Airlines with Frontier Airlines; and AirTran Airways with Southwest Airlines).

The expansion of new nonstop service by low-cost carriers Frontier Airlines and Allegiant Airlines in recent years has helped to dilute the concentration of enplaned passenger market share. Frontier started new service to Atlanta, Las Vegas, and Chicago-O'Hare in 2015 and Orlando and Philadelphia in 2016. Allegiant started weekly nonstop service to Cincinnati, Memphis, and Orlando-Sanford in 2015 and Albuquerque and Pittsburgh in 2016. Southwest increased its share of enplaned passengers at the Airport with the introduction of daily service to Boston, Orange County, Seattle, and St. Louis in 2015. Five of the seven low-cost carriers operating in the United States in 2016 currently provide scheduled passenger service at the Airport. Southwest, Frontier, JetBlue, Virgin America, and Allegiant together enplaned 48.3% of passengers in FY 2016, up from 38.3% 10 years earlier.

Domestic Airline Service by Destination

Table 9 presents data on the top 25 city markets as ranked by domestic originating passengers at the Airport in FY 2015. Also shown are the numbers of average daily scheduled seats and departures by airport as scheduled for July 2016 and the airlines providing nonstop service from the Airport. Daily nonstop service was provided from the Airport to each of the 25 city markets and competing service by two or more airlines was provided to 16 of the 25 city markets. Airports for which there is a large difference between the numbers of originating passengers and departing seats (e.g., Dallas/Fort Worth) are hubs at which many passengers from ABIA connect to other flights. Figure 5 shows the airports served nonstop from the Airport in July 2016.

International Airline Service

As of July 2016 two airlines provided nonstop daily international service from ABIA. British Airways serves London Heathrow (since March 2014) and Air Canada serves Toronto (since May 2015). Seasonal international service is provided to Cancun by Southwest and to Frankfurt by Condor. Effective August 2016, Volaris started nonstop service 3 days per week to Guadalajara and Aeromexico started nonstop service between Austin and Mexico City in November 2016. Aeromar provided 3 nonstop regional jet flights per week to Mexico City between October 2013 and January 2015.

Table 7
HISTORICAL ENPLANED PASSENGERS AND AIRCRAFT DEPARTURES
 Austin-Bergstrom International Airport
 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	126.4	79.0
2001	3,679,949	0.7%	45,326	124.2	81.2
2002	3,264,847	(11.3)	41,959	115.0	77.8
2003	3,282,670	0.5	43,747	119.9	75.0
2004	3,482,196	6.1	47,207	129.0	73.8
2005	3,715,811	6.7	48,668	133.3	76.4
2006	3,981,081	7.1	50,663	138.8	78.6
2007	4,262,698	7.1	53,828	147.5	79.2
2008	4,473,485	4.9	56,597	154.6	79.0
2009	4,107,593	(8.2)	47,848	131.1	85.8
2010	4,256,806	3.6	46,745	128.1	91.1
2011	4,524,641	6.3	48,398	132.6	93.5
2012	4,662,738	3.1	48,372	132.2	96.4
2013	4,928,979	5.7	50,554	138.5	97.5
2014	5,275,464	7.0	51,877	142.1	101.7
2015	5,792,387	9.8	55,557	152.2	104.3
2016	6,180,464	6.7	56,349	154.0	109.7
Average annual percent increase (decrease)					
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.

Source: City of Austin, Department of Aviation records.

Table 8
HISTORICAL AIRLINE SHARES OF ENPLANED PASSENGERS
 Austin-Bergstrom International Airport
 Fiscal Years ended September 30

Airline	2000	2005	2010	2013	2014	2015	2016
Southwest	34.6%	33.1%	36.8%	39.0%	38.1%	36.6%	38.4%
American	33.2	30.3	25.5	23.4	22.4	21.8	20.8
United	16.4	14.1	16.4	16.0	16.5	16.8	15.7
Delta	14.9	15.5	10.4	12.1	12.2	12.1	12.0
JetBlue	--	--	5.8	6.3	5.6	4.8	4.5
Frontier	--	2.2	2.5	1.7	1.8	2.8	2.5
Alaska	--	--	2.4	1.1	1.1	1.2	1.7
Virgin America	--	--	--	0.3	0.9	1.8	1.6
Allegiant	0.0	0.0	0.0	0.0	0.6	1.0	1.3
British Airways	--	--	--	--	0.7	1.0	1.0
Air Canada	--	--	--	--	--	0.1	0.3
Condor	--	--	--	--	0.1	0.0	0.1
Other (a)	<u>0.9</u>	<u>4.7</u>	<u>0.2</u>	<u>0.0</u>	<u>0.0</u>	<u>0.1</u>	<u>0.1</u>
Airport total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Notes: Columns may not add to totals shown because of rounding. Unless otherwise noted, shares include any affiliates of airlines shown.
 Percentages of "0.0" indicate a value of less than 0.05%.

(a) The high percentage of "Other" for 2005 is mainly accounted for by Mesa Airlines and SkyWest Airlines, which operated as affiliates of various Signatory Airlines.

Source: City of Austin, Department of Aviation records.

Table 9
SCHEDULED DOMESTIC AIRLINE SERVICE BY DESTINATION
 Austin-Bergstrom International Airport

Originating passenger rank FY 2015	City/airport	Air Miles From AUS	FY 2015 (ended September 30) (a)		July 2016 (b)			Airlines offering nonstop service (c)
			Average daily originating passengers	Percent of originating passengers	Average daily scheduled seats	Average daily scheduled departures	Seats per departure	
1	New York							
	Kennedy	1,519	422	3.2%	695	5	141	American, Delta, JetBlue
	Newark	1,501	399	3.0	620	5	130	Southwest, United
	LaGuardia	1,520	179	1.3	--	--	--	
	White Plains	1,539	8	0.1	--	--	--	
	Islip (MacArthur)	1,559	<u>6</u>	<u>0.0</u>	<u>--</u>	<u>--</u>	<u>--</u>	
	Subtotal		1,014	7.6%	1,314	10	135	
2	Los Angeles							
	Los Angeles	1,238	686	5.1%	1,222	11	106	American, Delta, Southwest, United
	Long Beach	1,223	142	1.1	300	2	150	JetBlue
	Orange County (John Wayne)	1,209	91	0.7	143	1	143	Southwest
	Ontario	1,196	39	0.3	--	--	--	
	Burbank (Bob Hope)	1,241	<u>22</u>	<u>0.2</u>	<u>--</u>	<u>--</u>	<u>--</u>	
	Subtotal		981	7.4%	1,665	14	115	
3	San Francisco							
	San Francisco	1,501	573	4.3%	773	6	134	United, Virgin America
	San Jose (Mineta)	1,472	257	1.9	290	2	157	Southwest
	Oakland	1,494	<u>136</u>	<u>1.0</u>	<u>138</u>	<u>1</u>	<u>138</u>	Southwest
	Subtotal		966	7.2%	1,201	9	139	
4	Denver	775	702	5.3	1,255	10	126	Frontier, Southwest, United
5	Chicago							
	O'Hare	977	448	3.4%	1,118	8	140	American, Frontier, United
	Midway	972	<u>229</u>	<u>1.7</u>	<u>448</u>	<u>3</u>	<u>162</u>	Southwest
	Subtotal		677	5.1%	1,567	11	146	

Table 9 (page 2 of 3)

SCHEDULED DOMESTIC AIRLINE SERVICE BY DESTINATION

Austin-Bergstrom International Airport

Originating passenger rank FY 2015	City/airport	Air Miles From AUS	FY 2015 (ended September 30) (a)		July 2016 (b)			Airlines offering nonstop service (c)
			Average daily originating passengers	Percent of originating passengers	Average daily scheduled seats	Average daily scheduled departures	Seats per departure	
6	Dallas/Fort Worth							
	Love Field	189	423	3.2%	1,218	9	139	Southwest
	Dallas/Fort Worth	190	<u>169</u>	<u>1.3</u>	<u>1,946</u>	<u>12</u>	<u>165</u>	American
	Subtotal		592	4.4%	3,164	21	154	
7	Washington, D.C.							
	Baltimore/Washington	1,339	197	1.5%	308	2	157	Southwest
	Reagan	1,313	249	1.9	170	1	170	Southwest
	Dulles	1,294	<u>132</u>	<u>1.0</u>	<u>223</u>	<u>3</u>	<u>76</u>	United
	Subtotal		578	4.3%	701	6	119	
8	Las Vegas	1,087	515	3.9	618	4	146	Allegiant, Frontier, Southwest
9	Atlanta	811	462	3.5	1,483	9	160	Delta, Frontier, Southwest
10	Boston							
	Logan	1,695	326	2.4%	293	2	147	JetBlue, Southwest
	Providence (T.F. Green)	1,662	34	0.3	--	--	--	
	Manchester	1,692	<u>25</u>	<u>0.2</u>	<u>--</u>	<u>--</u>	<u>--</u>	
	Subtotal		384	2.9%	293	2	147	
11	Orlando	992	367	2.8	580	4	158	Frontier, JetBlue, Southwest
12	Miami							
	Fort Lauderdale	1,102	248	1.9%	430	3	143	JetBlue, Southwest
	Miami	1,103	65	0.5	116	1	133	American
	West Palm Beach	1,095	<u>25</u>	<u>0.2</u>	<u>--</u>	<u>--</u>	<u>--</u>	
	Subtotal		338	2.5%	546	4	141	
13	Phoenix	869	336	2.5%	949	9	111	American, Southwest
14	Seattle-Tacoma	1,768	293	2.2	439	3	162	Alaska, Southwest
15	San Diego	1,161	248	1.9	345	2	172	Southwest

Table 9 (page 3 of 3)

SCHEDULED DOMESTIC AIRLINE SERVICE BY DESTINATION

Austin-Bergstrom International Airport

Originating passenger rank FY 2015	City/airport	Air Miles From AUS	FY 2015 (ended September 30) (a)		July 2016 (b)			Airlines offering nonstop service (c)
			Average daily originating passengers	Percent of originating passengers	Average daily scheduled seats	Average daily scheduled departures	Seats per departure	
16	Minneapolis-St. Paul	1,042	184	1.4	319	3	115	Delta
17	El Paso	527	173	1.3	401	3	143	Southwest
18	Nashville	755	172	1.3	286	2	143	Southwest
19	Philadelphia	1,428	169	1.3	240	2	106	American, Frontier
20	New Orleans	443	168	1.3	143	1	143	Southwest
21	Portland, OR	1,712	166	1.2	219	2	110	Alaska, Southwest
22	Detroit	1,148	160	1.2	337	3	122	Delta
23	Tampa	925	149	1.1	143	1	143	Southwest
24	Salt Lake City	1,084	149	1.1	253	2	138	Delta
25	St. Louis	721	<u>132</u>	<u>1.0</u>	<u>148</u>	<u>1</u>	<u>148</u>	Southwest
	Subtotal airports listed		10,076	75.6%	18,608	136	137	
	All other U.S. airports		<u>3,256</u>	<u>24.4</u>	<u>2,339</u>	<u>22</u>		
	Airport total		13,332	100.0%	20,947	157	133	

Note: Columns may not add to totals shown because of rounding.

(a) Source: Outbound Origin-Destination passengers: U.S. Department of Transportation, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1, accessed May 2016.

(b) Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed May 2016.

(c) Including flights operated by regional affiliates.



LEGEND

- Destinations with service by only one airline
- Destinations with service by two or more airlines

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed July 2016.

Figure 5
DESTINATIONS SERVED NONSTOP
 Austin-Bergstrom International Airport
 July 2016

Air Cargo

Table 10 presents historical data on enplaned and deplaned air cargo tonnage. Cargo tonnage (carried by all-cargo aircraft and as belly cargo on passenger airline aircraft) decreased between FY 2000 and FY 2015, at an average of 4.9% per year. For the nation as a whole, cargo tonnage increased an average of 1.6% per year (for U.S. airlines only) between FY 2000 and FY 2015 (the latest year for which data are available). The decrease in air cargo tonnage is attributable to a combination of factors, including post-September 2001 security restrictions, increased use of time-definite ground transportation modes as the relative operating economics of air and truck modes have changed, changes in patterns of global trade and supply-chain functionality, and industry consolidation. Many medium-sized airports have experienced particularly large decreases in air cargo tonnages as more cargo has been moved by truck to nearby large hub airports for air transport (Dallas/Fort Worth and Houston Bush in ABIA's case). In FY 2016, FedEx accounted for 56.9% of the air cargo tonnage enplaned and deplaned at the Airport, UPS Air Cargo for 16.5%, and Kalitta Air for 6.3%. The remaining 20.3% of air cargo tonnage was carried by passenger airlines (British Airways 4.5%, others 7.9%) and miscellaneous air cargo operators (8.0%).

Aircraft Landed Weight

Table 11 presents historical aircraft landed weight at the Airport, which generally correlates closely with airline aircraft departures. In FY 2016, the passenger airlines together accounted for 93.5% of landed weight and the all-cargo airlines accounted for the remaining 6.5%. Landed weight increased 4.7% from FY 2015 to FY 2016, with passenger airlines offsetting a 2.2% decrease in all-cargo landed weight with an increase of 5.2%. The growth in passenger airline landed weight primarily stems from increased service from Southwest, Alaska, and Allegiant, and new service from Air Canada and Volaris. Landed weight on all-cargo carriers Kalitta Air and Atlas Air offset the loss of ABX Air's landed weight service.

Aircraft Operations

Table 12 presents historical data on aircraft operations (landings and takeoffs) at the Airport. Between FY 2000 and FY 2016, aircraft operations decreased an average of 0.4% per year, although operations have increased each year since FY 2012. The recent increases were largely driven by the passenger and air cargo carriers and, to a lesser extent, general aviation and military operations. The distribution of aircraft operations in FY 2016 was: air carrier, 59.5%; air taxi and commuter, 8.4%; general aviation, 26.7%; and military, 5.4%.

Table 10
HISTORICAL AIR CARGO
 Austin-Bergstrom International Airport
 Fiscal Years ended September 30

Fiscal Year	Weight of cargo enplaned and deplaned (tons) (a)			Annual increase (decrease)
	Freight and express	Mail	Total	
2000	154,385	14,873	169,258	
2001	157,198	14,287	171,485	1.3%
2002	135,946	5,590	141,536	(17.5)
2003	127,423	5,018	132,441	(6.4)
2004	121,296	4,740	126,036	(4.8)
2005	121,900	4,052	125,952	(0.1)
2006	109,929	3,491	113,420	(9.9)
2007	105,089	2,274	107,363	(5.3)
2008	102,625	3,073	105,698	(1.6)
2009	77,829	2,800	80,629	(23.7)
2010	75,047	2,839	77,886	(3.4)
2011	73,528	2,344	75,872	(2.6)
2012	75,857	1,544	77,401	2.0
2013	76,637	1,668	78,305	1.2
2014	76,281	1,852	78,133	(0.2)
2015	75,694	3,358	79,052	1.2
2016	81,385	2,372	83,757	6.0
	Average annual percent increase (decrease)			
2000-2003	(6.2)%	(30.4)%	(7.9)%	
2003-2008	(4.2)	(9.3)	(4.4)	
2008-2009	(24.2)	(8.9)	(23.7)	
2009-2016	0.6	(2.3)	0.5	

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

(a) On all-cargo and passenger aircraft.

Source: City of Austin, Aviation Department records.

Table 11
HISTORICAL AIRCRAFT LANDED WEIGHT
 Austin-Bergstrom International Airport
 Fiscal Years ended September 30

Fiscal Year	Passenger airlines	All-cargo airlines	Total	Annual increase (decrease)
2000	5,266,397	985,074	6,251,471	
2001	5,526,750	997,993	6,524,743	4.4%
2002	4,982,674	875,652	5,858,326	(10.2)
2003	4,844,743	768,318	5,613,062	(4.2)
2004	4,824,584	723,773	5,548,357	(1.2)
2005	5,061,919	743,608	5,805,526	4.6
2006	5,163,142	592,220	5,755,362	(0.9)
2007	5,578,438	543,275	6,121,713	6.4
2008	5,758,583	601,430	6,360,014	3.9
2009	5,249,325	439,566	5,688,891	(10.6)
2010	5,143,676	397,117	5,540,793	(2.6)
2011	5,353,345	405,953	5,759,298	3.9
2012	5,394,633	420,904	5,815,537	1.0
2013	5,688,131	434,382	6,122,513	5.3
2014	5,944,339	433,628	6,377,968	4.2
2015	6,598,612	492,026	7,090,637	11.2
2016	6,939,722	481,109	7,420,831	4.7
<u>Average annual percent increase (decrease)</u>				
2000-2003	(2.7)%	(7.9)%	(3.5)%	
2003-2008	3.5	(4.8)	2.5	
2008-2009	(8.8)	(26.9)	(10.6)	
2009-2016	4.1	1.3	3.9	

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

Source: City of Austin, Department of Aviation records.

Table 12
HISTORICAL AIRCRAFT OPERATIONS
 Austin-Bergstrom International Airport
 Fiscal Years ended September 30

Fiscal Year	Air carrier	Air taxi/ commuter	General aviation	Military	Total	Annual increase (decrease)
2000	99,631	16,416	82,757	5,059	203,863	
2001	102,661	15,766	98,428	7,720	224,575	10.2%
2002	93,206	17,628	97,451	8,333	216,618	(3.5)
2003	92,602	21,993	89,087	13,797	217,479	0.4
2004	92,298	26,048	86,238	15,708	220,292	1.3
2005	101,296	27,242	79,738	10,386	218,662	(0.7)
2006	94,611	24,973	80,523	7,312	207,419	(5.1)
2007	100,672	28,177	73,450	5,679	207,978	0.3
2008	106,362	30,820	75,470	5,103	217,755	4.7
2009	94,484	17,157	59,601	5,882	177,124	(18.7)
2010	92,372	17,433	57,463	6,899	174,167	(1.7)
2011	95,095	18,466	59,696	6,879	180,136	3.4
2012	96,823	15,962	50,867	5,828	169,480	(5.9)
2013	101,006	16,979	52,582	6,698	177,265	4.6
2014	103,710	17,289	51,231	6,994	179,224	1.1
2015	112,079	15,830	54,401	7,771	190,081	6.1
2016	114,150	16,194	51,231	10,435	192,010	1.0
<u>Average annual percent increase (decrease)</u>						
2000-2003	(2.4%)	10.2%	2.5%	39.7%	2.2%	
2003-2008	2.8	7.0	(3.3)	(18.0)	0.0	
2008-2009	(11.2)	(44.3)	(21.0)	15.3	(18.7)	
2009-2016	2.7	(0.8)	(2.1)	8.5	1.2	

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

Source: City of Austin, Department of Aviation records.

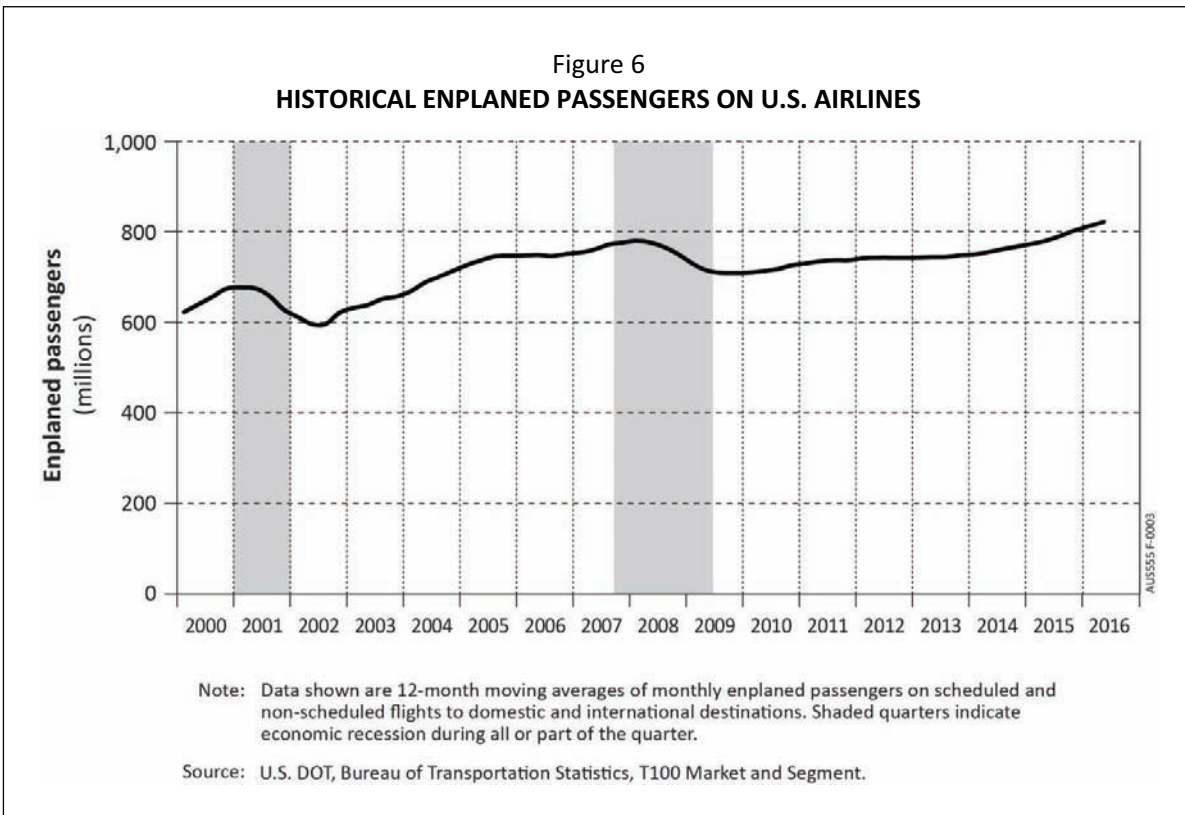
KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC

In addition to the demographics and economy of the MSA, as discussed in the earlier section “Airport Service Region,” key factors that will affect future airline traffic at ABIA include:

- National economic conditions
- International economic, political, and security conditions
- Financial health of the airline industry
- Airline service and routes
- Airline competition and airfares
- Aviation safety and security concerns
- Availability and price of aviation fuel
- Capacity of the national air traffic control system
- Capacity of the Airport

National Economic Conditions

Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. As illustrated in Figure 6, recessions in the U.S. economy in 2001 and 2008-2009 and associated high unemployment reduced discretionary income and coincided with reduced airline travel demand in those years. Sustained future increases in passenger traffic at the Airport will depend on national economic growth.

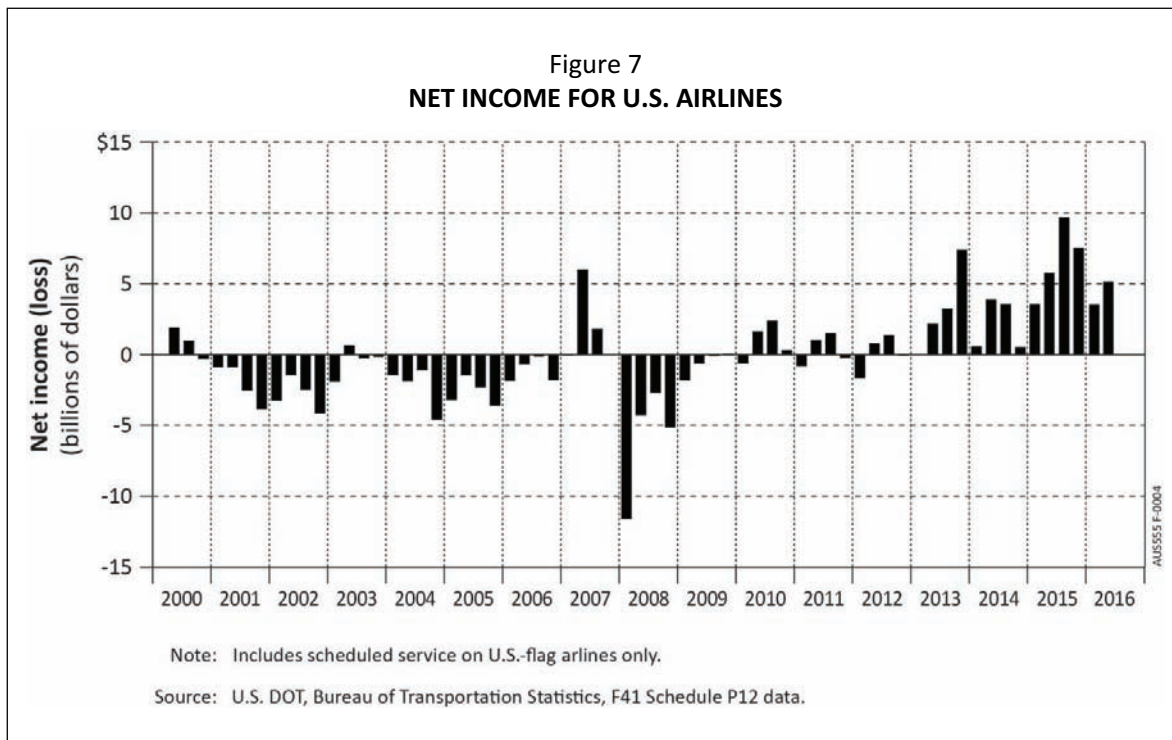


International Economic, Political, and Security Conditions

With the globalization of business and the increased importance of international trade and tourism, international economics, trade balances, currency exchange rates, and political relationships all influence passenger traffic at major U.S. airports. Concerns about hostilities and other perceived security and public health risks also affect travel demand to particular international destinations. Sustained future increases in passenger traffic at the Airport will depend on global economic growth as well as stable international conditions.

Financial Health of the Airline Industry

The number of passengers using the Airport will depend partly on the profitability of the U.S. airline industry and the associated ability of the industry and individual airlines to make the necessary investments to provide service. Figure 7 shows historical net income for U.S. airlines.



As a result of the 2001 economic recession, the disruption of the airline industry that followed the September 2001 attacks, increased fuel and other operating costs, and price competition, the industry experienced huge financial losses. In 2001 through 2006, the major U.S. passenger airlines collectively recorded net losses of approximately \$46 billion. To mitigate those losses, all of the major network airlines restructured their route networks and flight schedules and reached agreement with their employees, lessors, vendors, and creditors to cut costs, either under Chapter 11 bankruptcy protection or the possibility of such. Between 2002 and 2005, Delta,

Northwest, United, and US Airways all filed for bankruptcy protection and restructured their operations.

In 2007, the U.S. passenger airline industry as a whole was profitable, recording net income of approximately \$7 billion, but in 2008, as oil and aviation fuel prices increased to unprecedented levels, the industry experienced a profitability crisis. In 2008 and 2009, the U.S. passenger airline industry recorded net losses of approximately \$26 billion. The industry responded by, among other actions, grounding less fuel-efficient aircraft, eliminating unprofitable routes and hubs, reducing seat capacity, and increasing airfares. Between 2007 and 2009, the U.S. passenger airlines collectively reduced domestic capacity (as measured by available seat-miles) by approximately 10%.

In 2010 through 2013, the U.S. passenger airline industry as a whole recorded net income of approximately \$18 billion, notwithstanding sustained high fuel prices, by controlling capacity and nonfuel expenses, increasing airfares, recording high load factors, and increasing ancillary revenues. Between 2009 and 2013, the airlines collectively increased domestic seat-mile capacity by an average of 1.0% per year. American filed for bankruptcy protection in 2011. In 2014, the U.S. passenger airline industry reported net income of \$9 billion, assisted by reduced fuel prices in the second half of the year (as discussed in the later section, "Availability and Price of Aviation Fuel"). In 2015, the industry then achieved record net income of \$26 billion as fuel prices decreased further, demand remained strong, and capacity control allowed average fares to remain high. Strong industry profitability continued in the first half of 2016.

Sustained industry profitability will depend on, among other factors, economic growth to support airline travel demand, continued capacity control to enable increased airfares, and stable fuel prices. Consolidation of the U.S. airline industry has resulted from the acquisition of Trans World by American (2001), the merger of US Airways and America West (2005), the merger of Delta and Northwest (2009), the merger of United and Continental (2010), the acquisition of AirTran by Southwest (2011), and the merger American and US Airways (2013).

Such consolidation has resulted in four airlines (American, Delta, Southwest, and United) and their regional affiliates now accounting for approximately 80% of domestic seat-mile capacity. The consolidation is expected by airline industry analysts to contribute to industry profitability. However, any resumption of financial losses could cause U.S. airlines to seek bankruptcy protection or liquidate. The liquidation of any of the large network airlines would drastically affect airline service at certain connecting hub airports, present business opportunities for the remaining airlines, and change airline travel patterns nationwide. In April 2016, Alaska Air Group, parent of Alaska Airlines, announced that it would acquire Virgin America Airlines. The merger was granted regulatory approval in December 2016. In 2015, the two airlines together accounted for 6.6% of domestic U.S. airline industry seat-

mile capacity. Alaska Airlines and Virgin America both serve the Airport, accounting for 1.7% and 1.6% of total enplaned passengers, respectively, in FY 2016.

Airline Service and Routes

Most large airports serve as gateways to their communities and as connecting points. The number of origin and destination passengers at the Airport depends on the intrinsic attractiveness of the region as a business and leisure destination, the propensity of its residents to travel, and the airline fares and service provided at the Airport and at other competing airports. The number of connecting passengers, on the other hand, depends entirely on airline fares and service. As discussed in the earlier section, “Enplaned Passengers,” most passengers at ABIA (approximately 95%) are originating their journeys rather than connecting between flights.

The large airlines have developed hub-and-spoke systems that allow them to offer high-frequency service to many destinations. Because most connecting passengers have a choice of airlines and intermediate airports, connecting traffic at an airport depends on the route networks and flight schedules of the airlines serving that airport and competing hub airports. Since 2003, as the U.S. airline industry has consolidated, airline service has been drastically reduced at many former connecting hub airports, including those serving St. Louis (American, 2003-2005), Dallas-Fort Worth (Delta, 2005), Pittsburgh (US Airways, 2006-2008), Las Vegas (US Airways, 2007-2010), Cincinnati (Delta, 2009-2011), Memphis (Delta, 2011-2013), and Cleveland (United, 2014).

Airline Competition and Airfares

Airline fares have an important effect on passenger demand, particularly for relatively short trips for which automobile and other surface travel modes are potential alternatives, and for price-sensitive “discretionary” travel. The price elasticity of demand for airline travel increases in weak economic conditions when the disposable income of potential airline travelers is reduced. Airfares are influenced by airline capacity and yield management; passenger demand; airline market presence; labor, fuel, and other airline operating costs; taxes, fees, and other charges assessed by governmental and airport agencies; and competitive factors. Future passenger numbers, both nationwide and at the Airport, will depend, in part, on the level of airfares.

Overcapacity in the industry, the ability of consumers to compare airfares and book flights easily via the Internet, and other competitive factors combined to reduce airfares between 2000 and 2005. During that period, the average domestic yield for U.S.-flag airlines decreased from 16.1 cents to 13.8 cents per passenger-mile. In 2006 through 2008, as airlines reduced capacity and were able to sustain fare increases, the average domestic yield increased to 15.9 cents per passenger-mile. In 2009, yields again decreased, but, beginning in 2010, as airline travel demand increased and seat capacity was restricted, yields increased to 17.7 cents per passenger-mile by 2015. Beginning in 2006, ancillary charges have been introduced by most airlines for

services such as checked baggage, preferred seating, in-flight meals, and entertainment, thereby increasing the effective price of airline travel more than these yield figures indicate.

Aviation Safety and Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions influence passenger travel behavior and airline travel demand. Anxieties about the safety of flying and the inconveniences and delays associated with security screening procedures lead to both the avoidance of travel and the switching from air to surface modes of transportation for short trips. Public health concerns have also affected airline travel demand to particular destinations from time to time.

Safety concerns in the aftermath of the September 11, 2001 attacks were largely responsible for the steep decline in airline travel nationwide in 2002. Since 2001, government agencies, airlines, and airport operators have upgraded security measures to guard against changing threats and maintain confidence in the safety of airline travel. These measures include strengthened aircraft cockpit doors, changed flight crew procedures, increased presence of armed sky marshals, federalization of airport security functions under the Transportation Security Administration (TSA), more effective dissemination of information about threats, more intensive screening of passengers and baggage, and deployment of new screening technologies. The TSA has introduced “pre-check” service to expedite the screening of passengers who have submitted to background checks. Concerns about the safety of air travel were heightened in 2016 by a suicide attack at Brussels Airport in March, the crash of an EgyptAir flight into the Mediterranean Sea in May, and a gun and bomb attack at Istanbul Ataturk Airport in June.

Historically, airline travel demand has recovered after temporary decreases stemming from terrorist attacks or threats, hijackings, aircraft crashes, public health and safety concerns, and international hostilities. Provided that precautions by government agencies, airlines, and airport operators serve to maintain confidence in the safety of commercial aviation without imposing unacceptable inconveniences for airline travelers, it can be expected that future demand for airline travel at the Airport will depend primarily on economic, not safety or security, factors.

Availability and Price of Aviation Fuel

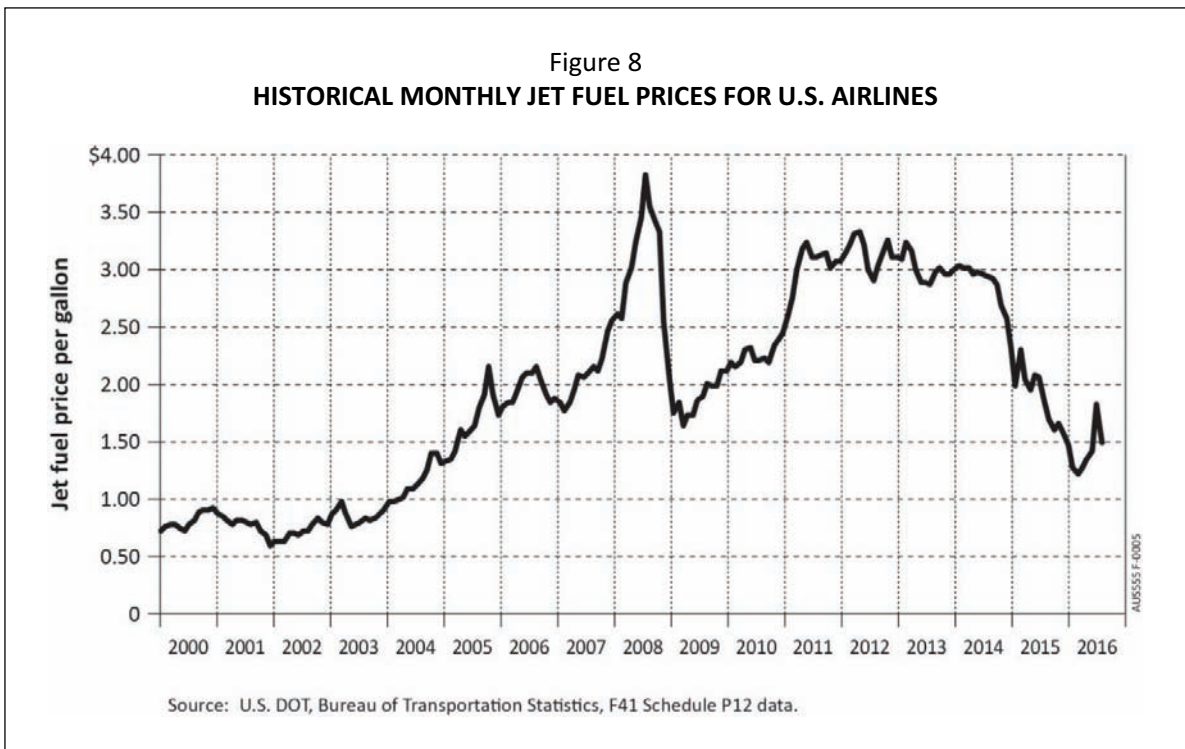
The price of aviation fuel is a critical and uncertain factor affecting airline operating economics. Fuel prices are particularly sensitive to worldwide political instability and economic uncertainty. Figure 8 shows the historical fluctuation in fuel prices since 2000. Beginning in 2003, fuel prices increased as a result of the invasion and occupation of Iraq; political unrest in other oil-producing countries; the growing economies of China, India, and other developing countries; and other factors influencing the demand for and supply of oil. By mid-2008, average fuel prices were three times higher than they were in mid-2004 and represented the largest airline operating expense, accounting for between 30% and 40% of expenses for most

airlines. Fuel prices fell sharply in the second half of 2008 as demand for oil declined worldwide, but then increased as global demand has increased.

Between early 2011 and mid-2014, fuel prices were relatively stable, partly as a result of increased oil supply from U.S. domestic production. As of mid-2014, average fuel prices were approximately three times those prevailing at the end of 2003. Beginning in mid-2014, an imbalance between worldwide supply and demand resulted in a precipitous decline in the price of oil and aviation fuel. Decreased demand from China and other developing countries, combined with a continued surplus in the worldwide supply (and the potential for further surpluses from Iran as trade sanctions are lifted) resulted in further reductions in fuel prices in 2015. As shown on Figure 8, the average price of aviation fuel at mid-2016 was approximately 50% of the price at mid-2014. The reduction in fuel prices is having a positive effect on airline profitability as well as far-reaching implications for the global economy.

Airline industry analysts hold differing views on how oil and aviation fuel prices may change in the near term although, absent unforeseen disruptions, prices are expected to remain relatively low for some time. However, there is widespread agreement that fuel prices are likely to increase over the long term as global energy demand increases in the face of finite oil supplies that are becoming more expensive to extract.

Aviation fuel prices will continue to affect airfares, passenger numbers, airline profitability, and the ability of airlines to provide service. Airline operating economics will also be affected as regulatory costs are imposed on the airline industry as part of efforts to reduce aircraft emissions contributing to global climate change.



Capacity of the National Air Traffic Control System

Demands on the national air traffic control system have, in the past, caused delays and operational restrictions affecting airline schedules and passenger traffic. The FAA is gradually implementing its Next Generation Air Transportation System (NextGen) air traffic management programs to modernize and automate the guidance and communications equipment of the air traffic control system and enhance the use of airspace and runways through improved air navigation aids and procedures. Since 2007, airline traffic delays have decreased as a result of reduced numbers of aircraft operations (down approximately 30% between 2007 and 2015), but, as airline travel increases in the future, flight delays and restrictions may be expected.

Capacity of the Airport

In addition to any future constraints that may be imposed by the capacity of the national air traffic control and airport systems, future growth in airline traffic at ABIA will depend on the provision of capacity at the Airport itself.

The Airport's two parallel air carrier runways are able to accommodate the simultaneous arrival of aircraft in virtually all weather conditions and will not constrain airfield capacity for the foreseeable future. The additional facilities being provided by the 2016-2020 Project and the renovation of the South Terminal building will likewise provide terminal capacity to meet demand beyond the forecast period.

AIRLINE TRAFFIC FORECASTS

The forecasts of airline traffic at the Airport through FY 2023 were developed on the basis of the economic outlook for the MSA, trends in historical airline traffic, and key factors likely to affect future airline traffic, all as discussed earlier in this report. The forecast for the Airport included in the FAA's most recent *Terminal Area Forecast* (TAF), issued in January 2016, was also reviewed.

In developing the forecasts in this report, it was assumed that, over the long term, airline traffic at the Airport will increase as a function of the growth in the economy of the MSA and continued airline service. It was assumed that airline service at the Airport will not be constrained by the availability of aviation fuel, the capacity of the air traffic control system or the Airport, charges for the use of aviation facilities, or government policies or actions that restrict growth.

Total enplaned passengers at the Airport in FY 2016, 6.2 million, is a 6.7% increase from the 5.8 million enplaned in FY 2015. Two passenger forecasts were developed for FY 2017 through FY 2023, a base forecast and a stress test forecast, as presented in Table 13. The forecasts are presented graphically on Figure 9.

