

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

NEW ISSUE – Book-Entry-Only

(See “OTHER RELEVANT INFORMATION – Ratings” in this document.)

Delivery of the Bonds (as defined below) is subject to the receipt of the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the City (defined below), to the effect that, assuming continuing compliance by the City with certain covenants contained in the Forty-Seventh Supplement (defined below) described in this document, interest on the Bonds will be excludable from gross income for purposes of federal income taxation, subject to the matters described under “TAX MATTERS” in this document, including the alternative minimum tax on certain corporations.

CITY OF AUSTIN, TEXAS
\$455,695,000*
WATER AND WASTEWATER SYSTEM REVENUE REFUNDING AND IMPROVEMENT BONDS,
SERIES 2024

Interest to accrue from Date of Initial Delivery

Due: As shown on page ii

The bonds offered in this document are the \$455,695,000* City of Austin, Texas Water and Wastewater System Revenue Refunding and Improvement Bonds, Series 2024 (the “Bonds”). The Bonds are to be issued as “Parity Water/Wastewater Obligations” pursuant to an ordinance (the “Master Ordinance”) adopted by the City Council of the City of Austin, Texas (the “City”), on June 8, 2000, and a supplemental ordinance adopted by the City Council of the City on May 2, 2024 (the “Forty-Seventh Supplement”). The Master Ordinance and Forty-Seventh Supplement together are referred to in this document as the “Bond Ordinance.” The Forty-Seventh Supplement delegates to a designated “Pricing Officer” the authority to effect the sale of the Bonds, subject to the terms of the Forty-Seventh Supplement. See “INTRODUCTION” in this document. The Master Ordinance contains the terms for the issuance of Parity Water/Wastewater Obligations and the related covenants and security provisions. The City also has outstanding one series of Prior Subordinate Lien Obligations, which are secured by joint and several pledges of the net revenues of both the Water and Wastewater System and the Electric Utility System. See “INTRODUCTION” in this document. The City must comply with the covenants and security provisions related to the Prior Subordinate Lien Obligations while such obligations remain outstanding. The Master Ordinance prohibits the issuance of additional revenue obligations secured by joint and several pledges of the net revenues of both the Water and Wastewater System and the Electric Utility System such as Prior Subordinate Lien Obligations. Commercial Paper Obligations having a combined pledge of Electric Utility System and Water and Wastewater System net revenues may continue to be issued on a subordinate lien basis to the Parity Water/Wastewater Obligations.

The Bonds are special obligations of the City, payable as to both principal and interest solely from and, together with the Previously Issued Parity Water/Wastewater Obligations and Outstanding Prior Subordinate Lien Obligations, equally and ratably secured by a lien on and pledge of the Net Revenues of the Water and Wastewater System, as provided in the Master Ordinance and the Forty-Seventh Supplement. Additionally, the Bonds and Previously Issued Parity Water/Wastewater Obligations referenced above are equally and ratably secured by a parity lien on the funds, if any, deposited to the credit of the Debt Service Fund (excluding any funds on deposit in the BAB Subsidy Subaccount, which was established for the exclusive benefit of the owners of the City’s Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds)). The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or the Water and Wastewater System, except with respect to the Net Revenues.

The holders of the Bonds do not have any right to moneys or other Reserve Fund Obligations held in the Reserve Fund. See “SECURITY FOR THE BONDS – Bonds Not Secured by any Debt Service Reserve Fund” in this document.

Neither the taxing power of the City nor the taxing power of the State of Texas (the “State”) is pledged as security for the Bonds. See “SECURITY FOR THE BONDS” in this document.

MATURITY SCHEDULE

See “Maturity Schedule” on page ii

The Bonds are issuable only in fully registered form in the denomination of \$5,000 or any integral multiple thereof within a maturity. Interest on the Bonds shall accrue from the Date of Initial Delivery (defined below) of the Bonds and shall be payable on November 15, 2024 and each May 15 and November 15 thereafter until maturity or prior redemption. Interest to be paid on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act initially as securities depository for the Bonds, and individual purchases of the Bonds will be made in book-entry form only. See “DESCRIPTION OF THE BONDS” in this document.

The Bonds are offered for delivery when, as, and if issued and subject, among other things, to the opinions of the Attorney General of Texas and McCall, Parkhurst & Horton L.L.P., Bond Counsel for the City, as to the validity of the issuance of the Bonds under the Constitution and laws of the State. See “APPENDIX E - Form of Bond Counsel’s Opinion” in this document. Certain legal matters will be passed upon for the City by Bracewell LLP, Austin, Texas as Disclosure Counsel for the City, and for the Underwriters by their counsel, Haynes and Boone, LLP, Houston, Texas. The Bonds are expected to be available for delivery through the facilities of DTC on or about June 18, 2024 (the “Date of Initial Delivery”).

RAMIREZ & CO., INC.

LOOP CAPITAL MARKETS LLC

HILLTOPSECURITIES

JEFFERIES

STIFEL

*Preliminary, subject to change.

CITY OF AUSTIN, TEXAS

\$455,695,000*

**WATER AND WASTEWATER SYSTEM REVENUE REFUNDING AND IMPROVEMENT BONDS,
SERIES 2024**

Base CUSIP No. 052477 ⁽¹⁾

MATURITY SCHEDULE [Update]

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix</u> ⁽¹⁾
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\$ _____ Term Bond due November 15, 20__; Rate ____%; Initial Yield ____%, CUSIP 052477__ ⁽¹⁾

\$ _____ Term Bond due November 15, 20__; Rate ____%; Initial Yield ____%, CUSIP 052477__ ⁽¹⁾

(Interest to accrue from Date of Initial Delivery)

Redemption of the Bonds*

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

*Preliminary, subject to change.

- (1) CUSIP numbers have been assigned to the Bonds by FactSet Research Systems Inc. on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds. None of the City, the Financial Advisor or the Underwriters are responsible for the selection or the correctness of the CUSIP numbers set forth herein. CUSIP is a registered trademark of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP services.

CITY OF AUSTIN

Elected Officials

	<u>Term Expires Jan.</u>
Kirk Watson	Mayor 2025
Natasha Harper-Madison.....	Councilmember District 1 2027
Vanessa Fuentes.....	Councilmember District 2 2025
José Velásquez	Councilmember District 3 2027
José “Chito” Vela.....	Councilmember District 4 2025
Ryan Alter	Councilmember District 5 2027
Mackenzie Kelly	Councilmember District 6 2025
Leslie Pool, Mayor Pro-Tem	Councilmember District 7 2025
Paige Ellis	Councilmember District 8 2027
Zohaib Qadri	Councilmember District 9 2027
Alison Alter	Councilmember District 10 2025

Appointed Officials

T.C. Broadnax ⁽¹⁾	City Manager
Bruce Mills ⁽²⁾	Interim Assistant City Manager
Veronica Briseño	Assistant City Manager
Robert Goode	Assistant City Manager
Stephanie Hayden-Howard.....	Assistant City Manager
Ed Van Eenoo.....	Chief Financial Officer
Diana Thomas.....	Deputy Chief Financial Officer
Kimberly Olivares	Deputy Chief Financial Officer
Anne Morgan.....	City Attorney
Myrna Rios	City Clerk

- ⁽¹⁾ On April 3, 2024, the City Council voted unanimously to appoint T.C. Broadnax as City Manager. He began his tenure with the City on May 6, 2024. Mr. Broadnax comes to the City from the City of Dallas, where he served as City Manager for seven years.
- ⁽²⁾ Mr. Bruce Mills was appointed Interim Assistant City Manager in March 2023.

BOND COUNSEL

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

DISCLOSURE COUNSEL FOR THE CITY

Bracewell LLP
Austin, Texas

FINANCIAL ADVISOR

PFM Financial Advisors LLC
Austin, Texas

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Austin, Texas

For additional information regarding the City, please contact:

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

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

SELECTED FINANCIAL INFORMATION

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

The selected financial information below presents selected historical information related to the Combined Utility Systems of the City, which is comprised of the Electric Utility System and the Water and Wastewater System of the City, presented on a combined basis. The financial information for the fiscal years ended September 30, 2020 through September 30, 2023 is derived from the City's audited financial statements for the respective fiscal years. This information should be read in conjunction with the audited financial statements included in "APPENDIX B – AUDITED FINANCIAL STATEMENTS" in this document.

The historical financial information includes debt service on obligations issued under a lien of the Combined Utility Systems that is now closed: the Prior Subordinate Lien Obligations (which consist of only one series of outstanding obligations, the Subordinate Lien Revenue Refunding Bonds, Series 1998, or the "1998 Prior Lien Bonds," with a final maturity of May 15, 2025). This closed prior lien is secured by joint and several pledges of the net revenues of both the Water and Wastewater System and Electric Utility System. While the one remaining series of Prior Subordinate Lien Obligations remains outstanding, the City must comply with the covenants and security provisions relating to such Prior Subordinate Lien Obligations. **The Master Ordinance provides that no additional revenue obligations payable from the same sources and secured in the same manner as the Prior First Lien Obligations and Prior Subordinate Lien Obligations shall be issued.** Commercial Paper Obligations (defined in this document) currently authorized, having a combined pledge of Net Revenues of the Combined Utility Systems, may continue to be issued on a subordinate lien basis to the Parity Water/Wastewater Obligations.

Operating Summary of the Combined Utility Systems

	<u>12 Months Ended 12-31-2023 ⁽²⁾</u>	Fiscal Year Ended September 30 (\$000's)			
		<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Combined Gross Revenues	\$2,477,101	\$2,477,113	\$2,312,797	\$1,844,585	\$1,959,941
Combined Maintenance and Operating Expenses	<u>1,759,060</u>	<u>1,776,663</u>	<u>1,628,986</u>	<u>1,253,026</u>	<u>1,332,726</u>
Combined Net Revenues	<u>718,041</u>	<u>700,450</u>	<u>683,811</u>	<u>591,559</u>	<u>627,215</u>
Principal and Interest on Revenue Bonds of the Combined Utility Systems (Prior First Lien Obligations and Prior Subordinate Lien Obligations) ⁽¹⁾	\$19,496	\$19,949	\$20,964	\$ 14,962	\$ 21,090
Debt Service Coverage on Revenue Bonds of the Combined Utility Systems Prior Subordinate Lien Obligations) ⁽¹⁾	36.83x	35.11x	32.62x	39.54x	29.74x

(1) Includes only the Prior Subordinate Lien Obligations, which consist of only one series (the 1998 Prior Lien Bonds with a final maturity of May 15, 2025) and which are the obligations secured by a pledge of the Net Revenues of the Combined Utility Systems.

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

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Water and Wastewater System Only

The selected financial information below presents selected historical information related to the Water and Wastewater System of the City. The financial information for the fiscal years ended September 30, 2020 through September 30, 2023 is derived from the City's audited financial statements for the respective fiscal years. This information should be read in conjunction with the audited financial statements included in "APPENDIX B – AUDITED FINANCIAL STATEMENTS" in this document.