Base Forecast and Assumptions

The base forecast for the Airport was developed on the basis of the assumptions that:

- The U.S. economy will experience sustained growth in GDP averaging between 2.0% and 2.5% per year, an average rate of GDP growth generally consistent with that projected by the Congressional Budget Office, as described in the earlier section “Economic Outlook”.
- Employment in the MSA will increase at a rate approximately one and a half times that of the United States as a whole.
- Airlines will continue to adjust service to meet travel demand at the Airport and competition among airlines will ensure competitive airfares for flights from the Airport.
- A generally stable and secure international political environment and safety and security precautions will ensure airline traveler confidence in aviation without imposing unreasonable inconveniences.
- There will be no major disruption of airline service or changes to airline travel patterns as a result of international hostilities, terrorist acts or threats, or other security or public health concerns.
- The Airport will continue to be primarily an origin-destination airport, it will not become a network airline hub, and the small percentage of passengers connecting at the Airport will not change materially.

The number of enplaned passengers at the Airport is forecast to increase from 6.2 million in FY 2016 to 7.3 million in FY 2023, or an average of 2.4% per year. In its *Terminal Area Forecast* (January 2016), the FAA forecasts an average increase of 2.9% per year in enplaned passengers at the Airport over the same period.

Stress Test Forecast and Assumptions

The stress test forecast of enplaned passengers was developed to provide the basis for a test of the Airport’s financial results to a hypothetical reduction in passenger numbers. The same assumptions underlie the stress test forecast as the base forecast except that passenger traffic at the Airport was assumed to be decreased by approximately 15% in FY 2018 as result of some combination of reduced airline service and weak economic conditions. In FY 2019 through FY 2023 passenger numbers were then increased at rates similar to those for the baseline forecast. The stress test in effect postulates a six-year deferral of passenger growth, i.e., reaching 6.1 million enplaned passengers, approximately the number enplaned in FY 2016, by FY 2022.

Landed Weight Forecast and Assumptions

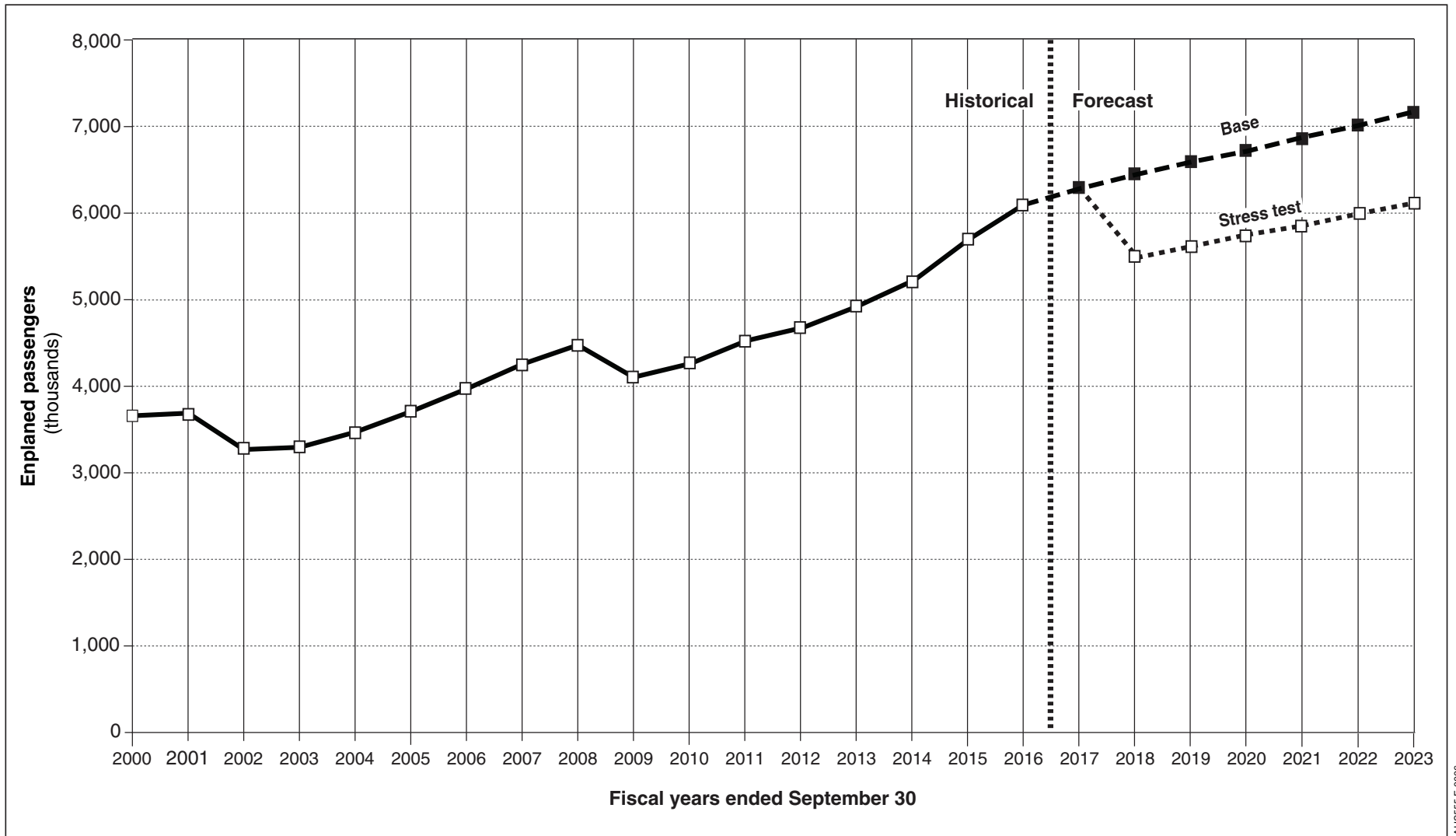
The forecasts of passenger airline departures and landed weight shown in Table 13 were based on an assumption of gradually increasing aircraft seating capacities and load factors, resulting in an average rate of increase in total landed weight of 2.1% per year between FY 2016 and FY 2023. Corresponding assumptions were made for the stress test forecast.

Table 13
AIRLINE TRAFFIC FORECASTS
 Austin-Bergstrom International Airport
 Fiscal Years ended September 30
 (in thousands)

The forecasts presented in this figure were prepared using the information and assumptions described in the accompanying text. Inevitably, some of the assumptions will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

	Historical					Forecast							Average annual increase 2016-2023
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
BASE FORECAST													
Enplaned passengers (thousands)	4,663	4,929	5,275	5,792	6,180	6,400	6,550	6,700	6,850	7,000	7,150	7,300	2.4%
Percent annual change	3.1%	5.7%	7.0%	9.8%	6.7%	3.6%	2.3%	2.3%	2.2%	2.2%	2.1%	2.1%	
Passenger airline departures	48,372	50,554	51,877	55,557	56,349	59,000	60,000	61,100	62,200	63,200	64,200	65,300	2.1%
Percent annual change	(0.1%)	4.5%	2.6%	7.1%	1.4%	4.7%	1.7%	1.8%	1.8%	1.6%	1.6%	1.7%	
Average enplaned passengers per departure	96	97	102	104	110	108	109	110	110	111	111	112	
Landed Weight (millions of pounds)													
Passenger airlines	5,395	5,688	5,944	6,599	6,940	7,160	7,310	7,470	7,640	7,790	7,940	8,110	2.3%
All-cargo airlines	<u>421</u>	<u>434</u>	<u>434</u>	<u>492</u>	<u>481</u>	<u>490</u>	<u>490</u>	<u>490</u>	<u>490</u>	<u>490</u>	<u>500</u>	<u>500</u>	0.6%
	5,816	6,123	6,378	7,091	7,421	7,650	7,800	7,960	8,130	8,280	8,440	8,610	2.1%
Percent annual change	1.0%	5.3%	4.2%	11.2%	4.7%	3.1%	2.0%	2.1%	2.1%	1.8%	1.9%	2.0%	
STRESS TEST FORECAST													
Enplaned passengers (millions)						6,400	5,570	5,700	5,820	5,950	6,080	6,210	
Percent below base forecast						0.0%	(15.0%)	(14.9%)	(15.0%)	(15.0%)	(15.0%)	(14.9%)	

Sources: Historical: City of Austin, Department of Aviation records.
 Forecast: LeighFisher, December 2016.



The forecasts presented in this figure were prepared using the information and assumptions described in the accompanying text. Inevitably, some of the assumptions will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

Sources: Historical—City of Austin, Department of Aviation records.
 Base forecast and stress test—LeighFisher, December 2016.

Figure 9
AIRLINE PASSENGER FORECASTS
 Austin-Bergstrom International Airport

FINANCIAL ANALYSIS

FRAMEWORK FOR AIRPORT FINANCIAL OPERATIONS

The City of Austin develops, operates, and maintains the Airport System as a self-supporting enterprise fund of the City through its Aviation Department with a staff of approximately 360 people under the direction of an Executive Director. Certain accounting, budgeting, financing, treasury, and related functions are performed by the City's Financial Services Department. Airport System funds are held in separate City accounts.

Revenue Bond Ordinances

The financial operations of the Airport are governed, in large part, by the Revenue Bond Ordinances. Beginning with the 2005 Refunding Bonds, the City has issued its Revenue Bonds as subordinated obligations secured by a lien on and pledge of Net Revenues junior and subordinate to the pledge securing bonds issued in 2003 and earlier (the Prior Lien Bonds). In the Revenue Bond Ordinances authorizing the 2005 Refunding Bonds, 2013 Bonds, and 2013A Refunding Bonds, the City agreed not to issue Additional Prior Lien Bonds. With the issuance of the 2013A Refunding Bonds, all the Prior Lien Bonds were defeased, with the effect that all Revenue Bonds, including the 2014 Bonds, the proposed 2017A-B Bonds, and the planned 2018 Bonds will be secured by a first lien and pledge of Net Revenues.

In the Rate Covenant (Section 5.03(b) of the Revenue Bond Ordinances), the City covenants that it will impose and collect rentals, rates, fees, and other charges for the use of the Airport System so that in each Fiscal Year, Net Revenues will be at least sufficient to equal an amount that, together with Other Available Funds, is not less than 125% of the Debt Service Requirements of Revenue Bonds plus 100% of budgeted Administrative Expenses associated with Swap Agreements or other Credit Agreements related to Revenue Bonds for the Fiscal Year.

The Revenue Bond Ordinances provide for the issuance of Additional Revenue Bonds and prescribe the application of Airport System Revenues to the funds and accounts established under the Revenue Bond Ordinances, as described in the later section "Application of Revenues."

Airline Agreement

Effective the beginning of FY 2010, the City executed an Airport Use and Lease Agreement (the Airline Agreement) with Signatory Airlines that collectively accounted for approximately 94% of enplaned passengers at the Airport in FY 2016. The Airline Agreement continues on a month-to-month basis. As described in the later sections "Landing Fees" and "Airline Terminal Rentals and Fees," the Airline Agreement provides for the calculation of Signatory Airline rentals, fees, and charges according to cost-recovery principles. Other airlines operate at the Airport under Airline Lease and Operating Agreements (Operating Agreements) that, while not

providing Signatory Airline status, provide for the payment of rentals, fees, and charges at the Signatory Airline rates. Airline revenues presented in this report were forecast on the assumption that the Signatory Airlines and Operating Agreement Airlines will pay rentals, fees, and charges in accordance with the provisions of the Airline Agreement through the forecast period.

An amendment to the Airline Agreement has been executed by American Airlines, Delta Air Lines, Southwest Airlines and United Airlines to (a) extend the term of the Agreement for an additional one year after the Date of Beneficial Occupancy of the Terminal and Apron Expansion Project, (b) clarify the landing fee billing process to complement the Airport's third-party landing fee management program, and (c) update the minimum gate usage requirement for preferential use of gate rights.

The amendment increases minimum gate usage for an airline to obtain or maintain preferential use rights of a gate from an average of 6 departures to 7 departures or 800 seats per gate per day.

JetBlue is expected to execute the amendment to the Airline Agreement by December 31, 2016.

As discussed in the 2016-2020 Project, the Terminal and Apron Expansion project (which is being financed, in part, with the 2017B Bonds) is planned to be open in October 2018.

South Terminal

The South Terminal (a 30,000 square foot building and part of the original Air Force Base facilities) was developed as a joint venture with the Mexican-based low-cost airline VivaAerobus, which commenced service from Austin to Cancun and Monterey in May 2008. The building was renovated to meet the standards of a no-frills carrier with three passenger gates without jet bridges and a small customs facility. VivaAerobus terminated service and the terminal was closed in June 2009.

In March 2016, the City entered into a new 30-year agreement and lease on the facility to Lone Star Airport Holdings, LLC. It is anticipated that Frontier Airlines and Allegiant Air will relocate from the Barbara Jordan Terminal, freeing up gate space while allowing the two carriers to reduce their operating costs and potentially increase services at the Airport. Public Charters, which operates as Texas Sky, is also considering relocating to the new facility. The building is scheduled to undergo an approximate \$12 million renovation funded by Lone Star Holdings prior to opening on March 31, 2017. Lone Star Holdings is owned by Highstar Capital (an independent infrastructure investment firm). Highstar Capital is a 50% owner of the privatized Luis Munoz Marin International Airport in San Juan, Puerto Rico.

The South Terminal is accessed from a separate entrance on the south side of the Airport from Burleson Road.

Lone Star Holdings will pay the Airport \$300,000 annually to rent the facility plus a sliding scale of 0-20% of gross revenues based on enplanement levels in the South Terminal. Lone Star will operate approximately 900 spaces in an automobile surface parking lot adjacent to the South Terminal. Lone Star will receive concession revenues generated at the South Terminal, airline fees for use of the facility, and is also to receive a share of rental car revenues earned by the Airport (in proportion to South Terminal enplanements relative to total Airport enplanements).

The airline users of the South Terminal will continue to pay landing fees at the Signatory rate to the City.

2016-2020 PROJECT

The projects to be funded in part with the proceeds of the proposed 2017A-B Bonds and planned 2018 Bonds, collectively referred to in this report as the 2016-2020 Project, are illustrated in the earlier Figure 1 and summarized in the following sections. Estimated project costs and funding sources for the 2016-2020 Project are shown in Exhibit A.

Terminal and Apron Expansion and Improvement Project

The Terminal and Apron Expansion and Improvement project involves the widening and extension of the existing 95-foot-wide concourse and enlargement of the adjacent aircraft parking apron to provide nine additional gates equipped with loading bridges. Three of the gates at the expanded concourses will be capable of accommodating narrowbody aircraft and four will be capable of accommodating domestic and international flights by widebody aircraft. The four widebody gates and two or more of the narrowbody gates will allow access to the CBP facility (which was completed in September 2015).

At the concourse level, approximately 88,000 square feet of space will accommodate passenger holdrooms, concessions, restrooms, and a circulation corridor. At the apron level, approximately 20,000 square feet of enclosed space will provide areas for airline operations and 50,000 square feet of unenclosed space will accommodate baggage handling facilities and equipment and tug driveways. The aircraft parking apron will be expanded by approximately 40 acres to provide additional space for concourse and remain-overnight parking and taxilanes to allow the movement of widebody aircraft.

As part of the project, the baggage claim lobby, security exit lanes, and terminal roof will be renovated or replaced. Electrical distribution systems, telecommunications systems, heating, ventilation, and air conditioning systems, and other infrastructure throughout the terminal will also be renovated or replaced.

All elements of the project are currently scheduled to be completed and in use by the end of calendar year 2018.

Parking Garage Project

The Parking Garage project comprises a new six-level parking garage with approximately 6,000 spaces at the Lot A site, north of the existing parking garage and west of the new rental car garage. The new garage will be connected to the existing garage and, net of the spaces lost at Lot A, will provide approximately 5,000 additional public parking spaces.

The garage is scheduled to be completed and in use by November 2018.

Other Capital Improvements

Other Airport renewal, replacement, and upgrade needs included in the 2016-2020 Project are:

- **Airfield:** Modifications to the west taxiway system, reconstruction of perimeter fences, a new maintenance facility, and other airside improvements.
- **Terminal:** Improvements to baggage handling systems and renewal and replacement of terminal facilities and systems.
- **Landside:** Renewal and replacement of roads, utilities, and other Airport support facilities and systems.
- **Other:** Replacement of capital equipment, vehicles, information technology systems (including a new IT facility), and a new Administration Building.

SOURCES OF FUNDS

Exhibit A summarizes estimated funding sources for the 2016-2020 Project.

Federal Grants-in-Aid

The City is eligible to receive grants-in-aid under the FAA's Airport Improvement Program (AIP) for up to 75% of the costs of airfield and other approved projects. Certain of these grants are entitlement grants, the annual amount of which is calculated on the basis of the number of enplaned passengers and landed weight of all-cargo aircraft at the Airport. Other, discretionary, grants are awarded on the basis of the FAA's determination of the priorities for projects at the Airport and at other airports in the nation.

In the City's funding plan shown in Exhibit A, AIP entitlement and discretionary grants totaling \$39.7 million and a TSA grant of \$10.0 million are assumed to be received in FY 2016 through FY 2020 (average of \$9.9 million per year) for airfield, safety, and security projects.

Passenger Facility Charge Revenues

The City has approval from the FAA to impose a PFC per eligible enplaned passenger at the Airport. The PFC was imposed at \$3.00 in August 1995 and increased to \$4.50 in April 2004. Through September 2016, cumulative PFC revenues, including investment earnings, totaled \$313.8 million, of which \$234.9 million had been expended for approved project costs, essentially all to pay Revenue Bond debt service. Under FAA approvals received to date, the City is authorized to continue to impose the PFC and use PFC revenues to pay certain debt service on outstanding bonds. The City has filed its application with the FAA to also use PFC revenues to pay debt service on eligible portions of the 2017B Bonds and pay-as-you-go costs of the 2016-2020 Project. As shown in Exhibit A, the City plans to use \$56.0 million for pay-as-you-go funding of the east concourse expansion project.

Exhibit F presents historical and forecast sources and uses of PFC revenues by year, assuming continued imposition of a \$4.50 PFC and the receipt of all required FAA approvals to allow the collections and expenditures shown.

Capital Fund

As shown in Exhibit A, the City plans to use \$67.5 million of amounts accumulated in the Capital Fund to pay certain of the costs of various elements of the 2016-2020 Project. Monies accumulated in the Capital Fund represent the net revenues remaining (see Application of Revenues) after satisfying all other requirements in the Revenue Bond Ordinances.

Revenue Bonds

Amounts not paid from federal grants, PFC revenues, and contributions from the Capital Fund are to be met from the proceeds of Revenue Bonds. Exhibit B presents the estimated sources and uses for the proposed 2017A-B Bonds and planned 2018 Bonds. Financing assumptions, as provided by Public Financial Management, Inc., the City's independent registered municipal advisor, are shown on Exhibit B.

The estimated sources of Bond funds are proceeds from the sale of the Revenue Bonds after original issue premium (discount) and, subject to certain restrictions, investment earnings on available amounts in the Construction Fund and Capitalized Interest Account during construction.

The estimated uses of Revenue Bond funds are (1) deposits to the Construction Fund to pay other costs of the 2016-2020 Project; (2) deposits to the Capitalized Interest Account to pay Revenue Bond interest during construction; (3) deposits to meet the Debt Service Reserve Fund Requirement; and (4) payment of underwriters' discount, financing, legal, and other Bond issuance expenses.

Revenue Bond Debt Service Requirements

Exhibit C presents Debt Service Requirements (amounts to be accrued for the Fiscal Years ended September 30) for outstanding Revenue Bonds, the proposed 2017

Bonds, and the planned 2018 Bonds. Debt Service Requirements are allocated to Airport cost centers in accordance with the provisions of the Airline Agreement.

Four series of Revenue Bonds are now outstanding. The 2005 Refunding Bonds (which were issued as auction rate securities and are subject to the provisions of an interest-rate Swap Agreement that has the effect of converting the City's debt service obligation to a fixed interest rate) refunded certain of the 1995A Bonds issued to fund construction of the Airport. The 2013 Bonds were issued to fund various Airport improvements. The 2013A Refunding Bonds refunded the 2003 Refunding Bonds, which in turn refunded certain of the 1995A Bonds issued to fund construction of the Airport. The 2014 Bonds were issued to fund various Airport improvements, including the Terminal East Infill project and certain construction and design costs for the Terminal and Apron Expansion Project and design costs of the new automobile parking garage.

Subordinate Obligation Requirements

Exhibit C also presents the requirements of other debt obligations subordinate to Revenue Bonds. Such other obligations now outstanding are the Administrative Expenses (i.e., letter of credit and remarketing fees) associated with the variable-rate 2005 Refunding Bonds and debt service on the City of Austin General Obligation Bonds issued for the Airport.

OPERATION AND MAINTENANCE EXPENSES

Operation and Maintenance (O&M) Expenses are defined in the Revenue Bond Ordinances as all reasonable and necessary current expenses of operating, maintaining, and repairing the Airport System (as paid or accrued), including allocated City overhead expenses and costs of direct support services provided by City departments other than the Aviation Department.

Exhibit D presents Operation and Maintenance Expenses by function and by cost center. Data for FY 2013 through FY 2015 are from the City's annual *Rates and Charges Reconciliation* reports, data for FY 2016 are from preliminary financial reports, and data for FY 2017 are from the *FY 2017 Rates and Charges Budget* report. Expenses are allocated to cost centers in accordance with the provisions of the Airline Agreement.

The line items of Operation and Maintenance Expenses shown in Exhibit D were forecast, using FY 2017 budgeted amounts as the base, by taking into account increases in unit costs as a result of inflation, forecast aircraft and passenger activity, and planned Airport development. In particular, the following assumptions were made:

1. To account for inflation, the unit costs of salaries, wages, benefits, materials, services, and supplies will increase an average of approximately 3.0% per year.
2. In addition to inflation-related increases, the costs of operating, maintaining, and administering airfield, terminal, and other Airport facilities will increase

as a function of the forecast increases in passenger and aircraft activity documented in Table 13 in the earlier section, "Airline Traffic Forecasts."

3. As elements of the 2016-2020 Project become operational, increased expenses will be incurred, particularly in FY 2019 (east concourse expansion and parking garage).

REVENUES

Exhibit E presents Gross Revenues. Data for FY 2013 through FY 2015 are from the City's annual *Rates and Charges Reconciliation* reports, data for FY 2016 are from preliminary financial reports, and data for FY 2017 are from the *FY 2017 Rates and Charges Budget* report. The distribution of operating revenues by major category in FY 2015 and FY 2016 was as follows:

	FY 2015		FY 2016	
	Revenues	Share	Revenues	Share
Airline revenues				
Landing fees	\$23,390,000	19.6%	\$24,762,000	18.5%
Terminal Building rentals	16,681,000	14.0	19,295,000	14.4
Other	<u>8,953,000</u>	<u>7.5</u>	<u>12,233,000</u>	<u>9.1</u>
Subtotal	\$49,024,000	41.1%	\$56,290,000	42.0%
Nonairline revenues				
Terminal concessions	\$10,979,000	9.2%	\$12,107,000	9.1%
Parking and ground transportation	50,373,000	42.2	53,808,000	40.2
Other	<u>8,972,000</u>	<u>7.5</u>	<u>11,713,000</u>	<u>8.7</u>
Subtotal	<u>\$70,324,000</u>	<u>58.9%</u>	<u>\$ 77,628,000</u>	<u>58.0%</u>
Total	\$119,348,000	100.0%	\$133,918,000	100.0%

Individual components of Gross Revenues shown in Exhibit E were forecast, using FY 2016 preliminary actual results and FY 2017 budgeted amounts as the base, taking into account allowances for unit price inflation at 3.0% per year, planned terminal and parking development, and the provisions of the Airline Agreement and other leases and agreements with tenants and users of the Airport.

Revenues from sources related to passenger numbers, such as concession, parking, and rental car revenues, and from sources related to aircraft movements, such as landing fees, were forecast as a function of the activity forecasts documented in Table 13 in the earlier section "Airline Traffic Forecasts." The specific assumptions underlying individual components of Gross Revenues are described in the following sections.

AIRLINE REVENUES

Airline revenues shown in Exhibits E and E-1 are as calculated under the provisions of the Airline Agreement (on the assumption that the provisions of any successor

agreement(s) relating to the calculation of rentals, fees, and charges will be substantially the same as those of the Airline Agreement).

The Airline Agreement establishes cost centers to which debt service, 25% debt service coverage, amortization of investments from the Capital Fund, O&M expenses, O&M Reserve Account deposits, and other requirements are allocated. Amounts allocated to the airline cost centers provide the basis for calculating rentals, fees, and charges paid by the airlines. Amounts allocable to nonairline cost centers are met by the City from concession, parking, rental car, and other nonairline revenues.

Airline Cost Centers

Airfield: Runways, taxiways, air navigation aids, and associated land, facilities, and equipment. The Signatory Airlines and all other airlines pay landing fees, calculated according to a residual methodology, to recover the requirements allocated to the cost center after the credit of fuel flowage fee revenues.

Terminal Apron: Aircraft parking apron at the terminal building, including apron areas for overnight aircraft parking. The Signatory Airlines and all other airlines pay apron fees calculated to recover the requirements allocated to the cost center over leased parking positions.

Terminal Building: Airline-leased space and facilities in the terminal. The Signatory Airlines pay terminal building rentals, calculated according to a compensatory methodology, to recover the requirements allocated to the cost center over leased space.

Terminal Equipment: The Signatory Airlines separately pay terminal equipment fees to allow recovery of the costs of passenger loading bridges, flight information display systems, and baggage handling systems.

Fuel Facility: Fuel storage and distribution facilities. The Signatory Airlines pay fuel facility fees calculated to meet the capital recovery requirements of the cost center (shown under other revenues in Exhibit E).

Nonairline Cost Centers

Terminal Building: All terminal space and facilities not leased to the Signatory Airlines, including unleased airline space, public circulation space, and concession space.

Automobile Parking: Public and employee automobile parking garages and lots and associated facilities and equipment.

Other Nonairline Areas: Rental car, air cargo, and other facilities, buildings, and grounds including utilities, roads, bridges, and other infrastructure.

PBX/STS/PDS: Telecommunication systems and other shared tenant services.

Allocation of Requirements to Cost Centers

Requirements are allocated to the airline and nonairline cost centers as follows.

Debt Service: Debt service on outstanding Revenue Bonds and on the proposed 2017A-B Bonds and planned 2018 Bonds are allocated in accordance with the project costs funded (as shown in Exhibit C).

Debt Service Coverage: Coverage at 25% allocated pro rata according to each cost center's share of debt service.

Amortization of Capital Fund investments: Amounts to recover project costs funded from the Capital Fund.

Operation and Maintenance Expenses: Allocated according to percentages as agreed to with the Signatory Airlines under the Airline Agreement (as shown in Exhibit D).

Operating Reserve Account Deposit: Allocated pro rata according to each cost center's share of O&M Expenses.

Landing Fees

Exhibit E-1 shows historical and forecast Landing Fees and Signatory Airline landing fee rates per 1,000 pounds of landed weight. Airlines operating under Operating Agreements pay rentals, fees, and charges at the Signatory Airline rates. For the financial forecasts in this report, it was assumed that airlines accounting for substantially all landed weight at the Airport will pay Landing Fees at the Signatory Airline rate.

Terminal Rentals and Fees

Terminal Building Rentals. Exhibit E-1 shows historical and forecast Terminal Building rentals and the average terminal rental rate per square foot of leased space.

Other Fees. Exhibit E-1 also shows Terminal Apron fees, overnight aircraft parking fees (RON), Terminal Equipment fees, Shared Use revenues, fees for the use of the CBP international arrivals facility (US Customs fees), and a credit for airline incentives. The City waives certain landing fees and space rentals for airlines providing new airline service under its air service incentive program. For FY 2016, landing fees and terminal rents waived were \$0.5 million and \$0.7 million, respectively.

Terminal Occupancy. For the purposes of the forecasts of Terminal Building rentals and other terminal fees shown in Exhibit E-1, it was assumed that the additional airline-leasable space to be constructed for the East Concourse Expansion project will be approximately 80% occupied when the expansion opens in FY 2019.

Airline Payments per Enplaned Passenger

Exhibit E-1 summarizes airline payments and the average of such payments per enplaned passenger.

NONAIRLINE REVENUES

Exhibit E presents nonairline revenues. Assumptions underlying the forecasts of the major line items of revenues are described in the following sections.

Terminal Concession Revenues

In FY 2015 and FY 2016, concessions and other services in the terminals generated 9.2% and 9.0% of Airport operating revenues, respectively, as follows:

	FY 2015		FY 2016	
	Revenues	Share	Revenues	Share
Food and beverage	\$ 6,195,000	56.4%	\$ 7,189,000	59.4%
Retail	3,056,000	27.8	3,178,000	26.2
Advertising	1,574,000	14.3	1,569,000	13.0
Passenger services	<u>154,000</u>	<u>1.5</u>	<u>171,000</u>	<u>1.4</u>
Total	\$10,979,000	100.0%	\$12,107,000	100.0%

Food, beverage, and retail outlets in the terminal are operated under two prime concession agreements with Delaware North Companies Travel Hospitality Services and LS Travel Retail (which acquired the concession privileges through its acquisition of News and Gift Shops International). Certain outlets are operated by local and disadvantaged business enterprise partners. The concession privileges were awarded at the time the terminal opened in 1999 and will extend through approximately the end of FY 2017, assuming all options to renew are exercised.

Food and Beverage. Eighteen food and beverage outlets are operated in the terminals. In FY 2016, gross receipts for food and beverage concessions totaled approximately \$44.0 million, or \$7.12 per enplaned passenger, and the City received approximately \$7.2 million, or 16.3% of gross receipts, in concession fees.

Retail. Ten news, gift, and other retail merchandise concession outlets are operated in the terminals. In FY 2016, gross receipts for retail merchandise concessions totaled \$16.9 million, or \$2.74 per enplaned passenger, and the City received approximately \$3.2 million, or 18.8% of gross receipts.

Advertising. Advertising in the terminal is managed by Clear Channel Airport under a concession agreement that provides for concession fees calculated as a percentage of gross revenues against a minimum annual guaranteed amount. In FY 2016, the City received approximately \$1.6 million, or \$0.25 per enplaned passenger, in advertising revenues.

Passenger Services. Other passenger convenience services from which the City derives revenues include telephone, wireless, ATM, luggage carts, currency exchange, massage, and shoeshine. In FY 2016, the City received approximately \$0.2 million, or \$0.03 per enplaned passenger, in fees from the providers of such services.

Forecast Assumptions. It was assumed that terminal concession revenues will increase as a function of inflation and forecast increases in numbers of enplaned passengers, with allowances for increased sales per passenger effective the beginning of FY 2019 when additional concession space opens in the expanded east concourse. It was assumed that the percentages of gross receipts payable to the City under future concession agreements will be approximately the same as those payable under the current agreements.

Automobile Parking Revenues

As of November 2016, the City provided approximately 14,300 public parking spaces, as follows:

- Terminal parking garage directly across from the terminal (3,654 spaces including spaces used for valet parking). Garage parking rates are \$3 per hour (or part thereof) up to a daily maximum of \$23.
- 900 spaces in the CONRAC facility.
- Close-in parking lot (Lot A) within a short walk of the terminal (1,021 spaces). Rates are \$3 per hour (or part thereof) up to a daily maximum of \$11.
- Long-term parking lots served by shuttle buses (7,240 spaces in normal use plus 1,225 overflow spaces used for special events and at holiday times). Rates are \$3 per hour (or part thereof) up to a daily maximum of \$7.

Valet parking service (265 spaces) is also provided, with drop-off at the terminal curb, at a rate of \$27 per day (\$18 per day for “family friendly” valet parking).

All Airport public parking facilities and shuttle bus services are provided under a management fee contract with SP Plus Corporation under which SP Plus is reimbursed for operating and maintenance expenses and paid a management fee of approximately \$0.4 million per year. The management fee contract became effective in October 1, 2016, and, assuming the exercise of one three-year option, would extend through September 2023.

In FY 2016, parking revenues totaled approximately \$39.4 million, or 29.4% of the total revenues shown in Exhibit E. Included in this amount are privilege fees paid by off-Airport parking operators and charges for parking at the approximately 1,500 parking spaces provided by the City for Airport and airline employees.

Two private operators provide approximately 6,400 covered parking spaces in off-Airport lots. Rates charged by the off-Airport operators are about \$10 per day (subject to various discounts), higher than the rates charged by the City for long-term parking. The City collects a privilege fee from the off-Airport parking operators calculated as 10% of their gross receipts. In FY 2016, off-Airport privilege fees totaled approximately \$1.8 million (included with parking in Exhibit E.)

The City of Austin and Scott Airport Parking LLC recently entered into a public-private-partnership arrangement for a multi phased parking lot and pet hotel on 64 acres of Airport property. The parking facilities shall be covered with a canopy, with a minimum of 100 spaces at the pet hotel and 2,000 spaces at the main area. In addition to ground rent at stated amounts during certain time intervals, the Developer pays percentage rent on a sliding scale from 1 to 10% of gross parking revenue and the greater of a sliding Minimum Annual Guarantee or a sliding scale of 1-10% percentage of pet hotel gross revenues. The term is for 30 years. The Developer is responsible for all maintenance and operation of the area. These parking facilities opened in November 2016.

Parking revenues were forecast assuming that:

1. Lot A (1,021 spaces) will be removed from use when construction of the new garage begins (June 2017), then approximately 6,000 parking spaces will become available effective the beginning of FY 2019 when the new garage opens.
2. The addition of these garage and surface parking spaces will provide the capacity for on-Airport parking transactions to increase from FY 2016 levels in proportion to forecast increases in numbers of enplaned passengers and is expected to result in a diversion of parking transactions from long-term lots to garage parking effective the beginning of FY 2019 when the new garage opens.
3. Parking rates will be increased in FY 2017, FY 2019, and FY 2021 so as to achieve increases in parking revenues of approximately 4.5% per year through the forecast period.
4. Parking facilities will continue to be operated under management fee agreements with financial terms substantially the same as the current agreement.
5. Beginning in FY 2017, approximately 150,000 enplaned passengers are expected to use the South Terminal and utilize the surface parking lot adjacent to the South Terminal at \$7.00 per day. Parking revenues to the City have been adjusted downwards by approximately 2.8% per year through the forecast period.
6. Beginning in FY 2017, approximately 500 daily parkers are assumed to utilize the Scott parking facility at \$9.00 per day. Parking revenues to the City have been adjusted downwards by approximately 2.6% per year.

Rental Car Revenues

Rental car revenues shown in Exhibit E are derived from concession privilege fees under the terms of concession agreements that became effective at the date of beneficial occupancy of the new rental car garage, in October 2015, and extend for eleven years with two additional five-year renewals at the City's option. Under these agreements, the rental car companies pay 10% of their gross revenues, against minimum annual guaranteed amounts, for the privilege of operating on Airport. The rental car companies also pay ground rentals for their storage and maintenance facilities (shown in Exhibit E under building and ground rentals).

The rental car companies operating on Airport and their shares of gross revenues in FY 2016 were as follows:

Company	FY 2016	
	Gross Revenues	Share
Hertz (a)	\$ 28,888,000	23.2%
Alamo/National/Vanguard (c)	28,280,000	22.7
Avis/Zip Car (b)	21,949,000	17.6
Enterprise (c)	16,721,000	13.4
Budget (b)	11,031,000	8.9
Thrifty (a)	3,626,000	2.9
Advantage	3,495,000	2.8
Payless (b)	3,228,000	2.6
Dollar (a)	3,229,000	2.6
Fox Rent-a-Car	2,732,000	2.2
EZ Rent-a-Car	<u>1,317,000</u>	1.1
Total	\$124,496,000	100.0%

(a) Operates as a subsidiary of Hertz Global Holdings, Inc.
 (b) Operates as a subsidiary of Avis Budget Group.
 (c) Operates as a subsidiary of Enterprise Holdings, Inc.

In FY 2016, rental car privilege fees from these companies totaled \$13.8 million or \$2.24 per enplaned passenger. Off-Airport rental car companies pay privilege fees of 8% of certain of their gross revenues, which amounted to approximately \$100,000 in FY 2016 (shown with rental cars in Exhibit E). Rental car privilege fees were forecast to increase with inflation and enplaned passengers.

On behalf of the City, each on-Airport rental car company collects a customer facility charge (CFC) of \$5.95 per transaction-day. As discussed in the letter at the beginning of this report, the 2013 Rental Car Special Facility Bonds issued to fund construction of the consolidated rental car facility are secured by and payable from revenues derived from the CFC. Under the Revenue Bond Ordinances, such CFC revenues are not included in Gross Revenues and are not shown in Exhibit E.

Ground Transportation Fees

The City collects commercial ground transportation fees from the operators of taxicabs, limousines, and shuttle buses and vans. In FY 2016, such fees totaled approximately \$0.6 million, or \$0.09 per enplaned passenger, and were forecast to increase with inflation and enplaned passengers.

Fuel Flowage Fees

General and business aviation at the Airport is presently served by two fixed base operators (FBOs), Atlantic Aviation Services and Signature Flight Support. The FBOs collect fuel flowage fees on behalf of the City. In FY 2016, such revenues totaled approximately \$0.7 million, and were forecast to increase with inflation. Ground and facility rentals paid by the fixed base operators are included in Exhibit E with other building and ground rentals.

Fuel Facility Fees

In FY 2016, fuel facility fees (calculated to meet capital recovery requirements) were \$0.8 million and were forecast to remain unchanged. These facility payments from the airlines are not included in the calculation of airline payments per enplaned passenger.

Cargo Apron Fees

In FY 2016, aircraft parking fees paid to the City for the use of the apron at the Cargo Port were \$0.5 million and were forecast to increase with inflation.

Hotel Fees

A Hilton hotel at the entrance to the Airport provides approximately 260 rooms, restaurants, and meeting facilities. Revenues paid to the City are calculated as approximately 5% of gross hotel receipts and in FY 2016 totaled \$0.8 million. Such hotel revenues were forecast to increase with inflation.

A new Hyatt hotel, with 140 rooms, is being developed and is scheduled to open in early 2018.

Building and Ground Rentals

The City derives revenues from Airport property located outside the passenger terminal complex. Such revenues include rents from building and ground leases with the fixed base operators and various other aeronautical and nonaeronautical tenants, including the City of Austin's Learning and Research Center, the South Terminal, ABIA retail, and Scott Parking. Also included are rentals for space in the passenger terminal paid by the CBP, TSA, and other nonairline tenants.

In FY 2016, revenues from building and ground rentals totaled approximately \$4.3 million and were forecast assuming that the provisions of existing leases or other

business arrangements (with payments generally increasing with inflation) will continue through the forecast period.

Other Revenues

In FY 2016, revenues from various other sources totaled approximately \$4.4 million.

In-flight catering fees. In-flight catering services to the airlines are provided by Sky Chefs under a concession agreement that provides for fees to the City calculated as 10% of airline catering sales. FY 2016, fees from such services were \$0.4 million, and were forecast to increase with inflation and enplaned passengers.

Shared tenant service fees. In FY 2016, fees paid by airlines and others for telecommunications and other shared tenant services were \$0.4 million, and were forecast to increase with inflation.

Rental car facility contributions. The City receives revenues from the rental car facility trust as reimbursements of foregone parking revenues and operating expenses associated with the construction and operation of the new rental car garage. For FY 2015 and FY 2016, such revenues totaled \$1.7 million, and beginning in FY 2017, were forecast to be between \$0.8 million and \$0.9 million per year.

Interest Income

Interest income shown in Exhibit E represents investment earnings on balances in the Revenue Fund. In FY 2016, such earnings totaled \$0.3 million, and were forecast to be \$0.2 million through the forecast period. Interest income on balances in the Debt Service Reserve Fund are retained in such fund and are not included.

APPLICATION OF REVENUES

Exhibit G presents the application of Gross Revenues and Other Available Funds credited to the Revenue Fund in the following amounts and order of priority as established by the Revenue Bond Ordinances:

- **Operation and Maintenance Expenses.** Pay all reasonable and necessary expenses of operating, maintaining, and repairing the Airport System. (Operation and Maintenance Expenses as shown in Exhibit D are forecast.)
- **Debt Service Fund.** Pay Debt Service on Revenue Bonds and any related Credit Agreement Obligations. (Debt Service Requirements as shown in Exhibit C, net of amounts paid from PFC revenues as shown in Exhibit F, are forecast.)
- **Administrative Expense Fund.** Pay fees, expenses, and other amounts payable as Administrative Expenses associated with Revenue Bonds and related Credit Agreement Obligations. (Letter of credit and remarketing fees associated with the Swap Agreement for the 2005 Refunding Bonds are forecast.)

- **Debt Service Reserve Fund.** Transfer any amounts to maintain a balance equal to the Debt Service Reserve Fund Requirement. (The increase in such requirement is forecast to be met from the proceeds of the proposed 2017A-B Bonds and planned 2018 Bonds and no transfers are forecast to be required from the Revenue Fund.)
- **Subordinate Obligations.** Pay any Debt Service or other amounts due on Subordinate Obligations. (No such payments are forecast to be required.)
- **General Obligation Airport Bonds.** Pay Debt Service on City of Austin General Obligation Bonds. (Payments on such bonds allocable to the Airport System are forecast to be made.)
- **Operation and Maintenance Reserve Fund.** Transfer any amounts required to maintain a balance at least equal to two months budgeted Operation and Maintenance Expenses. (Amounts increasing with Operation and Maintenance are forecast.)
- **Renewal and Replacement Fund.** Transfer any amounts required to maintain the Renewal and Replacement Fund Requirement, currently established at \$5.0 million. (No such transfers are forecast to be required.)
- **Capital Fund.** Amounts remaining after all other funding requirements of the Revenue Bond Ordinances have been met are transferred to the Capital Fund. Forecast amounts are shown on Exhibit G.

Amounts credited to the Capital Fund may be used at the City's discretion to pay the costs of renewal, replacement, or other capital expenditures or for any other lawful purpose. Amounts designated at the City's discretion as Other Available Funds are transferred to the Revenue Fund. (Amounts equal to 25% of the Debt Service Requirements of Revenue Bonds are forecast to be transferred in each Fiscal Year as Other Available Funds to contribute to meeting the debt service coverage requirement of the Rate Covenant.)

APPLICATION OF PFC REVENUES

All PFC revenues are deposited by the City into the PFC Fund to be used for FAA-approved PFC-eligible projects, either to pay project costs directly or to pay debt service on Revenue Bonds. Under the Revenue Bond Ordinances, PFC revenues are not a part of Gross Revenues but may be set aside during a Fiscal Year for the payment of PFC-eligible debt service in the following Fiscal Year. Revenue Bond debt service paid from such set-aside PFC revenues is deducted in the calculation of Debt Service Requirements and debt service coverage for such following Fiscal Year. As shown in Exhibit F, the balance in the PFC Fund at the end of each Fiscal Year is forecast to exceed the amount to be set aside and used to pay debt service on Revenue Bonds in the following Fiscal Year. Such excess balance would, subject to FAA approval, be available for the payment of the costs of PFC-eligible projects.

DEBT SERVICE COVERAGE

Exhibit G shows the calculation of debt service coverage. As required by the Rate Covenant, Net Revenues (Gross Revenues less Operation and Maintenance Expenses) and Other Available Funds are forecast to be sufficient to pay at least 125% of the Debt Service Requirements of all outstanding Revenue Bonds, 100% of Administrative Expenses, and all other amounts required under the Revenue Bond Ordinances in each Fiscal Year of the forecast period.

BASE FORECASTS AND STRESS TEST PROJECTIONS

Exhibit H-1 summarizes the forecast financial results as presented in Exhibits A through G and discussed in the preceding sections assuming the “base” forecast of enplaned passengers and aircraft landed weight presented earlier in Table 13.

Exhibit H-2 is an identical presentation of financial results in which the projected revenues and expenses reflect the “stress test” forecast of enplaned passengers and aircraft landed weight, as also presented in Table 13.

The assumptions underlying the stress test projections are the same as those for the base passenger forecasts, except:

1. Nonairline revenues related to passenger numbers, such as terminal concession revenues, parking, and rental car revenues, are reduced proportionately.
2. PFC revenues are similarly reduced in proportion to reduced passenger numbers.
3. Certain operating and maintenance expenses are reduced to reflect the lower passenger and flight activity (overall O&M Expenses in FY 2023 approximately 12% lower than for the base case). The amounts of such reduced expenses allocated to the airline and nonairline cost centers are likewise reduced.
4. Airline landing fee and terminal rental payments are reduced to reflect the lower allocation of O&M Expenses to the airline cost centers. Airline terminal rentals are further reduced because the occupancy of terminal facilities is lower.

For the stress test, the entire 2016-2020 Project was assumed to be implemented and funded by Revenue Bonds to the same schedule as for the base case and projected debt service is unchanged. Required airline payments per passenger are projected to increase, as shown on Exhibit H-2. Projected Revenue Bond debt service coverage ratios are reduced but still exceed the Rate Covenant requirements.

Exhibit A

PROJECT COSTS AND FUNDING SOURCES

Austin-Bergstrom International Airport

	Project costs	Federal grants	PFC revenues pay-as-you-go	Capital Fund	Revenue Bonds			
					Prior Bonds	2017A Bonds	2017B Bonds	2018 Bonds
Terminal and Apron Expansion and Improvement								
East concourse expansion	\$ 163,650,000	\$ -	\$ 56,000,000	\$ -	\$ 88,558,000	\$ -	\$ 19,092,000	\$ -
Aircraft parking apron expansion	113,255,000	39,660,000	-	-	13,494,000	-	60,101,000	-
Other terminal improvements	73,119,000	-	-	-	34,357,000	-	38,763,000	-
Subtotal	\$ 350,024,000	\$ 39,660,000	\$ 56,000,000	\$ -	\$ 136,409,000	\$ -	\$ 117,956,000	\$ -
Parking Garage								
Parking Garage	\$ 203,750,000	\$ -	\$ -	\$ -	\$ 23,000,000	\$ 180,750,000	\$ -	\$ -
Centralized Bag Handling System	100,000,000	10,000,000	-	-	-	-	-	90,000,000
Maintenance Facility	30,656,000	-	-	-	3,656,000	-	-	27,000,000
IT Facility	15,000,000	-	-	-	-	-	-	15,000,000
Administration Building	20,000,000	-	-	-	-	-	-	20,000,000
Other airfield projects	5,070,000	-	-	4,170,000	900,000	-	-	-
Other terminal projects	6,000,000	-	-	4,000,000	2,000,000	-	-	-
Other landside projects	15,750,000	-	-	4,550,000	11,200,000	-	-	-
Information technology projects	43,291,000	-	-	43,291,000	-	-	-	-
Capital equipment and vehicles	11,495,000	-	-	11,495,000	-	-	-	-
Total	\$ 801,036,000	\$ 49,660,000	\$ 56,000,000	\$ 67,506,000	\$ 177,165,000	\$ 180,750,000	\$ 117,956,000	\$ 152,000,000

Source: City of Austin, Aviation Department, December 16, 2016.

Note: It is expected that PFC revenues will be available to pay eligible portions of debt service on the 2017 Bonds

Exhibit B

SOURCES AND USES OF REVENUE BOND FUNDS
Austin-Bergstrom International Airport

	Revenue Bonds			
	2017A Bonds	2017B Bonds	2018 Bonds	Total
Sources of Bond Funds				
Bond proceeds				
Principal amount of Bonds	\$ 203,055,000	\$ 143,740,000	\$ 181,635,000	\$ 528,430,000
Original issue premium (discount)	13,871,000	5,709,000	7,014,000	26,594,000
Net proceeds	\$ 216,926,000	\$ 149,449,000	\$ 188,649,000	\$ 555,024,000
Investment earnings on Bond funds				
Construction Fund	\$ 268,000	\$ 271,000	\$ 384,000	\$ 923,000
Capitalized Interest Account	43,000	60,000	60,000	163,000
Debt Service Reserve Fund	-	-	-	-
Subtotal investment earnings	\$ 311,000	\$ 331,000	\$ 444,000	\$ 1,086,000
Total sources of Bond funds	\$ 217,237,000	\$ 149,780,000	\$ 189,093,000	\$ 556,110,000
Uses of Bond Funds				
Project costs	\$ 180,750,000	\$ 117,956,000	\$ 152,000,000	\$ 450,706,000
Capitalized Interest Account	18,613,000	19,165,000	20,642,000	58,420,000
Debt Service Reserve Fund Requirement				
Debt Service Reserve Fund deposit	15,840,000	11,219,000	14,633,000	41,692,000
Costs of Issuance	2,031,000	1,437,000	1,816,000	5,284,000
Subtotal	\$ 17,871,000	\$ 12,656,000	\$ 16,449,000	\$ 46,976,000
Additional Proceeds	4,000	3,000	2,000	9,000
Total uses of Bond funds	\$ 217,238,000	\$ 149,780,000	\$ 189,093,000	\$ 556,111,000
Key financing assumptions				
Effective Bond interest rate	5.00%	5.00%	5.00%	
Issuance date (beginning of Fiscal Year)	2017	2017	2018	
Capitalized interest period (years)	2.0	2.9	2.4	
Interest-only period thereafter (years)	7.0	6.1	5.6	
Principal amortization period (years)	21.0	21.0	22.0	

Source: Public Financial Management, Inc., December 16, 2016.

Exhibit C

DEBT SERVICE REQUIREMENTS
Austin-Bergstrom International Airport
For Fiscal Years ending September 30

This exhibit is based on information from the sources indicated and assumptions provided and adopted by Airport management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

	Historical (a)			Estimated		Forecast					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue Bonds											
2003 Refunding Bonds	\$ 3,239,363	\$ 318,452	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2005 Refunding Bonds	23,555,242	24,674,392	24,746,429	12,005,000	10,483,000	24,134,000	28,115,000	27,536,000	25,892,000	25,700,000	25,735,000
2013 Bonds	-	33,702	1,116,531	4,037,000	5,200,000	5,412,000	5,415,000	5,409,000	5,413,000	5,412,000	5,408,000
2013A Refunding Bonds	-	1,047,334	1,188,400	14,950,000	16,906,000	3,325,000	173,000	-	-	-	-
2014 Bonds (b)	-	-	4,003	3,208,000	4,060,000	4,373,000	4,496,000	10,949,000	12,225,000	12,225,000	12,225,000
Proposed 2017A Bonds (b)	-	-	-	-	-	-	8,461,000	10,153,000	10,153,000	10,153,000	10,153,000
Proposed 2017B Bonds (b)	-	-	-	-	-	-	674,000	6,513,000	7,187,000	7,187,000	7,187,000
Planned 2018 Bonds (b)	-	-	-	-	-	-	903,000	3,923,000	8,563,000	9,082,000	9,082,000
Subtotal Revenue Bond debt service	\$ 26,794,605	\$ 26,073,880	\$ 27,055,363	\$ 34,200,000	\$ 36,649,000	\$ 37,244,000	\$ 48,237,000	\$ 64,483,000	\$ 69,433,000	\$ 69,759,000	\$ 69,790,000
Less: Paid from PFC revenues	(11,032,005)	(11,135,562)	(11,082,223)	(12,155,000)	(11,920,000)	(10,656,000)	(12,628,000)	(21,077,000)	(22,092,000)	(22,702,000)	(22,719,000)
Revenue Bond Debt Service Requirements	\$ 15,762,600	\$ 14,938,318	\$ 15,973,140	\$ 22,045,000	\$ 24,729,000	\$ 26,588,000	\$ 35,609,000	\$ 43,406,000	\$ 47,341,000	\$ 47,057,000	\$ 47,071,000
Other obligations											
1998 Notes	\$ 2,536,790	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2005 Bonds Administrative Expenses (c)	\$ 3,250,380	\$ 2,832,423	\$ 1,499,453	\$ 1,378,000	\$ 1,337,000	\$ 1,321,000	\$ 1,181,000	\$ 1,017,000	\$ 854,000	\$ 698,000	\$ -
Less: Paid from PFC revenues	(1,364,261)	(1,251,164)	(637,294)	(586,000)	(591,000)	(584,000)	(522,000)	(450,000)	(378,000)	(308,000)	-
Subtotal	\$ 1,886,119	\$ 1,581,259	\$ 862,159	\$ 792,000	\$ 746,000	\$ 737,000	\$ 659,000	\$ 567,000	\$ 476,000	\$ 390,000	\$ -
General Obligation Airport Bonds	26,272	26,277	26,040	27,000	27,000	4,000	3,000	-	-	-	-
Subtotal other obligations	\$ 4,449,181	\$ 1,607,536	\$ 888,199	\$ 819,000	\$ 773,000	\$ 741,000	\$ 662,000	\$ 567,000	\$ 476,000	\$ 390,000	\$ -
Total Revenue Bonds and other obligations	\$ 20,211,781	\$ 16,545,854	\$ 16,861,339	\$ 22,864,000	\$ 25,502,000	\$ 27,329,000	\$ 36,271,000	\$ 43,973,000	\$ 47,817,000	\$ 47,447,000	\$ 47,071,000
Allocation by cost center											
Airline cost centers											
Airfield	\$ 5,932,418	\$ 4,912,983	\$ 4,776,706	\$ 4,992,000	\$ 5,277,000	\$ 5,683,000	\$ 5,528,000	\$ 5,399,000	\$ 4,990,000	\$ 4,725,000	\$ 4,615,000
Terminal apron	399,259	331,784	316,283	314,000	326,000	353,000	409,000	1,209,000	1,292,000	1,274,000	1,267,000
Terminal building (airline)	3,507,952	2,867,442	3,230,156	6,351,000	7,112,000	7,483,000	7,412,000	8,898,000	8,950,000	8,796,000	8,730,000
Terminal equipment	-	-	-	-	-	30,000	34,000	553,000	5,050,000	5,569,000	5,569,000
Subtotal airline cost centers	\$ 9,839,629	\$ 8,112,209	\$ 8,323,145	\$ 11,657,000	\$ 12,715,000	\$ 13,549,000	\$ 13,383,000	\$ 16,059,000	\$ 20,282,000	\$ 20,364,000	\$ 20,181,000
Nonairline cost centers											
Terminal building (nonairline)	\$ 3,328,220	\$ 2,716,852	\$ 2,787,303	\$ 3,489,000	\$ 3,815,000	\$ 4,117,000	\$ 4,040,000	\$ 4,750,000	\$ 4,663,000	\$ 4,517,000	\$ 4,455,000
Parking	4,712,101	3,818,160	3,643,817	3,654,000	4,439,000	4,831,000	13,133,000	14,685,000	14,361,000	14,156,000	14,070,000
Other nonairline cost centers	2,331,831	1,898,633	2,107,075	4,064,000	4,533,000	\$4,833,000	5,714,000	8,480,000	8,511,000	8,408,000	8,365,000
Subtotal nonairline cost centers	\$ 10,372,152	\$ 8,433,645	\$ 8,538,195	\$ 11,207,000	\$ 12,787,000	\$ 13,781,000	\$ 22,887,000	\$ 27,915,000	\$ 27,535,000	\$ 27,081,000	\$ 26,890,000
Total	\$ 20,211,781	\$ 16,545,854	\$ 16,861,340	\$ 22,864,000	\$ 25,502,000	\$ 27,330,000	\$ 36,270,000	\$ 43,974,000	\$ 47,817,000	\$ 47,445,000	\$ 47,071,000

(a) Source: City of Austin, Aviation Department, annual Rates and Charges Reconciliation reports.

(b) Source: Public Financial Management, Inc., December 16, 2016.

(c) Letter of credit and remarketing fees for the variable-rate 2005 Refunding Bonds.

Exhibit D

OPERATION AND MAINTENANCE EXPENSES

Austin-Bergstrom International Airport

For Fiscal Years ending September 30

This exhibit is based on information from the sources indicated and assumptions provided and adopted by Airport management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

	Historical (a)			Estimated	Budget	Forecast					
	2013	2014	2015	Actual 2016	2017	2018	2019	2020	2021	2022	2023
Expenses by function											
Administration											
Management	\$ 2,262,253	\$ 2,726,786	\$ 2,816,386	\$ 2,991,000	\$ 3,640,000	\$ 3,410,000	\$ 3,553,000	\$ 3,700,000	\$ 3,853,000	\$ 4,011,000	\$ 4,175,000
Information technology	3,891,418	4,145,030	4,161,369	4,989,000	6,861,000	7,150,000	8,474,000	8,826,000	9,190,000	9,567,000	9,957,000
Finance and purchasing	1,642,511	1,790,957	2,034,469	2,116,000	3,123,000	3,255,000	3,391,000	3,531,000	3,677,000	3,828,000	3,984,000
City support services	3,912,729	4,573,201	5,119,099	5,616,000	7,558,000	7,876,000	8,205,000	8,546,000	8,899,000	9,264,000	9,642,000
Other administration	2,840,340	3,419,116	3,701,977	4,598,000	5,896,000	6,144,000	6,401,000	6,667,000	6,942,000	7,227,000	7,522,000
Total administration	\$ 14,549,251	\$ 16,655,090	\$ 17,833,300	\$ 20,310,000	\$ 27,078,000	\$ 27,835,000	\$ 30,024,000	\$ 31,270,000	\$ 32,561,000	\$ 33,897,000	\$ 35,280,000
Operations and maintenance											
Operations	\$ 1,190,828	\$ 1,144,900	\$ 1,264,621	\$ 1,686,000	\$ 2,072,000	\$ 2,159,000	\$ 2,559,000	\$ 2,665,000	\$ 2,775,000	\$ 2,889,000	\$ 3,007,000
Parking	8,368,833	8,681,153	8,840,074	8,807,000	9,792,000	10,204,000	11,428,000	12,200,000	12,704,000	13,225,000	13,765,000
Custodial services	6,481,605	6,744,230	6,968,754	7,978,000	8,527,000	8,885,000	10,531,000	10,968,000	11,421,000	11,890,000	12,375,000
Airfield maintenance	2,895,189	2,761,333	3,644,391	2,929,000	3,352,000	3,493,000	3,639,000	3,790,000	3,946,000	4,108,000	4,276,000
Building maintenance	6,983,727	6,978,445	6,302,892	8,576,000	10,347,000	10,782,000	12,779,000	13,310,000	13,859,000	14,428,000	15,017,000
Grounds maintenance	1,211,521	1,362,678	1,372,842	1,939,000	1,791,000	1,866,000	2,212,000	2,303,000	2,398,000	2,497,000	2,599,000
Utilities	5,090,720	5,666,542	6,154,462	5,803,000	6,216,000	6,477,000	7,491,000	7,802,000	8,124,000	8,458,000	8,803,000
Aircraft rescue and firefighting	5,191,211	4,846,183	5,170,512	5,449,000	5,961,000	6,211,000	6,471,000	6,740,000	7,018,000	7,306,000	7,604,000
Security	10,365,108	10,541,571	11,274,599	12,248,000	13,753,000	14,331,000	16,574,000	17,263,000	17,975,000	18,713,000	19,476,000
Planning and engineering	2,042,868	2,086,554	2,444,930	2,410,000	4,094,000	4,266,000	4,444,000	4,629,000	4,820,000	5,017,000	5,222,000
Other operations and maintenance	789,567	893,865	726,805	819,000	972,000	1,013,000	1,055,000	1,099,000	1,145,000	1,192,000	1,240,000
Shared Use	-	-	669,299	1,068,000	1,860,000	1,938,000	2,160,000	2,250,000	2,343,000	2,439,000	2,539,000
Total operation and maintenance	\$ 50,611,177	\$ 51,707,454	\$ 54,834,181	\$ 59,712,000	\$ 68,737,000	\$ 71,625,000	\$ 81,343,000	\$ 85,019,000	\$ 88,528,000	\$ 92,162,000	\$ 95,923,000
Total expenses by function	\$ 65,160,428	\$ 68,362,544	\$ 72,667,481	\$ 80,022,000	\$ 95,815,000	\$ 99,460,000	\$ 111,367,000	\$ 116,289,000	\$ 121,089,000	\$ 126,059,000	\$ 131,203,000
Annual percent change		4.9%	6.3%	10.1%	19.7%	3.8%	12.0%	4.4%	4.1%	4.1%	4.1%
Expenses by cost center											
Airline cost centers											
Airfield	\$ 14,436,093	\$ 14,512,479	\$ 15,960,106	\$ 16,824,000	\$ 20,374,000	\$ 21,136,000	\$ 22,884,000	\$ 23,834,000	\$ 24,818,000	\$ 25,837,000	\$ 26,891,000
Terminal apron	5,028,360	5,233,267	5,910,023	6,047,000	7,572,000	7,852,000	8,609,000	8,967,000	9,337,000	9,720,000	10,117,000
Terminal building (airline)	11,568,801	12,221,918	12,982,012	14,564,000	17,413,000	18,064,000	20,607,000	21,463,000	22,349,000	23,266,000	24,216,000
Terminal equipment	2,933,439	3,057,345	2,128,254	3,733,000	4,001,000	4,170,000	4,623,000	4,815,000	5,014,000	5,219,000	5,432,000
Shared use	-	-	669,299	1,068,000	1,860,000	1,938,000	2,160,000	2,250,000	2,343,000	2,439,000	2,539,000
Subtotal airline cost centers	\$ 33,966,693	\$ 35,025,009	\$ 37,649,694	\$ 42,236,000	\$ 51,220,000	\$ 53,160,000	\$ 58,883,000	\$ 61,329,000	\$ 63,861,000	\$ 66,481,000	\$ 69,195,000
Nonairline cost centers											
Terminal building (nonairline)	\$ 17,409,590	\$ 18,546,802	\$ 19,668,310	\$ 22,098,000	\$ 26,663,000	\$ 27,636,000	\$ 31,431,000	\$ 32,736,000	\$ 34,087,000	\$ 35,486,000	\$ 36,934,000
Parking	10,752,682	11,252,855	11,609,641	11,759,000	13,370,000	13,914,000	15,614,000	16,560,000	17,244,000	17,951,000	18,684,000
Other nonairline cost centers	3,031,463	3,537,878	3,739,836	3,929,000	4,560,000	4,752,000	5,438,000	5,664,000	5,897,000	6,140,000	6,390,000
Subtotal nonairline cost centers	\$ 31,193,735	\$ 33,337,535	\$ 35,017,787	\$ 37,786,000	\$ 44,593,000	\$ 46,302,000	\$ 52,483,000	\$ 54,960,000	\$ 57,228,000	\$ 59,577,000	\$ 62,008,000
Total expenses by cost center	\$ 65,160,428	\$ 68,362,544	\$ 72,667,481	\$ 80,022,000	\$ 95,813,000	\$ 99,462,000	\$ 111,366,000	\$ 116,289,000	\$ 121,089,000	\$ 126,058,000	\$ 131,203,000

(a) Source: City of Austin, Aviation Department, annual Rates and Charges Reconciliation reports.

Exhibit E
GROSS REVENUES
Austin-Bergstrom International Airport
For Fiscal Years ending September 30

This exhibit is based on information from the sources indicated and assumptions provided and adopted by Airport management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

	Historical (a)			Estimated	Budget	Forecast					
	2013	2014	2015	Actual 2016	2017	2018	2019	2020	2021	2022	2023
Airline revenues											
Landing fees	\$ 21,653,215	\$ 21,246,774	\$ 23,390,341	\$ 24,762,000	\$ 27,072,000	\$ 28,747,000	\$ 30,580,000	\$ 31,087,000	\$ 31,500,000	\$ 32,177,000	\$ 33,101,000
Terminal building rentals	15,997,142	15,509,751	16,681,434	19,295,000	22,768,000	25,155,000	25,677,000	28,603,000	33,992,000	35,461,000	36,260,000
Other rentals and fees	6,272,186	7,105,584	8,952,865	12,233,000	13,150,000	14,469,000	15,105,000	16,814,000	18,398,000	19,206,000	19,860,000
Total airline revenues	\$ 43,922,543	\$ 43,862,109	\$ 49,024,640	\$ 56,290,000	\$ 62,990,000	\$ 68,371,000	\$ 71,362,000	\$ 76,504,000	\$ 83,890,000	\$ 86,844,000	\$ 89,221,000
Annual percent change		-0.1%	11.8%	14.8%	11.9%	8.5%	4.4%	7.2%	9.7%	3.5%	2.7%
Nonairline revenues											
Terminal concession revenues											
Food and beverage	\$ 3,945,229	\$ 5,187,412	\$ 6,195,220	\$ 7,189,000	\$ 7,114,000	\$ 8,082,000	\$ 8,941,000	\$ 9,416,000	\$ 9,910,000	\$ 10,427,000	\$ 10,965,000
Retail	2,930,790	2,772,224	3,056,182	3,178,000	3,360,000	3,573,000	3,952,000	4,162,000	4,381,000	4,609,000	4,847,000
Advertising	875,176	1,237,996	1,573,744	1,569,000	1,780,000	1,877,000	1,977,000	2,082,000	2,191,000	2,306,000	2,425,000
Passenger services	309,565	167,651	153,766	171,000	192,000	196,000	201,000	205,000	210,000	214,000	219,000
Subtotal terminal concession revenues	\$ 8,060,760	\$ 9,365,283	\$ 10,978,912	\$ 12,107,000	\$ 12,446,000	\$ 13,728,000	\$ 15,071,000	\$ 15,865,000	\$ 16,692,000	\$ 17,556,000	\$ 18,456,000
Annual percent change		16.2%	17.2%	10.3%	2.8%	10.3%	9.8%	5.3%	5.2%	5.2%	5.1%
Enplaned passengers	4,928,979	5,275,464	5,792,387	6,180,464	6,325,000	6,550,000	6,700,000	6,850,000	7,000,000	7,150,000	7,300,000
Annual percent change		7.0%	9.8%	6.7%	2.3%	3.6%	2.3%	2.2%	2.2%	2.1%	2.1%
Per enplaned passenger	\$1.64	\$1.78	\$1.90	\$1.96	\$1.97	\$2.10	\$2.25	\$2.32	\$2.38	\$2.46	\$2.53
Parking and ground transportation											
Parking	\$ 32,155,216	\$ 33,722,673	\$ 36,586,049	\$ 39,382,000	\$ 40,555,000	\$ 39,832,000	\$ 45,616,000	\$ 46,518,000	\$ 48,796,000	\$ 51,192,000	\$ 53,710,000
Rental cars	11,313,391	12,190,267	13,279,194	13,849,000	13,837,000	14,241,000	14,965,000	15,723,000	16,516,000	17,345,000	18,212,000
Ground transportation	458,522	459,081	508,174	577,000	548,000	578,000	609,000	641,000	675,000	710,000	746,000
Subtotal parking and ground transportation	\$ 43,927,129	\$ 46,372,021	\$ 50,373,417	\$ 53,808,000	\$ 54,940,000	\$ 54,651,000	\$ 61,190,000	\$ 62,882,000	\$ 65,987,000	\$ 69,247,000	\$ 72,668,000
Annual percent change		5.6%	8.6%	6.8%	2.1%	-0.5%	12.0%	2.8%	4.9%	4.9%	4.9%
Per enplaned passenger	\$8.91	\$8.79	\$8.70	\$8.71	\$8.69	\$8.34	\$9.13	\$9.18	\$9.43	\$9.68	\$9.95
Other revenues											
Fuel flowage fees	\$ 591,707	\$ 639,724	\$ 693,341	\$ 695,000	\$ 756,000	\$ 778,000	\$ 802,000	\$ 826,000	\$ 850,000	\$ 876,000	\$ 902,000
Fuel facility fees	748,641	761,297	762,985	759,000	757,000	757,000	757,000	757,000	757,000	757,000	757,000
Cargo apron fees	453,915	465,982	499,526	488,000	495,000	510,000	525,000	541,000	557,000	574,000	591,000
Hotel fees	610,228	683,311	727,604	753,000	778,000	801,000	1,026,000	1,262,000	1,506,000	1,757,000	2,016,000
Building and ground rentals	3,099,685	3,048,644	3,217,937	4,304,000	5,361,000	5,522,000	5,688,000	6,059,000	6,446,000	6,846,000	7,257,000
Other	1,586,542	3,308,025	2,917,264	4,402,000	3,937,000	4,045,000	4,157,000	4,277,000	4,439,000	4,562,000	4,689,000
Interest income	111,124	116,172	153,177	312,000	218,000	218,000	218,000	218,000	218,000	218,000	218,000
Subtotal other revenues	\$ 7,201,842	\$ 9,023,155	\$ 8,971,834	\$ 11,713,000	\$ 12,302,000	\$ 12,631,000	\$ 13,173,000	\$ 13,940,000	\$ 14,773,000	\$ 15,590,000	\$ 16,430,000
Annual percent change		25.3%	-0.6%	30.6%	5.0%	2.7%	4.3%	5.8%	6.0%	5.5%	5.4%
Total nonairline revenues	\$ 59,189,731	\$ 64,760,459	\$ 70,324,163	\$ 77,628,000	\$ 79,688,000	\$ 81,010,000	\$ 89,434,000	\$ 92,687,000	\$ 97,452,000	\$ 102,393,000	\$ 107,554,000
Total revenues	\$ 103,112,274	\$ 108,622,568	\$ 119,348,803	\$ 133,918,000	\$ 142,678,000	\$ 149,381,000	\$ 160,796,000	\$ 169,191,000	\$ 181,342,000	\$ 189,237,000	\$ 196,775,000
Annual percent change		5.3%	9.9%	12.2%	6.5%	4.7%	7.6%	5.2%	7.2%	4.4%	4.0%

(a) Source: City of Austin, Aviation Department, annual Rates and Charges Reconciliation reports.

Exhibit E-1

AIRLINE REVENUES

Austin-Bergstrom International Airport
For Fiscal Years ending September 30

This exhibit is based on information from the sources indicated and assumptions provided and adopted by Airport management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

	Historical (a)			Estimated	Budget	Forecast						
	2013	2014	2015	Actual 2016	2017	2018	2019	2020	2021	2022	2023	
Airfield revenues												
Landing fees	\$ 21,653,215	\$ 21,246,774	\$ 23,390,341	\$ 24,762,000	\$ 27,072,000	\$ 28,747,000	\$ 30,580,000	\$ 31,087,000	\$ 31,500,000	\$ 32,177,000	\$ 33,101,000	
Landed weight	6,122,513	6,377,967	7,090,638	7,420,831	7,800,000	7,800,000	7,960,000	8,130,000	8,280,000	8,440,000	8,610,000	
Average landing fee rate (per 1,000 lbs)	\$3.54	\$3.33	\$3.30	\$3.34	\$3.47	\$3.69	\$3.84	\$3.82	\$3.80	\$3.81	\$3.84	
Terminal apron revenues												
Terminal apron fees	\$ 2,334,906	\$ 2,331,617	\$ 2,739,660	\$ 2,876,000	\$ 3,410,000	\$ 3,560,000	\$ 3,115,000	\$ 3,520,000	\$ 3,672,000	\$ 3,789,000	\$ 3,916,000	
RON fees	2,052,500	2,420,800	3,510,063	3,967,000	4,263,000	4,273,000	4,361,000	4,927,000	5,141,000	5,305,000	5,482,000	
Terminal apron revenues	\$ 4,387,406	\$ 4,752,417	\$ 6,249,723	\$ 6,843,000	\$ 7,673,000	\$ 7,833,000	\$ 7,476,000	\$ 8,447,000	\$ 8,813,000	\$ 9,094,000	\$ 9,398,000	
Terminal building revenues												
Air-conditioned space rentals	\$ 9,798,385	\$ 9,800,066	\$ 10,235,442	\$ 11,238,000	\$ 13,847,000	\$ 15,402,000	\$ 16,262,000	\$ 17,806,000	\$ 18,633,000	\$ 19,360,000	\$ 19,903,000	
Airline leased conditioned space	105,179	101,766	101,122	109,528	110,022	110,022	133,892	136,298	138,485	140,673	140,760	
Average terminal rental rate	\$93.16	\$96.30	\$101.22	\$102.60	\$125.86	\$139.99	\$121.46	\$130.64	\$134.55	\$137.62	\$141.40	
Baggage claim conveyor revenues	\$ 4,311,690	\$ 4,009,268	\$ 4,680,400	\$ 6,204,000	\$ 6,610,000	\$ 6,878,000	\$ 6,348,000	\$ 7,217,000	\$ 11,657,000	\$ 12,343,000	\$ 12,570,000	
Conditioned apron space rentals	464,178	454,712	426,071	455,000	677,000	961,000	1,040,000	1,268,000	1,301,000	1,302,000	1,297,000	
Unconditioned apron space rentals	354,919	300,141	280,048	292,000	389,000	552,000	842,000	1,049,000	1,096,000	1,117,000	1,112,000	
Mezzanine space rentals	1,067,970	945,564	1,059,474	1,106,000	1,245,000	1,361,000	1,185,000	1,264,000	1,304,000	1,339,000	1,379,000	
Other terminal building revenues	\$ 6,198,757	\$ 5,709,685	\$ 6,445,993	\$ 8,057,000	\$ 8,921,000	\$ 9,752,000	\$ 9,415,000	\$ 10,798,000	\$ 15,358,000	\$ 16,101,000	\$ 16,358,000	
Other airline revenues												
Shared use revenues	\$ -	\$ -	\$ 3,109,675	\$ 3,727,000	\$ 3,650,000	\$ 4,548,000	\$ 5,745,000	\$ 6,209,000	\$ 6,540,000	\$ 6,777,000	\$ 6,974,000	
US Customs fees	71,775	174,625	219,450	691,000	826,000	1,040,000	1,170,000	1,300,000	1,430,000	1,560,000	1,690,000	
Airline incentives	-	-	(1,757,161)	(1,219,000)	(950,000)	(950,000)	(950,000)	(950,000)	(950,000)	(950,000)	(950,000)	
Other airline revenues	\$ 71,775	\$ 174,625	\$ 1,571,964	\$ 3,199,000	\$ 3,526,000	\$ 4,638,000	\$ 5,965,000	\$ 6,559,000	\$ 7,020,000	\$ 7,387,000	\$ 7,714,000	
Terminal equipment revenues												
Loading bridge and MUFID fees	\$ 1,350,747	\$ 1,482,359	\$ 928,415	\$ 1,910,000	\$ 1,684,000	\$ 1,719,000	\$ 1,449,000	\$ 1,485,000	\$ 1,362,000	\$ 1,413,000	\$ 1,467,000	
Baggage makeup equipment fees	462,258	696,183	202,763	282,000	267,000	278,000	216,000	323,000	1,203,000	1,311,000	1,282,000	
Total terminal equipment fees	\$ 1,813,005	\$ 2,178,542	\$ 1,131,178	\$ 2,192,000	\$ 1,951,000	\$ 1,997,000	\$ 1,665,000	\$ 1,808,000	\$ 2,565,000	\$ 2,724,000	\$ 2,749,000	
Airline payments per passenger												
Total airline payments	\$ 43,922,543	\$ 43,862,109	\$ 49,024,641	\$ 56,291,000	\$ 62,990,000	\$ 68,369,000	\$ 71,363,000	\$ 76,505,000	\$ 83,889,000	\$ 86,843,000	\$ 89,223,000	
Less: Landing fees paid by all-cargo airlines	(1,475,217)	(1,510,821)	(1,998,736)	(1,796,000)	(1,895,000)	(1,806,000)	(1,882,000)	(1,874,000)	(1,864,000)	(1,906,000)	(1,922,000)	
Fiscal year-end reconciliation adjustment (b)	-	-	-	(2,655,000)	-	-	-	-	-	-	-	
Subtotal	\$ 42,447,326	\$ 42,351,288	\$ 47,025,905	\$ 51,840,000	\$ 61,095,000	\$ 66,563,000	\$ 69,481,000	\$ 74,631,000	\$ 82,025,000	\$ 84,937,000	\$ 87,301,000	
Enplaned passengers	4,928,979	5,275,464	5,792,387	6,180,464	6,325,000	6,550,000	6,700,000	6,850,000	7,000,000	7,150,000	7,300,000	
Airline payments per passenger	\$8.61	\$8.03	\$8.12	\$8.39	\$9.66	\$10.16	\$10.37	\$10.90	\$11.72	\$11.88	\$11.96	

(a) Source: City of Austin, Aviation Department, annual Rates and Charges Reconciliation reports.

(b) Represents amount airlines paid based on budget versus actual requirement in FY 2016.

Exhibit F

SOURCES AND USES OF PFC REVENUES
Austin-Bergstrom International Airport
For Fiscal Years ending September 30

This exhibit is based on information from the sources indicated and assumptions provided and adopted by Airport management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

	Historical (a)			Estimated		Forecast					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Sources of PFC revenues											
Enplaned passengers	4,928,979	5,275,464	5,792,387	6,180,464	6,400,000	6,550,000	6,700,000	6,850,000	7,000,000	7,150,000	7,300,000
Net PFC per passenger (b)	\$4.39	\$4.39	\$4.39	\$4.39	\$4.39	\$4.39	\$4.39	\$4.39	\$4.39	\$4.39	\$4.39
Percent passengers paying PFC	90.1%	85.5%	88.0%	88.8%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%
PFC collections	\$ 19,506,796	\$ 19,806,331	\$ 22,384,288	\$ 24,101,000	\$ 23,882,000	\$ 24,441,000	\$ 25,001,000	\$ 25,561,000	\$ 26,121,000	\$ 26,680,000	\$ 27,240,000
Investment earnings	74,451	49,179	103,427	299,000	364,000	142,000	209,000	269,000	291,000	311,000	331,000
Total PFC revenues	\$ 19,581,247	\$ 19,855,510	\$ 22,487,715	\$ 24,400,000	\$ 24,246,000	\$ 24,583,000	\$ 25,210,000	\$ 25,830,000	\$ 26,412,000	\$ 26,991,000	\$ 27,571,000
Uses of PFC revenues											
Debt service on Revenue Bonds	\$ 11,032,005	\$ 11,135,562	\$ 11,082,223	\$ 12,155,000	\$ 11,920,000	\$ 10,656,000	\$ 12,628,000	\$ 21,077,000	\$ 22,092,000	\$ 22,702,000	\$ 22,719,000
2005 Bonds Administrative Expenses	1,364,261	1,251,164	637,294	586,000	591,000	584,000	522,000	450,000	378,000	308,000	-
Pay-as-you-go expenditures	-	-	-	-	56,000,000	-	-	-	-	-	-
Total PFC expenditures	\$ 12,396,266	\$ 12,386,726	\$ 11,719,517	\$ 12,741,000	\$ 68,511,000	\$ 11,240,000	\$ 13,150,000	\$ 21,527,000	\$ 22,470,000	\$ 23,010,000	\$ 22,719,000
Net PFC revenues over (under) expenditures	\$ 7,184,981	\$ 7,468,784	\$ 10,768,198	\$ 11,659,000	\$ (44,265,000)	\$ 13,343,000	\$ 12,060,000	\$ 4,303,000	\$ 3,942,000	\$ 3,981,000	\$ 4,852,000
PFC Fund balance	\$ 42,848,463	\$ 50,317,247	\$ 61,085,445	\$ 72,745,000	\$ 28,480,000	\$ 41,823,000	\$ 53,884,000	\$ 58,187,000	\$ 62,128,000	\$ 66,108,000	\$ 70,960,000
Required set-aside for payment of all PFC-eligible debt service in following Fiscal Year	\$ 11,135,562	\$ 11,082,223	\$ 12,154,524	\$ 11,920,000	\$ 10,656,000	\$ 12,628,000	\$ 21,077,000	\$ 22,092,000	\$ 22,702,000	\$ 22,719,000	\$ 22,730,000

(a) Source: City of Austin, Aviation Department, quarterly PFC reports.

(b) \$4.50 less airline collection fee of \$0.11 per passenger effective April 2004.