The historical financial information includes debt service on obligations issued under a lien of the Combined Utility Systems that is now closed: the Prior Subordinate Lien Obligations (which consist of only one series of outstanding obligations, the 1998 Prior Lien Bonds with a final maturity of May 15, 2025). This closed prior lien is secured by joint and several pledges of the net revenues of both the Water and Wastewater System and Electric Utility System. While the one remaining series of Prior Subordinate Lien Obligations remains outstanding, the City must comply with the covenants and security provisions relating to such Prior Subordinate Lien Obligations. **The Master Ordinance provides that no additional revenue obligations payable from the same sources and secured in the same manner as the Prior First Lien Obligations and Prior Subordinate Lien Obligations shall be issued.** Commercial Paper Obligations currently authorized, having a combined pledge of Net Revenues of the Combined Utility Systems, may continue to be issued on a subordinate lien basis to the Parity Water/Wastewater Obligations.

Operating Summary of the Water and Wastewater System

		Fiscal Year Ended September 30 (\$000's)			
	<u>12-Months</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
	<u>Ended</u>				
	<u>12-31-2023 (3)</u>				
Gross Revenues	\$661,337	\$657,637	\$628,877	\$568,031	\$571,100
Maintenance and Operating Expenses	<u>343,253</u>	<u>330,549</u>	<u>295,748</u>	<u>272,750</u>	<u>266,060</u>
Net Revenues	<u>318,084</u>	<u>327,088</u>	<u>333,129</u>	<u>295,281</u>	<u>305,040</u>
Principal and Interest paid by the Water and Wastewater System on Prior Lien Obligations of the Combined Utility Systems (1)	\$5,025	\$5,142	\$5,404	\$3,856	\$10,038
Net Revenues Available for Parity Water/Wastewater Obligations (2)	<u>\$313,059</u>	<u>\$321,946</u>	<u>\$327,725</u>	<u>\$291,425</u>	<u>\$295,002</u>
Principal and Interest on Parity Water/Wastewater Obligations	\$158,352	\$171,453	\$154,228	\$169,144	\$150,477
Debt Service Coverage Parity Water/Wastewater Obligations (2)	___1.98x	___1.88x	___2.12x	1.72x	1.96x

- (1) Represents the Prior Subordinate Lien Obligations, which consist of only one series (the 1998 Prior Lien Bonds with a final maturity of May 15, 2025) and which are obligations secured by a pledge of the Net Revenues of the Combined Utility Systems.
- (2) The Bonds, the Previously Issued Parity Water/Wastewater Obligations, and any additional Parity Water/Wastewater Obligations issued in the future under the Master Ordinance are (a) "Separate Lien Obligations" under the Prior Subordinate Lien Ordinance (as defined in this document) and (b) equally and ratably secured, together with the Prior Subordinate Lien Obligations, by the Net Revenues of the City's Water and Wastewater System.
- (3) Preliminary. See "PROFORMA DEBT SERVICE REQUIREMENTS OF THE COMBINED UTILITY SYSTEMS" and "OTHER RELEVANT INFORMATION – Independent Auditors" in this document.

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

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

No dealer, broker, salesman or any other person has been authorized by the City or by the underwriters of the Bonds identified on the cover page of this document (the “Underwriters”) to give any information or to make any representations, other than the information and representations contained in this document, in connection with the offering of the Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of, any of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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

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

CUSIP numbers have been assigned to this issue by FactSet Research Systems Inc. and none of the City, PFM Financial Advisors LLC, or the Underwriters are responsible for the selection or correctness of CUSIP numbers.

The City, PFM Financial Advisors LLC., and the Underwriters do not make any representation regarding the information contained in this Official Statement regarding DTC or its book-entry-only system, as such information has been furnished by DTC. Neither the City nor PFM Financial Advisors LLC make any representations regarding the information concerning the Underwriters contained in this document in “OTHER RELEVANT INFORMATION – Underwriting.”

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

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

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

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

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OFFICIAL STATEMENT

Relating to

CITY OF AUSTIN, TEXAS
\$455,695,000*
WATER AND WASTEWATER SYSTEM REVENUE
REFUNDING AND IMPROVEMENT BONDS,
SERIES 2024

INTRODUCTION

This Official Statement, which includes the cover page, Schedule I and the appendices, is being furnished in connection with the proposed issuance by the City of Austin, Texas (the “City”), of its \$455,695,000* City of Austin, Texas Water and Wastewater System Revenue Refunding and Improvement Bonds, Series 2024 (the “Bonds”). The Bonds are authorized to be issued pursuant to the authority conferred by the laws of the State of Texas (the “State”), an ordinance adopted by the City Council of the City on June 8, 2000 (the “Master Ordinance”) providing the terms upon which Parity Water/Wastewater Obligations (as defined in the Master Ordinance) are to be issued and the covenants and security provisions related thereto, and a supplemental ordinance adopted by the City Council of the City on May 2, 2024 (the “Forty-Seventh Supplement”). The Master Ordinance and the Forty-Seventh Supplement are collectively referred to in this document as the “Bond Ordinance.” The Forty-Seventh Supplement delegates to a designated “Pricing Officer” the authority to effect the sale of the Bonds, subject to the terms of the Forty-Seventh Supplement. **Capitalized terms not otherwise defined in this document have the meanings assigned in the Bond Ordinance or the Prior Subordinate Lien Ordinance (defined in this document), as applicable. See APPENDICES C and D in this document.**

The City is not permitted to issue any additional Prior Subordinate Lien Obligations but must comply with the covenants contained in the bond ordinances authorizing the issuance of such obligations (the “Prior Subordinate Lien Ordinance”) while such obligations are outstanding. The outstanding Prior Subordinate Lien Obligations have a final stated maturity date of May 15, 2025. A copy of the Master Ordinance is attached to this document as APPENDIX C, and a summary of certain provisions of the Prior Subordinate Lien Ordinance is attached to this document as APPENDIX D. All descriptions of documents contained in this document are only summaries and are qualified in their entirety by reference to each such document.

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

The City has issued, and there currently remain outstanding, one series of Prior Subordinate Lien Obligations and Commercial Paper Obligations secured by a joint and several pledge of the net revenues of the City’s Water and Wastewater System and the Electric Utility System. Pursuant to the Master Ordinance, no additional Prior Subordinate Lien Obligations may be issued. There are no Prior First Lien Obligations outstanding and no additional Prior First Lien Obligations may be issued. Commercial Paper Obligations having a combined pledge of Water and Wastewater System and Electric Utility System net revenues may continue to be issued on a subordinate lien basis to the Parity Water/Wastewater Obligations. As noted under “DEBT PAYABLE FROM COMBINED UTILITY SYSTEMS REVENUES” in this document, the City has \$32,980,000 of Prior Subordinate Lien Obligations outstanding, consisting solely of the Subordinate Lien Revenue Refunding Bonds, Series 1998, with a final maturity of May 15, 2025. No assurances can be given as to when or if such obligations will be defeased or paid prior to their stated maturity. See “DEBT PAYABLE FROM COMBINED UTILITY SYSTEMS REVENUES” in this document.

The Bonds, the Previously Issued Parity Water/Wastewater Obligations and any additional Parity Water/Wastewater Obligations issued in the future under the Master Ordinance are equally and ratably secured, together with the Prior Subordinate Lien Obligations, by the Net Revenues of the City’s Water and Wastewater System. See “SECURITY FOR THE BONDS – Pledges of Net Revenues” in this document.

* Preliminary, subject to change.

At such time as the Prior Subordinate Lien Obligations have been fully paid or discharged in a manner that such obligations are no longer deemed to be outstanding under the terms of the ordinance authorizing their issuance and by law, all revenue obligations secured by a pledge of Net Revenues of the Water and Wastewater System either shall be Parity Water/Wastewater Obligations or obligations subordinate to the Parity Water/Wastewater Obligations (such as the Commercial Paper Obligations) and shall be payable only from and secured only by a lien on a pledge of the Net Revenues of the Water and Wastewater System and the revenues deposited to the credit of the accounts and funds maintained in the ordinances providing for their issuance. The Master Ordinance governs the issuance of Parity Water/Wastewater Obligations and contains covenants and security provisions related thereto. The City must comply with the Prior Subordinate Lien Ordinance while the Prior Subordinate Lien Obligations remain outstanding. No assurances can be given as to when or if such obligations will be defeased or paid prior to their stated maturity so as to allow the Parity Water/Wastewater Obligations (including the Bonds) to be secured by and payable from an effective first lien on the Net Revenues of the Water and Wastewater System.

The City has also issued revenue obligations secured solely by the net revenues of the Electric Utility System pursuant to a master ordinance, the terms and provisions of which differ substantially from those of the Master Ordinance.

TEXAS 2023 DROUGHT

The City was in an extraordinary drought during the summer of 2023. The City registered a total of 80 days with 100-degree heat, 40 days with temperatures of 105 degrees or higher, and received less than 1.5 inches of rain from June through August 2023. Drought Stage 2 water restrictions went into effect August 15, 2023. For many years, the City has emphasized water conservation in normal weather as well as during a drought. To meet the community's water needs for the next 100 years, the City is implementing demand management and water supply strategies from the City's integrated water resource plan called "Water Forward." The City is also in the process of replacing water meter infrastructure with digital meters capable of providing customers with near real-time water consumption data. This upgrade is expected to provide customers the ability to better manage water consumption and bills by setting up alerts and notifications about water use and possible leaks. By 2025, all water meters in the City's service area are anticipated be replaced. The City has a continued investment in a comprehensive program to reduce water loss in the pipeline distribution system. As of March 2024, the combined lake level of Lake Travis and Buchanan is 42% or 846,440 acre-feet.

PLAN OF FINANCING

General

The proceeds of the Bonds, together with any other lawfully available funds of the City, will be used for the purpose of (i) refunding outstanding tax-exempt commercial paper notes issued for the Water and Wastewater System (the "Refunded Notes"), (ii) refunding certain outstanding Parity Water/Wastewater Obligations (the "Refunded Bonds," as more specifically described in "SCHEDULE I – SUMMARY OF REFUNDED BONDS"), (iii) funding capital improvements of the Water and Wastewater System, and (iv) paying costs of issuance incurred in connection with the issuance of the Bonds. The refunding of the Refunded Notes and the Refunded Bonds is contingent upon the delivery of the Bonds.

Refunding of Outstanding Commercial Paper Notes

The Bonds are being issued in part to refund \$200,000,000* in aggregate principal amount of the Refunded Notes. The issuance of the Bonds will restore a portion of the City's available capacity under its \$400,000,000 tax-exempt commercial paper note program that has been established for the Combined Utility Systems (as described further in "COMMERCIAL PAPER NOTE PROGRAMS" in this document). Any interest on the Refunded Notes is expected to be paid from available revenues of the Water and Wastewater System.

Proceeds from the sale of the Bonds, together with other available funds of the City, will be deposited with the issuing and paying agent for the Refunded Notes (the "CP Issuing and Paying Agent") in the amount necessary to accomplish the discharge, defeasance and final payment of the Refunded Notes in accordance with the terms of the ordinance authorizing the issuance thereof. The principal of and interest on all of the Refunded Notes will be paid on the date of delivery of the Bonds, which is the scheduled maturity date of the Refunded Notes, from amounts deposited with the CP Issuing and Paying Agent.

* Preliminary, subject to change.

Refunded Bonds

The Refunded Bonds, and interest due on the Refunded Bonds, are to be paid on their scheduled interest payment dates and the maturity or redemption dates of such Refunded Bonds from funds to be deposited pursuant to an Escrow Agreement (the “Escrow Agreement”) between the City and U.S. Bank Trust Company, National Association, Dallas, Texas (the “Escrow Agent”). The Forty-Seventh Supplement provides that a portion of the proceeds of the sale of the Bonds, together with other lawfully available funds of the City, will be deposited with the Escrow Agent in an amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a special escrow account (the “Escrow Fund”) and used to purchase a portfolio of securities authorized by Section 1207.062, Texas Government Code, including direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States, and noncallable obligations of an agency or instrumentality of the United States rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent (the “Escrowed Securities”) to be held in the Escrow Fund. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Robert Thomas, CPA, LLC (the “Verification Agent”), a nationally recognized accounting firm, will verify at the time of delivery of the Bonds the mathematical accuracy of the schedules that demonstrate that the Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Escrowed Securities, and other uninvested funds in the Escrow Fund will not be available to pay the debt service on the Bonds. See “OTHER RELEVANT INFORMATION – Verification of Arithmetical and Mathematical Calculations” in this document.

By the deposit of the Escrowed Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have entered into firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds, in accordance with applicable law. As a result of such firm banking and financial arrangements, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrowed Securities and cash held for such purpose by the Escrow Agent, and the Refunded Bonds will not be deemed outstanding for the purpose of any limitation on debt or the pledge of Net Revenues.

SOURCES AND USES OF FUNDS

The sources and uses of funds for the Bonds, together with funds contributed by the City, are as follows.

Sources of Funds:

Par Amount of the Bonds
Original Issue Premium
Contribution from Refunded Bonds’ Debt Service Account
Contribution from Refunded Bonds’ Debt Service Reserve Fund
City Contribution to Refund Commercial Paper Notes
Total

Uses of Funds:

Refunding of Commercial Paper Notes
Deposit to Escrow Fund for Refunded Bonds
Deposit to Project Fund
Costs of Issuance (1)
Underwriters’ Discount
Total

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

DEBT PAYABLE FROM COMBINED UTILITY SYSTEMS REVENUES
(As of May 16, 2024)

<u>Combined Utility Systems Obligations (a)</u>	
Prior Subordinate Lien Obligations	\$15,045,000
<u>Parity Electric Utility Obligations (b)</u>	\$1,839,335,000
<u>Parity Water/Wastewater Obligations (c)</u>	\$2,247,860,000
<u>Commercial Paper and Direct Purchase Notes (d)</u>	\$153,960,000
<u>General Obligation Bonds (e)</u>	\$1,121,240
<u>Assumed Municipal Utility District Obligations (f)</u>	<u>\$1,786,158</u>
TOTAL	\$4,105,147,398

See "SECURITY FOR THE BONDS" in this document.

- (a) Prior First Lien Obligations issued by the City were fully paid and discharged on May 15, 2019. The Prior Subordinate Lien Obligations are described in "INTRODUCTION" above in this document and mature on May 15, 2025.
- (b) The Parity Electric Utility Obligations are payable from the net revenues of the Electric Utility System only.
- (c) Preliminary, subject to change. See "PLAN OF FINANCING" in this document.
- (d) Preliminary, subject to change. Excludes \$200,000,000 of outstanding Commercial Paper Notes being refunded by the Bonds. See "PLAN OF FINANCING," "COMMERCIAL PAPER NOTE PROGRAMS" and "SECURITY FOR THE BONDS" in this document.
- (e) General Obligation Bonds include certain Contractual Obligations and Public Improvement Bonds of the City that are secured by City ad valorem taxes but are currently being paid from surplus Net Revenues of the Electric Utility System and Water and Wastewater System. See "THE CITY – Recent Annexations."
- (f) Such bonds are secured by City ad valorem taxes but are currently being paid from surplus Net Revenues of the Water and Wastewater System. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Services Financed by Utility Districts."

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PRO FORMA DEBT SERVICE REQUIREMENTS OF THE COMBINED UTILITY SYSTEMS

Separate Lien Water & Wastewater Obligations (a)								
Fiscal Year Ending 9/30	Prior Subordinate Lien Obligations (b)	Existing Separate	The Series 2024 Bonds (a)		Total Separate Lien Water & Wastewater Obligations (c)	Electric Utility System Parity Obligations (d)	GO Bonds & Assumed MUD Obligations (e)	Total Debt Service Payable from Revenues of the Combined Utility Systems
		Lien Water & Wastewater Obligations (c)	Principal	Interest				
2024	\$ 19,666,450	\$ 147,737,915	\$ -	\$ -	\$ 147,737,915	\$ 158,443,286	\$ 999,648	\$ 326,847,298
2025	15,834,863	130,372,610	965,000	20,672,023	152,009,633	157,240,711	808,202	325,893,409
2026	-	150,821,975	5,325,000	22,603,375	178,750,350	159,550,714	741,007	339,042,071
2027	-	163,652,421	15,840,000	22,074,250	201,566,671	173,642,241	137,012	375,345,924
2028	-	151,041,585	26,500,000	21,015,750	198,557,335	167,600,070	132,958	366,290,362
2029	-	176,610,092	11,500,000	20,065,750	208,175,842	167,165,717	139,546	375,481,105
2030	-	170,762,742	12,740,000	19,459,750	202,962,492	157,773,339	139,408	360,875,239
2031	-	136,595,326	14,320,000	18,783,250	169,698,576	157,597,947	137,816	327,434,340
2032	-	120,899,314	18,700,000	17,957,750	157,557,064	149,088,793	33,017	306,678,874
2033	-	120,927,417	19,660,000	16,998,750	157,586,167	109,764,458	3,150	267,353,775
2034	-	120,865,832	20,670,000	15,990,500	157,526,332	106,328,939	-	263,855,271
2035	-	120,699,968	21,695,000	14,931,375	157,326,343	106,175,902	-	263,502,245
2036	-	128,111,071	14,490,000	14,026,750	156,627,821	106,152,458	-	262,780,278
2037	-	126,019,429	15,235,000	13,283,625	154,538,054	105,915,825	-	260,453,879
2038	-	113,985,845	16,015,000	12,502,375	142,503,220	105,781,550	-	248,284,770
2039	-	103,908,007	16,830,000	11,681,250	132,419,257	104,545,607	-	236,964,863
2040	-	103,459,588	17,700,000	10,818,000	131,977,588	80,765,652	-	212,743,241
2041	-	91,004,859	18,605,000	9,910,375	119,520,234	80,625,042	-	200,145,276
2042	-	79,867,640	19,560,000	8,956,250	108,383,890	80,639,742	-	189,023,632
2043	-	69,173,366	20,565,000	7,953,125	97,691,491	78,017,456	-	175,708,947
2044	-	57,789,472	21,610,000	6,898,750	86,298,222	79,110,471	-	165,408,693
2045	-	45,595,965	10,050,000	6,107,250	61,753,215	78,731,483	-	140,484,697
2046	-	45,578,554	10,565,000	5,591,875	61,735,429	78,803,776	-	140,539,205
2047	-	34,068,614	11,105,000	5,050,125	50,223,739	49,687,225	-	99,910,964
2048	-	26,966,546	11,675,000	4,480,625	43,122,171	49,693,952	-	92,816,123
2049	-	26,965,176	12,275,000	3,881,875	43,122,051	49,699,403	-	92,821,453
2050	-	26,978,341	12,905,000	3,252,375	43,135,716	49,692,881	-	92,828,597
2051	-	26,440,564	13,570,000	2,590,500	42,601,064	31,357,617	-	73,958,681
2052	-	14,450,066	14,265,000	1,894,625	30,609,691	16,317,481	-	46,927,173
2053	-	7,387,393	14,995,000	1,163,125	23,545,518	16,315,731	-	39,861,249
2054	-	-	15,765,000	394,125	16,159,125	16,317,375	-	32,476,500
T total	\$ 35,501,313	\$ 2,838,737,694	\$ 455,695,000	\$ 340,989,523	\$ 3,635,422,217	\$ 3,028,542,840	\$ 3,271,764	\$ 6,702,738,134

- (a) Preliminary, subject to change. Existing debt service shown in the table excludes debt service on Commercial Paper Obligations and the Refunded Bonds. See “PLAN OF FINANCING” in this document.
- (b) Prior Subordinate Lien Obligations are payable from Net Revenues of the Combined Utility Systems. Approximately 25.8% of debt service for the Prior Subordinate Lien Obligations is paid from revenues of Austin Water and 74.2% is paid from revenues of Austin Energy.
- (c) Separate Lien Water and Wastewater Obligations are secured by and payable solely from Net Revenues of the Water and Wastewater System.
- (d) Parity Electric Utility Obligations are secured by and payable from Net Revenues of the Electric Utility System.
- (e) Assumed municipal utility district (“MUD”) obligations and General Obligation bonds are secured by City ad valorem taxes but are currently being paid from surplus Net Revenues of the Water and Wastewater System.

SECURITY FOR THE BONDS

Pledges of Net Revenues

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

As described in “INTRODUCTION” above in this document, as of the date of this document, there is \$32,980,000 in aggregate principal amount of one series of Prior Subordinate Lien Obligations outstanding, with the final maturity of the outstanding Prior Subordinate Lien Obligations occurring on May 15, 2025. No additional Prior Subordinate Lien Obligations can be issued by the City. See “SECURITY FOR THE BONDS – Issuance of Additional Prior Subordinate Lien Bonds Precluded” below. There are no Prior First Lien Obligations outstanding and no additional Prior First Lien Obligations can be issued by the City.

Parity Water/Wastewater Obligations . . . The Bonds are to be issued as Parity Water/Wastewater Obligations for the benefit of the City’s Water and Wastewater System. The Master Ordinance and the Forty-Seventh Supplement pledge the Net Revenues of the Water and Wastewater System to the payment of the “Parity Water/Wastewater Obligations” (which consist of the Previously Issued Parity Water/Wastewater Obligations, the Bonds, and additional parity obligations issued and to be issued under the Master Ordinance). The Parity Water/Wastewater Obligations, together with the Prior Subordinate Lien Obligations, are equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Water and Wastewater System.

Additionally, the Bonds and Previously Issued Parity Water/Wastewater Obligations are, and future Parity Water/Wastewater Obligations may be, equally and ratably secured by a parity lien on the funds, if any, deposited to the credit of the Debt Service Fund and, if applicable, any special fund or funds created and maintained for the payment and security of the Parity Water/Wastewater Obligations pursuant to any Supplemental Ordinance (excluding any funds on deposit in the BAB Subsidy Subaccount, which was established for the exclusive benefit of the owners of the City’s Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds) (the “Taxable Series 2010B Bonds”) issued as Parity Water/Wastewater Obligations), and funds on deposit in any construction fund maintained and established with the proceeds of the sale of Parity Water/Wastewater Obligations pending expenditure in accordance with the terms of the Master Ordinance and any Supplemental Ordinance.

Pursuant to the terms of the Master Ordinance, any additional obligations payable from and secured by a lien on the Net Revenues of the Water and Wastewater System must satisfy the covenants with respect thereto in the Master Ordinance.