Exhibit G

APPLICATION OF REVENUES AND DEBT SERVICE COVERAGE

Austin-Bergstrom International Airport
For Fiscal Years ending September 30

This exhibit is based on information from the sources indicated and assumptions provided and adopted by Airport management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

	Historical			Estimated		Forecast					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Gross Revenues and Other Available Funds											
Airline revenues	\$ 43,922,543	\$ 43,862,109	\$ 49,024,640	\$ 56,290,000	\$ 62,990,000	\$ 68,371,000	\$ 71,362,000	\$ 76,504,000	\$ 83,890,000	\$ 86,844,000	\$ 89,221,000
Nonairline revenues	59,189,731	64,760,459	70,324,163	77,628,000	79,688,000	81,010,000	89,434,000	92,687,000	97,452,000	102,393,000	107,554,000
Gross Revenues (a)	\$ 103,112,274	\$ 108,622,568	\$ 119,348,803	\$ 133,918,000	\$ 142,678,000	\$ 149,381,000	\$ 160,796,000	\$ 169,191,000	\$ 181,342,000	\$ 189,237,000	\$ 196,775,000
Other Available Funds (b)	3,940,650	3,734,580	3,993,285	5,511,000	6,182,000	6,647,000	8,902,000	10,852,000	11,835,000	11,764,000	11,768,000
Gross Revenues and Other Available Funds	\$ 107,052,924	\$ 112,357,148	\$ 123,342,088	\$ 139,429,000	\$ 148,860,000	\$ 156,028,000	\$ 169,698,000	\$ 180,043,000	\$ 193,177,000	\$ 201,001,000	\$ 208,543,000
Application of Gross Revenues and Other Available Funds											
Operation and Maintenance Expenses (c)	\$ 65,160,428	\$ 68,362,544	\$ 72,667,481	\$ 80,022,000	\$ 95,815,000	\$ 99,460,000	\$ 111,367,000	\$ 116,289,000	\$ 121,089,000	\$ 126,059,000	\$ 131,203,000
Revenue Bond Debt Service Requirements (d)	15,762,600	14,938,318	15,973,140	22,045,000	24,729,000	26,588,000	35,609,000	43,406,000	47,341,000	47,057,000	47,071,000
Administrative Expenses (d)	1,886,119	1,581,259	862,159	792,000	746,000	737,000	659,000	567,000	476,000	390,000	-
Debt Service Reserve Fund	-	-	-	-	-	-	-	-	-	-	-
Subordinate Obligations (e)	2,536,790	-	-	-	-	-	-	-	-	-	-
General Obligation Airport Bonds	26,272	26,277	26,040	27,000	27,000	4,000	3,000	-	-	-	-
Operation and Maintenance Reserve Fund	605,758	493,408	877,366	1,923,000	1,967,000	608,000	1,984,000	820,000	800,000	828,000	857,000
Renewal and Replacement Fund	-	-	-	-	-	-	-	-	-	-	-
Capital Fund	21,074,957	26,955,342	32,935,902	34,620,000	25,576,000	28,631,000	20,076,000	18,961,000	23,471,000	26,667,000	29,412,000
Total application	\$ 107,052,924	\$ 112,357,148	\$ 123,342,088	\$ 139,429,000	\$ 148,860,000	\$ 156,028,000	\$ 169,698,000	\$ 180,043,000	\$ 193,177,000	\$ 201,001,000	\$ 208,543,000
Calculation of debt service coverage											
Gross Revenues	\$ 103,112,274	\$ 108,622,568	\$ 119,348,803	\$ 133,918,000	\$ 142,678,000	\$ 149,381,000	\$ 160,796,000	\$ 169,191,000	\$ 181,342,000	\$ 189,237,000	\$ 196,775,000
Less: Operation and Maintenance Expenses	(65,160,428)	(68,362,544)	(72,667,481)	(80,022,000)	(95,815,000)	(99,460,000)	(111,367,000)	(116,289,000)	(121,089,000)	(126,059,000)	(131,203,000)
Net Revenues	\$ 37,951,846	\$ 40,260,024	\$ 46,681,322	\$ 53,896,000	\$ 46,863,000	\$ 49,921,000	\$ 49,429,000	\$ 52,902,000	\$ 60,253,000	\$ 63,178,000	\$ 65,572,000
Other Available Funds	3,940,650	3,734,580	3,993,285	5,511,000	6,182,000	6,647,000	8,902,000	10,852,000	11,835,000	11,764,000	11,768,000
Net Revenues plus Other Available Funds	\$ 41,892,496	\$ 43,994,604	\$ 50,674,607	\$ 59,407,000	\$ 53,045,000	\$ 56,568,000	\$ 58,331,000	\$ 63,754,000	\$ 72,088,000	\$ 74,942,000	\$ 77,340,000
Less: Administrative Expenses (d)	(1,886,119)	(1,581,259)	(862,159)	(792,000)	(746,000)	(737,000)	(659,000)	(567,000)	(476,000)	(390,000)	-
Fiscal year-end reconciliation adjustment (f)	-	-	-	(2,655,000)	-	-	-	-	-	-	-
Subtotal	[A] \$ 40,006,377	\$ 42,413,345	\$ 49,812,448	\$ 55,960,000	\$ 52,299,000	\$ 55,831,000	\$ 57,672,000	\$ 63,187,000	\$ 71,612,000	\$ 74,552,000	\$ 77,340,000
Revenue Bond Debt Service Requirements (d)	[B] \$ 15,762,600	\$ 14,938,318	\$ 15,973,140	\$ 22,045,000	\$ 24,729,000	\$ 26,588,000	\$ 35,609,000	\$ 43,406,000	\$ 47,341,000	\$ 47,057,000	\$ 47,071,000
Debt service coverage	[A/B] 2.54	2.84	3.12	2.54	2.11	2.10	1.62	1.46	1.51	1.58	1.64
Debt service coverage requirement	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25

(a) See Exhibit E.

(b) Amounts, up to a maximum of 25% of Revenue Bond Debt Service Requirements, transferred from the Capital Fund as permitted under the Rate Covenant of the Revenue Bond Ordinances.

(c) See Exhibit D.

(d) See Exhibit C. Amounts are net of payments from PFC revenues.

(e) Debt service on 1998 Notes.

(f) Represents FY 2016 Reconciliation Adjustment which is applied as credits to Airline invoices in FY 2017.

Exhibit H-1

SUMMARY OF FORECAST FINANCIAL RESULTS: BASE CASE PASSENGER FORECAST

Austin-Bergstrom International Airport
For Fiscal Years ending September 30

This exhibit is based on information from the sources indicated and assumptions provided and adopted by Airport management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

	Historical			Estimated		Forecast						
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Gross Revenues and Other Available Funds												
Airline revenues	\$ 43,922,543	\$ 43,862,109	\$ 49,024,640	\$ 56,290,000	\$ 62,990,000	\$ 68,371,000	\$ 71,362,000	\$ 76,504,000	\$ 83,890,000	\$ 86,844,000	\$ 89,221,000	
Terminal concession revenues	8,060,760	9,365,283	10,978,912	12,107,000	12,446,000	13,728,000	15,071,000	15,865,000	16,692,000	17,556,000	18,456,000	
Parking and ground transportation revenues	43,927,129	46,372,021	50,373,417	53,808,000	54,940,000	54,651,000	61,190,000	62,882,000	65,987,000	69,247,000	72,668,000	
Other revenues	7,201,842	9,023,155	8,971,834	11,713,000	12,302,000	12,631,000	13,173,000	13,940,000	14,773,000	15,590,000	16,430,000	
Gross Revenues	\$ 103,112,274	\$ 108,622,568	\$ 119,348,803	\$ 133,918,000	\$ 142,678,000	\$ 149,381,000	\$ 160,796,000	\$ 169,191,000	\$ 181,342,000	\$ 189,237,000	\$ 196,775,000	
Other Available Funds	3,940,650	3,734,580	3,993,285	5,511,000	6,182,000	6,647,000	8,902,000	10,852,000	11,835,000	11,764,000	11,768,000	
Gross Revenues and Other Available Funds	\$ 107,052,924	\$ 112,357,148	\$ 123,342,088	\$ 139,429,000	\$ 148,860,000	\$ 156,028,000	\$ 169,698,000	\$ 180,043,000	\$ 193,177,000	\$ 201,001,000	\$ 208,543,000	
Enplaned passengers	4,928,979	5,275,464	5,792,387	6,180,464	6,400,000	6,550,000	6,700,000	6,850,000	7,000,000	7,150,000	7,300,000	
Annual percent change		7.0%	9.8%	6.7%	3.6%	2.3%	2.3%	2.2%	2.2%	2.1%	2.1%	
Airline payments per passenger	\$8.61	\$8.03	\$8.12	\$8.39	\$9.66	\$10.16	\$10.37	\$10.90	\$11.72	\$11.88	\$11.96	
Application of Gross Revenues and Other Available Funds												
Operation and Maintenance Expenses	\$ 65,160,428	\$ 68,362,544	\$ 72,667,481	\$ 80,022,000	\$ 95,815,000	\$ 99,460,000	\$ 111,367,000	\$ 116,289,000	\$ 121,089,000	\$ 126,059,000	\$ 131,203,000	
Revenue Bond debt service	26,794,605	26,073,880	27,055,363	34,200,000	36,649,000	37,244,000	48,237,000	64,483,000	69,433,000	69,759,000	69,790,000	
Less: Paid from PFC revenues	(11,032,005)	(11,135,562)	(11,082,223)	(12,155,000)	(11,920,000)	(10,656,000)	(12,628,000)	(21,077,000)	(22,092,000)	(22,702,000)	(22,719,000)	
Other applications	5,054,939	2,100,944	1,765,565	2,742,000	2,740,000	1,349,000	2,646,000	1,387,000	1,276,000	1,218,000	857,000	
Capital Fund	21,074,957	26,955,342	32,935,902	34,620,000	25,576,000	28,631,000	20,076,000	18,961,000	23,471,000	26,667,000	29,412,000	
Total application	\$ 107,052,924	\$ 112,357,148	\$ 123,342,088	\$ 139,429,000	\$ 148,860,000	\$ 156,028,000	\$ 169,698,000	\$ 180,043,000	\$ 193,177,000	\$ 201,001,000	\$ 208,543,000	
Passenger Facility Charges												
PFC revenues	\$ 19,581,247	\$ 19,855,510	\$ 22,487,715	\$ 24,400,000	\$ 24,246,000	\$ 24,583,000	\$ 25,210,000	\$ 25,830,000	\$ 26,412,000	\$ 26,991,000	\$ 27,571,000	
Less: PFC revenues used to pay debt service	(11,032,005)	(11,135,562)	(11,082,223)	(12,155,000)	(11,920,000)	(10,656,000)	(12,628,000)	(21,077,000)	(22,092,000)	(22,702,000)	(22,719,000)	
Less: PFC revenues used to pay Administrative Expenses	(1,364,261)	(1,251,164)	(637,294)	(586,000)	(591,000)	(584,000)	(522,000)	(450,000)	(378,000)	(308,000)	-	
Less: Pay-as-you-go expenditures	-	-	-	-	(56,000,000)	-	-	-	-	-	-	
Net PFC revenues over (under) expenditures	\$ 7,184,981	\$ 7,468,784	\$ 10,768,198	\$ 11,659,000	\$ (44,265,000)	\$ 13,343,000	\$ 12,060,000	\$ 4,303,000	\$ 3,942,000	\$ 3,981,000	\$ 4,852,000	
PFC Fund balance	\$ 42,848,463	\$ 50,317,247	\$ 61,085,445	\$ 72,745,000	\$ 28,480,000	\$ 41,823,000	\$ 53,884,000	\$ 58,187,000	\$ 62,128,000	\$ 66,108,000	\$ 70,960,000	
Debt service coverage												
Debt service coverage	2.54	2.84	3.12	2.54	2.11	2.10	1.62	1.46	1.51	1.58	1.64	
Debt service coverage requirement	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	

Source: See preceding exhibits and accompanying text.

Exhibit H-2

SUMMARY OF PROJECTED FINANCIAL RESULTS: STRESS TEST PASSENGER FORECAST

Austin-Bergstrom International Airport
For Fiscal Years ending September 30

This exhibit is based on information from the sources indicated and assumptions provided and adopted by Airport management, as described in the accompanying text. Inevitably, some assumptions used to develop the projections will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those projected and the variations could be material.

	Historical			Estimated		Projected						
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Gross Revenues and Other Available Funds												
Airline revenues	\$ 43,922,543	\$ 43,862,109	\$ 49,024,640	\$ 56,290,000	\$ 62,990,000	\$ 63,237,000	\$ 61,984,000	\$ 67,213,000	\$ 74,325,000	\$ 77,016,000	\$ 79,465,000	
Terminal concession revenues	8,060,760	9,365,283	10,978,912	12,107,000	12,446,000	11,674,000	12,822,000	13,479,000	14,189,000	14,928,000	15,699,000	
Parking and ground transportation revenues	43,927,129	46,372,021	50,373,417	53,808,000	54,940,000	46,073,000	51,623,000	52,955,000	55,583,000	58,345,000	61,246,000	
Other revenues	7,201,842	9,023,155	8,971,834	11,713,000	12,302,000	12,577,000	13,117,000	13,880,000	14,710,000	15,524,000	16,361,000	
Gross Revenues	\$ 103,112,274	\$ 108,622,568	\$ 119,348,803	\$ 133,918,000	\$ 142,678,000	\$ 133,561,000	\$ 139,546,000	\$ 147,527,000	\$ 158,807,000	\$ 165,813,000	\$ 172,771,000	
Other Available Funds	3,940,650	3,734,580	3,993,285	5,511,000	6,182,000	6,647,000	8,902,000	10,852,000	11,835,000	11,764,000	11,768,000	
Gross Revenues and Other Available Funds	\$ 107,052,924	\$ 112,357,148	\$ 123,342,088	\$ 139,429,000	\$ 148,860,000	\$ 140,208,000	\$ 148,448,000	\$ 158,379,000	\$ 170,642,000	\$ 177,577,000	\$ 184,539,000	
Enplaned passengers	4,928,979	5,275,464	5,792,387	6,180,464	6,400,000	5,570,000	5,700,000	5,820,000	5,950,000	6,080,000	6,210,000	
Annual percent change		7.0%	9.8%	6.7%	3.6%	-13.0%	2.3%	2.1%	2.2%	2.2%	2.1%	
Airline payments per passenger	\$8.61	\$8.03	\$8.12	\$8.39	\$9.66	\$11.00	\$10.52	\$11.20	\$12.16	\$12.34	\$12.47	
Application of Gross Revenues and Other Available Funds												
Operation and Maintenance Expenses	\$ 65,160,428	\$ 68,362,544	\$ 72,667,481	\$ 80,022,000	\$ 95,815,000	\$ 89,850,000	\$ 98,276,000	\$ 102,556,000	\$ 106,811,000	\$ 111,219,000	\$ 115,780,000	
Revenue Bond debt service	26,794,605	26,073,880	27,055,363	34,200,000	36,649,000	37,244,000	48,237,000	64,483,000	69,433,000	69,759,000	69,790,000	
Less: Paid from PFC revenues	(11,032,005)	(11,135,562)	(11,082,223)	(12,155,000)	(11,920,000)	(10,656,000)	(12,628,000)	(21,077,000)	(22,092,000)	(22,702,000)	(22,719,000)	
Other applications	5,054,939	2,100,944	1,765,565	2,742,000	2,740,000	741,000	1,072,000	1,280,000	1,185,000	1,124,000	760,000	
Capital Fund	21,074,957	26,955,342	32,935,902	34,620,000	25,576,000	23,029,000	13,491,000	11,137,000	15,305,000	18,177,000	20,928,000	
Total application	\$ 107,052,924	\$ 112,357,148	\$ 123,342,088	\$ 139,429,000	\$ 148,860,000	\$ 140,208,000	\$ 148,448,000	\$ 158,379,000	\$ 170,642,000	\$ 177,577,000	\$ 184,539,000	
Passenger Facility Charges												
PFC revenues	\$ 19,581,247	\$ 19,855,510	\$ 22,487,715	\$ 24,400,000	\$ 24,246,000	\$ 20,926,000	\$ 21,461,000	\$ 21,949,000	\$ 22,436,000	\$ 22,922,000	\$ 23,407,000	
Less: PFC revenues used to pay debt service	(11,032,005)	(11,135,562)	(11,082,223)	(12,155,000)	(11,920,000)	(10,656,000)	(12,628,000)	(21,077,000)	(22,092,000)	(22,702,000)	(22,719,000)	
Less: PFC revenues used to pay Administrative Expenses	(1,364,261)	(1,251,164)	(637,294)	(586,000)	(591,000)	(584,000)	(522,000)	(450,000)	(378,000)	(308,000)	-	
Less: Pay-as-you-go expenditures	-	-	-	-	(56,000,000)	-	-	-	-	-	-	
Net PFC revenues over (under) expenditures	\$ 7,184,981	\$ 7,468,784	\$ 10,768,198	\$ 11,659,000	\$ (44,265,000)	\$ 9,686,000	\$ 8,311,000	\$ 422,000	\$ (34,000)	\$ (88,000)	\$ 688,000	
PFC Fund balance	\$ 42,848,463	\$ 50,317,247	\$ 61,085,445	\$ 72,745,000	\$ 28,480,000	\$ 38,166,000	\$ 46,477,000	\$ 46,900,000	\$ 46,866,000	\$ 46,777,000	\$ 47,465,000	
Debt service coverage												
Debt service coverage	2.54	2.84	3.12	2.54	2.11	1.87	1.39	1.27	1.34	1.40	1.46	
Debt service coverage requirement	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	

Source: See preceding exhibits and accompanying text.

APPENDIX B

AUDITED FINANCIAL STATEMENTS

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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, 2015, 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units which represent 99.8% of the assets, net position, and 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, has 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, 2015, 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.

Emphasis of Matter

As discussed in Note 18 to the financial statements, beginning net position was restated due to the City's implementation of Governmental Accounting Standards Board Statements No. 68, *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No.27 and No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* during the year ended September 30, 2015. Our opinion is not modified with respect to this change.

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 Post-Employment 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.

DeLette & Fouche LLP

March 28, 2016

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, 2015.

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. 71.

FINANCIAL HIGHLIGHTS

Government-wide financial statements

The assets of the City exceeded its liabilities at the end of the fiscal year 2015, resulting in \$4.1 billion of net position. Net position associated with governmental activities is approximately \$0.7 billion, while the net position associated with business-type activities is approximately \$3.4 billion, or 83.8% of the total net position of the City. The largest portion of net position consists of net investment in capital assets, which is \$3.9 billion, or 94.6% of total net position. The City implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27" during the year, which increased the net pension liability in the financial statements by \$1.2 billion over the previously reported net pension obligation.

The City's unrestricted net position is a deficit of \$557 million. Unrestricted net position for governmental activities is a deficit of \$1.1 billion, while unrestricted net position for business-type activities is approximately \$560.3 million, or 16.4% of total business-type net position. The deficit in governmental unrestricted net position is largely due to the net pension liability of \$844.1 million and other postemployment benefits payable of \$484.9 million.

During fiscal year 2015, total net position for the City of Austin increased \$183.9 million or 4.7%. Of this amount, governmental activities decreased \$18.3 million, or 2.7% from the previous year and business-type activities increased \$202.2 million, or 6.3%.

Total revenues for the City increased \$190.5 million; revenues for governmental activities increased \$70.9 million; revenues for business-type activities increased \$119.6 million. Total expenses for the City increased \$106.3 million; expenses for governmental activities increased \$59.5 million; expenses for business-type activities increased \$46.8 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 five 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, as restated (in thousands):

	Condensed Statement of Net Position as of September 30 (in thousands)					
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current assets	\$ 688,543	645,341	1,339,775	1,258,553	2,028,318	1,903,894
Capital assets	2,792,395	2,693,200	7,446,085	7,315,956	10,238,480	10,009,156
Other noncurrent assets	1,488	1,547	1,644,741	1,185,352	1,646,229	1,186,899
Total assets	<u>3,482,426</u>	<u>3,340,088</u>	<u>10,430,601</u>	<u>9,759,861</u>	<u>13,913,027</u>	<u>13,099,949</u>
Deferred outflows of resources	<u>167,627</u>	<u>88,620</u>	<u>313,209</u>	<u>227,387</u>	<u>480,836</u>	<u>316,007</u>
Current liabilities	324,557	321,500	489,483	481,782	814,040	803,282
Noncurrent liabilities	2,661,982	2,418,186	5,923,535	5,546,435	8,585,517	7,964,621
Total liabilities	<u>2,986,539</u>	<u>2,739,686</u>	<u>6,413,018</u>	<u>6,028,217</u>	<u>9,399,557</u>	<u>8,767,903</u>
Deferred inflows of resources	<u>1,464</u>	<u>8,681</u>	<u>904,455</u>	<u>734,857</u>	<u>905,919</u>	<u>743,538</u>
Net position:						
Net investment in capital assets	1,645,359	1,621,208	2,223,964	2,216,347	3,869,323	3,837,555
Restricted	133,984	118,335	642,052	524,653	776,036	642,988
Unrestricted (deficit)	<u>(1,117,293)</u>	<u>(1,059,202)</u>	<u>560,321</u>	<u>483,174</u>	<u>(556,972)</u>	<u>(576,028)</u>
Total net position	<u>\$ 662,050</u>	<u>680,341</u>	<u>3,426,337</u>	<u>3,224,174</u>	<u>4,088,387</u>	<u>3,904,515</u>

In the current fiscal year, total assets increased \$813.1 million and deferred outflows of the City increased by \$164.8 million. Total liabilities increased \$631.7 million and deferred inflows increased by \$162.4 million. Governmental-type total assets increased by \$142.3 million and business-type increased by \$670.7 million, while governmental-type liabilities increased by \$246.9 million and business-type increased by \$384.8 million.

The most significant increase in governmental total assets resulted from an increase in capital assets of \$99.2 million as the City continues to build out projects from the 2006, 2010, and 2012 bond programs. Factors in the increase of governmental-type liabilities include increases in the bonds payable of \$102.7 million, related to the 2006 (\$21 million), 2010 (\$14.7 million), and 2012 (\$69.3 million) bond programs along with increases in the net pension liability of \$89.9 million and other postemployment benefits payable of \$49.6.

The most significant factor in the increase of business-type total assets is a result of an increase in capital assets of \$130.1 million or 19.4%. The primary factors in the increase in business-type total liabilities of \$384.8 million include an increase in bonds payable of \$298.9 million and an increase in the net pension liability of \$53.2 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 \$4.1 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, building, and equipment offset by related debt), which is \$3.9 billion, or 94.6% 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, \$776 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 \$557 million of unrestricted net position. Unrestricted net position improved \$19.1 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 \$1.1 billion and \$557 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		Business-Type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Program revenues:						
Charges for services	\$ 160,708	141,709	2,296,132	2,225,860	2,456,840	2,367,569
Operating grants and contributions	45,470	50,333	1,039	1,489	46,509	51,822
Capital grants and contributions	70,484	66,856	110,580	65,550	181,064	132,406
General revenues:						
Property tax	476,439	448,083	--	--	476,439	448,083
Sales tax	204,029	189,464	--	--	204,029	189,464
Franchise fees and gross receipts tax	141,368	128,032	--	--	141,368	128,032
Interest and other	21,951	21,275	10,498	5,717	32,449	26,992
Special item - land sale	11,983	15,830	--	--	11,983	15,830
Total revenues	<u>1,132,432</u>	<u>1,061,582</u>	<u>2,418,249</u>	<u>2,298,616</u>	<u>3,550,681</u>	<u>3,360,198</u>
Program expenses:						
General government	131,993	118,074	--	--	131,993	118,074
Public safety	601,112	576,118	--	--	601,112	576,118
Transportation, planning, and sustainability	77,349	83,971	--	--	77,349	83,971
Public health	85,326	80,796	--	--	85,326	80,796
Public recreation and culture	134,567	117,441	--	--	134,567	117,441
Urban growth management	135,386	136,110	--	--	135,386	136,110
Interest on debt	55,855	49,617	--	--	55,855	49,617
Electric	--	--	1,203,729	1,251,599	1,203,729	1,251,599
Water	--	--	294,624	240,838	294,624	240,838
Wastewater	--	--	219,320	213,156	219,320	213,156
Airport	--	--	120,015	108,291	120,015	108,291
Convention	--	--	65,657	58,763	65,657	58,763
Environmental and health services	--	--	97,690	92,997	97,690	92,997
Public recreation	--	--	8,824	6,765	8,824	6,765
Urban growth management	--	--	135,360	125,983	135,360	125,983
Total expenses	<u>1,221,588</u>	<u>1,162,127</u>	<u>2,145,219</u>	<u>2,098,392</u>	<u>3,366,807</u>	<u>3,260,519</u>
Excess (deficiency) before transfers	(89,156)	(100,545)	273,030	200,224	183,874	99,679
Transfers	70,865	62,215	(70,865)	(62,215)	--	--
Increase (decrease) in net position	<u>(18,291)</u>	<u>(38,330)</u>	<u>202,165</u>	<u>138,009</u>	<u>183,874</u>	<u>99,679</u>
Beginning net position, as previously reported	1,308,194	1,355,433	3,328,362	3,197,015	4,636,556	4,552,448
Restatement adjustment	<u>(627,853)</u>	<u>(8,909)</u>	<u>(104,190)</u>	<u>(6,662)</u>	<u>(732,043)</u>	<u>(15,571)</u>
Beginning net position, as restated	<u>680,341</u>	<u>1,346,524</u>	<u>3,224,172</u>	<u>3,190,353</u>	<u>3,904,513</u>	<u>4,536,877</u>
Ending net position	<u>\$ 662,050</u>	<u>1,308,194</u>	<u>3,426,337</u>	<u>3,328,362</u>	<u>4,088,387</u>	<u>4,636,556</u>

Total net position of the City increased by \$183.9 million in the current fiscal year. Governmental net position decreased by \$18.3 million. The decrease is attributable to expenses exceeding revenues by \$89.2 million before transfers from other funds of \$70.9 million. Business-type net position increased by \$202.2 million due to revenues exceeding expenses by \$273 million, before transfers to other funds of \$70.9 million.

In addition, the City restated beginning net position for governmental and business-type activities as a result of the implementation of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions an amendment to GASB Statement No. 27", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment to GASB Statement No. 68". For more information, see Note 18.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

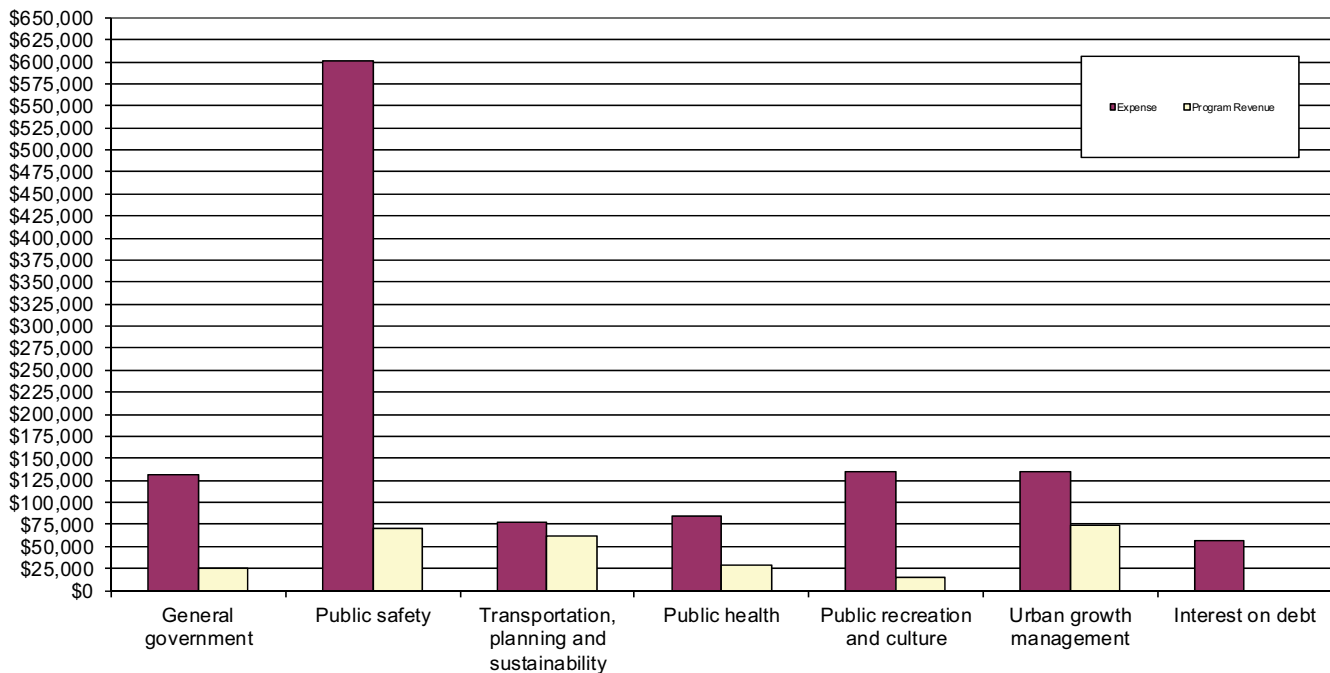
c -- Program revenues and expenses -- governmental activities

Governmental activities decreased the City’s net position by \$18.3 million in fiscal year 2015, a 2.7% decrease of governmental net position from the previous year. Key factors for the change from fiscal year 2014 to 2015 are as follows:

- The City’s property tax revenue increased by \$28.4 million from the previous year due to an increase in assessed property values of \$9.9 billion, while the property tax rate per \$100 of valuation decreased from 0.5027 to 0.4809.
- Sales tax collections and franchise fees for the year were \$14.6 million and \$13.3, respectively, more than the prior year as result of the continued improvement of the Austin economy.
- The City sold a piece of land for \$12 million, which is reported as a special item. See Note 1 for more details.
- Public safety expenses, public recreation and culture expenses, and general government expenses increased \$25 million, \$17.1 million, and \$13.9 million, respectively, primarily due to increases in salaries and contractual expenditures. This increase in salaries can be attributed to an additional 147 full time equivalents and a 3% general wage increase, 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.

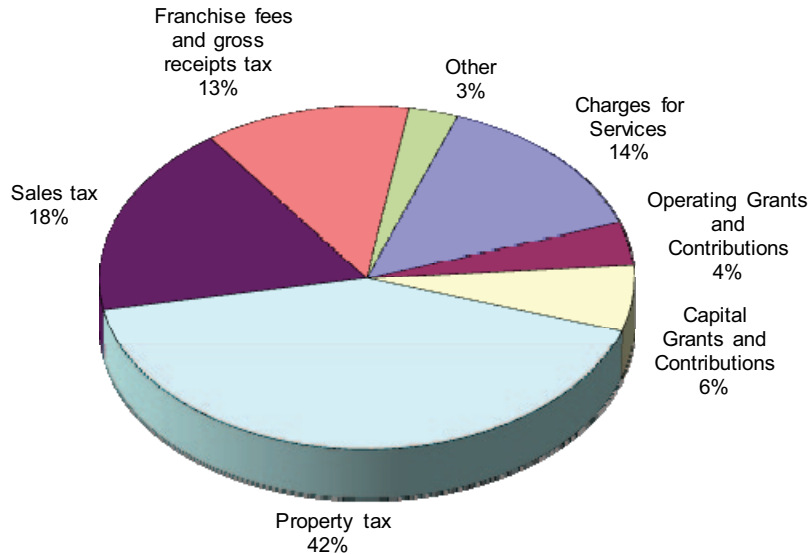
**Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)**



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

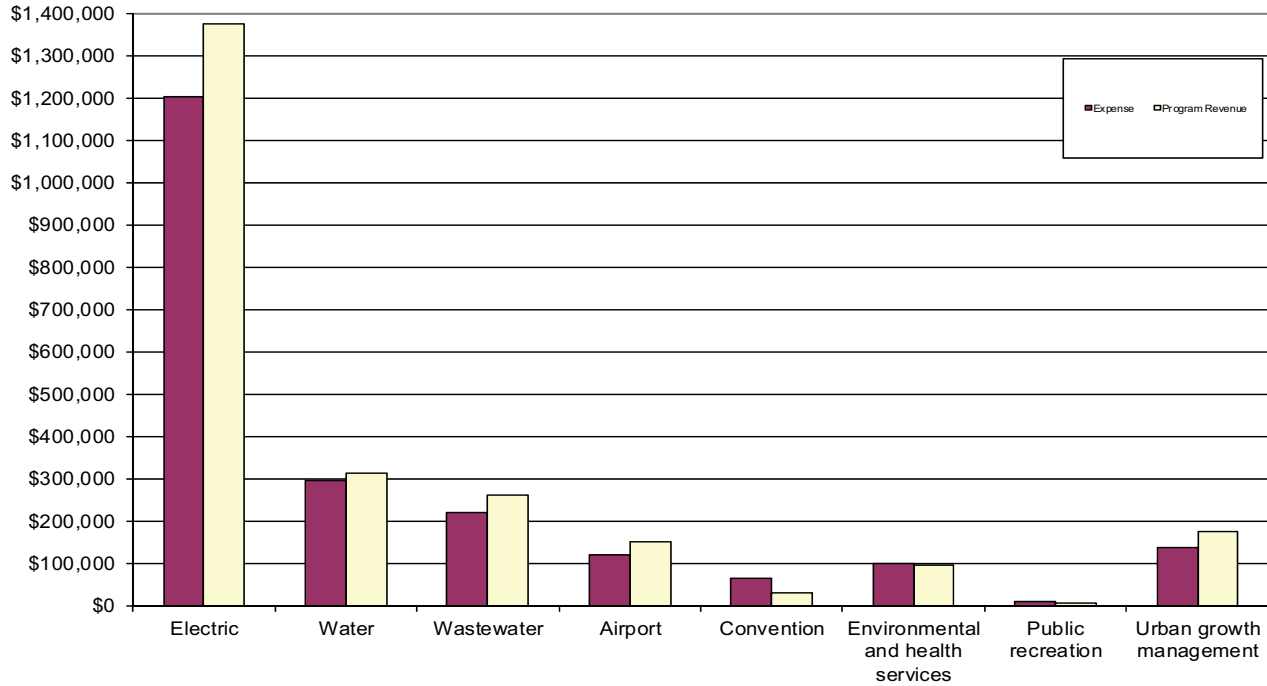
Business-type activities increased the City's net position by approximately \$202.2 million, accounting for a 6.3% increase in the City's total net position. Key factors include:

- Austin Energy net position increased approximately \$72.6 million. Revenues stayed flat in fiscal year 2015. Expenses decreased 3.8% largely due to a decrease in power supply costs.
- Austin Water Utility net position increased approximately \$21.1 million. Revenues increase 12.3% largely due to a combined utility rate increase of 8.1% for FY15. Expenses increase by 13.2% due to an increase in expenses resulting from accounting for regulated operations.
- Airport net position increased approximately \$32.5 million. Revenues increased 12.8% due to an increase in passenger traffic and higher rental and landing fees. Passenger traffic continues to break records with a 12.4% increase over the previous year. Expenses increased 10.8% due to an increase in operating and maintenance costs.
- Convention Center net position increased approximately \$29 million. Revenues and transfers from the Hotel Occupancy and Vehicle Rental Tax Funds increased 14.2% due in part to the growth of several large events, including the Formula 1 event and South by Southwest. Expenses increased 11.7% due to an increase in operations and maintenance costs.
- Environmental and health services activities are comprised of the Austin Resource Recovery nonmajor enterprise fund. Net position decreased approximately \$1.6 million. Revenues increased by 14% due mainly to an increase in the Clean Community Fee of \$0.75 per residential customer account and \$0.65 per commercial customer account. There was also an increase in the base fee of \$1.85 for both residential and commercial accounts. Expenses increased by 5% 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 \$41.6 million. Drainage revenues increased by 10.3% primarily due to a 6.5% increase in the monthly Drainage Utility Fee and residential growth. Drainage expenses increased 10.5% due to an increase in operations and support services costs. Transportation revenues increased approximately 7.4% primarily due to an increase in the Transportation User Fee of 5.75%. Transportation expenses increased 6.0% due to an increase in operations and support services costs.

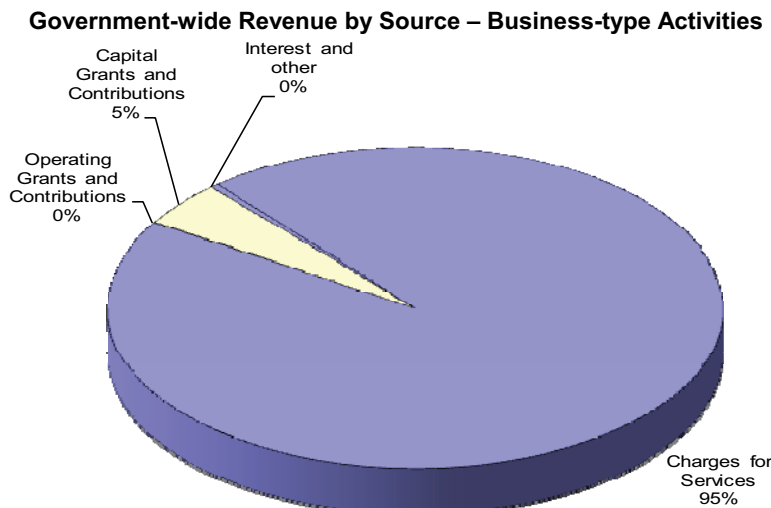
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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 \$294.6 million, wastewater with \$219.3 million, urban growth management with \$135.4 million, airport with \$120 million, environmental and health services with \$97.7 million, convention with \$65.7 million, and public recreation with \$8.8 million. For the fiscal year, operating revenues exceeded operating expenses for all business-type activities except convention, environmental and health services 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 (94.96%), followed by capital grants and contributions (4.57%), operating grants and contributions (0.04%), and interest and other revenues (0.43%).



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 \$418.6 million, an increase of \$51 million from the previous year. Approximately \$2 million is nonspendable, \$176 million is restricted, \$40.2 million is committed, \$101.9 million is assigned, and \$98.5 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 \$0.9 million, assigned fund balance of \$26.1 million, and unassigned fund balance of \$150.1 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 17.1% of total General Fund expenditures of \$878.9 million, and total fund balance represents 20.2% 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 \$100.2 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 \$6.3 million during the fiscal year. Significant differences from the previous year include:

- Property tax revenues increased \$19.9 million due to an increase in assessed property values.
- Sales tax revenues increased \$14.6 million, and licenses, permits, and inspections increased \$5.3 million.
- Increase in public safety expenditures of \$41 million.
- Additionally, the City sold a piece of land for \$12 million, which is reported as a special item. See Note 1 for more details.

General Fund expenditures increased \$71.6 million, due primarily to an increase in public safety expenditures of \$41 million, an increase in general government of \$11.7 million, an increase in public recreation and culture of \$9.5 million, and an increase in public health of \$6.9 million. These increases are primarily due to the addition of 177 FTEs, a 3% general wage increase, 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 \$198.8 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 and expenditure budgets of the General Fund were not amended during the fiscal year 2015.

During the year, revenues were \$20 million more than budgeted. Tax collections were \$7.3 million more than budgeted; licenses, permits and inspections were \$9.4 million more than budgeted; and franchise fees were \$1.2 million more than budgeted.

Actual budget-basis expenditures were \$4.6 million less than budgeted. Fire exceeded budget by \$2.4 million and the Austin Public Library exceeded budget by \$24 thousand, while all other departments were under budget. The total budget-basis fund balance at year-end was \$180.1 million.

OTHER INFORMATION, continued

b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2015, total \$10.2 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 \$229.3 million, with an increase of 3.7% for governmental activities and an increase of 1.8% for business-type activities. Additional information on capital assets can be found in Note 5. Capital asset balances are as follows:

	Capital Assets, Net of Accumulated Depreciation and Amortization (in millions)					
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Building and improvements	\$ 550	570	1,649	1,121	2,199	1,691
Plant and equipment	77	81	2,306	2,287	2,383	2,368
Vehicles	47	46	82	73	129	119
Electric plant	--	--	2,219	2,201	2,219	2,201
Non-electric plant	--	--	138	135	138	135
Nuclear fuel	--	--	47	40	47	40
Water rights	--	--	84	85	84	85
Infrastructure	1,451	1,384	--	--	1,451	1,384
Land and improvements	368	363	594	555	962	918
Construction in progress	272	226	300	794	572	1,020
Plant held for future use	--	--	23	23	23	23
Other assets not depreciated	27	23	4	2	31	25
Total net capital assets	<u>\$ 2,792</u>	<u>2,693</u>	<u>7,446</u>	<u>7,316</u>	<u>10,238</u>	<u>10,009</u>

Major capital asset events during the current fiscal year include the following:

- Governmental capital assets increased \$99.2 million primarily due to additions of new facilities and improvements to existing facilities. Improvements to Auditorium Shores and renovations of City Hall were completed. 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 been progressing.
- Business-type activities purchased or completed construction on capital assets of \$130.1 million. The increase was largely due to plant additions, plant improvements, and land acquisition for Austin Energy, Austin Water, the Airport Fund, and the Drainage Fund. Austin Energy increased the chilled water capacity of the Seaholm Development and Domain cooling system and provided service to new customers due to the City growth. Austin Water completed construction on Water Treatment Plant 4, worked on transmission mains in Martin Hill and Jollyville as well as along MoPac, made water and wastewater line improvements to North Acres, and relocated lines along SH 71. The Airport Fund expanded the east terminal and completed construction of a new taxiway. The Drainage Fund acquired properties at risk of flooding in Onion Creek and made improvements along Shoal 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	
	2015	2014	2015	2014	2015	2014
General obligation bonds and other tax supported debt, net	\$ 1,298	1,196	133	136	1,431	1,332
Commercial paper notes, net	--	--	200	241	200	241
Revenue bonds, net	--	--	4,601	4,299	4,601	4,299
Capital lease obligations	--	--	1	1	1	1
Total	\$ 1,298	1,196	4,935	4,677	6,233	5,873

During fiscal year 2015, the City's total outstanding debt increased by \$360.7 million. The City issued new debt and refinanced portions of existing debt to achieve lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities increased by \$102.7 million. The resulting net increase is a combination of the issuance of \$180 million in new debt to be used primarily for facility improvements, streets and signals, drainage improvements, watershed home buyouts, central library, Mueller public infrastructure improvements, capital equipment, transportation projects, and the Waller Creek Tunnel project offset by debt payments during the year.
- Outstanding debt for business-type functions increased by \$258 million. The City issued \$408.9 million of Electric Utility System separate lien revenue refunding bonds to refund separate lien debt and taxable commercial paper, \$289.1 million in Water and Wastewater System separate lien revenue refunding bonds to refund separate lien debt, and \$244.5 million in Airport prior lien revenue bonds.

During the year, Airport revenue bonds received a new bond rating from Moody's Investors Service of A1. 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, 2015 and 2014 were as follows:

Debt	Moody's Investors Service, Inc.		Standard & Poor's		Fitch, Inc.	
	2015	2014	2015	2014	2015	2014
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	NUR (1)	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. Both the Austin and the Texas economies continue to outpace the national economy. Partnerships between the City and the business community have been the key to Austin's economic success. The City's economic development efforts have been successful in attracting new firms and new jobs to Austin. As a result, employment growth is steady and expected to continue well ahead of national levels through at least 2017. All sectors of the real estate market are performing well including the hotel market with a number of new rooms either recently opened or under construction to meet increased demand resulting from both business travel and tourism. In 2015 sales taxes increased 7.7% following a 7.5% increase in 2014. While the rate of sales tax collections may slow over the next few years, it is expected to remain positive barring any events at the national or international level that would have an adverse impact.

The City's 2016 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 assessed taxable property values within the City increased by 12.5% in 2015 for fiscal year 2016. The property tax rate for fiscal year 2016 is 45.89 cents per \$100 valuation, down from 48.09 cents per \$100 valuation in 2015. The tax rate consists of 35.27 cents for the General Fund and 10.62 cents for debt service. Each 1 cent of the 2015 (Fiscal Year 2016) property tax rate is equivalent to \$11,100,886 of tax levy, as compared to \$9,865,218 in the previous year. In Fiscal Year 2016, Austin Water Utility will implement a 4.9% combined system-wide rate increase.

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>.





**BASIC FINANCIAL
STATEMENTS**



Statement of Net Position
September 30, 2015
(In thousands)

City of Austin, Texas
Exhibit A-1

	Governmental Activities	Business-type Activities	Total (†)	Component Units
ASSETS				
Current assets:				
Cash	\$ 64	61	125	4,869
Pooled investments and cash	395,444	511,576	907,020	--
Pooled investments and cash - restricted	135,130	178,686	313,816	--
Total pooled investments and cash	530,574	690,262	1,220,836	--
Investments, at fair value - restricted	20,550	177,379	197,929	--
Cash held by trustee - restricted	4,323	--	4,323	--
Investments held by trustee - restricted	1,590	--	1,590	--
Working capital advances	--	4,943	4,943	--
Property taxes receivable, net of allowance of \$5,166	13,233	--	13,233	--
Accounts receivable, net	103,733	255,702	359,435	4,154
Receivables from other governments	12,639	--	12,639	--
Receivables from other governments - restricted	--	4,124	4,124	--
Notes receivable, net of allowance of \$13,884	20,579	--	20,579	--
Internal balances	(30,753)	30,753	--	--
Inventories, at cost	2,235	87,169	89,404	952
Real property held for resale	5,940	--	5,940	--
Regulatory assets, net of accumulated amortization	--	46,682	46,682	--
Prepaid expenses	344	11,786	12,130	601
Other receivables - restricted	--	11,708	11,708	--
Other assets	3,492	19,206	22,698	--
Total current assets	688,543	1,339,775	2,028,318	10,576
Noncurrent assets:				
Cash - restricted	--	5,011	5,011	353
Pooled investments and cash - restricted	--	500,535	500,535	--
Investments, at fair value - restricted	--	248,479	248,479	55,042
Investments held by trustee - restricted	--	215,893	215,893	1,383
Interest receivable - restricted	--	657	657	--
Depreciable capital assets, net	2,125,720	6,525,511	8,651,231	190,244
Nondepreciable capital assets, net	666,675	920,574	1,587,249	7,555
Derivative instruments - energy risk management	--	5,605	5,605	--
Regulatory assets, net of accumulated amortization	--	661,540	661,540	--
Other long-term assets	1,488	7,021	8,509	5,762
Total noncurrent assets	2,793,883	9,090,826	11,884,709	260,339
Total assets	3,482,426	10,430,601	13,913,027	270,915
Deferred outflows of resources	\$ 167,627	313,209	480,836	19,050

(†) 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, 2015
(In thousands)

City of Austin, Texas
Exhibit A-1
(Continued)

	Governmental Activities	Business-type Activities	Total (†)	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 52,334	79,106	131,440	10,332
Accounts and retainage payable from restricted assets	5,403	30,503	35,906	--
Accrued payroll	21,994	12,387	34,381	220
Accrued compensated absences	60,644	24,565	85,209	--
Claims payable	22,611	--	22,611	--
Accrued interest payable from restricted assets	--	73,808	73,808	11,779
Interest payable on other debt	7,283	840	8,123	--
Bonds payable	52,956	16,979	69,935	42,967
Bonds payable from restricted assets	20,761	184,905	205,666	--
Capital lease obligations payable	--	49	49	23
Customer and escrow deposits payable from restricted assets	63,987	47,095	111,082	--
Accrued landfill closure and postclosure costs	--	1,549	1,549	--
Decommissioning liability payable from restricted assets	--	7,792	7,792	--
Other liabilities	16,584	9,590	26,174	--
Other liabilities payable from restricted assets	--	315	315	--
Total current liabilities	324,557	489,483	814,040	65,321
Noncurrent liabilities, net of current portion:				
Accrued compensated absences	71,745	143	71,888	--
Claims payable	24,853	--	24,853	--
Capital appreciation bond interest payable	--	100,528	100,528	--
Commercial paper notes payable, net of discount	--	200,581	200,581	--
Bonds payable, net of discount and inclusive of premium	1,224,709	4,531,616	5,756,325	268,194
Net pension liability	844,086	445,809	1,289,895	--
Other postemployment benefits payable	484,854	292,845	777,699	--
Capital lease obligations payable	--	1,040	1,040	32
Accrued landfill closure and postclosure costs	--	9,899	9,899	--
Decommissioning liability payable from restricted assets	--	175,216	175,216	--
Derivative instruments - energy risk management	--	51,751	51,751	--
Derivative instruments - interest rate swaps	--	70,334	70,334	--
Other liabilities	11,735	43,288	55,023	--
Other liabilities payable from restricted assets	--	485	485	--
Total noncurrent liabilities	2,661,982	5,923,535	8,585,517	268,226
Total liabilities	2,986,539	6,413,018	9,399,557	333,547
Deferred inflows of resources	1,464	904,455	905,919	--
NET POSITION				
Net investment in capital assets	1,645,359	2,223,964	3,869,323	(97,894)
Restricted for:				
Debt service	13,478	138,961	152,439	21,087
Strategic reserve	--	152,086	152,086	--
Capital projects	50,948	218,875	269,823	--
Renewal and replacement	--	10,857	10,857	--
Bond reserve	--	43,338	43,338	--
Passenger facility charges	--	61,085	61,085	--
Operating reserve	--	16,850	16,850	--
Perpetual care:				
Expendable	1	--	1	--
Nonexpendable	1,070	--	1,070	--
Housing activities	24,280	--	24,280	--
Tourism	19,193	--	19,193	--
Other purposes	25,014	--	25,014	--
Unrestricted (deficit)	(1,117,293)	560,321	(556,972)	33,225
Total net position	\$ 662,050	3,426,337	4,088,387	(43,582)

(†) 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, 2015
(In thousands)

City of Austin, Texas
Exhibit A-2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Governmental activities								
General government	\$ 131,993	15,434	118	9,163	(107,278)	--	(107,278)	--
Public safety	601,112	65,221	5,814	--	(530,077)	--	(530,077)	--
Transportation, planning, and sustainability	77,349	5,006	657	55,742	(15,944)	--	(15,944)	--
Public health	85,326	10,351	19,173	--	(55,802)	--	(55,802)	--
Public recreation and culture	134,567	8,330	1,604	5,456	(119,177)	--	(119,177)	--
Urban growth management	135,386	56,366	18,104	123	(60,793)	--	(60,793)	--
Interest on debt	55,855	--	--	--	(55,855)	--	(55,855)	--
Total governmental activities	<u>1,221,588</u>	<u>160,708</u>	<u>45,470</u>	<u>70,484</u>	<u>(944,926)</u>	<u>--</u>	<u>(944,926)</u>	<u>--</u>
Business-type activities								
Electric	1,203,729	1,351,436	308	23,151	--	171,166	171,166	--
Water	294,624	277,180	--	34,922	--	17,478	17,478	--
Wastewater	219,320	239,811	--	21,869	--	42,360	42,360	--
Airport	120,015	142,353	610	8,405	--	31,353	31,353	--
Convention	65,657	28,657	--	--	--	(37,000)	(37,000)	--
Environmental and health services	97,690	96,622	41	11	--	(1,016)	(1,016)	--
Public recreation	8,824	5,736	--	470	--	(2,618)	(2,618)	--
Urban growth management	135,360	154,337	80	21,752	--	40,809	40,809	--
Total business-type activities	<u>2,145,219</u>	<u>2,296,132</u>	<u>1,039</u>	<u>110,580</u>	<u>--</u>	<u>262,532</u>	<u>262,532</u>	<u>--</u>
Total primary government	<u>\$ 3,366,807</u>	<u>2,456,840</u>	<u>46,509</u>	<u>181,064</u>	<u>(944,926)</u>	<u>262,532</u>	<u>(682,394)</u>	<u>--</u>
Component Units	<u>84,820</u>	<u>91,466</u>	<u>150</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>6,796</u>
General revenues:								
Property tax					476,439	--	476,439	--
Sales tax					204,029	--	204,029	--
Franchise fees and gross receipts tax					141,368	--	141,368	--
Interest and other					21,951	10,498	32,449	68
Special item - land sale					11,983	--	11,983	--
Transfers-internal activities					70,865	(70,865)	--	--
Total general revenues and transfers					<u>926,635</u>	<u>(60,367)</u>	<u>866,268</u>	<u>68</u>
Change in net position					(18,291)	202,165	183,874	6,864
Beginning net position, as restated (Note 18)					680,341	3,224,172	3,904,513	(50,446)
Ending net position					<u>\$ 662,050</u>	<u>3,426,337</u>	<u>4,088,387</u>	<u>(43,582)</u>

The accompanying notes are an integral part of the financial statements.



Governmental Funds
Balance Sheet
September 30, 2015
(In thousands)

City of Austin, Texas
Exhibit B-1

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 53	--	53
Pooled investments and cash	168,905	226,535	395,440
Investments, at fair value	--	20,550	20,550
Cash held by trustee - restricted	--	2,778	2,778
Investments held by trustee - restricted	--	1,590	1,590
Property taxes receivable, net of allowance	9,080	4,153	13,233
Accounts receivable, net of allowance	61,489	36,680	98,169
Receivables from other governments	--	12,639	12,639
Notes receivable, net of allowance	--	20,579	20,579
Due from other funds	227	57,533	57,760
Advances to other funds	--	1,911	1,911
Inventories, at cost	766	--	766
Real property held for resale	--	5,940	5,940
Prepaid items	183	--	183
Other assets	176	3,316	3,492
Total assets	240,879	394,204	635,083
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Accounts payable	20,123	20,200	40,323
Accrued payroll	17,661	78	17,739
Accrued compensated absences	487	--	487
Due to other funds	210	57,759	57,969
Unearned revenue	--	5,052	5,052
Advances from other funds	1,062	779	1,841
Deposits and other liabilities	5,617	62,091	67,708
Total liabilities	45,160	145,959	191,119
Deferred inflows of resources	18,556	6,803	25,359
Fund balances			
Nonspendable:			
Inventories and prepaid items	949	--	949
Permanent funds	--	1,070	1,070
Restricted	--	175,977	175,977
Committed	--	40,196	40,196
Assigned	26,123	75,821	101,944
Unassigned	150,091	(51,622)	98,469
Total fund balances	177,163	241,442	418,605
Total liabilities, deferred inflows of resources, and fund balances	\$ 240,879	394,204	635,083

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, 2015
(In thousands)

City of Austin, Texas
Exhibit B-1.1

Total fund balances - Governmental funds \$ 418,605

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	4,255,443	
Less: accumulated depreciation	<u>(1,525,261)</u>	
		2,730,182

Other long-term assets and certain revenues are not available as current-period resources and are not reported in the funds.

Other assets	<u>1,488</u>	
		1,488

Deferred outflows represent the consumption of net assets that are applicable to a future reporting period.

Deferred outflow of resources	<u>167,529</u>	
		167,529

Long-term liabilities are not payable in the current period and are not reported in the funds.

Compensated absences	(122,728)	
Interest payable	(7,271)	
Bonds and other tax supported debt payable, net	(1,295,360)	
Net pension liability	(844,086)	
Other postemployment benefits payable	(484,854)	
Other liabilities	<u>(16,420)</u>	
		(2,770,719)

Deferred inflows is an acquisition of net assets that is applicable to a future reporting period.

Unavailable revenue		
Property taxes and interest	13,265	
Accounts and other taxes receivable	12,094	
Service concession arrangements	<u>(1,463)</u>	
		23,896

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.

91,069

Total net position - Governmental activities		<u>\$ 662,050</u>
--	--	-------------------

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, 2015
(In thousands)

City of Austin, Texas
Exhibit B-2

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 358,259	116,445	474,704
Sales taxes	204,029	--	204,029
Franchise fees and other taxes	48,194	93,174	141,368
Fines, forfeitures and penalties	17,305	5,579	22,884
Licenses, permits and inspections	39,006	799	39,805
Charges for services/goods	58,297	28,279	86,576
Intergovernmental	--	62,622	62,622
Property owners' participation and contributions	--	12,763	12,763
Interest and other	11,831	9,686	21,517
Total revenues	736,921	329,347	1,066,268
EXPENDITURES			
Current:			
General government	100,561	1,661	102,222
Public safety	556,417	8,653	565,070
Transportation, planning and sustainability	4	7,028	7,032
Public health	61,504	19,126	80,630
Public recreation and culture	99,955	10,790	110,745
Urban growth management	60,428	56,484	116,912
Debt service:			
Principal	--	71,532	71,532
Interest	--	55,794	55,794
Fees and commissions	--	9	9
Capital outlay-capital project funds	--	186,870	186,870
Total expenditures	878,869	417,947	1,296,816
Deficiency of revenues over expenditures	(141,948)	(88,600)	(230,548)
OTHER FINANCING SOURCES (USES)			
Issuance of tax supported debt	--	159,939	159,939
Bond premiums	--	20,093	20,093
Transfers in	153,936	85,730	239,666
Transfers out	(30,304)	(119,819)	(150,123)
Total other financing sources (uses)	123,632	145,943	269,575
Net change in fund balances, before special items	(18,316)	57,343	39,027
Special item - land sale (See Note 1)	11,983	--	11,983
Net change in fund balances	(6,333)	57,343	51,010
Fund balances at beginning of year	183,496	184,099	367,595
Fund balances at end of year	\$ 177,163	241,442	418,605

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, 2015
(In thousands)

City of Austin, Texas
Exhibit B-2.1

Net change in fund balances - Governmental funds \$ 51,010

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	166,601	
Depreciation expense	(109,566)	
Loss on disposal of capital assets	<u>(1,692)</u>	55,343

Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.

Property taxes	1,735	
Charges for services	(562)	
Interest and other	(1,280)	
Capital assets contribution	<u>43,474</u>	43,367

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	(180,032)	
Principal repayment on long-term debt	<u>71,532</u>	(108,500)

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	61	
Pension expense	(8,752)	
Other postemployment benefits	(49,591)	
Interest and other	<u>612</u>	(57,670)

A portion of the net revenue (expense) of the internal service funds is reported with the governmental activities. (1,841)

Change in net position - Governmental activities \$ (18,291)

The accompanying notes are an integral part of the financial statements.

Proprietary Funds
Statement of Net Position
September 30, 2015
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water Utility	Airport
ASSETS			
Current assets:			
Cash	\$ 21	5	3
Pooled investments and cash	249,666	51,829	8,351
Pooled investments and cash - restricted	57,335	74,892	8,929
Total pooled investments and cash	307,001	126,721	17,280
Investments, at fair value - restricted	64,666	80,134	22,147
Cash held by trustee - restricted	--	--	--
Working capital advances	4,943	--	--
Accounts receivable, net of allowance	156,934	73,722	4,421
Receivables from other governments-restricted	4,124	--	--
Due from other funds	1,130	301	--
Inventories, at cost	80,649	2,154	1,832
Regulatory assets, net of accumulated amortization	40,674	6,008	--
Prepaid expenses	11,669	19	23
Other receivables - restricted	8,520	123	1,324
Other assets	19,206	--	--
Total current assets	699,537	289,187	47,030
Noncurrent assets:			
Cash - restricted	5,011	--	--
Pooled investments and cash - restricted	25,349	50,074	425,112
Advances to other funds	18,690	2,705	--
Advances to other funds - restricted	--	--	51
Investments, at fair value - restricted	162,088	58,421	14,665
Investments held by trustee - restricted	205,108	10,785	--
Interest receivable - restricted	657	--	--
Depreciable capital assets, net	2,410,738	3,165,603	575,345
Nondepreciable capital assets	193,030	351,566	113,626
Derivative instruments - energy risk management	5,605	--	--
Regulatory assets, net of accumulated amortization	392,177	269,363	--
Other long-term assets	7,021	--	--
Total noncurrent assets	3,425,474	3,908,517	1,128,799
Total assets	4,125,011	4,197,704	1,175,829
Deferred outflows of resources	\$ 117,484	99,214	47,973

The accompanying notes are an integral part of the financial statements.

	<u>Business-Type Activities</u>		<u>Governmental</u>
	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	<u>Activities- Internal Service Funds</u>
ASSETS			
Current assets:			
Cash	32	61	11
Pooled investments and cash	201,730	511,576	132,628
Pooled investments and cash - restricted	37,530	178,686	2,506
Total pooled investments and cash	239,260	690,262	135,134
Investments, at fair value - restricted	10,432	177,379	--
Cash held by trustee - restricted	--	--	1,545
Working capital advances	--	4,943	--
Accounts receivable, net of allowance	20,625	255,702	5,564
Receivables from other governments-restricted	--	4,124	--
Due from other funds	1,231	2,662	681
Inventories, at cost	2,534	87,169	1,469
Regulatory assets, net of accumulated amortization	--	46,682	--
Prepaid expenses	75	11,786	161
Other receivables - restricted	1,741	11,708	--
Other assets	--	19,206	--
Total current assets	275,930	1,311,684	144,565
Noncurrent assets:			
Cash - restricted	--	5,011	--
Pooled investments and cash - restricted	--	500,535	--
Advances to other funds	--	21,395	71
Advances to other funds - restricted	437	488	--
Investments, at fair value - restricted	13,305	248,479	--
Investments held by trustee - restricted	--	215,893	--
Interest receivable - restricted	--	657	--
Depreciable capital assets, net	373,825	6,525,511	61,707
Nondepreciable capital assets	262,352	920,574	506
Derivative instruments - energy risk management	--	5,605	--
Regulatory assets, net of accumulated amortization	--	661,540	--
Other long-term assets	--	7,021	--
Total noncurrent assets	649,919	9,112,709	62,284
Total assets	925,849	10,424,393	206,849
Deferred outflows of resources	48,538	313,209	98

The accompanying notes are an integral part of the financial statements.

(Continued)

Proprietary Funds
Statement of Net Position
September 30, 2015
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water Utility	Airport
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 68,026	4,685	2,446
Accounts and retainage payable from restricted assets	7,725	12,329	7,186
Accrued payroll	5,122	2,686	873
Accrued compensated absences	10,257	5,472	1,949
Claims payable	--	--	--
Due to other funds	--	--	153
Due to other funds payable from restricted assets	--	441	--
Accrued interest payable from restricted assets	24,558	41,814	5,997
Interest payable on other debt	93	41	--
Bonds payable	--	--	24
Bonds payable from restricted assets	65,254	89,560	18,351
Capital lease obligations payable	49	--	--
Customer and escrow deposits payable from restricted assets	29,316	11,005	866
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning liability payable from restricted assets	7,792	--	--
Other liabilities	4,847	2,068	2,675
Other liabilities payable from restricted assets	--	--	--
Total current liabilities	223,039	170,101	40,520
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	--	--	--
Claims payable	--	--	--
Advances from other funds	--	1,373	821
Advances from other funds payable from restricted assets	--	16,587	--
Capital appreciation bond interest payable	5,681	94,847	--
Commercial paper notes payable, net of discount	32,046	168,535	--
Bonds payable, net of discount and inclusive of premium	1,345,918	2,374,264	547,828
Net pension liability	190,289	100,759	30,903
Other postemployment benefits payable	115,660	75,008	19,737
Capital lease obligations payable	1,040	--	--
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning liability payable from restricted assets	175,216	--	--
Derivative instruments - energy risk management	51,751	--	--
Derivative instruments - interest rate swaps	--	21,597	34,229
Other liabilities	40,379	--	--
Other liabilities payable from restricted assets	--	--	11
Total noncurrent liabilities	1,957,980	2,852,970	633,529
Total liabilities	2,181,019	3,023,071	674,049
Deferred inflows of resources	\$ 306,478	597,647	--

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	3,949	79,106	17,414
Accounts and retainage payable from restricted assets	3,263	30,503	--
Accrued payroll	3,706	12,387	4,255
Accrued compensated absences	6,887	24,565	8,957
Claims payable	--	--	22,611
Due to other funds	1,870	2,023	670
Due to other funds payable from restricted assets	--	441	--
Accrued interest payable from restricted assets	1,439	73,808	--
Interest payable on other debt	706	840	12
Bonds payable	16,955	16,979	369
Bonds payable from restricted assets	11,740	184,905	--
Capital lease obligations payable	--	49	--
Customer and escrow deposits payable from restricted assets	5,908	47,095	--
Accrued landfill closure and postclosure costs	1,549	1,549	--
Decommissioning liability payable from restricted assets	--	7,792	--
Other liabilities	--	9,590	3,126
Other liabilities payable from restricted assets	315	315	--
Total current liabilities	58,287	491,947	57,414
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	143	143	217
Claims payable	--	--	24,853
Advances from other funds	3,243	5,437	--
Advances from other funds payable from restricted assets	--	16,587	--
Capital appreciation bond interest payable	--	100,528	--
Commercial paper notes payable, net of discount	--	200,581	--
Bonds payable, net of discount and inclusive of premium	263,606	4,531,616	2,697
Net pension liability	123,858	445,809	--
Other postemployment benefits payable	82,440	292,845	--
Capital lease obligations payable	--	1,040	--
Accrued landfill closure and postclosure costs	9,899	9,899	--
Decommissioning liability payable from restricted assets	--	175,216	--
Derivative instruments - energy risk management	--	51,751	--
Derivative instruments - interest rate swaps	14,508	70,334	--
Other liabilities	2,909	43,288	--
Other liabilities payable from restricted assets	474	485	--
Total noncurrent liabilities	501,080	5,945,559	27,767
Total liabilities	559,367	6,437,506	85,181
Deferred inflows of resources	330	904,455	1

The accompanying notes are an integral part of the financial statements.

(Continued)

Proprietary Funds
Statement of Net Position
September 30, 2015
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water Utility	Airport
NET POSITION			
Net investment in capital assets	\$ 1,035,734	492,169	328,440
Restricted for:			
Debt service	40,108	38,320	50,346
Strategic reserve	152,086	--	--
Capital projects	61,824	26,435	115,148
Renewal and replacement	64	--	10,000
Bond reserve	10,002	20,584	2,441
Passenger facility charges	--	--	61,085
Operating reserve	--	--	12,212
Unrestricted	455,180	98,692	(29,919)
Total net position	\$ 1,754,998	676,200	549,753
Reconciliation to government-wide Statement of Net Position			
Adjustment to consolidate internal service activities	13,188	7,781	2,376
Total net position - Business-type activities	\$ 1,768,186	683,981	552,129

The accompanying notes are an integral part of the financial statements.

(Continued)

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
NET POSITION			
Net investment in capital assets	367,621	2,223,964	59,147
Restricted for:			
Debt service	10,187	138,961	--
Strategic reserve	--	152,086	--
Capital projects	15,468	218,875	2,506
Renewal and replacement	793	10,857	--
Bond reserve	10,311	43,338	--
Passenger facility charges	--	61,085	--
Operating reserve	4,638	16,850	--
Unrestricted	5,672	529,625	60,112
Total net position	<u>414,690</u>	<u>3,395,641</u>	<u>121,765</u>
Reconciliation to government-wide Statement of Net Position			
Adjustment to consolidate internal service activities	7,351	30,696	
Total net position - Business-type activities	<u>422,041</u>	<u>3,426,337</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, 2015
(In thousands)

	<u>Business-Type Activities</u>		
	<u>Austin Energy</u>	<u>Austin Water Utility</u>	<u>Airport</u>
OPERATING REVENUES			
Utility services	\$ 1,351,436	516,991	--
User fees and rentals	--	--	119,969
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	<u>1,351,436</u>	<u>516,991</u>	<u>119,969</u>
OPERATING EXPENSES			
Operating expenses before depreciation	993,793	221,724	80,182
Depreciation and amortization	152,544	115,271	20,690
Total operating expenses	<u>1,146,337</u>	<u>336,995</u>	<u>100,872</u>
Operating income (loss)	<u>205,099</u>	<u>179,996</u>	<u>19,097</u>
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	8,127	434	1,225
Interest on revenue bonds and other debt	(55,680)	(111,030)	(18,924)
Interest capitalized during construction	--	--	1,284
Passenger facility charges	--	--	22,384
Cost (recovered) to be recovered in future years	12,276	(71,466)	--
Other nonoperating revenue (expense)	(13,696)	4,608	(686)
Total nonoperating revenues (expenses)	<u>(48,973)</u>	<u>(177,454)</u>	<u>5,283</u>
Income (loss) before contributions and transfers	156,126	2,542	24,380
Capital contributions	23,151	57,530	8,405
Transfers in	7,133	31	--
Transfers out	(113,770)	(39,979)	(52)
Change in net position	72,640	20,124	32,733
Total net position - beginning, as restated (See Note 18)	1,682,358	656,076	517,020
Total net position - ending	<u>\$ 1,754,998</u>	<u>676,200</u>	<u>549,753</u>
Reconciliation to government-wide Statement of Activities			
Change in net position	72,640	20,124	32,733
Adjustment to consolidate internal service activities	16	939	(207)
Change in net position - Business-type activities	<u>\$ 72,656</u>	<u>21,063</u>	<u>32,526</u>

The accompanying notes are an integral part of the financial statements.

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
OPERATING REVENUES			
Utility services	--	1,868,427	--
User fees and rentals	285,352	405,321	--
Billings to departments	--	--	391,531
Employee contributions	--	--	36,602
Operating revenues from other governments	--	--	4,746
Other operating revenues	--	--	7,259
Total operating revenues	285,352	2,273,748	440,138
OPERATING EXPENSES			
Operating expenses before depreciation	271,270	1,566,969	411,932
Depreciation and amortization	29,572	318,077	11,214
Total operating expenses	300,842	1,885,046	423,146
Operating income (loss)	(15,490)	388,702	16,992
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	712	10,498	224
Interest on revenue bonds and other debt	(9,775)	(195,409)	(61)
Interest capitalized during construction	1,717	3,001	--
Passenger facility charges	--	22,384	--
Cost (recovered) to be recovered in future years	--	(59,190)	--
Other nonoperating revenue (expense)	(1,245)	(11,019)	(7,962)
Total nonoperating revenues (expenses)	(8,591)	(229,735)	(7,799)
Income (loss) before contributions and transfers	(24,081)	158,967	9,193
Capital contributions	23,616	112,702	9,005
Transfers in	78,182	85,346	8,213
Transfers out	(4,450)	(158,251)	(24,851)
Change in net position	73,267	198,764	1,560
Total net position - beginning, as restated (See Note 18)	341,423	3,196,877	120,205
Total net position - ending	414,690	3,395,641	121,765
Reconciliation to government-wide Statement of Activities			
Change in net position	73,267	198,764	
Adjustment to consolidate internal service activities	2,653	3,401	
Change in net position - Business-type activities	<u>75,920</u>	<u>202,165</u>	

The accompanying notes are an integral part of the financial statements.

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2015
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water Utility	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 1,384,809	503,457	119,427
Cash received from other funds	33,256	8,173	--
Cash payments to suppliers for goods and services	(680,671)	(43,315)	(19,586)
Cash payments to other funds	(43,821)	(67,936)	(23,772)
Cash payments to employees for services	(183,923)	(98,217)	(31,420)
Cash payments to claimants/beneficiaries	--	--	--
Taxes collected and remitted to other governments	(43,655)	--	--
Net cash provided by operating activities	465,995	302,162	44,649
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	7,127	--	--
Transfers out	(113,770)	(39,979)	--
Contributions (to) from other funds	--	(83)	--
Loans from other funds	--	--	--
Loan repayments to other funds	--	(506)	(178)
Loan repayments from other funds	753	301	7
Collections from other governments	2,165	1,771	(414)
Net cash provided (used) by noncapital financing activities	(103,725)	(38,496)	(585)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	58,290	93,535	--
Proceeds from the sale of general obligation bonds and other tax supported debt	--	908	--
Proceeds from the sale of revenue bonds	--	--	244,495
Principal paid on long-term debt	(48,915)	(100,750)	(16,710)
Proceeds from the sale of capital assets	1,158	4,100	606
Interest paid on revenue bonds and other debt	(59,264)	(120,323)	(14,374)
Passenger facility charges	--	--	22,384
Acquisition and construction of capital assets	(171,061)	(112,660)	(57,402)
Contributions from state and federal governments	--	--	7,810
Contributions in aid of construction	16,586	24,188	595
Bond issuance costs	(2,736)	(2,291)	(1,903)
Bond premiums	45,023	35,224	29,172
Bonds issued for advanced refundings of debt	408,890	289,145	--
Cash paid for bond refunding escrow	(258,434)	(326,497)	--
Cash paid to payoff commercial paper	(192,700)	--	--
Cash paid for nuclear fuel inventory	(25,140)	--	--
Net cash provided (used) by capital and related financing activities	\$ (228,303)	(215,421)	214,673

The accompanying notes are an integral part of the financial statements.

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	283,720	2,291,413	47,057
Cash received from other funds	3,859	45,288	391,530
Cash payments to suppliers for goods and services	(64,601)	(808,173)	(84,711)
Cash payments to other funds	(58,076)	(193,605)	(14,850)
Cash payments to employees for services	(133,428)	(446,988)	(153,878)
Cash payments to claimants/beneficiaries	--	--	(151,002)
Taxes collected and remitted to other governments	--	(43,655)	--
Net cash provided by operating activities	31,474	844,280	34,146
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	78,182	85,309	7,884
Transfers out	(4,353)	(158,102)	(24,634)
Contributions (to) from other funds	89	6	--
Loans from other funds	175	175	--
Loan repayments to other funds	(639)	(1,323)	(15)
Loan repayments from other funds	151	1,212	--
Collections from other governments	(1,317)	2,205	--
Net cash provided (used) by noncapital financing activities	72,288	(70,518)	(16,765)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	151,825	--
Proceeds from the sale of general obligation bonds and other tax supported debt	16,860	17,768	--
Proceeds from the sale of revenue bonds	--	244,495	--
Principal paid on long-term debt	(29,317)	(195,692)	(352)
Proceeds from the sale of capital assets	--	5,864	--
Interest paid on revenue bonds and other debt	(10,925)	(204,886)	(154)
Passenger facility charges	--	22,384	--
Acquisition and construction of capital assets	(78,441)	(419,564)	(15,031)
Contributions from state and federal governments	--	7,810	--
Contributions in aid of construction	21,173	62,542	--
Bond issuance costs	(156)	(7,086)	--
Bond premiums	2,441	111,860	--
Bonds issued for advanced refundings of debt	--	698,035	--
Cash paid for bond refunding escrow	--	(584,931)	--
Cash paid to payoff commercial paper	--	(192,700)	--
Cash paid for nuclear fuel inventory	--	(25,140)	--
Net cash provided (used) by capital and related financing activities	(78,365)	(307,416)	(15,537)

The accompanying notes are an integral part of the financial statements.

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2015
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water Utility	Airport
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	\$ (217,091)	(212,895)	(51,184)
Proceeds from sale and maturities of investment securities	158,057	222,978	32,961
Interest on investments	3,031	434	1,218
Net cash provided (used) by investing activities	(56,003)	10,517	(17,005)
Net increase (decrease) in cash and cash equivalents	77,964	58,762	241,732
Cash and cash equivalents, October 1	259,418	118,038	200,663
Cash and cash equivalents, September 30	337,382	176,800	442,395
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	205,099	179,996	19,097
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	152,544	114,283	20,690
Amortization	--	988	--
Change in assets and liabilities:			
Decrease in working capital advances	(341)	--	--
(Increase) decrease in accounts receivable	21,661	(7,200)	(809)
Increase in allowance for doubtful accounts	(1,168)	(90)	180
Decrease in due from other funds	--	--	--
(Increase) decrease in inventory	(5,920)	(229)	(99)
(Increase) decrease in prepaid expenses and other assets	(8,594)	(2)	(23)
Increase in deferred outflows related to operations	(18,330)	(9,733)	(3,013)
Decrease in advances to other funds	--	--	--
Decrease in other long-term assets	15,536	--	--
Increase (decrease) in accounts payable	1,034	187	658
Increase in accrued payroll and compensated absences	945	533	335
Increase in claims payable	--	932	--
Increase in advances from other funds	--	--	--
Increase in net pension liability	22,528	12,088	3,673
Increase in other postemployment benefits payable	11,313	11,062	2,528
Increase (decrease) in other liabilities	4,129	(1,650)	1,345
Increase in customer deposits	2,021	997	87
Decrease in deferred inflows related to operations	63,538	--	--
Total adjustments	260,896	122,166	25,552
Net cash provided by operating activities	\$ 465,995	302,162	44,649

The accompanying notes are an integral part of the financial statements.

(Continued)

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(17,989)	(499,159)	--
Proceeds from sale and maturities of investment securities	18,130	432,126	--
Interest on investments	712	5,395	224
Net cash provided (used) by investing activities	853	(61,638)	224
Net increase (decrease) in cash and cash equivalents	26,250	404,708	2,068
Cash and cash equivalents, October 1	213,042	791,161	134,622
Cash and cash equivalents, September 30	239,292	1,195,869	136,690
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	(15,490)	388,702	16,992
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	29,572	317,089	11,214
Amortization	--	988	--
Change in assets and liabilities:			
Decrease in working capital advances	--	(341)	--
(Increase) decrease in accounts receivable	1,374	15,026	(2,099)
Increase in allowance for doubtful accounts	(211)	(1,289)	--
Decrease in due from other funds	--	--	(670)
(Increase) decrease in inventory	398	(5,850)	24
(Increase) decrease in prepaid expenses and other assets	(29)	(8,648)	17
Increase in deferred outflows related to operations	(9,476)	(40,552)	32
Decrease in advances to other funds	--	--	44
Decrease in other long-term assets	--	15,536	--
Increase (decrease) in accounts payable	(1,845)	34	2,257
Increase in accrued payroll and compensated absences	1,288	3,101	1,054
Increase in claims payable	--	932	3,658
Increase in advances from other funds	--	--	670
Increase in net pension liability	11,965	50,254	--
Increase in other postemployment benefits payable	12,940	37,843	--
Increase (decrease) in other liabilities	(76)	3,748	953
Increase in customer deposits	1,064	4,169	--
Decrease in deferred inflows related to operations	--	63,538	--
Total adjustments	46,964	455,578	17,154
Net cash provided by operating activities	31,474	844,280	34,146

The accompanying notes are an integral part of the financial statements.

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2015
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water Utility	Airport
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Capital appreciation bonds interest accreted	\$ (675)	(9,462)	--
Capital assets contributed from other funds	--	834	--
Capital assets contributed to other funds	--	(95)	--
Contributed facilities	--	32,508	--
(Increase) decrease in the fair value of investments	109	--	--
Amortization of bond (discounts) premiums	5,269	10,598	902
Amortization of gain/loss on refundings	(6,771)	(5,829)	(890)
Loss on disposal of assets	(7,397)	(861)	--
Costs (recovered) to be recovered	12,276	(71,466)	--
Transfers (to) from other funds	6	31	(52)
Capitalized interest	--	--	1,284

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	--	(10,137)	--
Capital assets contributed from other funds	2,443	3,277	9,005
Capital assets contributed to other funds	(102)	(197)	--
Contributed facilities	--	32,508	--
(Increase) decrease in the fair value of investments	--	109	--
Amortization of bond (discounts) premiums	2,147	18,916	106
Amortization of gain/loss on refundings	(1,136)	(14,626)	(32)
Loss on disposal of assets	(1,459)	(9,717)	(7,962)
Costs (recovered) to be recovered	--	(59,190)	--
Transfers (to) from other funds	(97)	(112)	112
Capitalized interest	1,717	3,001	--

The accompanying notes are an integral part of the financial statements.

Fiduciary Funds
Statement of Fiduciary Net Position
September 30, 2015
(In thousands)

City of Austin, Texas
Exhibit D-1

	<u>Private-purpose</u>	
	<u>Trust</u>	<u>Agency</u>
ASSETS		
Pooled investments and cash	\$ 2,179	2,503
Other assets	121	--
Total assets	<u>2,300</u>	<u>2,503</u>
LIABILITIES		
Accounts payable	9	--
Due to other governments	--	1,885
Deposits and other liabilities	1,260	618
Total liabilities	<u>1,269</u>	<u>2,503</u>
NET POSITION		
Held in trust	1,031	
Total net position	<u>\$ 1,031</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, 2015
(In thousands)

City of Austin, Texas
Exhibit D-2

	<u>Private-Purpose</u> <u>Trust</u>
ADDITIONS	
Contributions	\$ 1,569
Interest and other	4
Total additions	<u>1,573</u>
DEDUCTIONS	
Benefit payments	1,276
Total deductions	<u>1,276</u>
Net additions (deductions)	297
Total net position - beginning	<u>734</u>
Total net position - ending	<u>\$ 1,031</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.