Federal Subsidy on Build America Bonds . . . Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act, 2 U.S.C. 901a, as amended, certain automatic reductions took place as of March 1, 2013. The required reductions included a reduction to refundable credits under section 6341 of the Internal Revenue Code applicable to certain qualified bonds, including Build America Bonds. The sequester reduction applied to any section 6431 amounts claimed by an issuer on any Form 8038-CP filed with the U.S. Treasury that results in a payment to such issuer on or after March 1, 2013. Since October 1, 2013, direct pay bond subsidy payments processed from and after October 1, 2013 have been reduced by a sequestration rate that is determined at the beginning of each federal fiscal year, which is the 12-month period from October 1 to September 30. **The sequestration rate for federal fiscal year 2024 is 5.7%. Under the current federal budget process the sequestration rate will remain 5.7% through federal fiscal year 2031** unless Congress takes additional action to change or eliminate the sequestration percentage. The Taxable Series 2010B Bonds are the only obligations of the City secured by the Net Revenues of the Water and Wastewater System that are payable in part from the federal subsidy payments to be received pursuant to the “Build America Bond” program. The City is not aware of any funding impacts from sequestration on the City’s Water and Wastewater System other than the change in the federal subsidy payment received by the City for the interest due on the Taxable Series 2010B Bonds. The City makes no representation as to whether the federal subsidy payments will be restored to the levels prior to the reduction of the subsidy described in this

section, or whether future reductions in the subsidy may occur at any time while the Taxable Series 2010B Bonds are outstanding.

Rate Covenant Required By Prior Subordinate Lien Ordinance

The City has agreed to establish rates and charges for the facilities and services of the Electric Utility System and the Water and Wastewater System to provide Gross Revenues in each Fiscal Year sufficient (i) to pay the Maintenance and Operating Expenses, (ii) to fund the reserves required for Prior Subordinate Lien Obligations and other obligations or evidences of indebtedness payable solely from and secured solely by a lien on and pledge of the combined Net Revenues of the Electric Utility System and the Water and Wastewater System, and (iii) to produce Net Revenues (after satisfaction of the amount required in (ii) above) equal to at least 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Prior Subordinate Lien Obligations and all other indebtedness payable solely from and secured solely by a lien on and pledge of the Net Revenues of either the Electric Utility System or the Water and Wastewater System, or both.

Rate Covenant Required by Master Ordinance

In the Master Ordinance, the City has agreed to fix, establish, maintain and collect such rates, charges and fees for water and wastewater services furnished by the Water and Wastewater System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues in each Fiscal Year sufficient: (i) to pay all current Operating Expenses, (ii) to produce Net Revenues, after deducting amounts expended during the current Fiscal Year from the Water and Wastewater System's Net Revenues for the payment of debt service requirements of the Prior Subordinate Lien Obligations, equal to the greater of either (x) an amount to pay the actual annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations or (y) an amount, when added to Other Available Water and Wastewater System Revenues, that would pay 125% of Annual Debt Service Requirements due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations, and (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Water and Wastewater System reasonably anticipated to be paid from Gross Revenues.

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

Bonds Not Secured by any Debt Service Reserve Fund

The Master Ordinance creates and establishes the "Water/Wastewater System Revenue Obligation Reserve Fund" (the "Reserve Fund"). The City may fund the Reserve Fund with respect to a series of Parity Water/Wastewater Obligations in accordance with the terms of the Master Ordinance and the provisions of any Supplemental Ordinance. The City, in accordance with the provisions of any Supplemental Ordinance, may choose **not** to fund the Reserve Fund in connection with the issuance of Parity Water/Wastewater Obligations issued under the terms of such Supplemental Ordinance.

Pursuant to the terms of the Forty-Seventh Supplement, the City has determined not to fund the Reserve Fund in connection with the issuance of the Bonds, and therefore, the holders of the Bonds do not have any right to any moneys or any other Reserve Fund Obligations held in the Reserve Fund.

The City has determined to fund the Reserve Fund in connection with the prior issuance of certain Parity Water/Wastewater Obligations. After giving effect to the refunding of the Refunded Bonds, the Reserve Fund will secure the Parity Water/Wastewater Obligations with the following series designations: Series 2010 and Series 2010B (Direct Subsidy – Build America Bonds).

Additionally, since 2016, certain Parity Water/Wastewater Obligations have been issued as direct placement bonds purchased by the Texas Water Development Board (the "TWDB") and have been secured by separate and distinct reserve

funds, pursuant to the lending requirements of the TWDB. Such reserve funds have been funded in amounts equal to average annual debt service on each series of bonds purchased by the TWDB and are not available for payment of, and do not in any manner secure the Bonds or obligations secured by the Reserve Fund established under the Master Ordinance. See “DEBT PAYABLE FROM COMBINED UTILITY SYSTEMS REVENUES” and “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Future Capital Improvements for Water and Wastewater System” in this document.

The Reserve Fund shall be maintained for the benefit of the owners of only the Parity Water/Wastewater Obligations secured by the Reserve Fund. There shall be deposited into the Reserve Fund any Reserve Fund Obligations so designated by the City. Reserve Fund Obligations in the Reserve Fund shall be used for the purpose of retiring the last of the related Parity Water/Wastewater Obligations secured by the Reserve Fund as they become due or paying principal of and interest on the applicable Parity Water/Wastewater Obligations when and to the extent the amounts in the Debt Service Fund are insufficient for such purpose.

The amount to be accumulated and maintained in the Reserve Fund is required to be an amount equal to 50% of the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations secured by the Reserve Fund (the “Required Reserve Amount”). After giving effect to the refunding of the Series 2012 Bonds (which constitute a portion of the Refunded Bonds), approximately \$_____ from the Reserve Fund will be transferred by the City to defease and refund the Series 2012 Bonds. The Required Reserve Amount after giving effect to the refunding of the Series 2012 Bonds is approximately \$3,842,698* and will be funded entirely with cash.

The City may, at its option, withdraw and transfer to the debt Service fund all surplus in the Reserve Fund over the Required Reserve Amount. The City may replace or substitute a Credit Facility for cash or Eligible Investments on deposit in the Reserve Fund or in substitution for or replacement of any existing Credit Facility. Upon such replacement or substitution, the cash or Eligible Investments on deposit in the Reserve Fund, taken together with the face amount of any existing Credit Facilities, in excess of the Required Reserve Amount may be withdrawn by the City, at its option, and transferred to the System Fund unless such excess was funded with the proceeds of sale of Parity Water/Wastewater Obligations in which case such excess shall be deposited to the credit of the Debt Service Fund; provided that the face amount of any Credit Facility may be reduced at the option of the City in lieu of such transfer.

If the City is required to make a withdrawal from the Reserve Fund, the City shall promptly notify the issuer of a Credit Facility of the necessity for a withdrawal from the Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys and cash resulting from the sale or liquidation of Eligible Investments then on deposit in the Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency. In the event of a draw on a Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Net Revenues; however, such reimbursement from Net Revenues shall be subject to the following paragraph and, dependent on the terms of the Credit Facility, may be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Parity Water/Wastewater Obligations.

In the event of a deficiency in the Reserve Fund, or in the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund sufficient Reserve Fund Obligations, all in an aggregate amount at least equal to the Required Reserve Amount, then the City shall, subject to satisfying or making provision for the uses having a priority on the Gross Revenues before any deposits for the payment and security of the Parity Water/Wastewater Obligations and after making required deposits to the Debt Service Fund in accordance with the terms of the Master Ordinance and any Supplemental Ordinance, cause the aggregate Required Reserve Amount then required to be on deposit in the Reserve Fund to be fully restored within 12 months from the date such deficiency, termination or expiration occurred by (i) making substantially equal cash deposits to the Reserve Fund on or before the last day of each month from the available Net Revenues, (ii) depositing Eligible Investments or a Credit Facility to the credit of the Reserve Fund or (iii) a combination of (i) and (ii).

As Parity Water/Wastewater Obligations secured by the Reserve Fund are paid, redeemed or defeased and cease to be Outstanding under the terms of the Master Ordinance or a Supplemental Ordinance, the Required Reserve Amount may be recalculated and redetermined, and any Reserve Fund Obligations on deposit in the Reserve Fund in excess of the Required Reserve Amount may be withdrawn and transferred, at the option of the City, to (i) the System Fund, if an amount equal to such excess was funded with Net Revenues, or (ii) the Debt Service Fund.

* Preliminary, subject to change.

Reserve Fund for Prior Subordinate Lien Bonds

A separate reserve fund, which does not secure the Bonds, was established for the benefit of the Prior Subordinate Lien Obligations. In 2002, the City obtained the consent of the Holders of at least 51% of the principal amount and Maturity Amount of the outstanding Prior Subordinate Lien Obligations to amend the provisions of the Bond Ordinance relating to the Reserve Fund to allow for the funding of all or a part of the amount required to be maintained in the Reserve Fund (the "Required Reserve") with Financial Commitments (defined below) and change the Required Reserve to an amount equal to the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Subordinate Lien Obligations, as determined on (i) the date of the initial deposit of a Financial Commitment to the Reserve Fund or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing the Financial Commitment for the Reserve Fund falls below the minimum requirement, whichever date is the last to occur. The term "Financial Commitments" means an irrevocable and unconditional policy of bond insurance or surety bond in full force and effect issued by an insurance company or association duly authorized to do business in the State of New York and the State of Texas and with financial strength rated in the highest rating category by Moody's Investors Service, Inc. ("Moody's"), S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P") and Fitch Ratings, Inc. ("Fitch") and, if rated, by A.M. Best on the date the Financial Commitment is deposited to the credit of the Reserve Fund.

As of September 30, 2023, the amount on deposit to the credit of the common Reserve Fund securing the Prior Subordinate Lien Obligations under the Master Ordinance is approximately \$23,728,695 and is funded with cash. The City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following such substitution, the cash and securities released from the Reserve Fund shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior Subordinate Lien Obligations in a manner that reduces the principal amount and "Maturity Amount" (in the case of Prior Subordinate Lien Obligations issued as capital appreciation bonds, the principal and interest on which is payable upon maturity) of outstanding Prior Subordinate Lien Obligations.

Issuance of Additional Prior Subordinate Lien Bonds Precluded

The Master Ordinance provides that no additional revenue obligations will be issued with a lien on the Net Revenues of both the Electric Utility System and the Water and Wastewater System on a parity with the Prior Subordinate Lien Obligations.

Issuance of Parity Water/Wastewater Obligations

Under the Master Ordinance, the City reserves the right and power to issue or incur Parity Water/Wastewater Obligations for any purpose authorized by law. The City may issue, incur, or otherwise become liable in respect of any Parity Water/Wastewater Obligations if: (i) a Designated Financial Officer shall execute a certificate stating that, to his or her knowledge, the City is in compliance with all covenants contained in the Master Ordinance and any Supplemental Ordinance, is not in default in the performance and observance of any of the terms, provisions and conditions contained in the Master Ordinance and any Supplemental Ordinance, and the Funds and Accounts securing the Parity Water/Wastewater Obligations then Outstanding as established in accordance with the terms of the Master Ordinance and any Supplemental Ordinance contain the amount then required to be deposited in this document or the proceeds of the sale of the Parity Water/Wastewater Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts; and (ii) an Accountant shall certify or render an opinion to the effect that, for the last completed Fiscal Year preceding the date of the then proposed Parity Water/Wastewater Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Water/Wastewater Obligations, the Net Revenues of the Water and Wastewater System, after deducting amounts expended from the Water and Wastewater System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior Subordinate Lien Obligations, together with Other Available Water and Wastewater Revenues (see "SECURITY FOR THE BONDS – Surplus Revenue Account" in this document), are equal to 1.25 times the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations to be Outstanding, after giving effect to the issuance of the then proposed Parity Water/Wastewater Obligations. The Bonds are being issued in satisfaction of the requirements described in this paragraph.