A change in governance affecting Council size, composition, and term duration was approved by the voters with the passage of a charter amendment in November 2012. The first election for this new governance structure was held in November 2014 and the new Council took office on January 6, 2015. Under the new structure, these elected officials serve four-year staggered terms subject to a maximum of two consecutive terms. Currently half of the Councilmembers are serving a two-year term as a part of the transition to the new governance structure. Prior to January 2015 City Council consisted of a Mayor and six members all of whom were elected at large and served staggered three-year 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. 71. In fiscal year 2015, the City implemented the following GASB Statements:

GASB Statement	Impact
68 – <i>“Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27”</i>	This is a companion statement to GASB 67 <i>“Financial Reporting for Pension Plans an amendment to GASB Statement No. 25”</i> which was directed to and implemented by the City’s pension plans. GASB Statement No. 68 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.
69 – <i>“Government Combinations and Disposal of Government Operations”</i>	The implementation of this standard had little impact on the amounts reported in the financial statements.
71 – <i>“Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68”</i>	This statement, which clarifies rules related to the accrual of deferred inflows and outflows of resources at the beginning of the period in which GASB 68 is effective, was implemented in conjunction with GASB 68.

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.

<u>Discretely Presented Component Units</u>	<u>Brief Description of Activities, Relationship to City, and Key Inclusion Criteria</u>
Austin-Bergstrom Landhost Enterprises, Inc. (ABLE) 2716 Spirit of Texas Drive Austin, TX 78719	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. 8 th 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 a liability is due. 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 Fund: Accounts for the operations of the Austin-Bergstrom International Airport (ABIA).

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, 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. Investments purchased with pooled cash, consisting primarily of U.S. government obligations and U.S. agency obligations, are stated at fair value. 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, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2015. Investments in local government investment pools are carried at net asset value per share calculated using the amortized cost method which approximates fair value.

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, 2015 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern- ments	Other	Total
Governmental activities						
General Fund	\$ 231,187	18,753	44,933	--	--	294,873
Nonmajor governmental funds	2,061	--	27,705	4,218	2,708	36,692
Internal service funds	5,564	--	--	--	--	5,564
Allowance for doubtful accounts	(225,449)	(7,935)	--	(12)	--	(233,396)
Total	\$ 13,363	10,818	72,638	4,206	2,708	103,733

Receivables reported in business-type activities are primarily comprised of charges for services.

	Austin Energy	Austin Water	Airport	Nonmajor Enterprise	Total
Accounts Receivable	\$ 167,493	77,184	5,841	23,145	273,663
Allowance for doubtful accounts	(10,559)	(3,462)	(1,420)	(2,520)	(17,961)
Total	\$ 156,934	73,722	4,421	20,625	255,702

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	\$ 61,824	124,924	315,731	19,586	522,065
Customer and escrow deposits	29,316	10,950	866	5,606	46,738
Debt service	64,666	80,134	56,345	11,740	212,885
Environmental and landfill	--	--	--	282	282
Federal grants	9,135	--	1,324	1,670	12,129
Operating reserve account	--	--	12,212	10,132	22,344
Passenger facility charge account	--	--	61,085	--	61,085
Plant decommissioning	205,765	--	--	--	205,765
Renewal and replacement account	64	--	10,000	1,124	11,188
Revenue bond reserve	10,002	58,421	14,665	13,305	96,393
Strategic reserve	152,086	--	--	--	152,086
	<u>\$ 532,858</u>	<u>274,429</u>	<u>472,228</u>	<u>63,445</u>	<u>1,342,960</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 Activites				
	Governmental Activites (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 \$15.8 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 assets 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 assets that have a negative effect on net position, similar to liabilities.

The following chart reflects the activities included in deferred inflows and outflows (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.	\$122,085	5,596
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.	129,269	331
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.		898,529
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.		1,463
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.	229,482	

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 governmental or 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 vacation, exception vacation, and sick leave at termination payable within 60 days of 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
Exception vacation (5)	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
Sick leave	0-40	720	1,400	720	720
	42	N/A	N/A	N/A	756
	48	N/A	N/A	N/A	926
	53	N/A	N/A	1,080	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, 2015, the City’s total actuarial accrued liability for these retiree benefits was approximately \$1.4 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.

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.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

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):

	<u>Bad Debt Expense</u>
Austin Energy	\$ 8,463
Austin Water Utility	2,676
Airport	199
Nonmajor Enterprise	2,191

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, 2015. The amount of unbilled revenue recorded, as of September 30, 2015, was \$37.0 million. Austin Water Utility records unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2015. The amount of unbilled revenue reported in accounts receivable as of September 30, 2015 was \$19.5 million for water and \$13.4 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):

	<u>Discounts</u>
Airport	\$ 748
Nonmajor Enterprise	1,290

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 \$11.98 million in fiscal year 2015; sales to date total \$27.81 million. The balance of the sale should occur in two pieces with completion of the sale anticipated in fiscal year 2019, according to the current schedule. 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 2015 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	\$ 766	--	--	--	766
Prepaid items	183	--	--	--	183
Permanent funds	--	--	--	--	1,070
Total Nonspendable	949	--	--	--	2,019
Restricted					
Municipal court services	--	2,933	--	--	2,933
Police special purpose	--	5,710	--	--	5,710
Fire special purpose	--	46	--	--	46
Transportation, planning, and sustainability	--	440	--	--	440
Public health services	--	311	--	--	311
Parks services	--	1,662	--	--	1,662
Library services	--	1,333	--	--	1,334
Tourism programs	--	22,890	--	--	22,890
Affordable housing programs	--	29,002	--	--	29,002
Urban growth programs	--	4,160	--	--	4,160
Capital construction	--	--	--	85,764	85,764
Debt service	--	--	21,725	--	21,725
Total Restricted	--	68,487	21,725	85,764	175,977
Committed					
Transportation, planning, and sustainability	--	134	--	--	134
Parks services	--	4,179	--	--	4,179
Affordable housing programs	--	5,558	--	--	5,558
Urban growth programs	--	30,325	--	--	30,325
Total Committed	--	40,196	--	--	40,196
Assigned					
Municipal court services	145	--	--	--	145
Police special purpose	2,627	39	--	--	2,666
Fire special purpose	590	--	--	--	590
EMS special purpose	1,252	--	--	--	1,252
Transportation, planning, and sustainability	--	8	--	--	8
Public health services	4,784	28	--	--	4,812
Parks services	1,590	101	--	--	1,691
Library services	140	6	--	--	146
Tourism programs	--	44	--	--	44
Affordable housing programs	--	989	--	--	989
Urban growth programs	14,995	2,769	--	--	17,764
Capital construction	--	--	--	71,837	71,837
Total Assigned	26,123	3,984	--	71,837	101,944
Unassigned	150,091	(2,637)	--	(48,985)	98,469
Total Fund Balance	\$ 177,163	110,030	21,725	108,616	418,605

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 3 reserve funds: a contingency reserve, an emergency reserve, and a budget stabilization reserve. These reserves are part of unassigned fund balance for the General Fund. As of September 30, 2015, the contingency reserve maintains a balance of 1 percent of departmental expenditures, or \$7.2 million, the emergency reserve remains fixed with a balance of \$40 million, and the budget stabilization reserve reports a balance of \$76.7 million. The funds in the budget stabilization reserve may be appropriated to fund capital or other onetime 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 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, 2015 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	Restricted
General Fund	\$ 168,905	--
Nonmajor governmental funds	226,535	--
Austin Energy	249,666	82,684
Austin Water Utility	51,829	124,966
Airport	8,351	434,041
Nonmajor enterprise funds	201,730	37,530
Internal service funds	132,628	2,506
Fiduciary funds	4,682	--
Subtotal pooled investments and cash	<u>1,044,326</u>	<u>681,727</u>
Total pooled investments and cash	<u>\$ 1,726,053</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 participates in four LGIPs: TexPool, TexasDAILY, TexStar, and Lone Star. 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. The City's position in the pool is the same as the value of the pool shares.

3 – INVESTMENTS AND DEPOSITS, continued
a -- Investments, continued

The City invests in TexPool, TexasDAILY, TexStar, and Lone Star to provide its liquidity needs. TexPool, TexasDAILY, TexStar, and Lone Star are LGIPs that 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. TexPool, TexasDAILY, TexStar, and Lone Star are structured somewhat like money market mutual funds and allow shareholders the ability to deposit or withdraw funds on a daily basis. In addition, interest rates are also adjusted on a daily basis and the funds seek to maintain a constant net asset value of \$1.00, although this cannot be fully guaranteed. TexPool, TexasDAILY, TexStar, and Lone Star are rated AAAM and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2015, TexPool, TexasDAILY, TexStar, and Lone Star had a weighted average maturity of 40 days, 37 days, 46 days, and 33 days, respectively. The City considers the holdings in these funds to have a weighted average maturity of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City did not participate in any reverse repurchase agreements or security lending arrangements during fiscal year 2015.

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 following table includes the portfolio balances of all non-pooled and pooled investments of the City at September 30, 2015 (in thousands):

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Non-pooled investments:				
Local Government Investment Pools	\$ 20,550	341,904	--	362,454
Money Market Funds	1,590	62,869	--	64,459
US Treasury Notes	--	34,704	--	34,704
US Agency Bonds	--	202,274	--	202,274
Total non-pooled investments	<u>22,140</u>	<u>641,751</u>	<u>--</u>	<u>663,891</u>
Pooled investments:				
Local Government Investment Pools	231,839	520,330	2,046	754,215
US Treasury Notes	70,951	159,239	626	230,816
US Agency Bonds	230,933	518,325	2,010	751,268
Total pooled investments	<u>533,723</u>	<u>1,197,894</u>	<u>4,682</u>	<u>1,736,299</u>
Total investments	<u>\$ 555,863</u>	<u>1,839,645</u>	<u>4,682</u>	<u>2,400,190</u>

Concentration of Credit Risk

At September 30, 2015, 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 (\$163.3 or 7%), Federal Home Loan Bank (\$368.4 or 15%), Federal Home Loan Mortgage Corporation (\$210.6 or 9%), and Federal National Mortgage Association (\$211.3 or 9%).

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.

3 – INVESTMENTS AND DEPOSITS, continued
b -- Investment Categories

Operating Funds

As of September 30, 2015, the City operating funds had the following investments (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>			<u>Total</u>	<u>Weighted Average Maturity (days)</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>		
Local Government Investment Pools	\$ 231,839	520,330	2,046	754,215	1
US Treasury Notes	70,951	159,239	626	230,816	283
US Agency Bonds	230,933	518,325	2,010	751,268	497
Total	<u>\$ 533,723</u>	<u>1,197,894</u>	<u>4,682</u>	<u>1,736,299</u>	

Credit Risk

At September 30, 2015, the Operating funds held investments in LGIPs rated AAAM by Standard & Poor's, with the remainder invested in short-to-medium term US Agency and Treasury obligations. Standard & Poor's rated the US Agency Bonds AA+. The remaining securities are direct obligations of the US government.

Concentration of Credit Risk

At September 30, 2015, 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 (\$163.3 or 9%), Federal Home Loan Bank (\$317.4 or 18%), Federal Home Loan Mortgage Corporation (\$160.2 or 9%), and Federal National Mortgage Association (\$110.3 or 6%).

Interest Rate Risk

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, 2015, less than half of the Investment Pool was invested in AAAM rated LGIPs, with the remainder invested in short-to-medium term US 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 253 days, which was less than the threshold of 365 days.

Debt Service Funds

As of September 30, 2015, the City's debt service funds had the following investments (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>		<u>Weighted Average Maturity (days)</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
General Obligation Debt Service			
Local Government Investment Pools	\$ 20,550	--	1
Enterprise-Utility (1)			
Local Government Investment Pools	--	144,800	1
Enterprise-Airport			
Local Government Investment Pools	--	22,070	1
Nonmajor Enterprise-Convention Center			
Local Government Investment Pools	--	10,432	1
Total	<u>\$ 20,550</u>	<u>177,302</u>	

(1) Includes combined pledge debt service

Credit Risk

At September 30, 2015, the debt service funds held an investment in TexPool, an LGIP rated AAAM by Standard and Poor's.

Interest Rate Risk

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.

3 – INVESTMENTS AND DEPOSITS, continued
b -- Investment Categories, continued

Debt Service Reserve Funds

As of September 30, 2015, the City's debt service reserve funds had the following investments (in thousands):

Investment Type	Fair Value Business-type Activities	Weighted Average Maturity (days)
Enterprise-Utility (1)		
Local Government Investment Pools	\$ 41,393	1
Enterprise-Airport		
Local Government Investment Pools	14,665	1
Nonmajor Enterprise-Convention Center		
Local Government Investment Pools	13,305	1
Total	\$ 69,363	

(1) Includes combined pledge debt service

Credit Risk

At September 30, 2015, the debt service reserve funds held an investment in TexPool, an LGIP rated AAAM by Standard and Poor's.

Interest Rate Risk

Investment strategies for debt service reserve funds shall have as the primary object 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

Special Project Funds

At September 30, 2015, the City's special project funds had the following investments (in thousands):

Investment Type	Fair Value			Weighted Average Maturity (days)
	Business-type Activities			
	Utility Reserve	Airport Construction	Total	
Local Government Investment Pools	\$ 27,030	77	27,107	1

Credit Risk

At September 30, 2015, the special project funds held an investment in TexPool, an LGIP rated AAAM by Standard and Poor's.

Interest Rate Risk

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

As of September 30, 2015, the City's Austin Energy Strategic Reserve Fund, a special purpose fund, had the following investments (in thousands):

Investment Type	Fair Value Business-type Activities	Weighted Average Maturity (days)
Local Government Investment Pools	\$ 68,134	1
US Treasury Notes	15,470	507
US Agency Bonds	68,482	878
Total	\$ 152,086	

3 – INVESTMENTS AND DEPOSITS, continued
b -- Investment Categories, continued

Credit risk

At September 30, 2015, the Austin Energy Strategic Reserve Fund held an investment in TexPool, an LGIP rated AAAM by Standard & Poor's, with the remainder invested in short-to-medium term US Agency and Treasury obligations. Standard & Poor's rated the US Agency Bonds AA+. The remaining securities are direct obligations of the US government.

Concentration of Credit Risk

At September 30, 2015, 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 (\$23.3 or 15%), Federal Home Loan Mortgage Corporation (\$15.1 or 10%), and Federal National Mortgage Association (\$30.2 or 20%).

Interest Rate Risk

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.

At September 30, 2015, the portfolios held investments in TexPool, US Treasuries, and US Agencies with maturities that will meet anticipated cash flow requirements and an overall dollar weighted average maturity of 446 days (1.22 years).

Special Purpose Funds - Austin Energy Nuclear Decommissioning Trust Funds (NDTF)

At September 30, 2015, the City's Austin Energy NDTF had the following investments (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>		<u>Weighted Average Maturity (years)</u>
	<u>Business-type</u>	<u>Activities</u>	
Money Market Funds	\$	52,083	1 day
US Treasury Notes		19,234	1.85
US Agency Bonds		133,791	2.13
Total	\$	205,108	

Credit Risk

At September 30, 2015, Standard & Poor's rated the US Agency Bonds AA+ and the Money Market Fund AAAM. The remaining securities are direct obligations of the US government.

Concentration of Credit Risk

At September 30, 2015, the NDTF held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Home Loan Bank (\$27.7 or 14%), Federal Home Loan Mortgage Corporation (\$35.3 or 17%), Federal National Mortgage Association (\$70.8 or 35%).

Interest Rate Risk

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 state 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, 2015, the dollar weighted average maturity was 1.56 years.

Special Purpose Funds - Investments Held by Trustee

At September 30, 2015, the City's special purpose funds had the following investments (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>		<u>Weighted Average Maturity (days)</u>
	<u>Governmental</u>	<u>Business-type</u>	
	<u>Activities</u>	<u>Activities</u>	
Money Market Funds	\$	1,590	10,786
			1

Credit Risk

At September 30, 2015, Standard & Poor's rated the Money Market Fund AAAM.

Interest Rate Risk

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 until definitive construction cash flows are established.

3 – INVESTMENTS AND DEPOSITS, continued
c -- Investment and Deposits

Investments and deposits portfolio balances at September 30, 2015, are as follows (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments and cash	\$ 26,527	646,823	--	673,350
Pooled investments and cash	535,338	1,201,518	4,682	1,741,538
Total investments and cash	<u>561,865</u>	<u>1,848,341</u>	<u>4,682</u>	<u>2,414,888</u>
Unrestricted cash	64	61	--	125
Restricted cash	4,323	5,011	--	9,334
Pooled investments and cash	535,338	1,201,518	4,682	1,741,538
Investments	22,140	641,751	--	663,891
Total	<u>\$ 561,865</u>	<u>1,848,341</u>	<u>4,682</u>	<u>2,414,888</u>

A difference of \$15.5 million exists between portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

Deposits

The September 30, 2015 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	--	5,011	5,011
Cash held by trustee			
Restricted	4,323	--	4,323
Pooled cash	1,615	3,624	5,239
Total deposits	<u>\$ 6,002</u>	<u>8,696</u>	<u>14,698</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, 2015.

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, 2014, upon which the 2015 levy was based, was \$98,652,179,430.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2015, 99.27% of the current tax levy (October 1, 2014) 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.

4 – PROPERTY TAXES, continued

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, 2015, was \$0.3691 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, 2015 was \$0.1118 per \$100 assessed valuation. The City has a tax margin for general governmental purposes of \$0.6309 per \$100 assessed valuation, and could levy approximately \$622,396,600 in additional taxes from the assessed valuation of \$98,652,179,430 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, 2015, 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	\$ 857,912	4,896	(933)	861,875
Plant and equipment	232,018	24,882	(11,502)	245,398
Vehicles	125,018	20,132	(17,906)	127,244
Infrastructure	2,360,304	135,107	(752)	2,494,659
Total depreciable capital assets	<u>3,575,252</u>	<u>185,017</u>	<u>(31,093)</u>	<u>3,729,176</u>
Less accumulated depreciation for				
Building and improvements	(287,417)	(24,056)	95	(311,378)
Plant and equipment	(150,972)	(19,641)	2,207	(168,406)
Vehicles	(79,054)	(11,327)	9,697	(80,684)
Infrastructure	(977,232)	(65,756)	--	(1,042,988)
Total accumulated depreciation	<u>(1,494,675)</u>	<u>(120,780)</u> (2)	<u>11,999</u>	<u>(1,603,456)</u>
Depreciable capital assets, net	<u>2,080,577</u>	<u>64,237</u>	<u>(19,094)</u>	<u>2,125,720</u>
Nondepreciable capital assets				
Land and improvements	363,091	7,020	(2,074)	368,037
Arts and treasures	8,643	590	--	9,233
Library collections	14,390	3,220	--	17,610
Construction in progress	226,499	197,049	(151,753)	271,795
Total nondepreciable assets	<u>612,623</u>	<u>207,879</u>	<u>(153,827)</u>	<u>666,675</u>
Total capital assets	<u>\$ 2,693,200</u>	<u>272,116</u>	<u>(172,921)</u>	<u>2,792,395</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	\$ 4,860
Public safety	15,443
Transportation, planning and sustainability	54,677
Public health	1,535
Public recreation and culture	15,026
Urban growth management	18,025
Internal service funds	11,214
Total increases in accumulated depreciation/amortization	<u>\$ 120,780</u>

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Total

Capital asset activity for the year ended September 30, 2015, 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	\$ 1,738,555	579,568	(755)	2,317,368
Plant and equipment	3,569,179	141,266	(28,689)	3,681,756
Vehicles	188,327	27,116	(10,451)	204,992
Electric plant	4,517,202	164,448	(11,371)	4,670,279
Non-electric plant	189,830	10,963	(253)	200,540
Nuclear fuel	320,764	25,077	--	345,841
Water rights	100,000	--	--	100,000
Total depreciable capital assets	<u>10,623,857</u>	<u>948,438</u>	<u>(51,519)</u>	<u>11,520,776</u>
Less accumulated depreciation/amortization for				
Building and improvements	(617,075)	(51,459)	2	(668,532)
Plant and equipment	(1,283,433)	(97,500)	6,103	(1,374,830)
Vehicles	(115,015)	(17,865)	9,648	(123,232)
Electric plant	(2,315,949)	(142,147)	6,724	(2,451,372)
Non-electric plant	(54,476)	(8,118)	115	(62,479)
Nuclear fuel	(281,148)	(17,869)	--	(299,017)
Water rights	(14,815)	(988)	--	(15,803)
Total accumulated depreciation/amortization	<u>(4,681,911)</u>	<u>(335,946)</u> (2)	<u>22,592</u>	<u>(4,995,265)</u>
Depreciable capital assets, net	<u>5,941,946</u>	<u>612,492</u>	<u>(28,927)</u>	<u>6,525,511</u>
Nondepreciable capital assets				
Land and improvements	554,774	41,282	(2,249)	593,807
Arts and treasures	1,657	2,207	--	3,864
Construction in progress	794,464	431,128	(925,804)	299,788
Plant held for future use	23,115	--	--	23,115
Total nondepreciable assets	<u>1,374,010</u>	<u>474,617</u>	<u>(928,053)</u>	<u>920,574</u>
Total capital assets	<u>\$ 7,315,956</u>	<u>1,087,109</u>	<u>(956,980)</u>	<u>7,446,085</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	\$ 170,413
Water	55,612
Wastewater	59,659
Airport	20,690
Convention Center	8,948
Environmental and health services	9,075
Public recreation	866
Urban growth management	10,683
Total increases in accumulated depreciation/amortization	<u>\$ 335,946</u>

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Austin Energy

Capital asset activity for the year ended September 30, 2015, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets				
Vehicles	\$ 30,468	1,231	(1,113)	30,586
Electric plant	4,517,202	164,448	(11,371)	4,670,279
Non-electric plant	189,830	10,963	(253)	200,540
Nuclear fuel	320,764	25,077	--	345,841
Total depreciable capital assets	<u>5,058,264</u>	<u>201,719</u>	<u>(12,737)</u>	<u>5,247,246</u>
Less accumulated depreciation/amortization for				
Vehicles	(22,474)	(2,279)	1,113	(23,640)
Electric plant	(2,315,949)	(142,147)	6,724	(2,451,372)
Non-electric plant	(54,476)	(8,118)	115	(62,479)
Nuclear fuel	(281,148)	(17,869)	--	(299,017)
Total accumulated depreciation/amortization	<u>(2,674,047)</u>	<u>(170,413) (1)</u>	<u>7,952</u>	<u>(2,836,508)</u>
Depreciable capital assets, net	<u>2,384,217</u>	<u>31,306</u>	<u>(4,785)</u>	<u>2,410,738</u>
Nondepreciable capital assets				
Land and improvements	62,765	1,148	--	63,913
Plant held for future use	23,115	--	--	23,115
Construction in progress	117,360	171,273	(182,631)	106,002
Total nondepreciable assets	<u>203,240</u>	<u>172,421</u>	<u>(182,631)</u>	<u>193,030</u>
Total capital assets	<u>\$ 2,587,457</u>	<u>203,727</u>	<u>(187,416)</u>	<u>2,603,768</u>

(1) Components of accumulated depreciation/amortization increases:

Current year depreciation	\$ 152,544
Current year amortization included in operating expense	17,869
Total increases in accumulated depreciation/amortization	<u>\$ 170,413</u>

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Austin Water Utility

Capital asset activity for the year ended September 30, 2015, 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	\$ 674,016	486,174	--	1,160,190
Plant and equipment	3,355,030	129,848	(28,447)	3,456,431
Vehicles	39,142	1,475	(954)	39,663
Water rights	100,000	--	--	100,000
Total depreciable capital assets	<u>4,168,188</u>	<u>617,497</u>	<u>(29,401)</u>	<u>4,756,284</u>
Less accumulated depreciation/amortization for				
Building and improvements	(231,907)	(23,611)	2	(255,516)
Plant and equipment	(1,207,975)	(87,618)	6,075	(1,289,518)
Vehicles	(27,706)	(3,054)	916	(29,844)
Water rights	(14,815)	(988)	--	(15,803)
Total accumulated depreciation/amortization	<u>(1,482,403)</u>	<u>(115,271) (1)</u>	<u>6,993</u>	<u>(1,590,681)</u>
Depreciable capital assets, net	<u>2,685,785</u>	<u>502,226</u>	<u>(22,408)</u>	<u>3,165,603</u>
Nondepreciable capital assets				
Land and improvements	230,815	2,354	(2,249)	230,920
Arts and treasures	62	22	--	84
Construction in progress	577,082	114,837	(571,357)	120,562
Total nondepreciable assets	<u>807,959</u>	<u>117,213</u>	<u>(573,606)</u>	<u>351,566</u>
Total capital assets	<u>\$ 3,493,744</u>	<u>619,439</u>	<u>(596,014)</u>	<u>3,517,169</u>

(1) Components of accumulated depreciation/amortization increases:

Current year depreciation	
Water	\$ 54,624
Wastewater	59,659
Current year amortization	
Water	988
Total increases in accumulated depreciation/amortization	<u>\$ 115,271</u>

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2015, 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	\$ 735,106	90,011	--	825,117
Plant and equipment	25,926	2,338	(52)	28,212
Vehicles	9,926	2,436	(148)	12,214
Total depreciable capital assets	<u>770,958</u>	<u>94,785</u>	<u>(200)</u>	<u>865,543</u>
Less accumulated depreciation for				
Building and improvements	(249,863)	(18,107)	--	(267,970)
Plant and equipment	(14,238)	(1,420)	--	(15,658)
Vehicles	(5,554)	(1,163)	147	(6,570)
Total accumulated depreciation	<u>(269,655)</u>	<u>(20,690) (1)</u>	<u>147</u>	<u>(290,198)</u>
Depreciable capital assets, net	<u>501,303</u>	<u>74,095</u>	<u>(53)</u>	<u>575,345</u>
Nondepreciable capital assets				
Land and improvements	95,738	643	--	96,381
Arts and treasures	983	2,185	--	3,168
Construction in progress	51,151	62,287	(99,361)	14,077
Total nondepreciable assets	<u>147,872</u>	<u>65,115</u>	<u>(99,361)</u>	<u>113,626</u>
Total capital assets	<u>\$ 649,175</u>	<u>139,210</u>	<u>(99,414)</u>	<u>688,971</u>

(1) Components of accumulated depreciation/amortization increases:

Current year depreciation \$ 20,690

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2015, 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	\$ 329,433	3,383	(755)	332,061
Plant and equipment	188,223	9,080	(190)	197,113
Vehicles	108,791	21,974	(8,236)	122,529
Total depreciable capital assets	<u>626,447</u>	<u>34,437</u>	<u>(9,181)</u>	<u>651,703</u>
Less accumulated depreciation for				
Building and improvements	(135,305)	(9,741)	--	(145,046)
Plant and equipment	(61,220)	(8,462)	28	(69,654)
Vehicles	(59,281)	(11,369)	7,472	(63,178)
Total accumulated depreciation	<u>(255,806)</u>	<u>(29,572)</u> (2)	<u>7,500</u>	<u>(277,878)</u>
Depreciable capital assets, net	<u>370,641</u>	<u>4,865</u>	<u>(1,681)</u>	<u>373,825</u>
Nondepreciable capital assets				
Land and improvements	165,456	37,137	--	202,593
Arts and treasures	612	--	--	612
Construction in progress	48,871	82,731	(72,455)	59,147
Total nondepreciable assets	<u>214,939</u>	<u>119,868</u>	<u>(72,455)</u>	<u>262,352</u>
Total capital assets	<u>\$ 585,580</u>	<u>124,733</u>	<u>(74,136)</u>	<u>636,177</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	\$ 8,948
Environmental and health services	9,075
Public recreation	866
Urban growth management	10,683
Total increases in accumulated depreciation/amortization	<u>\$ 29,572</u>

5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Capitalized Interest

The City has recorded capitalized interest for fiscal year 2015 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Enterprise Funds	
Major fund:	
Airport	\$ 1,284
Nonmajor enterprise funds:	
Convention Center	992
Drainage	725

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 and deferred inflows of \$3.67 million derived from two 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.

As of September 30, 2015, the City reported the following SCA activity in the governmental activities (in thousands):

Service Concession Arrangement	Asset	Beginning		Ending		Net Book Value
	Construction Cost	Accumulated Depreciation	Current Year Depreciation	Accumulated Depreciation	Accumulated Depreciation	
Umlauf Sculpture Garden	\$ 2,337	1,339	59	1,398	939	
YMCA Northeast Recreation Center	1,333	61	33	94	1,239	
	<u>3,670</u>	<u>1,400</u>	<u>92</u>	<u>1,492</u>	<u>2,178</u>	

	Beginning		Ending		Ending Deferred Inflows
	Beginning Deferred Inflows	Accumulated Amortization	Current Year Amortization	Accumulated Amortization	
Umlauf Sculpture Garden	2,337	1,785	77	1,862	475
YMCA Northeast Recreation Center	1,333	278	67	345	988
	<u>\$ 3,670</u>	<u>2,063</u>	<u>144</u>	<u>2,207</u>	<u>1,463</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, 2015, were as follows (in thousands):

Description	October 1, 2014	Increases	Decreases	September 30, 2015	Amounts Due Within One Year
Governmental activities					
General obligation bonds, net	\$ 974,855	115,432	(59,607)	1,030,680	56,673
Certificates of obligation, net	135,829	35,250	(5,729)	165,350	6,317
Contractual obligations, net	85,036	29,350	(11,990)	102,396	10,727
Debt service requirements total	1,195,720	180,032	(77,326)	1,298,426	73,717
Other long-term obligations					
Accrued compensated absences	132,136	4,013	(3,760)	132,389	60,644
Claims payable	43,806	26,900	(23,242)	47,464	22,611
Net pension liability (1)	754,223	186,945	(97,082)	844,086	--
Other postemployment benefits	435,263	49,591	--	484,854	--
Other liabilities	87,230	8,474	(3,398)	92,306	80,571
Governmental activities total	2,648,378	455,955	(204,808)	2,899,525	237,543
Total business-type activities					
General obligation bonds, net	33,701	--	(4,849)	28,852	4,354
Certificates of obligation, net	27,232	15,118	(1,655)	40,695	1,503
Contractual obligations, net	65,854	5,091	(16,259)	54,686	13,748
Other tax supported debt, net	9,195	--	(745)	8,450	795
General obligation bonds and other tax supported debt total	135,982	20,209	(23,508)	132,683	20,400
Commercial paper notes, net	241,456	151,825	(192,700)	200,581	--
Revenue bonds, net	4,298,643	1,051,949	(749,775)	4,600,817	181,484
Capital lease obligations	1,135	--	(46)	1,089	49
Debt service requirements total	4,677,216	1,223,983	(966,029)	4,935,170	201,933
Other long-term obligations					
Accrued compensated absences	23,824	1,910	(1,026)	24,708	24,565
Net pension liability (1)	392,620	100,449	(47,260)	445,809	--
Other postemployment benefits	255,002	41,911	(4,068)	292,845	--
Accrued landfill closure and postclosure costs	9,935	1,519	(6)	11,448	1,549
Decommissioning expense payable	182,536	2,418	(1,946)	183,008	7,792
Other liabilities	95,177	8,244	(2,648)	100,773	57,000
Business-type activities total	5,636,310	1,380,434	(1,022,983)	5,993,761	292,839
Total liabilities (2)	\$ 8,284,688	1,836,389	(1,227,791)	8,893,286	530,382

(1) Beginning balances have been restated. See Note 18.

(2) This schedule excludes select short-term liabilities of \$87,014 for governmental activities. For business-type activities, it excludes select short-term liabilities of \$196,644, capital appreciation bond interest payable of \$100,528 and derivative instruments of \$122,085.

6 – DEBT AND NON-DEBT LIABILITIES, continued
a -- Long-Term Liabilities, continued

Description	October 1, 2014	Increases	Decreases	September 30, 2015	Amounts Due Within One Year
Business-type activities:					
Electric activities					
General obligation bonds, net	\$ 686	--	(157)	529	122
General obligation bonds					
and other tax supported debt total	686	--	(157)	529	122
Commercial paper notes, net	166,456	58,290	(192,700)	32,046	--
Revenue bonds, net	1,252,386	453,913	(295,656)	1,410,643	65,132
Capital lease obligations	1,135	--	(46)	1,089	49
Debt service requirements total	1,420,663	512,203	(488,559)	1,444,307	65,303
Other long-term obligations					
Accrued compensated absences	10,081	214	(38)	10,257	10,257
Net pension liability (1)	167,761	42,550	(20,022)	190,289	--
Other postemployment benefits	104,347	11,313	--	115,660	--
Decommissioning expense payable	182,536	2,418	(1,946)	183,008	7,792
Other liabilities	69,792	4,750	--	74,542	34,163
Electric activities total	1,955,180	573,448	(510,565)	2,018,063	117,515
Water and Wastewater activities					
General obligation bonds, net	3,975	--	(1,119)	2,856	1,029
Contractual obligations, net	8,342	908	(2,163)	7,087	1,761
Other tax supported debt, net	5,887	--	(477)	5,410	509
General obligation bonds					
and other tax supported debt total	18,204	908	(3,759)	15,353	3,299
Commercial paper notes, net	75,000	93,535	--	168,535	--
Revenue bonds, net	2,548,736	324,369	(424,634)	2,448,471	86,261
Debt service requirements total	2,641,940	418,812	(428,393)	2,632,359	89,560
Other long-term obligations					
Accrued compensated absences	5,415	181	(124)	5,472	5,472
Net pension liability (1)	88,670	22,828	(10,739)	100,759	--
Other postemployment benefits	63,946	11,062	--	75,008	--
Other liabilities	13,134	997	(1,058)	13,073	13,073
Water and Wastewater activities total	2,813,105	453,880	(440,314)	2,826,671	108,105
Airport activities					
General obligation bonds, net	134	--	(29)	105	24
General obligation bonds					
and other tax supported debt total	134	--	(29)	105	24
Revenue bonds, net	310,013	273,667	(17,582)	566,098	18,351
Debt service requirements total	310,147	273,667	(17,611)	566,203	18,375
Other long-term obligations					
Accrued compensated absences	1,816	193	(60)	1,949	1,949
Net pension liability (1)	27,231	6,934	(3,262)	30,903	--
Other postemployment benefits	17,209	2,528	--	19,737	--
Other liabilities	2,120	1,433	(1)	3,552	3,541
Airport activities total	358,523	284,755	(20,934)	622,344	23,865
Nonmajor activities					
General obligation bonds, net	28,906	--	(3,544)	25,362	3,179
Certificates of obligation, net	27,232	15,118	(1,655)	40,695	1,503
Contractual obligations	57,512	4,183	(14,096)	47,599	11,987
Other tax supported debt, net	3,308	--	(268)	3,040	286
General obligation bonds					
and other tax supported debt total	116,958	19,301	(19,563)	116,696	16,955
Revenue bonds, net	187,508	--	(11,903)	175,605	11,740
Debt service requirements total	304,466	19,301	(31,466)	292,301	28,695
Other long-term obligations					
Accrued compensated absences	6,512	1,322	(804)	7,030	6,887
Net pension liability (1)	108,958	28,137	(13,237)	123,858	--
Other postemployment benefits	69,500	17,008	(4,068)	82,440	--
Accrued landfill closure and postclosure costs	9,935	1,519	(6)	11,448	1,549
Other liabilities	10,131	1,064	(1,589)	9,606	6,223
Nonmajor activities total	\$ 509,502	68,351	(51,170)	526,683	43,354

(1) Beginning balances have been restated. See Note 18.

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, 2015, 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	2005	\$ 2,630	1,075	130 (1)(3)	3.95 - 4.30%	9/1/2016-2020
NW Austin MUD	2006	7,995	6,680	2,757 (1)(3)	4.00 - 4.25%	9/1/2016-2026
NW Austin MUD	2010	2,760	695	34 (1)(3)	4.25%	3/1/2016-2018
2005 Refunding	2005	19,535	12,140	4,011 (1)	4.00 - 4.25%	9/1/2016-2025
2005	2005	7,185	4,490	1,111 (1)	3.85 - 4.30%	9/1/2016-2025
2006	2006	31,585	29,480	9,798 (1)	4.00 - 5.38%	9/1/2016-2026
2006	2006	24,150	16,100	4,500 (1)	4.00 - 5.00%	9/1/2016-2026
2006	2006	12,000	8,415	2,431 (1)(4)	4.00 - 5.00%	9/1/2016-2026
2007	2008	97,525	92,925	37,173 (1)	4.64%	9/1/2016-2027
2007	2008	3,820	2,725	941 (1)	4.88%	9/1/2016-2027
2007	2008	9,755	1,175	65 (2)	3.66%	11/1/2015-2017
2008 Refunding	2008	172,505	68,540	10,074 (1)	5.00%	9/1/2016-2021
2008	2009	76,045	60,855	25,975 (1)	3.75 - 5.00%	9/1/2016-2028
2008	2009	10,700	8,165	2,852 (1)	4.00 - 5.00%	9/1/2016-2028
2008	2009	26,715	2,195	38 (2)	3.50%	11/1/2015
2009A	2009	20,905	1,295	65 (1)	5.00%	9/1/2016
2009B	2009	78,460	78,460	33,305 (1)	4.15 - 5.31%	9/1/2017-2029
2009	2009	12,500	8,975	4,730 (1)	3.00 - 4.75%	9/1/2016-2039
2009	2009	13,800	4,650	264 (2)	3.00 - 3.25%	11/1/2015-2019
2009	2010	15,000	11,890	3,986 (1)(4)	3.50 - 4.25%	9/1/2016-2029
2010A	2011	79,528	66,230	25,494 (1)	2.00 - 4.00%	9/1/2016-2030
2010B	2011	26,400	24,770	10,913 (1)	3.50 - 4.65%	9/1/2016-2030
2010	2011	22,300	18,570	5,255 (1)	2.00 - 3.50%	9/1/2016-2030
2010	2011	16,450	6,215	151 (2)	1.25 - 1.75%	11/1/2015-2017
2010 Refunding	2011	91,560	79,600	19,326 (1)	4.34 - 5.00%	9/1/2016-2023
2011A	2012	78,090	69,490	31,245 (1)	2.00 - 4.00%	9/1/2016-2031
2011B	2012	8,450	8,250	3,434 (1)	2.50 - 4.50%	9/1/2016-2031
2011	2012	51,150	47,835	27,886 (1)	3.00 - 5.00%	9/1/2016-2041
2011	2012	26,725	14,315	573 (2)	1.00 - 2.00%	11/1/2015-2018
2011A Refunding	2012	68,285	31,730	5,906 (1)	4.00 - 5.00%	9/1/2016-2023
2011B Refunding	2012	3,000	290	5 (1)	1.86%	9/1/2016
2012A	2013	74,280	70,945	30,179 (1)	3.00 - 5.00%	9/1/2023-2032
2012B	2013	6,640	5,510	1,698 (1)	2.00 - 3.50%	9/1/2016-2032
2012	2013	24,645	22,375	7,722 (1)	3.00 - 4.00%	9/1/2016-2037
2012	2013	27,135	18,150	1,646 (2)	3.00 - 4.00%	11/1/2015-2019
2012	2013	16,735	15,325	5,390 (1)(4)	2.00 - 3.38%	9/1/2016-2032
2013	2014	104,665	101,370	53,874 (1)	4.00 - 5.00%	9/1/2016-2033
2013	2014	25,355	25,355	14,399 (1)	3.25 - 5.00%	9/1/2016-2038
2013	2014	50,150	39,505	2,824 (2)	1.50 - 3.00%	11/1/2015-2020
2013A Refunding	2014	43,250	35,305	9,189 (1)	5.00%	9/1/2016-2024
2013B Refunding	2014	71,455	68,475	3,826 (1)	0.93 - 2.72%	9/1/2016-2020
2014	2015	89,915	89,655	65,418 (1)	3.00 - 5.00%	9/1/2017-2034
2014	2015	10,000	9,915	5,444 (1)	0.86 - 4.10%	9/1/2016-2034
2014	2015	35,490	34,225	18,441 (1)	2.00 - 5.00%	9/1/2016-2034
2014	2015	9,600	9,225	3,707 (1)	0.76 - 3.92%	9/1/2016-2034
2014	2015	14,100	13,255	2,452 (2)	3.00 - 5.00%	11/1/2015-2021
2014	2015	15,845	15,725	7,614 (1)(4)	3.00 - 5.00%	9/1/2016-2029
			<u>\$ 1,362,535</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 \$5,410 and interest of \$1,870 and Drainage Fund principal of \$3,040 and interest of \$1,051.