For purposes of the Accountant's certification or opinion noted in clause (ii) above, if Parity Water/Wastewater Obligations are issued to refund less than all of the Parity Water/Wastewater Obligations then Outstanding, the aforesaid certificate, report or opinion of the Accountant shall give effect to the issuance of the proposed refunding of Parity Water/Wastewater Obligations (and shall not give effect to the Parity Water/Wastewater Obligations being refunded).

In making a determination of Net Revenues, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the Water and Wastewater System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Water and Wastewater System for the period of time covered by the Accountant's certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion.

Short-Term Parity Water/Wastewater Obligations

Pursuant to the Master Ordinance, the City may issue or incur Parity Water/Wastewater Obligations issued in the form of commercial paper and for purposes of satisfying the Net Revenues coverage test for additional Parity Water/Wastewater Obligations, the term "Outstanding Funded Debt" (as defined in APPENDIX C) shall include Subordinated Debt (as defined in APPENDIX C) that matures by its terms, or that is renewable at the option of the City, to a date more than one year after the date of its issuance by the City. The terms and conditions pertaining to the issuance of Parity Water/Wastewater Obligations in the form of commercial paper, including, without limitation, the security, liquidity and reserves necessary to support such commercial paper obligations, are to be contained in a Supplemental Ordinance relating to their issuance.

Special Facilities Debt and Subordinated Debt

Special Facilities Debt and Subordinated Debt may be incurred by the City without limitation.

Credit Agreements

Under the Master Ordinance, payments made under a Credit Agreement may be treated as Parity Water/Wastewater Obligations payable solely from and equally and ratably secured by a lien on the Net Revenues of the Water and Wastewater System of equal rank and dignity with the lien and pledge securing the payment of Parity Water/Wastewater Obligations if the governing body of the City makes a finding in the Supplemental Ordinance authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Water and Wastewater System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Water/Wastewater Obligations then outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City. As of the date of this Official Statement, there are no outstanding Credit Agreements.

System Fund

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

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

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

THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable, (ii) the funds maintained for the payment of Previously Issued Separate Lien Obligations currently Outstanding, and (iii) the special Funds and Accounts for the payment of the Parity Water/Wastewater Obligations.

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

FIFTH: To the payment of the amount, if any, approved and authorized by action of the governing body of the City, to be deposited to the credit of the Water and Wastewater System Surplus Revenue Account.

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

The City has established the "Revenue Stability Reserve Fund" as an account within the System Fund, and, therefore, the Revenue Stability Reserve Fund is separate and distinct from the Reserve Fund established by the Master Ordinance and described in "SECURITY FOR THE BONDS – Bonds Not Secured by any Debt Service Reserve Fund" in this document. The Revenue Stability Reserve Fund is funded by the "Water Revenue Stability Reserve Fund Surcharge" described in "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Service Rates" in this document. Moneys in the Revenue Stability Reserve Fund are Gross Revenues under the Master Ordinance. The City Council of the City has established certain policy restrictions with respect to the use of moneys in the Revenue Stability Reserve Fund, which are described in "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates." Notwithstanding these policy restrictions, the provisions of the Master Ordinance regarding the use of moneys on deposit in the System Fund (including the Revenue Stability Reserve Fund) that are described above in this "SECURITY FOR THE BONDS – System Fund" caption, govern and control. For additional information regarding the Revenue Stability Reserve Fund, see "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates" in this document.

Surplus Revenue Account

At the end of each Fiscal Year and after satisfying all payments and transfers having a priority on the revenues deposited to the credit of the System Fund, an amount approved and authorized by action of the governing body of the City may be transferred from the System Fund and deposited to the credit of a "Water and Wastewater System Surplus Revenue Account" to be established and maintained on the books and records of the City. The amounts deposited to the credit of the Water and Wastewater System Surplus Revenue Account may be used to make capital improvements to the Water and Wastewater System, to pay Operating Expenses or for any other lawful purpose. Prior to the beginning of each Fiscal Year, an amount deposited to the credit of the Water and Wastewater System Surplus Revenue Account may by action of the governing body of the City in the approval of the annual budget, or by a separate action, be designated as "Other Available Water and Wastewater Funds." The amount so designated as "Other Available Water and Wastewater Funds" shall be transferred on the books of the City to the credit of the System Fund as of the beginning of such Fiscal Year.

COMMERCIAL PAPER NOTE PROGRAMS

The City has established, and currently has in effect, two short-term interim financing commercial paper program structures, a \$400,000,000 tax-exempt commercial paper program (the "Tax-Exempt Commercial Paper Note Program") and a \$100,000,000 taxable commercial paper program (the "Taxable Commercial Paper Note Program," and together with the Tax-Exempt Commercial Paper Note Program, the "Commercial Paper Note Programs"). The purpose of the Commercial Paper Note Programs is to provide funds for the interim financing of a portion of the costs of capital improvements of the Combined Utility Systems. Notes issued under the Commercial Paper Note Programs (referred to as "Commercial Paper Obligations" in this document) are payable from the Net Revenues of the Combined Utility Systems after providing for the payment of the Prior Subordinate Lien Obligations, the Parity Electric Utility Obligations and the Water and Wastewater System Separate Lien Obligations.

The City's current financial policy provides that the proceeds of Commercial Paper Obligations issued for the Water and Wastewater System can only be utilized to finance (i) new water and wastewater plans, (ii) capital expansions, (iii) growth-related projects, (iv) routine capital improvements required for normal business operation, and/or (v) improvements to comply with local, state and federal mandates or regulations. The City's current financial policy provides that the proceeds of Commercial Paper Obligations issued for the Electric Utility System can only be utilized (i) to finance capital improvements required for normal business operation for Electric Utility System additions, extensions, and improvements or improvements to comply with local, state and federal mandates or regulations without prior voter authorization; however, this shall not apply to new nuclear or conventional coal generation, or (ii) for voter-authorized projects (although such voter authorization is not required by State law). See "SECURITY FOR THE BONDS" in this document.

Liquidity support for the \$400,000,000 Tax-Exempt Commercial Paper Note Program is provided by a revolving credit agreement issued by JPMorgan Chase Bank, National Association (“JPMorgan”). The revolving credit agreement with JPMorgan, which was amended and restated on October 1, 2020, was set to expire in accordance with its terms on September 30, 2022. On July 28, 2022, the City and JPMorgan agreed to extend the revolving credit agreement through September 30, 2024. The revolving credit agreement with JPMorgan also allows for the direct placement of tax-exempt commercial paper notes with JPMorgan.

On May 2, 2024, the City Council took action to amend and restate the current \$400,000,000 Tax-Exempt Commercial Paper Note Program to increase the amount of tax-exempt commercial paper notes outstanding from time to time to \$600,000,000 from the previous authorization of \$400,000,000. In connection with such increase the revolving credit agreement with JPMorgan will also be amended and restated to increase liquidity support from \$400 million to \$600 million. The amended and restated \$600,000,000 Tax-Exempt Commercial Paper Note Program amendment and restated revolving credit agreement with JPMorgan will be effective on or about June 18, 2024.

Liquidity support for the \$100,000,000 Taxable Commercial Paper Note Program is provided by a revolving credit agreement issued by Barclays Bank PLC (“Barclays”) that will terminate and transition to JPMorgan on or about June 18, 2024. The revolving credit agreement with Barclays, which became effective on October 1, 2020, was set to expire in accordance with its terms on September 30, 2022. The City and Barclays agreed to extend the revolving credit agreement through September 30, 2024. The revolving credit agreement with Barclays amended and restated the Taxable Commercial Paper Note Program to increase the amount of taxable commercial paper notes outstanding from time to time to \$100,000,000 from the previous authorization of \$75,000,000. On May 2, 2024, the City Council took action to amend and restate the current \$100,000,000 Taxable Commercial Paper Note Program, to replace Barclays and enter into a new revolving credit agreement with JPMorgan and add a direct purchase note option to the program, also with JPMorgan. The amended and restated \$100,000,000 Taxable Commercial Paper Note Program and new revolving credit agreement and direct purchase program with JPMorgan will be effective on or about June 18, 2024.

See “PLAN OF FINANCING – Refunding of Outstanding Commercial Paper Notes” in this document.

DESCRIPTION OF THE BONDS

General

The Bonds will be dated June 18, 2024. Interest on the Bonds will accrue from the date of their initial delivery to the Underwriters (the “Date of Initial Delivery”). Interest on the Bonds will be payable on November 15, 2024 and each May 15 and November 15 until maturity or prior redemption. The Bonds will mature on the dates and in the principal amounts and bear interest at per annum rates set forth on page ii of this document. Interest to be paid on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Principal of the Bonds is payable at maturity, subject only to prior redemption of the Bonds as described in this document.

Optional Redemption of the Bonds

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

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

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Mandatory Sinking Fund Redemption of the Bonds

The Bonds having stated maturities of November 15, 20__ and November 15, 20__, respectively (the “Term Bonds”), shall be subject to mandatory sinking fund redemption in part prior to maturity at the par value plus accrued interest to the date of redemption on November 15 in each of the years and in the principal amounts as follows:

<u> % Term Bond due</u> <u>November 15, 20__</u>		<u> % Term Bond due</u> <u>November 15, 20__</u>	
<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>

Stated maturity.

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

The principal amount of the Term Bonds of a stated maturity required to be redeemed pursuant to the operation of such mandatory sinking fund 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 sinking fund 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 previously credited against a mandatory sinking fund redemption requirement.

Notice of Redemption

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

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

Defeasance

The City may defease and discharge its obligation to the holders of any or all of the Bonds to pay the principal of, redemption premium, and interest thereon by depositing with the Paying Agent/Registrar, or other authorized escrow agent, in trust: (a) cash in an amount equal to the principal amount of, redemption premium, and interest to become due on the Bonds to the date of maturity or prior redemption, or (b) Government Obligations, consisting of (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and are rated as to investment quality by a nationally recognized investment rating firm no less than “AAA” or its equivalent; or (iii) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of acquisition by the City are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its

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

Paying Agent/Registrar

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

Interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (defined below), and such interest shall be paid (i) by check sent by United States mail, first-class postage prepaid, to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at their stated maturity or redemption prior to maturity upon their presentation to the designated payment/transfer office of the Paying Agent/Registrar. If a date for making a payment on the Bonds, the taking of any action or the mailing of any notice by the Paying Agent/Registrar shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment, taking action or mailing of a notice will be the next succeeding day that is not a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and a payment, action or mailing on such date shall have the same force and effect as if made on the original date the payment was due, or the action was required to be taken or the mailing was required to be made.

Record Date for Interest Payment

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

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued (see "BOOK-ENTRY-ONLY SYSTEM" in this document), 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 and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated payment/transfer office of the Paying Agent/Registrar, or sent by United States mail, first-class postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar.