(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 2014, the City issued \$89,915,000 of Public Improvement Bonds, Series 2014. The net proceeds of \$104,620,000 (after issue costs, discounts, and premiums) from the issue will be used as follows: streets and signals (\$54,685,000), watershed protection improvements (\$10,000,000), parks and recreation (\$8,310,000), central library (\$20,000,000), and facility improvements (\$11,625,000). These bonds will be amortized serially on September 1 of 2015 and 2017, then each year on September 1 from 2020 to 2034. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2015. Total interest requirements for these bonds, at rates ranging from 3.0% to 5.0%, are \$69,693,650.

In October 2014, the City issued \$10,000,000 of Public Improvement Taxable Bonds, Series 2014. The net proceeds of \$9,844,936 (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 2015 to 2034, commencing on March 1, 2015. Principal payments are due September 1 of each year from 2015 to 2034. Total interest requirements for this obligation, at rates ranging from 0.4% to 4.0% are \$5,806,156.

In October 2014, the City issued \$35,490,000 of Certificates of Obligation, Series 2014. The net proceeds of \$40,450,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: watershed home buyouts (\$15,000,000), Waller Creek Tunnel (\$25,000,000) and street improvements (\$450,000). These certificates of obligation will be amortized serially on September 1 of each year from 2015 to 2034. Interest is payable on March 1 and September 1 of each year, commencing on March 1, 2015. Total interest requirements for these obligations, at rates ranging from 2.0% to 5.0%, are \$19,927,600.

In October 2014, the City issued \$9,600,000 of Certificates of Obligation Bonds, Taxable Series 2014. The net proceeds of \$9,449,004 (after issue costs, discounts, and premiums) from the issuance were used for Grey Rock Golf Course & Improvements. Interest is payable March 1 and September 1 of each year from 2015 to 2034, commencing on March 1, 2015. Principal payments are due September 1 of each year from 2015 to 2034. Total interest requirements for this obligation, at rates ranging from 0.4% to 3.9%, are \$4,002,858.

In October 2014, the City issued \$14,100,000 of Public Property Finance Contractual Obligations, Series 2014. The net proceeds of \$15,800,000 (after issue costs, discounts, and premiums) from this issue will be used as follows: water and wastewater utility capital equipment (\$900,000), public works capital equipment (\$2,300,000), transportation capital equipment (\$1,845,000) and network equipment (\$10,755,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2015 to 2021. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2015. Total interest requirements for these obligations, at rates ranging from 3.0% to 5.0%, are \$2,836,458.

In October 2014, the City issued \$15,845,000 of Tax Increment Contract Revenue Bonds, Series 2014. The net proceeds of \$18,492,042 (after issue costs, discounts, and premiums) were used to reimburse the developer of Mueller for additional eligible infrastructure costs such as streets, drainage, and parks. The debt service requirements on the bonds are \$24,217,550 with interest rates ranging from 2.0% to 5.0%. Interest payments are due March 1 and September 1 of each year from 2015 to 2029. Principal payments are due September 1 of each year from 2015 to 2029.

General obligation bonds authorized and unissued amounted to \$324,860,000 at September 30, 2015. Bond ratings at September 30, 2015 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.

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

The total combined utility systems revenue bond obligations at September 30, 2015, exclusive of discounts, premiums, and loss on refundings consists of \$29,542,584 prior lien bonds and \$137,008,874 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are \$170,744,105 at September 30, 2015. Revenue bonds authorized and unissued amount to \$1,492,642,660 at that date. Bond ratings at September 30, 2015, 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.

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 -- Bonds Issued and Outstanding - The following schedule shows the refunding revenue bonds outstanding at September 30, 2015 (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	2,649	15,476 (2)	7.35%	11/15/2015-2017
1994 Refunding	1995	142,559	26,894	96,961 (2)	6.60%	5/15/2017-2019
1998 Refunding	1999	139,965	125,385	40,306 (1)	5.25%	5/15/2016-2025
1998A Refunding	1999	105,350	11,623	18,001 (2)	4.25%	5/15/2016-2020
			<u>\$ 166,551</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, 2015, 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.

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

At September 30, 2015, Austin Energy had outstanding tax exempt commercial paper notes of \$26,905,000 and Austin Water Utility had \$168,535,000 of commercial paper notes outstanding with interest ranging from 0.01% to 0.11%, 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):

<u>Note Series</u>	<u>Liquidity Provider</u>	<u>Commitment Fee Rate</u>	<u>Remarketing</u>	<u>Remarketing Fee Rate</u>	<u>Outstanding</u>	<u>Expiration</u>
Various	Bank of Tokyo Mitsubishi	0.41%	Goldman Sachs	0.05%	<u>\$ 195,440</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.

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, 2015, 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, 2015, Austin Energy had outstanding taxable commercial paper notes of \$5,142,000 (net of discount of \$671) with interest rates ranging from 0.16% to 0.17%. 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):

<u>Note Series</u>	<u>Liquidity Provider</u>	<u>Commitment Fee Rate</u>	<u>Remarketing</u>	<u>Remarketing Fee Rate</u>	<u>Outstanding</u>	<u>Expiration</u>
Various	Citibank	0.28%	Goldman Sachs	0.05%	<u>\$ 5,142</u>	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, 2015, were A1 (Moody's Investors Service, Inc.), AA- (Standard & Poor's), and AA- (Fitch).

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

Electric Utility System Revenue Debt -- Revenue Bond Refunding Issues – In May 2015, the City issued \$327,845,000 of Electric Utility System Revenue Refunding Bonds, Series 2015A. The net proceeds of \$371,431,085 (after issue costs, discounts, and premiums) from the bond refunding were used to refund \$160,000,000 of the City’s outstanding tax-exempt commercial paper issued for the electric utility system; \$123,200,000 of separate lien refunding bonds, series 2006, \$68,340,000 of separate lien refunding bonds, series 2008A and \$1,320,000 of separate lien refunding bonds, series 2010A. The debt service requirements on the refunding bonds are \$643,402,297, with interest rates at 5.0%. Interest payments are due May 15 and November 15 of each year from 2015 to 2045. Principal payments are due November 15 of each year from 2021 to 2038 and November 15 of each year from 2041 to 2045. An economic gain of \$12,414,968 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of \$12,917,111. An accounting loss of \$14,286,042, which will be deferred and amortized, was recorded on this refunding.

In May 2015, the City issued \$81,045,000 of Electric Utility System Revenue Refunding Bonds, Taxable Series 2015B. The net proceeds of \$80,731,432 (after issue costs, discounts, and premiums) from the bond refunding were used to refund \$32,700,000 of the City’s outstanding taxable commercial paper notes issued for the electric utility system and \$44,700,000 of separate lien revenue refunding bonds, series 2006A. The debt service requirements on the refunding bonds are \$111,560,328, with interest rates ranging from 1.1% to 4.7%. Interest payments are due May 15 and November 15 of each year from 2015 to 2037. Principal payments are due November 15 of each year from 2017 to 2037. An economic gain of \$2,912,672 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of \$3,029,940. An accounting loss of \$2,666,670, which will be deferred and amortized, was recorded on this refunding.

Electric Utility System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all electric system refunding revenue bonds outstanding at September 30, 2015 (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	25,775	1,436 (1)	5.50%	11/15/2015-2016
2006 Refunding	2006	150,000	3,800	95 (1)	5.00%	11/15/2015
2006A Refunding	2007	137,800	15,110	596 (1)	5.00%	11/15/2015-2016
2007 Refunding	2007	146,635	39,840	6,449 (1)	5.00%	11/15/2015-2020
2008 Refunding	2008	50,000	42,860	28,267 (1)	5.20 - 6.26%	11/15/2015-2032
2008A Refunding	2008	175,000	105,660	96,170 (1)	4.00 - 6.00%	11/15/2015-2038
2010A Refunding	2010	119,255	103,735	61,326 (1)	4.00 - 5.00%	11/15/2015-2040
2010B Refunding	2010	100,990	100,990	92,973 (1)	4.54 - 5.72%	11/15/2019-2040
2012A Refunding	2013	267,770	267,770	190,936 (1)	2.50 - 5.00%	11/15/2016-2040
2012B Refunding	2013	107,715	107,715	24,471 (1)	0.67 - 3.16%	11/15/2015-2027
2015A Refunding	2015	327,845	327,845	315,557 (1)	5.00%	11/15/2021-2045
2015B Refunding	2015	81,045	81,045	30,515 (1)	1.11 - 4.66%	11/15/2017-2037
			<u>\$ 1,222,145</u>			

(1) Interest is paid semiannually on May 15 and November 15.

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, 2015 (in thousands):

Gross Revenue (1)	Operating Expense (2)(3)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
\$ 1,359,097	978,283	380,814	106,921	3.56

- (1) Gross revenue includes revenues from operations and interest income.
- (2) Excludes depreciation.
- (3) Excludes other postemployment benefits and net pension liability accruals.

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

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, 2015, 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 July 2015, the City issued \$249,145,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2015A. The net proceeds of \$283,277,706 (after issue costs, discounts, and premiums) from the bond refunding were used to refund \$154,875,000 of the City's separate lien revenue refunding bonds, series 2005; \$5,205,000 of the City's separate lien revenue refunding bonds, series 2005A; \$63,880,000 of the City's separate lien revenue refunding bonds, series 2006A and \$47,585,000 of the City's separate lien revenue refunding bonds, series 2007. The debt service requirements on the refunding bonds are \$128,135,691 with interest rates ranging from 2.0% to 5.0%. Interest payments are due May 15 and November 15 of each year from 2015 to 2036. Principal payments are due November 15 of each year from 2016 to 2036, and May 15 of each year from 2020 to 2036. An economic gain of \$22,755,334 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of \$10,740,173. An accounting loss of \$16,993,675, which will be deferred and amortized, was recorded on this refunding.

In July 2015, the City issued \$40,000,000 of Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2015B. The net proceeds of \$39,841,396 (after issue costs, discounts, and premiums) from the bond refunding were used to refund \$34,160,000 of the City's separate lien revenue refunding bonds, series 2006 and \$4,565,000 of the City's separate lien revenue refunding bonds, series 2009A. The debt service requirements on the refunding bonds are \$3,401,691 with interest rates ranging from 0.4% to 2.5%. Interest payments are due May 15 and November 15 of each year from 2015 to 2021. Principal payments are due November 15 of each year from 2017 to 2019, and May 15 of each year from 2016 to 2017 and 2019 to 2021. An economic gain of \$2,700,593 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of \$1,273,443. An accounting loss of \$2,559,019, which will be deferred and amortized, was recorded on this refunding.

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, 2015 (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	29,120	1,623 (1)	5.50%	11/15/2015-2016
2004A Refunding	2005	165,145	14,010	2,811 (1)	5.00%	11/15/2015-2019
2005 Refunding	2005	198,485	320	6 (1)	4.00%	11/15/2015
2006 Refunding	2006	63,100	5,510	285 (1)	5.00%	11/15/2015-2016
2006A Refunding	2007	135,000	53,780	25,000 (1)	3.50 - 5.00%	11/15/2015-2032
2007 Refunding	2008	135,000	72,530	60,396 (1)	4.40 - 5.25%	11/15/2015-2037
2008 Refunding	2008	170,605	115,695	42,650 (2)	0.01 - 0.13%	11/15/2015-2031 (3)
2009 Refunding	2009	175,000	149,825	62,527 (1)	4.00 - 5.13%	11/15/2015-2029
2009A Refunding	2010	166,575	147,650	107,586 (1)	4.00 - 5.00%	11/15/2015-2039
2010	2010	31,815	28,625	-- (4)	0.00%	11/15/2015-2041
2010A Refunding	2011	76,855	74,160	59,041 (1)	4.00 - 5.13%	11/15/2015-2040
2010B Refunding	2011	100,970	100,970	87,749 (1)	2.49 - 6.02%	11/15/2015-2040
2011 Refunding	2012	237,530	237,030	172,658 (1)	2.00 - 5.00%	11/15/2015-2041
2011 Revenue	2012	18,485	18,485	2,535 (5)	2.50 - 2.80%	12/01/2015-2016
2011 Revenue	2012	2,332	2,333	298 (5)	2.50 - 2.80%	12/01/2015-2016
2012 Refunding	2012	336,820	311,415	196,276 (1)	2.50 - 5.00%	11/15/2015-2042
2013A Refunding	2013	282,460	282,460	205,187 (1)	3.00 - 5.00%	11/15/2015-2043
2014 Refunding	2014	282,205	282,205	236,723 (1)	4.00 - 5.00%	5/15/2018-2043
2015A Refunding	2015	249,145	249,145	128,136 (1)	2.00 - 5.00%	11/15/2016-2036
2015B Refunding	2015	40,000	40,000	3,402 (1)	0.40 - 2.54%	5/15/2016-2021
			<u>\$ 2,215,268</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%	<u>\$ 115,695</u>	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.

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, 2015 (in thousands):

Gross Revenue (1)	Operating Expense (2)(3)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage (4)
\$ 517,253	208,307	308,946	221,310	1.40

(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.

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

Airport -- Revenue Bonds - 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, 2015, the total airport system obligation for prior lien bonds is \$538,259,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are \$329,418,034 at September 30, 2015. Revenue bonds authorized and unissued amount to \$735,795,000.

Airport System Revenue Debt -- Revenue Bond Issue - In January 2015, the City issued \$244,495,000 of Airport System Revenue Bonds, Series 2014. The net proceeds of \$216,378,075 (after issue costs, discounts, and premiums) from the issuance are being used for designing and constructing improvements to Austin-Bergstrom International Airport. Interest is payable May 15 and November 15 of each year from 2015 to 2044, commencing on May 15, 2015. Principal payments are due November 15 of each year from 2026 to 2044. Total interest requirements for this obligation, at a rate of 5%, are \$272,662,118.

The bond rating at September 30, 2015, for the revenue bonds is 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, 2015 (in thousands):

<u>Series</u>	<u>Fiscal Year</u>	<u>Original Amount Issued</u>	<u>Principal Outstanding</u>	<u>Aggregate Interest Requirements Outstanding</u>	<u>Interest Rates of Debt Outstanding</u>	<u>Maturity Dates of Serial Debt</u>
2005 Refunding	2008 (1)	\$ 281,300	198,750	49,521 (2)	0.03 - 0.14%	11/15/2015-2025
2013 Revenue	2013	60,000	60,000	10,538 (3)	2.25%	11/15/2015-2028 (4)
2013A Refunding	2014	35,620	35,014	1,111 (3)	1.56%	11/15/2015-2018
2014 Revenue	2015	244,495	244,495	268,248 (3)	5.00%	11/15/2026-2044
			<u>\$ 538,259</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.

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 \$198,750,000. 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%	\$ 49,700	10/15/2018
2005-2	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	49,650	10/15/2018
2005-3	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	49,700	10/15/2018
2005-4	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	49,700	10/15/2018
					<u>\$ 198,750</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, 2015. 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.

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

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, 2015 (in thousands):

Gross Revenue (1)	Other Available Funds (2)	Operating Expense (3)(4)	Net Revenue and Other Available Funds	Debt Service Requirement (5)	Revenue Bond Coverage
\$ 120,780	3,551	76,995	47,336	14,205	3.33

- (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.

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, 2015, the total convention center obligation for prior and subordinate lien bonds is \$171,740,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are \$48,434,503 at September 30, 2015. Revenue bonds authorized and unissued amount to \$760,000 at September 30, 2015.

Bond ratings at September 30, 2015, 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, 2015 (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	32,020	13,301 (1)	4.00 - 5.00%	11/15/2015-2029
2008AB Refunding	2008	125,280	98,345	24,875 (2)	0.02 - 0.13%	11/15/2015-2029
2012 Refunding	2012	20,185	18,875	7,426 (1)	2.00 - 5.00%	11/15/2015-2029
2013 Refunding	2014	26,485	22,500	2,832 (1)	4.00 - 5.00%	11/15/2015-2019
			<u>\$ 171,740</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.

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

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):

<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>
2008-A	JPMorgan Chase Bank, NA	0.42%	Raymond James	0.06%	\$ 49,170	10/1/2017
2008-B	JPMorgan Chase Bank, NA	0.42%	Merrill Lynch, Pierce, Fenner & Smith Inc.	0.05%	49,175	10/1/2017
					<u>\$ 98,345</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, 2015. 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.

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
2016	\$ 56,673	41,894	6,317	6,273	10,727	3,332
2017	57,769	39,806	6,599	6,051	10,539	3,071
2018	55,551	37,572	6,887	5,820	12,064	2,744
2019	57,003	35,360	7,174	5,579	10,942	2,367
2020	58,911	33,084	7,396	5,334	9,055	2,044
2021-2025	313,483	123,825	42,194	22,333	21,882	6,984
2026-2030	270,290	57,589	38,524	13,833	18,310	2,825
2031-2035	108,585	11,832	27,437	6,803	4,100	207
2036-2040	--	--	14,700	2,179	--	--
2041-2045	--	--	2,235	95	--	--
	<u>978,265</u>	<u>380,962</u>	<u>159,463</u>	<u>74,300</u>	<u>97,619</u>	<u>23,574</u>
Less: Unamortized bond discounts	(197)	--	--	--	(7)	--
Add: Unamortized bond premiums	52,612	--	5,887	--	4,784	--
Net debt service requirements	<u>1,030,680</u>	<u>380,962</u>	<u>165,350</u>	<u>74,300</u>	<u>102,396</u>	<u>23,574</u>

Fiscal Year Ended September 30	Total Governmental Debt Service Requirements		
	Principal	Interest	Total
2016	73,717	51,499	125,216
2017	74,907	48,928	123,835
2018	74,502	46,136	120,638
2019	75,119	43,306	118,425
2020	75,362	40,462	115,824
2021-2025	377,559	153,142	530,701
2026-2030	327,124	74,247	401,371
2031-2035	140,122	18,842	158,964
2036-2040	14,700	2,179	16,879
2041-2045	2,235	95	2,330
	<u>1,235,347</u>	<u>478,836</u>	<u>1,714,183</u>
Less: Unamortized bond discounts	(204)	--	(204)
Add: Unamortized bond premiums	63,283	--	63,283
Net debt service requirements	<u>\$ 1,298,426</u>	<u>478,836</u>	<u>1,777,262</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
2016	\$ 4,354	1,209	1,503	1,475	13,748	1,339
2017	3,406	1,017	1,556	1,434	11,437	1,039
2018	3,725	869	1,623	1,386	10,385	738
2019	3,171	715	1,696	1,343	8,510	448
2020	3,118	587	1,763	1,299	6,129	214
2021-2025	9,193	994	10,176	5,627	2,988	84
2026-2030	--	--	12,664	3,427	--	--
2031-2035	--	--	6,173	1,078	--	--
2036-2040	--	--	1,420	172	--	--
2041-2045	--	--	--	--	--	--
2046-2050	--	--	--	--	--	--
	<u>26,967</u>	<u>5,391</u>	<u>38,574</u>	<u>17,241</u>	<u>53,197</u>	<u>3,862</u>
Less: Unamortized bond discounts	(9)	--	--	--	--	--
Add: Unamortized bond premiums	1,894	--	2,121	--	1,489	--
Net debt service requirements	<u>28,852</u>	<u>5,391</u>	<u>40,695</u>	<u>17,241</u>	<u>54,686</u>	<u>3,862</u>

Fiscal Year Ended September 30	Other Tax Supported Debt		Commercial Paper Notes (1)		Revenue Bonds (2)(3)	
	Principal	Interest	Principal	Interest	Principal	Interest
	2016	795	342	200,582	22	181,484
2017	539	469	--	--	178,414	222,556
2018	545	467	--	--	133,517	231,627
2019	456	575	--	--	133,485	203,412
2020	775	258	--	--	167,348	172,721
2021-2025	4,435	771	--	--	978,507	722,216
2026-2030	905	39	--	--	960,035	499,561
2031-2035	--	--	--	--	578,145	323,268
2036-2040	--	--	--	--	604,604	172,360
2041-2045	--	--	--	--	370,025	47,563
2046-2050	--	--	--	--	28,400	710
	<u>8,450</u>	<u>2,921</u>	<u>200,582</u>	<u>22</u>	<u>4,313,964</u>	<u>2,792,274</u>
Less: Unamortized bond discounts	--	--	(1)	--	(2,515)	--
Add: Unamortized bond premiums	--	--	--	--	289,368	--
Net debt service requirements	<u>\$ 8,450</u>	<u>2,921</u>	<u>200,581</u>	<u>22</u>	<u>4,600,817</u>	<u>2,792,274</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 0.14%.
- (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
	2016	\$ 49	76	402,515	200,743
2017	52	74	195,404	226,589	421,993
2018	54	71	149,849	235,158	385,007
2019	57	68	147,375	206,561	353,936
2020	60	65	179,193	175,144	354,337
2021-2025	351	277	1,005,650	729,969	1,735,619
2026-2030	449	179	974,053	503,206	1,477,259
2031-2035	17	4	584,335	324,350	908,685
2036-2040	--	--	606,024	172,532	778,556
2041-2045	--	--	370,025	47,563	417,588
2046-2050	--	--	28,400	710	29,110
	<u>1,089</u>	<u>814</u>	<u>4,642,823</u>	<u>2,822,525</u>	<u>7,465,348</u>
Less: Unamortized bond discounts	--	--	(2,525)	--	(2,525)
Add: Unamortized bond premiums	--	--	294,872	--	294,872
Net debt service requirements	<u>\$ 1,089</u>	<u>814</u>	<u>4,935,170</u>	<u>2,822,525</u>	<u>7,757,695</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
	2016	\$ 122	11	32,047	--	65,132
2017	127	9	--	--	44,278	61,128
2018	115	7	--	--	39,376	59,398
2019	109	4	--	--	41,632	54,834
2020	50	3	--	--	47,368	53,011
2021-2025	4	--	--	--	262,241	232,110
2026-2030	--	--	--	--	270,520	167,358
2031-2035	--	--	--	--	196,510	111,435
2036-2040	--	--	--	--	195,310	61,520
2041-2045	--	--	--	--	125,910	23,165
2046-2050	--	--	--	--	28,400	710
	<u>527</u>	<u>34</u>	<u>32,047</u>	<u>--</u>	<u>1,316,677</u>	<u>887,269</u>
Less: Unamortized bond discounts	--	--	(1)	--	(390)	--
Add: Unamortized bond premiums	2	--	--	--	94,356	--
Net debt service requirements	<u>529</u>	<u>34</u>	<u>32,046</u>	<u>--</u>	<u>1,410,643</u>	<u>887,269</u>

Fiscal Year Ended September 30	Capital Lease Obligations		Total Austin Energy Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
	2016	49	76	97,350	62,687
2017	52	74	44,457	61,211	105,668
2018	54	71	39,545	59,476	99,021
2019	57	68	41,798	54,906	96,704
2020	60	65	47,478	53,079	100,557
2021-2025	351	277	262,596	232,387	494,983
2026-2030	449	179	270,969	167,537	438,506
2031-2035	17	4	196,527	111,439	307,966
2036-2040	--	--	195,310	61,520	256,830
2041-2045	--	--	125,910	23,165	149,075
2046-2050	--	--	28,400	710	29,110
	<u>1,089</u>	<u>814</u>	<u>1,350,340</u>	<u>888,117</u>	<u>2,238,457</u>
Less: Unamortized bond discounts	--	--	(391)	--	(391)
Add: Unamortized bond premiums	--	--	94,358	--	94,358
Net debt service requirements	<u>\$ 1,089</u>	<u>814</u>	<u>1,444,307</u>	<u>888,117</u>	<u>2,332,424</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
	2016	\$ 1,029	123	1,761	177	509
2017	856	75	1,556	135	345	300
2018	599	35	1,326	96	349	299
2019	101	7	1,062	59	292	368
2020	64	5	746	30	496	165
2021-2025	49	3	432	14	2,840	494
2026-2030	--	--	--	--	579	25
2031-2035	--	--	--	--	--	--
2036-2040	--	--	--	--	--	--
2041-2045	--	--	--	--	--	--
	<u>2,698</u>	<u>248</u>	<u>6,883</u>	<u>511</u>	<u>5,410</u>	<u>1,870</u>
Less: Unamortized bond discounts	--	--	--	--	--	--
Add: Unamortized bond premiums	158	--	204	--	--	--
Net debt service requirements	<u>2,856</u>	<u>248</u>	<u>7,087</u>	<u>511</u>	<u>5,410</u>	<u>1,870</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
	2016	168,535	22	86,261	105,685	258,095	106,226
2017	--	--	100,046	134,277	102,803	134,787	237,590
2018	--	--	57,792	146,003	60,066	146,433	206,499
2019	--	--	54,484	123,732	55,939	124,166	180,105
2020	--	--	80,160	96,389	81,466	96,589	178,055
2021-2025	--	--	533,216	394,294	536,537	394,805	931,342
2026-2030	--	--	550,270	267,924	550,849	267,949	818,798
2031-2035	--	--	327,860	165,796	327,860	165,796	493,656
2036-2040	--	--	340,674	80,031	340,674	80,031	420,705
2041-2045	--	--	156,525	13,022	156,525	13,022	169,547
	<u>168,535</u>	<u>22</u>	<u>2,287,288</u>	<u>1,527,153</u>	<u>2,470,814</u>	<u>1,529,804</u>	<u>4,000,618</u>
Less: Unamortized bond discounts	--	--	(1,586)	--	(1,586)	--	(1,586)
Add: Unamortized bond premiums	--	--	162,769	--	163,131	--	163,131
Net debt service requirements	<u>\$ 168,535</u>	<u>22</u>	<u>2,448,471</u>	<u>1,527,153</u>	<u>2,632,359</u>	<u>1,529,804</u>	<u>4,162,163</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% to 0.13%.
(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			
	Bonds		Revenue Bonds (1)	
	Principal	Interest	Principal	Interest
2016	\$ 24	3	18,351	21,616
2017	24	2	21,940	21,211
2018	21	1	23,744	20,757
2019	20	1	24,249	19,897
2020	10	--	26,135	18,933
2021-2025	3	--	134,060	79,919
2026-2030	--	--	79,795	58,863
2031-2035	--	--	53,775	46,037
2036-2040	--	--	68,620	30,809
2041-2045	--	--	87,590	11,376
	<u>102</u>	<u>7</u>	<u>538,259</u>	<u>329,418</u>
Less: Unamortized bond discounts	--	--	(370)	--
Add: Unamortized bond premiums	3	--	28,209	--
Net debt service requirements	<u>105</u>	<u>7</u>	<u>566,098</u>	<u>329,418</u>

Fiscal Year Ended September 30	Total Airport		
	Debt Service Requirements		
	Principal	Interest	Total
2016	18,375	21,619	39,994
2017	21,964	21,213	43,177
2018	23,765	20,758	44,523
2019	24,269	19,898	44,167
2020	26,145	18,933	45,078
2021-2025	134,063	79,919	213,982
2026-2030	79,795	58,863	138,658
2031-2035	53,775	46,037	99,812
2036-2040	68,620	30,809	99,429
2041-2045	87,590	11,376	98,966
	<u>538,361</u>	<u>329,425</u>	<u>867,786</u>
Less: Unamortized bond discounts	(370)	--	(370)
Add: Unamortized bond premiums	28,212	--	28,212
Net debt service requirements	<u>\$ 566,203</u>	<u>329,425</u>	<u>895,628</u>

(1) Portions of these bonds are variable rate bonds with rates ranging from 0.03% to 0.14%.

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
2016	\$ 3,179	1,072	1,503	1,475	11,987	1,162
2017	2,399	931	1,556	1,434	9,881	904
2018	2,990	826	1,623	1,386	9,059	642
2019	2,941	703	1,696	1,343	7,448	389
2020	2,994	579	1,763	1,299	5,383	184
2021-2025	9,137	991	10,176	5,627	2,556	70
2026-2030	--	--	12,664	3,427	--	--
2031-2035	--	--	6,173	1,078	--	--
2036-2040	--	--	1,420	172	--	--
	<u>23,640</u>	<u>5,102</u>	<u>38,574</u>	<u>17,241</u>	<u>46,314</u>	<u>3,351</u>
Less: Unamortized bond discounts	(9)	--	--	--	--	--
Add: Unamortized bond premiums	1,731	--	2,121	--	1,285	--
Net debt service requirements	<u>25,362</u>	<u>5,102</u>	<u>40,695</u>	<u>17,241</u>	<u>47,599</u>	<u>3,351</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
2016	286	123	11,740	6,379	28,695	10,211	38,906
2017	194	169	12,150	5,940	26,180	9,378	35,558
2018	196	168	12,605	5,469	26,473	8,491	34,964
2019	164	207	13,120	4,949	25,369	7,591	32,960
2020	279	93	13,685	4,388	24,104	6,543	30,647
2021-2025	1,595	277	48,990	15,893	72,454	22,858	95,312
2026-2030	326	14	59,450	5,416	72,440	8,857	81,297
2031-2035	--	--	--	--	6,173	1,078	7,251
2036-2040	--	--	--	--	1,420	172	1,592
	<u>3,040</u>	<u>1,051</u>	<u>171,740</u>	<u>48,434</u>	<u>283,308</u>	<u>75,179</u>	<u>358,487</u>
Less: Unamortized bond discounts	--	--	(169)	--	(178)	--	(178)
Add: Unamortized bond premiums	--	--	4,034	--	9,171	--	9,171
Net debt service requirements	<u>\$ 3,040</u>	<u>1,051</u>	<u>175,605</u>	<u>48,434</u>	<u>292,301</u>	<u>75,179</u>	<u>367,480</u>

(1) A portion of these bonds are variable rate bonds with rates ranging from 0.02% to 0.13%.

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, 2015, defeased bonds remaining unredeemed or unmatured are provided below (in thousands):

Refunded Bonds	Escrow Maturity	Balance (1)
General Obligation		
HUD 108 Loan, Series 2006A	8/1/2016	\$ 525
HUD 108 Loan, Series 2010A	8/1/2016	270
Austin Water Utility		
Series 2005	11/15/2015	154,875
Series 2006	11/15/2016	34,160
Series 2006A	11/15/2016	63,880
Series 2007	11/15/2017	47,585
Series 2009A	11/15/2018	4,565
Austin Energy		
Series 2006	11/15/2016	123,200
Series 2006A	11/15/2015	44,700
Series 2008A	11/15/2018	68,340
Series 20010A	11/15/2016	1,320
		\$ 543,420

(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, 2014. 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 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:	City Employees	Police Officers	Fire Fighters
	2014	2013	2013
Inactive employees or beneficiaries currently receiving benefits	5,396	683	640
Inactive employees entitled to but not yet receiving benefits	2,303	26	5
Active employees	9,028	1,732	1,074
Total	16,727	2,441	1,719

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.

	City Employees	Police Officers	Fire Fighters
Employee contribution (percent of earnings)	8.00%	13.00%	17.70% (1)
City contribution (percent of earnings)	18.00% (2)	21.63% (3)	22.05%
City contributions year ended September 30, 2015 (in thousands)	\$97,655	32,942	18,327

(1) A rate of 18.20% was effective October 1, 2015.

(2) The City contributes two-thirds of the cost of prior service benefit payments. A rate of 18% was effective October 1, 2012.

(3) A rate of 21.313% was effective October 1, 2015.

7 – RETIREMENT PLANS, continued
b -- Net Pension Liability

The City's net pension liability was measured as of December 31, 2014 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, 2013 using the final 2014 assumptions and then was rolled forward to the plan's year ending December 31, 2014.

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	3.25%	3.25%	3.50%
Projected Annual Salary Increases	4.5% to 6.0%	Services based	Services based
Investment Rate of Return	7.75%	7.90%	7.70%
Ad Hoc Postemployment Benefit Changes including COLAs	None	None	None
Dates of Experience Studies	2007 - 2011	2012 - 2013	2004 - 2014
Source for Mortality Assumptions	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.	RP-2000 Combined Healthy without projection - Sex Distinct.	RP2000 (Fully Generational using Scale AA) set back two years for males and females - Sex Distinct.

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.

7 – RETIREMENT PLANS, continued
b -- Net Pension Liability, continued

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	31.55%	8.03%
US Equity	31.01%	5.05%
Fixed Income	24.50%	0.80%
Alternative Investments	7.50%	5.18% to 8.65%
Real Estate	5.44%	5.61%
Total	100.00%	
Police Officers:		
Domestic Equity	43.50%	7.50%
International Equity	21.00%	8.50%
Real Estate	20.00%	4.50%
Domestic Bonds	9.00%	2.50%
International Bonds	6.50%	3.50%
Total	100.00%	
Fire Fighters:		
Public Domestic Equity	22.50%	5.00%
Public Foreign Equity	22.50%	5.90%
Private Equity Fund of Funds	15.00%	7.00%
Investment Grade Bonds	16.00%	0.70%
Hedge Funds	10.00%	2.90%
Core Real Estate	5.00%	3.70%
Value Real Estate	5.00%	5.20%
Treasury Inflation Protected Securities	4.00%	1.20%
Total	100.00%	

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	7.75%	7.90%	7.70%
Change Since Last Measurement Date	None	None	None
Long-term Expected Rate of Return on Pension Plan Investments	7.75%	7.90% (1)	7.70% (2)
Cash Flow Assumptions	Plan member contributions will be made at the current rate. City contributions will be made at the the current rate for 24 years and then will decrease to 8%.	Both plan member contributions and City contributions will be made at current contribution rates.	Both plan member contributions and City contributions will be made at current contribution rates.

(1) – The investment return assumption used for the prior year's actuarial valuation was 8.00% for Police Officers.

(2) – The investment return assumption used for the prior year's actuarial valuation was 7.75% for Fire Fighters.

7 – RETIREMENT PLANS, continued
b -- Net Pension Liability, continued

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 (Asset)</u>
City Employees	6.75%	\$ 1,250,122	7.75%	\$ 884,256	8.75%	\$ 576,554
Police Officers	6.90%	446,103	7.90%	333,604	8.90%	238,082
Fire Fighters	6.70%	179,082	7.70%	72,035	8.70%	(17,038)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s 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, 2014 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, 2013 (a)	\$ 2,909,918	909,000	806,282	4,625,200
Changes for the year:				
Service Cost	89,235	30,254	25,319	144,808
Interest	222,710	72,443	62,977	358,130
Benefit Changes	--	(11,015)	--	(11,015)
Differences between Expected and Actual Experience	33,911	--	--	33,911
Assumption Changes	--	14,137	4,883	19,020
Contribution Buy Back	--	2,207	--	2,207
Benefit Payments including refunds	(161,718)	(45,403)	(37,993)	(245,114)
Net Change in Total Total Pension Liability	184,138	62,623	55,186	301,947
Total Pension Liability at December 31, 2014 (b)	\$ 3,094,056	971,623	861,468	4,927,147
Total Plan Fiduciary Net Position at December 31, 2013 (c)	\$ 2,130,624	595,110	752,622	3,478,356
Changes for the year:				
Employer Contributions	93,331	32,400	18,670	144,401
Employee Contributions	50,490	19,458	14,660	84,608
Contributions Buy Back	--	2,207	--	2,207
Pension Plan Net Investment Income	99,704	35,574	42,005	177,283
Benefits Payments and Refunds	(161,718)	(45,403)	(37,993)	(245,114)
Pension Plan Administrative Expense	(2,631)	(1,327)	(531)	(4,489)
Net Change in Total Plan Fiduciary Net Position	79,176	42,909	36,811	158,896
Total Plan Fiduciary Net Position at December 31, 2014 (d)	\$ 2,209,800	638,019	789,433	3,637,252
Net Pension Liability at December 31, 2013 (a-c)	\$ 779,294	313,890	53,660	1,146,844
Net Pension Liability at December 31, 2014 (b-d)	\$ 884,256	333,604	72,035	1,289,895

7 – RETIREMENT PLANS, continued
b -- Net Pension Liability, continued

The City Employees' fund had no significant changes of assumptions or other inputs, no changes of benefit terms, and no significant factors that affected measurement of the total pension liability during the measurement period.

The Police Officers' fund had numerous changes in benefits and assumptions that affected the measurement of the total pension liability for the measurement period. In February 2015, the pension board approved the following benefit changes:

- Effective February 18, 2015, eliminate the opportunity to purchase permissive service in conjunction with utilizing the Forward or Retro-DROP,
- Effective April 1, 2015, permissive service credit factors shall be determined based on an interest rate that is 50 basis points lower than the valuation assumption and generational mortality,
- Effective April 1, 2015, eliminate Retro-DROP for members with less than 23 years Police Officers' fund service,
- Effective August 1, 2015, the Forward DROP interest rate will be set annually in the same manner as the PROP interest rate, except for those with 23 years of Police Officers' fund service as of July 31, 2015 who will not be affected, and
- Requiring that new hires beginning February 1, 2016 pay the full actuarial costs for purchase of military service.

Changes to assumptions included:

- Decreasing the investment return assumption from 8.00% to 7.90% per year compounded annually, net of expenses,
- Lowering the expected increase in salary due to general wage increased from 3.75% to 3.5%,
- Decreasing the annual assumed interest rate credited to Post Retirement Option Plan (PROP), accounts from 4.00% to 2.25%,
- Reducing the disability rates by one-half,
- Increasing by 25% the retirement rates for members entering the system prior to age 33, and
- Slight modifications to retirement rates due to anticipated future PROP usage.

The Fire Fighters' fund changed a number of assumptions that affected the measurement of the total pension liability for the measurement period.

- The investment return was decreased from 7.75% to 7.70% per year compounded annually, net of expenses.
- The general wage inflation rate was decreased from 3.5% to 3.0%.
- Amendments were made to the service-based table attributable to merit and longevity salary increases, the retirement rates, the Retro-DROP election assumptions, the withdrawal rates, and the assumed spousal age difference assumptions.

This fund had no benefit changes or other significant factors 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, 2015, was comprised of the following (in thousands):

	Pension Expense
City Employees	\$ 117,263
Police Officers	30,009
Fire Fighters	20,105
Total	\$ 167,377

7 – RETIREMENT PLANS, continued

d -- Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015 the City reported deferred outflows of resources related to pensions from the following sources (in thousands):

	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>	<u>Total</u>
Deferred Outflows of Resources				
Contributions to the plans subsequent to the measurement date	\$ 71,342	24,055	14,069	109,466
Differences between expected and actual experience	27,085	--	--	27,085
Changes in assumptions	--	12,724	4,341	17,065
Net difference between projected and actual earnings on pension plan investments	53,886	9,383	12,597	75,866
Total Deferred Outflows of Resources	<u>\$ 152,313</u>	<u>46,162</u>	<u>31,007</u>	<u>229,482</u>

The portion of deferred outflows of resources that will be recognized in pension expense is as follows (in thousands):

Fiscal Year Ended September 30	City Employees	Police Officers	Fire Fighters	Total
2016	\$ 20,298	3,759	3,692	27,749
2017	20,297	3,760	3,692	27,749
2018	20,298	3,759	3,692	27,749
2019	20,078	3,760	3,692	27,530
2020	--	1,414	543	1,957
Thereafter	--	5,655	1,627	7,282
Total	<u>\$ 80,971</u>	<u>22,107</u>	<u>16,938</u>	<u>120,016</u>

In addition, in fiscal year 2016 the following amounts of deferred outflows representing deferred contributions will be recognized as a reduction to the net pension liability (in thousands):

City Employees	\$ 71,342
Police Officers	24,055
Fire Fighters	14,069
Total	<u>\$ 109,466</u>

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 estimated pay-as-you-go cost of providing medical and life benefits was \$39.5 million for 4,431 retirees in 2015 and \$33.3 million for 4,189 retirees in 2014.

b -- Annual Other Postemployment Benefits (OPEB) Cost and Net OPEB Obligation

The annual OPEB cost associated with the City’s retiree benefits for the fiscal year ended September 30, 2015 is as follows (in thousands):

	<u>OPEB</u>
Annual required contribution	\$ 136,706
Interest on net OPEB obligation	29,077
Adjustment to annual required contribution	<u>(38,867)</u>
Annual OPEB cost	126,916
Contributions made	<u>(39,482)</u>
Change in net OPEB obligation	87,434
Beginning net OPEB obligation	<u>690,265</u>
Net OPEB obligation	<u>\$ 777,699</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):

<u>Year Ended</u> <u>September 30</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2013	\$ 132,595	20%	598,687
2014	124,861	27%	690,265
2015	126,916	31%	777,699

c -- Schedule of Funding Progress at September 30, 2015 (in thousands):

<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u>	<u>UAAL (1)</u>	<u>Funded Ratio</u>	<u>Annual</u> <u>Covered</u> <u>Payroll</u>	<u>Percentage of</u> <u>UAAL to Covered</u> <u>Payroll</u>
\$ --	1,449,238	1,449,238	0%	775,527	186.9%

(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 and the actuarial value of assets.