Bondholders' 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 either the Master Ordinance or the Forty-Seventh Supplement, or the City declares bankruptcy, the registered owners may seek a writ of mandamus to compel the City or City officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds, the Master Ordinance or the Forty-Seventh Supplement 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. Neither the Master Ordinance nor the Forty-Seventh Supplement 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 Forty-Seventh Supplement, 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. The City may exercise authority to issue obligations and enter into credit agreements pursuant to Chapter 1371, Texas Government Code ("Chapter 1371"), secured by the revenues of the Water and Wastewater 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, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or covenants contained in the Master Ordinance or the Forty-Seventh Supplement. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("Wasson I"), that governmental immunity does not imbue a city with derivative immunity when it performs a proprietary, as opposed to a governmental, function in respect to contracts executed by a city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify Wasson I, *Wasson Interests, Ltd. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) ("Wasson II" and, together with Wasson I, "Wasson"), ruled that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function at the time it entered into the contract, not at the time of the alleged breach. In Wasson, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the State's immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of a governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenue, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce creditors' rights would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

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

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York (“DTC”) will act as securities depository for the Bonds (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, 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 collectively 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 Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Redemption proceeds and principal and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers 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. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Participants.

DTC may discontinue providing its services as depository with respect to the Securities 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, Security certificates are required to be printed and delivered. Subject to DTC's policies and guidelines, 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, Security certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the City, PFM Financial Advisors LLC, and the Underwriters each believes to be reliable, but the City, PFM Financial Advisors LLC, and the Underwriters take no responsibility for the accuracy thereof.

THE SYSTEMS

General

The City owns and operates an electric utility system (also referred to in this document as the "Electric Utility System," the "Electric Light and Power System" or "Austin Energy") and a water and wastewater system (also referred to in this document as the "Water and Wastewater System," "Water and Wastewater Utility" or "Austin Water") which provide the City, as well as adjoining areas of Travis County and certain adjacent areas of Williamson County, with electric, water and wastewater services. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, City individually-owned gas/oil-fired electric facilities and a biomass generation facility are available to meet Electric Utility System demand. The City owns all the facilities of the Water and Wastewater System. [UPDATE]For the fiscal year commencing October 1, 2024, the Electric Utility System had approximately 1,924 full-time regular employees and Austin Water had approximately 1,381 full-time regular employees.

Winter Storm Mara 2023

Background and Impact of Winter Storm on Austin Energy. From January 31, 2023 through February 2, 2023, Winter Storm Mara ("Winter Storm Mara") delivered freezing temperatures and freezing rain, which resulted in up to three-quarters of an inch of ice on vegetation throughout Austin Energy's 437 square miles of service territory. The weight of the ice on the tree canopy brought down limbs and trees on the distribution system throughout the service territory. At the height of the storm, 32% of Austin Energy's customers (173,879 customers) were without power. Unlike the Texas Winter Weather Event 2021 (defined below), which was an Electric Reliability Council of Texas ("ERCOT") grid emergency and State-directed event that resulted in outages to prevent a complete blackout, Winter Storm Mara was a natural disaster. Restoration of the distribution system began immediately with the deployment of more than 400 Austin Energy line workers working to clear debris and restore power. In addition, Austin Energy called upon mutual aid from three utilities and seven electrical contractors. Approximately 1,000 additional personnel and support equipment responded in restoration efforts. High winds and rain complicated initial restoration efforts, resulting in additional outages as already weakened vegetation fell on the distribution system. The restoration was completed on February 11, 2023, and all remaining mutual aid crews departed the City.

On February 4, 2023, Governor Greg Abbott issued a disaster declaration for seven Texas counties, which included the Austin Energy service territory. The Governor expanded that declaration to include sixteen additional counties on February 21, 2023. On April 22, 2023, the President of the United States issued a disaster declaration, allowing jurisdictions in the designated counties to qualify for the Federal Emergency Management Agency's ("FEMA") Public Assistance program, including grant funding for debris removal, emergency protective measures, roads and bridges, water control facilities, public buildings and contents, public utilities, parks and recreational and other facilities. The President also authorized additional FEMA Hazard Mitigation Grant Program resources statewide.

Impact of Winter Storm Mara on Austin Water. Winter Storm Mara had no material impact on Austin Water operating revenue or operations.

Texas Winter Weather Event 2021

General. From February 14, 2021 through February 19, 2021, much of the continental United States, including Texas, experienced a severe winter storm resulting from the southern migration of a polar vortex that meteorologists have characterized as the most significant winter weather event in terms of scope and duration since monitoring of these weather phenomena began in the 1950s (such winter storm, the "2021 Weather Event"). As a result of the 2021 Weather Event, the State experienced Statewide, record-breaking cold weather. Temperatures in the City remained below freezing for 162 consecutive hours, with a low temperature of 7 degrees recorded on February 16, 2021. As the 2021 Weather Event impacted the State, ERCOT implemented what were initially expected to be rolling blackouts to conserve electricity and address energy needs across the entirety of the State; however, due to the severity of 2021 Weather Event and the corresponding increase in demand on the State electric grid, combined with limited availability of generation, widespread and prolonged power outages began at 1:00 a.m., Central time, on Monday, February 15, 2021, and continued throughout the week. Ultimately, approximately 4,000,000 residents of the State were without power for significant stretches of the week.

Impact of 2021 Weather Event on Austin Energy. Austin Energy's generation assets largely stayed online during the 2021 Weather Event. Combined with ERCOT-mandated load sheds, this resulted in Austin Energy generation output exceeding its customers' usage. Austin Energy was able to more than fully offset the unprecedented high gas prices and costs to serve its customers with corresponding revenues from the generation fleet. Austin Energy is in a net positive financial position from the effects of the 2021 Weather Event. Austin Energy estimates that over the course of the 2021 Weather Event, it accumulated positive net revenue of \$101 million. Brazos Electric Cooperative Inc. reached a court-approved settlement with ERCOT in November 2022. As part of the settlement, Austin Energy opted for accelerated cash recovery of \$27 million of the \$42 million short pay claim.

Impact of 2021 Weather Event on Austin Water. The extreme weather conditions experienced during the 2021 Weather Event, coupled with widespread power outages in the State, caused significant disruption to water service, resulting in widespread water outages and a City-wide Boil Water Notice.

On February 15 and 16, 2021, dropping temperatures continued to affect public infrastructure and private buildings, and Austin Water began to receive reports of pipe breaks. Water demand across the Austin Water service area increased from approximately 150 million gallons per day (MGD) on February 15 to a peak hourly demand of 260 MGD in the evening of February 16. Storage levels began to deplete in Southwest Austin, and conditions rapidly changed during the overnight hours of February 16. A Boil Water Notice was issued for Southwest Austin on the morning of February 17 because pressure in that portion of the distribution system dropped below the regulatory requirement. There was no indication of system-wide loss of service at that time. On February 17, 2021, water demand continued to rise to a peak hourly demand of 330 MGD, more than double levels observed in February 2020. In the early afternoon, the Ullrich Water Treatment Plant experienced a disruption to both of the electric feeds to the plant. The electrical outage was restored and plant systems were systemically restarted, restoring treatment capacity within approximately 11 hours. With the temporary reduction of water production, coupled with the extremely high water demands, system storage was depleted resulting in widespread water outages. Due to pressure dropping below the regulatory requirement, a Boil Water Notice was issued for all Austin Water customers during the evening of February 17, 2021.

System recovery efforts were focused on reducing water consumption and repairing leaks to replenish storage capacity and re-pressurize the distribution system. Initial efforts focused on restoring water to hospitals and other critical customers by isolating key transmission mains. Pressure was gradually restored to the distribution system, and the Boil Water Notice was lifted in phases throughout February 22 and 23, 2021.

Despite the significant operational impacts from the 2021 Weather Event, Austin Water experienced minimal financial impacts with \$5 million of emergency response costs and \$1.2 million in property damage.

Legislative Response. On June 8, 2021, the Governor signed Senate Bill 3 (“SB 3”) to address the issues that arose during the 2021 Weather Event. SB 3 requires weather emergency preparedness and the identification of critical facilities in the natural gas supply chain and electric utilities. The bill makes several changes to the ERCOT market and how municipally owned utilities (“MOUs”) will operate. Moreover, the bill expands the Public Utility Commission of Texas’ (“PUC”) oversight over MOUs, particularly regarding customer communications during emergencies, weatherization requirements, and the allocation of load shed responsibilities. The bill does not affect a MOU’s ability to set rates nor its obligation to serve its certificated service territory. Additionally, SB 3 includes provisions that could affect wholesale energy costs and operations. The bill requires the PUC to instruct ERCOT to establish requirements to meet the reliability needs of the power region and determine the quantity and characteristics of ancillary or reliability services needed to maintain reliability during periods of low non-dispatchable generation. It also instructs ERCOT to procure ancillary or reliability services on a competitive basis during those periods of low non-dispatchable generation with appropriate qualification and performance requirements. The bill requires the PUC to implement an emergency wholesale pricing mechanism regarding the system-wide offer cap, to take effect if the high cap is in place for 12 hours in a 24-hour period, as well as an associated ancillary services cap. The bill requires the PUC to allow generators to be reimbursed for reasonable and verifiable operating costs, even if those costs exceed the relevant cap. The PUC is required to review each cap at least once every five years, with the first review by December 31, 2021. Austin Energy is engaged in all associated rulemakings to implement the legislation. The 2021 Weather Event created significant financial impacts for many ERCOT market participants. In response, the Texas Legislature passed House Bill 4492, which creates two securitization processes to be repaid through a ratepayer surcharge over a period of up to 30 years. In both processes, the PUC issued and approved a debt obligation on October 14, 2021. The first securitization mechanism is addressed in Public Utility Regulatory Act (“PURA”) Chapter 39, Subchapter M and considered in PUC Docket No. 52321, and covers amounts owed to ERCOT by wholesale market participants that would have been otherwise uplifted due to short pays and replenished financial auction receipts used by ERCOT to reduce amounts that were short paid to market participants and reasonable costs incurred to implement a debt obligation order. The legislation set a cap at \$800 million dollars. As a short-paid market participant, Austin Energy is included in this process. The second securitization mechanism is addressed in PURA Chapter 39, Subchapter N and considered in PUC Docket No. 52322. This provision covers Reliability Deployment Price Adder charges and Ancillary Services costs above the system-wide offer cap during the 32-hour period between February 15 and February 19, 2021. This excludes any amounts securitized under PURA Chapter 41 for cooperative securitization and any amounts from defaulted entities that are no longer ERCOT market participants. This amount totals \$2.1 billion plus reasonable costs. There was a one-time opt out available for this docket and Austin Energy successfully opted out because it has paid in full all invoices owed to ERCOT. Therefore, Austin Energy customers will not be subject to the payment of any securitized amounts in this docket.

SB 3 also created Section 13.1394 of the Texas Water Code (“Section 13.1394”) which requires a water utility to ensure the emergency operation of its water system during a power outage that lasts longer than 24 hours at a minimum pressure of 20 pounds per square inch, or at a water pressure level approved by the Texas Commission on Environmental Quality (the “TCEQ”), as soon as safe and practicable following the occurrence of a natural disaster. Section 13.1394 also requires that a water utility adopt and submit an emergency preparedness plan (“EPP”) to the TCEQ for its approval that includes a timeline for implementing the plan. The submitted plan must provide for one, or a combination, of fourteen options and approaches to provide services as required by Section 13.1394. The options provided include but are not limited to auxiliary generators; on-site power generation; designation of the water system as a critical load facility or redundant, isolated or dedicated electrical feeds; water storage capabilities; the ability to provide water through artesian flows; redundant interconnectivity between pressure zones; emergency water demand rules to maintain emergency operations and any other alternative determined by the TCEQ to be acceptable.

Water utilities were required to submit their EPP to the TCEQ by March 1, 2022. Implementation of emergency plans are required to begin by the later of July 1, 2022, or upon final approval by the TCEQ. A utility may submit a written request for an extension not to exceed 90 days. Austin Water met all compliance deadlines for submissions required by SB 3. Required information was submitted to the PUC, Austin Water’s electrical providers, and other government entities on October 20, 2021, ahead of the November 1, 2021 deadline. The EPP and implementation timeline for the City’s water system were completed and submitted to TCEQ on March 1, 2022, meeting the SB 3 deadline.

SB 3 also created Section 13.151 of the Texas Water Code (“Section 13.151”) which addresses billing for services provided during an extreme weather emergency. Section 13.151 defines an “extreme weather emergency” as a period when the previous day’s highest temperature did not exceed 28 degrees Fahrenheit, and the temperature is predicted to remain at or below that level for the next 24 hours according to the nearest National Weather Service reports. In these circumstances a retail public utility that operates under a certificate of public convenience and necessity is prohibited from imposing late

fees or disconnecting service for nonpayment of bills that are due during an extreme weather emergency until after the emergency is over. The utility is also required to work with customers that request to establish a payment schedule for unpaid bills that are due during the extreme weather emergency. Section 13.414 of the Texas Water Code was amended by SB 3 to provide that a violation of Section 13.151 is subject to a civil penalty of not less than \$100 nor more than \$50,000 for each violation.

Ongoing Litigation. On February 15 and February 16, 2021, during the 2021 Weather Event, the PUCT issued two emergency orders. These orders recognized that scarcity pricing and load shedding were in effect in ERCOT, but that market prices remained well below the maximum allowed by PUCT rules. These orders set the market price of electricity in ERCOT to the \$9,000/MWh maximum allowed in PUCT rules for approximately four days. Luminant Energy subsequently sued the PUCT, claiming that the orders were procedurally invalid and exceeded the PUCT's authority.

On March 17, 2023, the Texas 3rd Court of Appeals issued an opinion reversing and remanding the two emergency orders. The court rejected the PUCT's procedural defenses and concluded that the orders violated Sec 39.001(d) of PURA directing the PUCT to use competitive methods to "the maximum extent feasible" and to "issue orders that are both practical and limited so as to impose the least impact on competition."

Litigation on this matter is expected to continue for some time. The PUCT filed a petition for review with the Texas Supreme Court, and on January 30, 2024, the Texas Supreme Court heard oral arguments in this case. Litigation on this matter is expected to continue for some time, and it is not clear what action, if any, the court might take. If the Texas Supreme Court upholds the opinion of the Texas 3rd Court of Appeals, the case will be remanded to the PUCT to take actions consistent with the order. The PUCT would likely open proceedings on what steps to take, and all affected parties would be likely to have opportunities for input. This entire process of appeals, PUCT action, if any, and any litigation that might result from such PUCT action, can be expected to continue for some time. The City continues to monitor developments in this matter closely.

While it is impossible to predict at this point what action the Supreme Court or the PUC may take regarding this matter, the City does not currently believe there is a substantial risk that the ERCOT market would be repriced for the 2021 Weather Event.

Financial Impact of the COVID-19 Pandemic on Austin Water

COVID-19 Pandemic. In August 2023, the City Council approved the City's budget for the fiscal year ending September 30, 2024 ("FY 2024") budget which includes an increase in service revenues of \$32 million over the fiscal year ending September 30, 2023 ("FY 2023") approved amended budget, with such revenue increase attributable to customer growth and a minimal rate increase for retail customers. The Water and Wastewater service revenue budget was estimated to be at \$617 million for FY 2024. As described further below, Austin Water instituted temporary rate reductions and provided other forms of financial assistance in fiscal years 2020, 2021, 2022, 2023 and for fiscal year 2024 to assist ratepayers affected by the COVID-19 pandemic. Even with these temporary rate reductions, Austin Water currently projects that it will continue to maintain reserves and a debt service coverage ratio that is consistent with its financial policies, which, as recently amended, requires 180 days cash on hand and 1.75x debt service coverage, respectively. The COVID-19 pandemic has not had a significant effect on Austin Water's construction activities and capital improvement plans. Austin Water is working with the City's Homeland Emergency Security Management department on potential FEMA reimbursements for COVID-19 response-related expenses estimated to be \$4.3 million. Austin Water has no dependence on receipt of FEMA funding for meeting any of its financial obligations.

In response to the economic impact of COVID-19, the City Council of the City approved rate reductions for certain customer classes, which took effect April 9, 2020: a 10% rate reduction of tiers 1, 2 and 3 for water volume rates and tiers 1 and 2 for wastewater volume rates. The rate reductions applied to customer rates in the residential Customer Assistance Program ("CAP") – a program that provides for lower rates for residents on low or fixed incomes – and customer rates for residential Non-CAP rates. These temporary rates were effective through October 31, 2020, after which the non-CAP rates returned to the normal rate schedule (as adopted by the City on November 1, 2019) while the 10% rate reduction for CAP Customers was extended through fiscal year 2024 (September 30, 2024).

Austin Water provided an additional \$5 million contribution to the Emergency Financial Assistance Plus 1 program in FY 2020 and FY 2021 for a combined \$10 million. Other methods for assistance included additional measures to halt disconnects for non-payment, waived late fees, and payment arrangements for customers in need. Disconnects were halted in April 2020 due to COVID-19 but resumed on July 16, 2021 with a phased-in approach. Overall, Austin Water experienced an increase of approximately \$2 million in delinquent accounts receivable balances due to COVID-19. In advance of and since

disconnects resumed, City of Austin Utilities has been working with customers to bring account balances current. As a result, Austin Water has seen an increase in payment arrangement balances and a decrease in delinquent balances as compared to September 2020 balances.

In April 2021, Austin Water implemented a Multifamily CAP program for low-income customers who do not have a dedicated water meter, but nevertheless, receive water and wastewater service from Austin Water. This program provides a \$17 monthly credit on their Austin Energy (defined in this document under the caption “THE SYSTEMS”) utility bill, shown as Austin Water Multi-Family CAP Program Discount. The Multifamily CAP program offers a safety net to thousands of vulnerable customers who have traditionally been ineligible for Austin Water financial assistance through the residential Customer Assistance Program because they are not directly billed for water and wastewater service.

THE WATER AND WASTEWATER SYSTEM

Management

Name	Years at City*	Additional Years of Experience	Total
Director			
Shay Roalson, P.E.	4	27	31
Assistant Directors			
Anna Bryan-Borja, CIA, <i>Business Services</i>	26	3	29
Ayman Benyamin, P.E., <i>Operations</i>	19	12	31
Charles Celauro, P.E., <i>Engineering Services</i>	11	25	36
Israel Custodio, MS, SMS, CIT, Acting AD, <i>Employee Leadership & Development</i>	7	21	28
Joseph Gonzalez, CPA, <i>Financial Services (**)</i>	21	9	30
Kevin Critendon, P.E., <i>Environmental Planning and Development Service</i>	13	27	40
Randi Jenkins, <i>Customer Experience</i>	17	4	21
David Johnson, CIO, <i>Information Technology Services</i>	2	35	37

*As of February 29, 2024.

** Length of service is not continuous.

WATER SYSTEM

Service Area

The City supplies treated water to residential, industrial, and commercial customers within the corporate limits of the City and to a portion of Travis and Williamson Counties. The presently defined service area totals approximately 538 square miles. The City also has contracted to supply treated water on a wholesale basis to four municipal utility districts (individually, a “MUD”; collectively “MUDs”); two water control and improvement districts (individually, a “WCID”; collectively “WCIDs”); several water supply corporations and private utilities; the cities of Manor, Rollingwood, Sunset Valley, West Lake Hills; and the Village of San Leanna. In addition, the City has had a water reclamation initiative for more than thirty years to develop facilities and processes to make treated wastewater effluent available for non-potable uses including irrigation and cooling processes. The City established operating and capital funds for a Reclaimed Water Utility in addition to the Water and Wastewater System operating and capital funds during fiscal year 2013. See “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Reuse Facilities” in this document. The City has previously acquired the systems and assets of eleven WCIDs. The City has paid off and extinguished the bonded indebtedness of these WCIDs.

The PUCT is empowered to grant utilities a Certificate of Convenience and Necessity (“CCN”) to provide water and wastewater service to retail customers. Since Austin Water is not defined by state statute as a “utility,” and instead is considered a “municipality,” it is not required to obtain such a certificate. Although not required, the City has obtained water and wastewater CCNs for several specific geographic areas. The TCEQ is empowered to approve and regulate public water systems and has approved the City’s water system, including its sources and treatment and distribution facilities.

References to the TCEQ in this document are intended to include agencies whose duties and responsibilities have been assumed by the TCEQ.

Water Supply

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

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

The combined storage capacity of the six lakes is around 3,300,000 acre-feet of water, or more than a trillion gallons. Approximately 800,000 acre-feet of this capacity is reserved for flood control. Of the six dams on the Colorado River, two form major impounding reservoirs for the control of flood water; however, Mansfield Dam is the only designated flood control structure. The combined storage capacity of Lakes Travis and Buchanan, the two major water supply storage reservoirs upstream of the City and managed by LCRA, is approximately 2 million acre-feet.

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

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

1989 – 677,900 Acre-Feet	2001 – 1,164,400 Acre-Feet	2013 – 210,500 Acre-Feet
1990 – 692,300 Acre-Feet	2002 – 1,675,400 Acre-Feet	2014 – 219,200 Acre-Feet
1991 – 829,700 Acre-Feet	2003 – 1,013,800 Acre-Feet	2015 – 201,700 Acre-Feet
1992 – 5,418,600 Acre-Feet	2004 – 927,900 Acre-Feet	2016 – 1,482,200 Acre-Feet
1993 – 978,000 Acre-Feet	2005 – 2,136,300 Acre-Feet	2017 – 739,200 Acre-Feet
1994 – 708,200 Acre-Feet	2006 – 553,200 Acre-Feet	2018 – 277,600 Acre-Feet
1995 – 896,700 Acre-Feet	2007 – 2,155,900 Acre-Feet	2019 – 2,518,000 Acre-Feet
1996 – 758,300 Acre-Feet	2008 – 623,200 Acre-Feet	2020 – 389,000 Acre-Feet
1997 – 3,013,500 Acre-Feet	2009 – 584,800 Acre-Feet	2021 – 286,900 Acre-Feet
1998 – 1,313,800 Acre-Feet	2010 – 798,500 Acre-Feet	2022 – 408,200 Acre-Feet
1999 – 765,300 Acre-Feet	2011 – 670,100 Acre-Feet	2023 – 131,300 Acre-Feet
2000 – 627,400 Acre-Feet	2012 – 212,800 Acre-Feet	

* Data from 1989 to 2023 is referenced from USGS Water-Year Summary Statistics. All flows in acre-feet.