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	N/A
Salary Increase	None
Payroll Increase	None
Health Care Cost Trend Rate	7.0% in 2015, 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.

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 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.

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).

9 – DERIVATIVE INSTRUMENTS, continued
a -- Energy Risk Management Program, continued

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. 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 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, 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, 2015, \$202 thousand in premiums was deferred. As of September 30, 2015, the fair value of Austin Energy's futures, options, swaps and congestion rights, was an unrealized loss of \$46.2 million, of which \$51.8 million is reported as derivative instruments in liabilities and \$5.6 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, 2015, PCRRs had a fair value of \$283 thousand and CRRs had a fair value of \$440 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. The difference in the prices represents what the expected cost of congestion will be for that given point in time.

On September 30, 2015, Austin Energy had the following outstanding hedging derivative instruments (in thousands):

Type of Transaction	Reference Index	Maturity Dates	Fair Value at September 30, 2015		Change in Fair Value	Premiums Deferred	
			Notional Volumes	Fair Value			
Long	OTC Call Options	Henry Hub	Oct 2015 - Dec 2019	16,765,092 (1)	\$ 4,873	1,563	4,799
n/a	Congestion Rights	ICE (2)	Oct 2015 - Jun 2017	21,887,691 (3)	723	(4,310)	-
			Derivative instruments (assets)		5,596	(2,747)	4,799
Short	OTC Call Options	Henry Hub	Apr 2016 - Oct 2016	(1,660,000) (1)	(236)	491	(122)
Short	OTC Put Options	Henry Hub	Apr 2016 - Dec 2019	(16,765,000) (1)	(15,122)	(12,259)	(4,475)
Long	OTC Swaps	Henry Hub	Oct 2015 - Dec 2019	27,056,631 (1)	(36,393)	(25,573)	-
			Derivative instruments (liabilities)		(51,751)	(37,341)	(4,597)
			Total		\$ (46,155)	(40,088)	202

(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, 2015, the brokerages had credit ratings of A.

The over-the-counter agreements expose Austin Energy to credit risk; however, at September 30, 2015, 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, 2015, no collateral was required under these provisions.

The congestion rights expose Austin Energy to custodial credit risk in the event of default or nonperformance by ERCOT. In the event of default of 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, 2015, the NYMEX price was \$2.56 per MMBTU, the WAHA Hub price was \$2.40 per MMBTU, Katy was \$2.52 per MMBTU, and the HSC Hub price was \$2.50 per MMBTU.

Investment Derivative Instruments

On September 30, 2015, Austin Energy had the following closed out investment derivative instruments (in thousands):

Type of Transaction	Reference Index	Fair Value at September 30, 2015			Change in Fair Value
		Maturity Dates	Volumes in MMBTU	Fair Value	
Long OTC Swaps	Henry Hub	Dec-15	155,000	\$ (224)	(226)
Short OTC Swaps	Henry Hub	Dec-15	(155,000)	233	226
				\$ 9	--

At September 30, 2015, Austin Energy recorded an unrealized loss of \$39 thousand on outstanding emission investment instruments.

In fiscal year 2015 Austin Energy sold PCRRs and recorded a gain of \$279 thousand. However, this gain was deferred under the accounting requirements for regulated operations. At September 30, 2015, \$515 thousand remained deferred.

Risks

As of September 30, 2015, Austin Energy was not exposed to credit, interest, or foreign currency risk on its investment derivative instruments.

9 – DERIVATIVE INSTRUMENTS, continued
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.

As of September 30, 2015, the City has three outstanding swap transactions with initial and outstanding notional amounts totaling \$602.1 million and \$412.8 million, respectively. The mark-to-market or fair value for each swap is estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the London Interbank Offered Rate (LIBOR) swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

On September 30, 2015, 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	\$ 115,695	(21,597)
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Pay 4.051%, receive 71% of LIBOR	8/17/2005	11/15/2025	198,750	(34,229)
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	98,345	(14,508)
					<u>\$ 412,790</u>	<u>(70,334)</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, 2015 (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	\$ 115,695	(21,597)	Non-current liability	(6,571)	--
AIR1	198,750	(34,229)	Non-current liability	(1,715)	--
HOT1	98,345	(14,508)	Non-current liability	(2,114)	--
<u>\$ 412,790</u>		<u>(70,334)</u>		<u>(3,829)</u>	<u>--</u>

Due to the continued low interest rate levels during fiscal year 2015, the City's interest rate swap hedging derivative instruments had negative fair values as of September 30, 2015. The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received.

9 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

Risks

Credit risk. As of September 30, 2015, 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 City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The counterparty credit ratings for the City's interest rate swap hedging derivative instruments at September 30, 2015, 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, Inc.	A3	A-	A
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Morgan Keegan Financial Products	A3	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, 2015, 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	\$ (4,222)	49	(4,173)	(44)	(4,217)
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	(8,161)	247	(7,914)	(142)	(8,056)
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	(3,224)	116	(3,108)	(49)	(3,157)
		<u>\$ (15,607)</u>	<u>412</u>	<u>(15,195)</u>	<u>(235)</u>	<u>(15,430)</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, 2015, 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.

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, 2015, the City did not have any investment derivative instruments related to interest rate swaps.

As of September 30, 2015, 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		
2016	\$ 23,820	(117)	14,794	14,677
2017	12,255	(116)	14,255	14,139
2018	12,600	(118)	13,813	13,695
2019	28,525	(106)	12,841	12,735
2020	31,935	(89)	11,624	11,535
2021-2025	179,675	(178)	39,220	39,042
2026-2030	110,000	62	10,827	10,889
2031-2032	13,980	(1)	336	335
Total	\$ 412,790	(663)	117,710	117,047

10 – DEFICITS IN FUND BALANCES AND NET POSITION

At September 30, 2015, 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	\$ 17
Neighborhood Housing & Conservation	2,612
Mueller Development	6
Music Loan Program	2
Capital Projects Funds:	
Funds authorized in 1992	
Street & traffic signals	8
Libraries	17
Funds authorized in 1997	
Radio Trunking	47
Funds authorized in 2006	
Central Library	18,635
Funds authorized in 2012	
Parks	6,051
Other funds	
Planning & development improvements	1
General government projects	13,510
Park improvements	875
Parks and Recreation	524
Capital Reserve	1,239
Public Works	346
Watershed Protection	700
City Hall, plaza, parking garage	7,032
Internal Service Funds	
Capital Projects Management	1,363
Nonmajor Enterprise	
Austin Resource Recovery	50,738
Transportation	17,032

11 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables, payables, and advances at September 30, 2015, are as follows (in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
		<u>Current</u>	<u>Advances</u>
Governmental funds:			
General Fund	Nonmajor governmental funds	\$ 227	--
Nonmajor governmental funds	General Fund	12	--
	Nonmajor governmental funds	57,521	--
	Austin Water Utility	--	1,373
	Nonmajor enterprise funds	--	538
Internal Service funds	Nonmajor governmental funds	11	71
	Internal Service funds	670	--
Enterprise funds:			
Austin Energy	General Fund	198	1,062
	Nonmajor governmental funds	--	220
	Austin Water Utility (restricted)	441	16,587
	Airport	153	821
	Nonmajor enterprise funds	338	--
Austin Water Utility	Nonmajor enterprise funds	301	2,705
Airport (restricted)	Nonmajor governmental funds	--	51
Nonmajor enterprise funds (restricted)	Nonmajor governmental funds	--	437
Nonmajor enterprise funds	Nonmajor enterprise funds	1,231	--
		<u>\$ 61,103</u>	<u>23,865</u>

Interfund receivables, payables, and advances reflect loans between funds. Of the above current amount, \$10.8 million and \$2.3 million are interfund loans from the Fiscal Surety Fund and Urban Forest Replenishment Fund, special revenue funds, to other special revenue funds (primarily grant funds) to cover deficit pooled investments and cash. The above current amount also includes \$44.4 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

Interfund transfers during fiscal year 2015 were as follows (in thousands):

<u>Transfers Out</u>	<u>Transfers In</u>						<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental</u>	<u>Austin Energy</u>	<u>Austin Water Utility</u>	<u>Nonmajor Enterprise</u>	<u>Internal Service</u>	
General Fund	\$ --	22,378	6,970	--	956	--	30,304
Nonmajor governmental funds	--	34,552	157	--	77,226	7,884	119,819
Austin Energy	113,770	--	--	--	--	--	113,770
Austin Water Utility	39,904	75	--	--	--	--	39,979
Airport	--	--	--	--	--	52	52
Nonmajor enterprise funds	262	4,091	--	--	--	97	4,450
Internal service funds	--	24,634	6	31	--	180	24,851
Total transfers out	<u>\$ 153,936</u>	<u>85,730</u>	<u>7,133</u>	<u>31</u>	<u>78,182</u>	<u>8,213</u>	<u>333,225</u>

Interfund transfers are authorized through City Council approval. Significant transfers include Austin Energy and Austin Water Utility transfers to the General Fund, which are comparable to a return on investment to owners, and the transfer of hotel occupancy and vehicle rental tax collections from the Hotel-Motel Occupancy Tax and the Vehicle Rental Tax Funds to the Convention Center Fund.

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 \$72 million in 2015. 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, 2015, 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 2015, the Airport fund revenues included minimum concession guarantees of \$19,348,657.

The following is a schedule by year of minimum future rentals on noncancelable operating leases with remaining terms of up to ten years for the Airport Fund as of September 30, 2015 (in thousands):

Fiscal Year Ended September 30	Airport Lease Receipts
2016	\$ 5,110
2017	2,709
2018	115
2019	5
2020	5
2021	1
Totals	\$ 7,945

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
2016	\$ 1,763
2017	1,042
2018	1,038
2019	1,019
2020	1,326
2021-2025	4,377
Totals	\$ 10,565

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 \$42.6 million as of September 30, 2015. The increase in the pro-rata interest from 2014 is primarily due to an increase in coal inventory. 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.

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, 2015, Austin Energy’s investment in the STP was approximately \$391 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, 2015, the trust’s assets were in excess of the estimated liability by \$27.8 million which is reported as part of deferred inflows of resources (in thousands):

Decommissioning trust assets	\$ 203,005
Pro rata decommissioning liability	<u>(175,216)</u>
	<u>\$ 27,789</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.

13 – COMMITMENTS AND CONTINGENCIES, continued

d -- Purchased Power

Austin Energy has commitments totaling \$6.8 billion to purchase energy and capacity through purchase power agreements. This amount includes provisions for wind power through 2041, landfill power through 2020, 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. The financial statements include a liability of approximately \$8.3 million at September 30, 2015. Austin Energy anticipates payment of these costs in 2016 and future years. The amount is based on 2015 cost estimates to perform remediation and decommissioning. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

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, 2015. Austin Water Utility anticipates payment of these costs in 2016. The amount is based on 2015 cost estimates to perform remediation and decommissioning. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Austin Resource Recovery may incur costs for environmental remediation of certain sites outside of the City's landfill site. The financial statements include a liability of approximately \$315,000 at September 30, 2015 for the Harold Court site. Austin Resource Recovery anticipates payment of these costs in 2016. The amount is based on 2015 cost estimates to perform remediation. 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, 2015.

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 Transportation. 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 2015 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.

13 – COMMITMENTS AND CONTINGENCIES, continued
h -- Capital Improvement Plan, continued

Project	(in thousands)	Remaining Commitment
Governmental activities:		
General government		\$ 74,158
Public safety		20,748
Transportation		71,229
Public health		6,332
Public recreation and culture		67,228
Urban growth management		43,016
Business-type activities:		
Electric		145,029
Water		84,461
Wastewater		60,564
Airport		283,608
Convention		28,460
Environmental and health services		3,396
Urban growth management		172,872
Total		<u>\$ 1,061,101</u>

i -- Encumbrances

The City utilizes encumbrances to track commitments against budget in governmental funds. The amount of outstanding encumbrances at September 30, 2015, is as follows (in thousands):

	<u>Encumbrances</u>
General Fund	\$ 13,080
Nonmajor governmental	
Special Revenue	17,977
Capital Projects	140,957
	<u>\$ 172,014</u>

Significant encumbrances include reservations for the 2006 bond program (\$32,987), the 2012 bond program (\$26,499), the Library Automation System (\$17,247), and the Waller Creek Tunnel project (\$17,183).

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 2017. 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, 2015, is as follows (in thousands):

	<u>Closure</u>	<u>Postclosure</u>	<u>Total</u>
Total estimated costs	\$ 18,426	9,899	28,325
% capacity used	100%	100%	100%
Cumulative liability accrued	18,426	9,899	28,325
Costs incurred	(16,877)	--	(16,877)
Closure and postclosure liability	<u>\$ 1,549</u>	<u>9,899</u>	<u>11,448</u>

13 – COMMITMENTS AND CONTINGENCIES, continued
j -- Landfill Closure and Postclosure Liability, continued

These amounts are based on the 2015 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:

Fund Name	Description
Employee Benefits	City employees and retirees may choose a self-insured PPO, HMO, or CDHP with HSA for health coverage. Approximately 26% of city employees and 32% of retirees use the HMO option; approximately 72% of city employees and 68% of retirees use the PPO option; and approximately 2% of city employees and 0.25% 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.

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 2015, fourteen claims exceeded the stop-loss limit of \$500,000; during fiscal year 2014, sixteen claims exceeded the stop-loss limit of \$500,000, and during fiscal year 2013, nine 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 \$47.5 to \$51.1 million. In accordance with GAAP, \$47.5 million is recognized as claims payable in the financial statements with \$22.6 million recognized as a current liability and \$24.9 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.

13 – COMMITMENTS AND CONTINGENCIES, continued
k -- Risk Related Contingencies, continued

Changes in the balances of claims liability are as follows (in thousands):

	Employee Benefits		Liability Reserve		Workers' Compensation	
	2015	2014	2015	2014	2015	2014
Liability balances, beginning of year	\$ 11,699	10,920	10,581	10,123	21,526	18,839
Claims and changes in estimates	15,136	10,832	4,640	5,195	7,124	5,950
Claim payments	(13,549)	(10,053)	(5,884)	(4,737)	(3,809)	(3,263)
Liability balances, end of year	\$ 13,286	11,699	9,337	10,581	24,841	21,526

The Liability Reserve Fund claims liability balance at fiscal year-end includes liabilities of \$3.2 million discounted at 3.91% in 2015 and \$3.6 million discounted at 4.45% in 2014.

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.

In October 2009, the MLGC issued debt in the amount of \$15 million. Proceeds of 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.

In October 2012, the MLGC issued debt in the amount of \$16,735,000. 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.

In October 2014, the MLGC issued debt in the amount of \$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 1.36 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, 2015, approximately 1,357 single-family homes and 1,222 multi-family units were either complete or under construction. Catellus has also started the infrastructure for an additional 375 single-family and 759 multi-family homes.

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. \$7,949,960 in total assessments were levied in the year ended September 30, 2015. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2015 are \$15,245,000 and \$8,431,986 respectively.

13 – COMMITMENTS AND CONTINGENCIES, continued
m -- No-Commitment Special Assessment Debt, continued

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. \$1,681,699 in total assessments were levied in the year ended September 30, 2015. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2015 are \$2,815,000 and \$435,696, 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. \$1,772,155 in total assessments were levied in the year ended September 30, 2015. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2015 are \$12,590,000 and \$472,073, respectively.

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, 2015, under capital lease obligations (in thousands):

Capital Assets	Austin Energy
Building and improvements	\$ 1,405
Accumulated depreciation	(457)
Net capital assets	<u>\$ 948</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, 2015, was \$18.2 million.

Fiscal Year Ended September 30	Future Lease Payments
2016	\$ 12,191
2017	10,381
2018	7,452
2019	5,396
2020	3,097
2021-2025	9,011
Totals	<u>\$ 47,528</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, 2015. 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, 2015, \$72.6 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 international 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, 2015, \$147.5 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	\$ 102,966
Capital assets	249,083
Other noncurrent assets	13,341
Total assets	<u>365,390</u>
Deferred outflows of resources	<u>29,614</u>
LIABILITIES	
Due to other funds	338
Other current liabilities	21,969
Other noncurrent liabilities	228,956
Total liabilities	<u>251,263</u>
Deferred inflows of resources	<u>309</u>
NET POSITION	
Net investment in capital assets	58,117
Restricted	25,528
Unrestricted	59,787
Total net position	<u>\$ 143,432</u>

16 – SEGMENT INFORMATION – CONVENTION CENTER, continued

Condensed Statement of Revenues, Expenses, and Changes in Net Position	
OPERATING REVENUES	
User fees and rentals	\$ 28,657
Total operating revenues	<u>28,657</u>
OPERATING EXPENSES	
Operating expenses before depreciation	50,009
Depreciation and amortization	8,948
Total operating expenses	<u>58,957</u>
Operating income (loss)	(30,300)
Nonoperating revenues (expenses)	(6,082)
Transfers	65,728
Change in net position	<u>29,346</u>
Total net position - beginning, as restated	114,086
Total net position - ending	<u>\$ 143,432</u>
Condensed Statement of Cash Flows	
Net cash provided (used) by:	
Operating activities	\$ (18,181)
Noncapital financing activities	65,495
Capital and related financing activities	(27,622)
Investing activities	396
Net increase (decrease) in cash and cash equivalents	<u>20,088</u>
Cash and cash equivalents, October 1	70,975
Cash and cash equivalents, September 30	<u>\$ 91,063</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, 2014. The condensed financial statements of Waller Creek Local Government Corp. are presented for the year ended September 30, 2015 (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	\$ 1,052	9,524	--	10,576
Capital assets	24,601	173,198	--	197,799
Noncurrent assets	1,736	60,804	--	62,540
Total assets	<u>27,389</u>	<u>243,526</u>	<u>--</u>	<u>270,915</u>
Deferred outflows of resources	<u>--</u>	<u>19,050</u>	<u>--</u>	<u>19,050</u>
LIABILITIES				
Current Liabilities	7,679	14,675	--	22,354
Bonds payable, net of discount and inclusive of premium	56,632	254,529	--	311,161
Noncurrent liabilities	32	--	--	32
Total liabilities	<u>64,343</u>	<u>269,204</u>	<u>--</u>	<u>333,547</u>
NET POSITION				
Net investment in capital assets	(32,031)	(65,863)	--	(97,894)
Restricted	--	21,087	--	21,087
Unrestricted (deficit)	(4,923)	38,148	--	33,225
Total net position	<u>\$ (36,954)</u>	<u>(6,628)</u>	<u>--</u>	<u>(43,582)</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	\$ 16,416	75,050	--	91,466
Contributions	--	--	150	150
Total operating revenues	<u>16,416</u>	<u>75,050</u>	<u>150</u>	<u>91,616</u>
OPERATING EXPENSES				
Operating expenses before depreciation	12,667	41,439	150	54,256
Depreciation and amortization	1,293	8,634	--	9,927
Total operating expenses	<u>13,960</u>	<u>50,073</u>	<u>150</u>	<u>64,183</u>
Operating income (loss)	<u>2,456</u>	<u>24,977</u>	<u>--</u>	<u>27,433</u>
NONOPERATING REVENUES (EXPENSES)				
Nonoperating revenues (expenses)	(4,346)	(16,223)	--	(20,569)
Change in net position	<u>(1,890)</u>	<u>8,754</u>	<u>--</u>	<u>6,864</u>
Total net position - beginning	<u>(35,064)</u>	<u>(15,382)</u>	<u>--</u>	<u>(50,446)</u>
Total net position - ending	<u>\$ (36,954)</u>	<u>(6,628)</u>	<u>--</u>	<u>(43,582)</u>

18 – RESTATEMENT AS A RESULT OF THE IMPLEMENTATION OF A NEW ACCOUNTING STANDARD

During fiscal year 2015, the City implemented two new accounting standards. GASB Statement No. 68, "Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27", revised standards of accounting and reporting for pension expenses and liabilities as well as allowing for the deferral of certain pension expense elements. The City also implemented the related GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68" which clarifies rules related to the accrual of deferred inflows and outflows of resources at the beginning of the period in which GASB Statement No. 68 is effective. As a result of implementing these two statements, net position was restated at October 1, 2014. The City's net pension obligation and net pension assets were eliminated and replaced by a larger net pension liability. Contributions made by the City to the pension systems from January 1 to September 30, 2015 are reported as deferred outflows of resources. The impact of these changes on the beginning balances reported in the financial statements is shown below (in thousands):

	Exhibit A-2		Exhibit C-2		
	Governmental Activities	Business- Type Activities	Airport	Nonmajor Enterprise Funds	Business- Type Activities
September 30, 2014					
Net position, as previously reported	\$ 1,308,194	3,328,362	537,650	424,983	3,301,067
Adjustments to properly record implementation of GASB Statements No. 68 and 71	(627,853)	(104,190)	(20,630)	(83,560)	(104,190)
Net position, as restated	<u>\$ 680,341</u>	<u>3,224,172</u>	<u>517,020</u>	<u>341,423</u>	<u>3,196,877</u>

The adjustments associated with the implementation of this standard were deferred in accordance with accounting for regulated operations for Austin Energy and Austin Water Utility. The amount deferred is \$125.8 million and \$66.9 million, respectively; therefore, there was no restatement to net position in these funds.

19 – SUBSEQUENT EVENTS

a -- General Obligation Bond Issue

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 \$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.

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.



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, 2015
(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	\$ 572,640	100	572,740	565,469	565,469	7,271
Franchise fees	37,842	--	37,842	36,634	36,634	1,208
Fines, forfeitures and penalties	17,305	(1)	17,304	16,572	16,572	732
Licenses, permits and inspections	39,006	(9)	38,997	29,610	29,610	9,387
Charges for services/goods	58,297	(5)	58,292	57,693	57,693	599
Interest and other	11,831	(7,735)	4,096	3,281	3,281	815
Total revenues	736,921	(7,650)	729,271	709,259	709,259	20,012
EXPENDITURES						
General government						
Municipal Court	19,246	(56)	19,190	19,677	19,677	487
Public safety						
Police	320,759	32,809	353,568	355,412	355,412	1,844
Fire	156,426	12,559	168,985	166,619	166,619	(2,366)
Emergency Medical Services	66,524	6,600	73,124	74,698	74,698	1,574
Transportation, planning, and sustainability						
Transportation, planning, and sustainability	4	(4)	--	--	--	--
Public health						
Health	61,247	5,059	66,306	66,917	66,917	611
Public recreation and culture						
Parks and Recreation	64,104	6,893	70,997	71,567	71,567	570
Austin Public Library	34,138	3,074	37,212	37,188	37,188	(24)
Urban growth management						
Neighborhood Planning and Zoning	30,617	5,781	36,398	36,923	36,923	525
Other Urban Growth Management	32,455	(3,134)	29,321	30,610	30,610	1,289
General city responsibilities (4)(5)	93,349	(90,139)	3,210	2,196	3,296	86
Total expenditures	878,869	(20,558)	858,311	861,807	862,907	4,596
Excess (deficiency) of revenues over expenditures	(141,948)	12,908	(129,040)	(152,548)	(153,648)	24,608
OTHER FINANCING SOURCES (USES)						
Transfers in	153,936	54,153	208,089	209,889	209,889	(1,800)
Transfers out (5)	(30,304)	(71,459)	(101,763)	(91,525)	(90,425)	(11,338)
Total other financing sources (uses)	123,632	(17,306)	106,326	118,364	119,464	(13,138)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(18,316)	(4,398)	(22,714)	(34,184)	(34,184)	11,470
Special item - land sale	11,983	--	11,983	--	--	11,983
Fund balance at beginning of year	183,496	7,347	190,843	52,702	72,993	117,850
Fund balance at end of year	\$ 177,163	2,949	180,112	18,518	38,809	141,303

- (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.
- (5) Includes variance in original and final budget due to movement of a transfer out to general city responsibilities.

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 six separately budgeted funds: the General Fund, as budgeted by the City, plus the Economic Development, Economic Incentives Reserve, 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 (\$1,731,141), and Balcones Wildland Conservation (\$1,100,000).

b -- Budget Amendments

There were no budget amendments to the General Fund in fiscal year 2015.

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	\$ (18,316)
Adjustments - increases (decreases) due to:	
Unbudgeted revenues	(2,323)
Net compensated absences accrual	(62)
Outstanding encumbrances established in current year	(12,172)
Payments against prior year encumbrances	9,442
Other	717
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	<u>\$ (22,714)</u>

RETIREMENT PLANS-TREND INFORMATION

Changes in net pension liability for all three funds and the City for the measurement period ended December 31, 2014 are as follows (in thousands):

Schedule of Changes in the City's Net Pension Liability and Related Ratios

	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>
Total Pension Liability at December 31, 2013 (a)	\$ 2,909,918	909,000	806,282
Changes for the year:			
Service Cost	89,235	30,254	25,319
Interest	222,710	72,443	62,977
Benefit Changes	--	(11,015)	--
Differences between Expected and Actual Experience	33,911	--	--
Assumption Changes	--	14,137	4,883
Contribution Buy Back	--	2,207	--
Benefit Payments including refunds	(161,718)	(45,403)	(37,993)
Net Change in Total Pension Liability	<u>184,138</u>	<u>62,623</u>	<u>55,186</u>
Total Pension Liability at December 31, 2014 (b)	<u>\$ 3,094,056</u>	<u>971,623</u>	<u>861,468</u>
Total Plan Fiduciary Net Position at December 31, 2013 (c)	<u>\$ 2,130,624</u>	<u>595,110</u>	<u>752,622</u>
Changes for the year:			
Employer Contributions	93,331	32,400	18,670
Employee Contributions	50,490	19,458	14,660
Contribution Buy Back	--	2,207	--
Pension Plan Net Investment Income	99,704	35,574	42,005
Benefits Payments and Refunds	(161,718)	(45,403)	(37,993)
Pension Plan Administrative Expense	(2,631)	(1,327)	(531)
Net Change in Plan Fiduciary Net Position	<u>79,176</u>	<u>42,909</u>	<u>36,811</u>
Total Plan Fiduciary Net Position at December 31, 2014 (d)	<u>\$ 2,209,800</u>	<u>638,019</u>	<u>789,433</u>
Net Pension Liability at December 31, 2013 (a-c)	<u>\$ 779,294</u>	<u>313,890</u>	<u>53,660</u>
Net Pension Liability at December 31, 2014 (b-d)	<u>\$ 884,256</u>	<u>333,604</u>	<u>72,035</u>
Plan fiduciary net position as a percentage of the total pension liability (d/b)	71.42%	65.67%	91.64%
Covered-employee payroll	\$ 560,362	175,217	100,876
City's net pension liability as a percentage of covered-employee payroll	157.80%	190.39%	71.41%

RETIREMENT PLANS-TREND INFORMATION, continued

Notes to Schedule of Changes in the City's Net Pension Liability and Related Ratios:

The City Employees' fund had no significant changes of assumptions or other inputs, no changes of benefit terms, and no significant factors that affected measurement of the total pension liability during the measurement period.

The Police Officers' fund had numerous changes in benefits and assumptions that affected the measurement of the total pension liability for the measurement period. In February 2015, the pension board approved the following benefit changes:

- Effective February 18, 2015, eliminate the opportunity to purchase permissive service in conjunction with utilizing the Forward or Retro-DROP,
- Effective April 1, 2015, permissive service credit factors shall be determined based on an interest rate that is 50 basis points lower than the valuation assumption and generational mortality,
- Effective April 1, 2015, eliminate Retro-DROP for members with less than 23 years of Police Officers' fund service,
- Effective August 1, 2015, the Forward DROP interest rate will be set annually in the same manner as the PROP interest rate, except for those with 23 years of Police Officers' fund service as of July 31, 2015 who will not be affected, and
- Requiring that new hires beginning February 1, 2016 pay the full actuarial costs for purchase of military service.

Changes to assumptions included:

- Decreasing the investment return assumption from 8.00% to 7.90% per year compounded annually, net of expenses,
- Lowering the expected increase in salary due to general wage increased from 3.75% to 3.5%,
- Decreasing the annual assumed interest rate credited to Post Retirement Option Plan (PROP), accounts from 4.00% to 2.25%,
- Reducing the disability rates by one-half,
- Increasing by 25% the retirement rates for members entering the system prior to age 33, and
- Slight modifications to retirement rates due to anticipated future PROP usage.

The Fire Fighters' fund changed a number of assumptions that affected the measurement of the total pension liability for the measurement period.

- The investment return was decreased from 7.75% to 7.70% per year compounded annually, net of expenses.
- The general wage inflation rate was decreased from 3.5% to 3.0%.
- Amendments were made to the service-based table attributable to merit and longevity salary increases, the retirement rates, the Retro-DROP election assumptions, the withdrawal rates, and the assumed spousal age difference assumptions.

This fund had no benefit changes or other significant factors that affected measurement of the total pension liability during the measurement period.

Information pertaining to City contributions to the retirement systems for the fiscal year ending September 30, 2015, is shown below (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	Actual Contribution as a % of Covered Payroll
2015	\$ 96,554	97,655	(1,101)	587,937	16.61%

RETIREMENT PLANS-TREND INFORMATION, continued

Notes to Schedule of Actuarially Determined City Contributions to the City Employees' Fund

Valuation Date:	December 31, 2014
Notes	Members and employers contribute based on statutorily fixed or negotiated rates. A funding period is solved for through open group projections.
Methods and Assumptions Used to Determine Contribution Rates:	
Actuarial Cost Method	Entry Age Normal
Amortization Method	N/A
Remaining Amortization Period	N/A
Asset Valuation Method	20% of market plus 80% of expected actuarial value
Inflation	3.25%
Salary Increases	4.5% to 6.00%
Investment Rate of Return	7.75%
Retirement Age	Experience-based table of rates that are gender specific. Last updated for December 31, 2012 valuation pursuant to an experience study of the 5-year period ending December 31, 2011
Mortality	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 year

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	Actual Contribution as a % of Covered Payroll
Police Officers					
2015	\$ 32,942	32,942	--	180,152	18.29%
Fire Fighters					
2015	18,327	18,327	--	105,801	17.32%

Supplementary information for each plan as well as information on where to obtain plan financial statements can be found in Footnote 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 Footnote 8.

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES

General

The following constitutes a summary of certain portions of the Ordinances. This summary should be qualified by reference to other provisions of the Ordinances referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Ordinances in this Official Statement are, separately and in whole, qualified by reference to the exact terms of the Ordinances, a copy of which may be obtained from the City.

Amendments to the Revenue Bond Ordinances

The Revenue Bond Ordinances pursuant to which the Series 2013 Bonds, the Series 2013A Bonds and the Series 2014 Bonds were issued and the Ordinances include amendments to the existing Revenue Bond Ordinances, including those for the Series 2005 Bonds. By acceptance of the Bonds, each Owner of a Bond (i) irrevocably and specifically consents to and approves amendments to the Ordinances and the Revenue Bond Ordinances governing the issuance of Revenue Bonds, (ii) irrevocably appoints the Aviation Director as its true and lawful attorney-in-fact to evidence an Owner's specific consent to and approval of the amendments described below, and (iii) confirms all actions taken by the Aviation Director as attorney-in-fact for the Owner. The amendments described below were so approved by the Owners of the Series 2014 Bonds, the Series 2013 Bonds and the Series 2013A Bonds, but have not been approved by the Owners of the Series 2005 Bonds or by the Insurer, the Letter of Credit Bank or the Deletions to the Ordinances are shown as ~~strike through~~ and additions underlined. Amendments are described in this Appendix C in paragraph (e) under "Additional Bonds – Additional Revenue Bonds" and under "Amendments – Amendments of the Ordinances Requiring Consent." The amendment described in paragraph (e) under "Additional Bonds" will become effective once the consent of 66 2/3% of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding is received. The amendment described under "Amendments – Amendments of the Ordinances Requiring Consent" will become effective once the consent of 100% of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding is received. In addition, the consent of the Bond Insurer to each amendment is required to be obtained.

Selected Definitions

"Additional Revenue Bonds" means the additional parity revenue bonds permitted to be issued by the City pursuant to the Ordinances.

"Administrative Expense Fund" means the fund so designated in the 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.

"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 Ordinances.

“Capitalized Interest Account” means the account so designated in the Ordinances.

“Code” means the Internal Revenue Code of 1986.

“Construction Fund” means the fund so designated in the 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 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 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 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 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 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 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 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 Ordinances.

"Renewal and Replacement Fund Requirement" means the amount required to be maintained in the Renewal and Replacement Fund pursuant to the 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, this Ordinances 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 Ordinances, payable from and secured by a first lien on and pledge of Net Revenues.

"Revenue Fund" means the fund so designated in the Ordinances.

"Series 2005 Bonds" means the City of Austin, Texas, Airport System Refunding Revenue Bonds, Series 2005 (AMT), outstanding, as of November 1, 2016, in the aggregate principal amount of \$198,175,000.

"Series 2013 Bonds" means the City of Austin, Texas, Airport System Revenue Bonds, Series 2013, outstanding, as of November 1, 2016, in the aggregate principal amount of \$60,000,000.

"Series 2013A Bonds" means the City of Austin, Texas, Airport System Revenue Bonds, Series 2013A, outstanding, as of November 1, 2016, in the aggregate principal amount of \$35,014,000.

"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 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 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 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 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 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 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 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 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 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 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 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 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 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 Ordinances, no default with respect to a Special Facilities Bond shall constitute a default under the Ordinance.

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 Ordinances to the extent permitted by the 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 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 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 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 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 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 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.

Bondholders' Remedies. The 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 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 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 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 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 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 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 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 Ordinances Without Consent. The City may, without the consent of or notice to any of the Owners of the Bonds, amend the Ordinances for any one or more of the following purposes:

- (a) to cure any ambiguity, defect, omission or inconsistent provision in the 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 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 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 Ordinances;
- (e) to amend any provisions of the 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 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 Ordinances to the extent permitted in Article Twelve.

Amendments of the 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 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 Ordinances of not less than ~~66-2/3%~~ ~~of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding~~ 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 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 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 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 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 Ordinance 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 D

FORM OF BOND COUNSEL'S OPINIONS

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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.*

CITY OF AUSTIN, TEXAS AIRPORT SYSTEM REVENUE BONDS, SERIES 2017A

AS BOND COUNSEL for the City of Austin, Texas (the "City"), the issuer of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which Bonds are issued in the aggregate principal amount of \$185,300,000. The Bonds bear interest from their date of delivery and mature in the manner specified on the face of the Bonds, and are subject to redemption prior to maturity on the dates and in the manner specified in the Bonds, all in accordance with the ordinance of the City authorizing the issuance of the Bonds (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the Constitution and Statutes of the State of Texas, the City Charter of the City, certified copies of the proceedings of the City Council of the City, and other proofs authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Number R-1).

IN OUR OPINION, the Bonds have been authorized and issued in accordance with law, and constitute valid and legally binding special obligations of the City; and, except as may be limited by laws applicable to the City relating to bankruptcy, reorganization, and other similar matters affecting creditors' rights, and the exercise of judicial discretion in accordance with general principles of equity, that the interest on and principal of the Bonds, together with outstanding parity bonds, are payable from, and secured by a first lien on and pledge of, the Net Revenues of the City's Airport System. All such revenue bonds are secured ratably by such pledge of revenues in such manner that no one Bond shall have priority of lien over any other Bond so secured. The holder or holders of the Bonds shall never have the right to demand payment out of money raised or to be raised by taxation.

THE CITY reserves the right, subject to the restrictions stated, and adopted by reference, in the Ordinance, to issue Additional Revenue Bonds in all things on parity with the outstanding Revenue Bonds (including the Bonds) and payable from and equally secured by a lien on and pledge of the Net Revenues, as further described in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the 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 Bonds are not "specified private activity bonds" and that, accordingly, interest on the 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, including particularly written representations with respect to material facts which are solely within the knowledge of the City, 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 the representations are determined to be inaccurate or if the City fails 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, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to federal, state or local tax consequences arising from the enactment of any pending or future legislation. 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.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the 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 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 City, or the disclosure thereof in connection with the sale of the 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 Bonds and have relied solely on certificates executed by officials of the City as to the availability and sufficiency of the Net Revenues.

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 Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City 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 Bonds as includable in gross income for federal income tax purposes.

Respectfully,

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.*

CITY OF AUSTIN, TEXAS AIRPORT SYSTEM REVENUE BONDS, SERIES 2017B (AMT)

AS BOND COUNSEL for the City of Austin, Texas (the "City"), the issuer of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which Bonds are issued in the aggregate principal amount of \$129,665,000. The Bonds bear interest from their date of delivery and mature in the manner specified on the face of the Bonds, and are subject to redemption prior to maturity on the dates and in the manner specified in the Bonds, all in accordance with the ordinance of the City authorizing the issuance of the Bonds (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the Constitution and Statutes of the State of Texas, the City Charter of the City, certified copies of the proceedings of the City Council of the City, and other proofs authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Number R-1).

IN OUR OPINION, the Bonds have been authorized and issued in accordance with law, and constitute valid and legally binding special obligations of the City; and, except as may be limited by laws applicable to the City relating to bankruptcy, reorganization, and other similar matters affecting creditors' rights, and the exercise of judicial discretion in accordance with general principles of equity, that the interest on and principal of the Bonds, together with outstanding parity bonds, are payable from, and secured by a first lien on and pledge of, the Net Revenues of the City's Airport System. All such revenue bonds are secured ratably by such pledge of revenues in such manner that no one Bond shall have priority of lien over any other Bond so secured. The holder or holders of the Bonds shall never have the right to demand payment out of money raised or to be raised by taxation.

THE CITY reserves the right, subject to the restrictions stated, and adopted by reference, in the Ordinance, to issue Additional Revenue Bonds in all things on parity with the outstanding Revenue Bonds (including the Bonds) and payable from and equally secured by a lien on and pledge of the Net Revenues, as further described in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the 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. The exceptions are as follows:

- (1) interest on the Bonds will be includable in the gross income of the holder during any period that such Bonds are held by either a "substantial user" of the facilities financed or refinanced with the proceeds of the Bonds or a "related person" of such user, as provided in section 147(a) of the Internal Revenue Code of 1986 (the "Code"); and

(2) interest on the Bonds will be treated as a "preference item" in calculating the alternative minimum tax imposed on individuals and corporations under section 57(a)(5) of the Code.

In expressing the aforementioned opinions, we have relied on certain representations, including particularly written representations with respect to material facts which are solely within the knowledge of the City, 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 construction, use and management of the property financed therewith. We call your attention to the fact that if the representations are determined to be inaccurate or if the City fails 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, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to federal, state or local tax consequences arising from the enactment of any pending or future legislation. 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.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the 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 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 City, or the disclosure thereof in connection with the sale of the 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 Bonds and have relied solely on certificates executed by officials of the City as to the availability and sufficiency of the Net Revenues.

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 Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City 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 Bonds as includable in gross income for federal income tax purposes.

Respectfully,