** Numbers may vary from prior year posting due to actual vs estimate. Restated to report the correct actual numbers.

From 1989-2023, the water year average flow was 1,030,277 acre-feet per year. As a result of drought conditions, the flows in water years 2012 through 2015 were lower, in accordance with TCEQ approval, due to LCRA cutting off most Highland Lakes interruptible stored water releases for agricultural irrigation operations. In August of 2022, LCRA cut off interruptible stored water releases for agricultural irrigation operations in accordance with their water management plan due to drought conditions. The gauging station referenced above is located on the Colorado River downstream of Longhorn Dam and downstream of the City’s intakes.

Water Rights

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

The City's independent water rights have been adjudicated before the TCEQ in accordance with the Water Rights Adjudication Act, Texas Water Code, Section 11.301, et seq. The City's rights, as determined by the TCEQ, are set forth in the Final Determination of all claims of Water Rights in the Lower Colorado River Segment of the Colorado River Basin issued by the TCEQ on July 29, 1985. Both the City and LCRA appealed the Final Determination, seeking additional rights and contesting the rights awarded to each other, in a proceeding styled *In Re: The Exceptions of the Lower Colorado River Authority and the City of Austin to the Adjudication of Water Rights in the Lower Colorado River Segment of the Colorado River Basin*, Cause No. 115,414-A-1 in the District Court of Bell County, Texas, 264th Judicial District ("Cause No. 115,414-A-1"). The City and LCRA entered into a Comprehensive Water Settlement Agreement (the "Settlement Agreement") in settlement of Cause No. 115,414-A-1 on December 10, 1987. The Settlement Agreement generally improves the independent water rights of both the City and LCRA. Such rights for the City include: the rights to maintain Tom Miller Dam and Lake Austin, Longhorn Dam and Lady Bird Lake, and Decker Dam and Lake Walter E. Long; the right to divert and use 272,403 run of the river acre-feet of water per year from Lake Austin and Lady Bird Lake for municipal purposes; the right to divert and circulate an unlimited amount of water per year from Lady Bird Lake for industrial purposes so long as consumptive use does not exceed 24,000 acre-feet per year; the right to divert and circulate water from Lake Walter E. Long for industrial (cooling) and recreational purposes so long as consumptive use does not exceed 16,156 acre-feet per year; and the right to divert and use water through Tom Miller Dam for the generation of hydroelectric power. LCRA's independent water rights, as determined by the TCEQ, include the rights to maintain Lakes Travis and Buchanan and to divert and use water therefrom. Pursuant to the Settlement Agreement and the final judgment in Cause No. 115,414-A-1, certain other pending water-related disputes between the City and LCRA were settled. LCRA was granted an option to acquire up to a 50% undivided interest in the City's then proposed Berl L. Handcox, Sr. Water Treatment Plant known as "Handcox WTP" (formerly Water Treatment Plant No. 4 or WTP No. 4) discussed under "Water Treatment Plants" in this document. The District Court issued a final judgment consistent with the Settlement Agreement. Certificates of Adjudication were issued by the TCEQ.

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

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

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

Water Treatment Plants

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

Austin Water’s water distribution system includes approximately 3,964 miles of water mains of varying diameters, 31 major storage facilities with a storage capacity of approximately 170 million gallons, 29,721 City maintained fire hydrants, and 21 major pump stations.

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

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

Handcox WTP began delivering potable water in November 2014. Located in northwest Austin, Handcox WTP draws its water from Lake Travis. The construction of Handcox WTP added an initial capacity of 50 mgd with expansion capability up to 300 mgd with future phases to meet projected needs. Funding for the construction of Handcox WTP came from a combination of cash transferred from the operating fund and revenue bonds.

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

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

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

Austin’s Drought Contingency Plan sets a trigger at certain storage levels at which the City Manager may order the implementation of different stages of conservation measures. As of August 15, 2023, Austin Water is at Stage 2. This reduces lawn watering to one day per week with reduced hours before 5:00 a.m. or after 7:00 p.m. for automatic irrigation and before 10:00 a.m. or after 7:00 p.m. for hose-end sprinklers. See “TEXAS 2023 DROUGHT.”

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

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

The City has senior water rights and also firm water supply agreements with the LCRA that provide the City with firm water supplies of up to 325,000 acre-feet per year. LCRA’s operations and management of the water stored in Lakes Travis and Buchanan, the region’s major water supply reservoirs, is guided by the LCRA Water Management Plan (“WMP”), a document approved by the TCEQ. In November 2015, TCEQ approved an updated WMP that governed LCRA’s operation and management of the lakes during the 2016 crop irrigation season, which began in March 2016. LCRA supplies water to firm customers like the City, industries, power plants and other cities. Also, when interruptible water is available, in accordance with LCRA’s WMP, LCRA also supplies interruptible water to downstream agricultural irrigation operations in the lower three counties in the lower Colorado River Basin. The updated LCRA WMP better protects the water supply for firm customers, including the City, and allows LCRA to more quickly adapt its operations as drought conditions change. Revisions include incorporating procedures for curtailing interruptible water such that combined storage in Lakes Travis and Buchanan is maintained above 600,000 acre-feet through a repeat of historic drought conditions through 2013. The revised plan also incorporates a three-tier regime that considers inflows, current storage, and modeled future storage conditions in determining water availability given to interruptible agricultural customers. Additionally, availability of interruptible stored water will be determined separately for each of the two crop seasons, rather than having the determination made once for both crop seasons, as was the case in the previous WMP. The revised WMP also places volumetric limits on the amount of interruptible stored water to be made available for use. City representatives worked diligently through the critical LCRA WMP revision process to proactively ensure reservoir management of Lakes Travis and Buchanan is consistent with the City’s firm water interests and with LCRA’s lake permit duties and firm customer agreements. In early 2019 LCRA submitted to TCEQ for review and approval a 2018 update to the LCRA WMP. TCEQ approved the “2020 LCRA WMP” in early 2020.

On March 8, 2024, the City Council approved “Go-Purple,” a program designed to increase the amount of reclaimed water and onsite water use and is projected to save a combined 16 mgd of drinking water by 2040. Key elements of Go-Purple include water sustainability code changes, program incentives, and funding mechanisms to support foundational aspects of the Water Forward Plan.

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Water Storage and Pumping Facilities

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

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

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

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Historical Water Pumpage

The following table summarizes historical demand and maximum day water pumpage from fiscal years 2014 through 2023.

<u>Fiscal Year</u>	<u>Total Pumpage (Millions of Gallons)</u>	<u>Percent Change</u>	<u>Maximum Day Pumpage (Millions of Gallons)</u>
2014	43,239	(5.8)%	184
2015	43,481	0.6%	207
2016	44,661	2.7%	198
2017	47,371	6.1%	204
2018	48,522	2.3%	203
2019	47,294	(2.5)%	209
2020	51,121	8.1%	215
2021	51,420	0.6%	204
2022	54,366	5.7%	228
2023	54,850	0.9%	232

Source: Austin Water.

Projected Water Pumpage

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

<u>Fiscal Year</u>	<u>Total Pumpage (Millions of Gallons)</u>	<u>Maximum Day Pumpage (Millions of Gallons)</u>
2024	55,289	228
2025	55,746	230
2026	56,287	232
2027	56,838	235
2028	57,397	236
2029	57,960	239

Source: Austin Water.

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Information Concerning Water Sales

Fiscal Year Ended September 30

	<u>2019</u>		<u>2020</u>		<u>2021</u>		<u>2022</u>		<u>2023</u>	
	Average # of Customers	Thousand Gallons	Average # of Customers	Thousand Gallons	Average # of Customers	Thousand Gallons	Average # of Customers	Thousand Gallons	Average # of Customers	Thousand Gallons
Thousand Gallons Pumped		47,294,234		51,153,795		51,613,623		54,327,705		54,817,885
Less: Sales to Other Water Utilities (1)		<u>2,333,519</u>		<u>2,533,085</u>		<u>2,415,106</u>		2,891,780		2,679,954
Thousand Gallons to System		<u>44,960,715</u>		<u>48,620,710</u>		<u>49,198,517</u>		<u>51,435,925</u>		<u>52,137,931</u>
Water Sales:										
Retail (2)	236,249	37,015,036	240,859	39,246,347	244,707	39,265,057	248,192	43,092,238	251,090	43,446,913
City Departments	<u>609</u>	<u>665,816</u>	<u>601</u>	<u>659,012</u>	<u>614</u>	<u>758,155</u>	<u>634</u>	<u>812,618</u>	<u>632</u>	<u>819,341</u>
Total Sales to Ultimate Consumer	<u>236,858</u>	<u>37,680,852</u>	<u>241,460</u>	<u>39,905,359</u>	<u>245,321</u>	<u>40,023,212</u>	<u>248,826</u>	<u>43,904,856</u>	<u>251,722</u>	<u>44,266,254</u>
Used by Water Utility		62,370		60,010		74,339		64,680		59,480
Other Unmetered Usage		1,390,450		1,503,922		1,517,441		1,597,235		1,611,646
Loss and Unaccounted For		<u>5,827,043</u>		<u>7,151,419</u>		<u>7,583,525</u>		5,869,154		6,200,551
Thousand Gallons to System		<u>44,960,715</u>		<u>48,620,710</u>		<u>49,198,517</u>		<u>51,435,925</u>		<u>52,137,931</u>
Maximum Daily Consumption		207,824		207,051		205,963		227,564		227,868
Average Daily Consumption		109,628		116,270		116,269		128,210		128,620

(1) Includes sales to all wholesale customers.

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

Source: Austin Water.

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Large Water Customers

Water and Wastewater Utility Large Water Customers Five Year Comparative Data (2019-2023)

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

	<u>2019</u>		<u>2020</u>		<u>2021</u>		<u>2022</u>		<u>2023</u>	
	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>
Samsung Austin Semiconductor	2,263,875	\$11,016	2,381,854	\$13,071	2,209,533	\$12,249	2,383,134	\$13,086	2,475,074	\$13,533
Travis County WCID #10	732,154	4,391	857,011	2,823	753,560	2,539	908,379	2,498	897,142	2,467
University of Texas ⁽¹⁾	728,455	2,003	600,813	3,954	520,519	3,505	650,782	3,540	846,738	4,376
NXP USA INC (Formerly Freescale, Inc.) ⁽²⁾	647,122	3,152	638,932	3,739	648,249	3,779	745,931	4,249	740,867	4,229
Cypress Semiconductor (Formerly Spansion)	299,131	2,227	348,349	2,088	332,495	2,007	348,005	1,807	391,386	2,033
Wells Branch MUD	414,951	1,082	464,917	1,467	456,577	1,445	488,547	1,270	383,265	1,000
North Austin MUD #1	373,305	1,027	404,437	1,314	400,097	1,302	461,390	1,269	379,901	1,045
Tesla Motors, Inc. ⁽⁴⁾	-	-	-	-	1,258	7	128,143	700	318,332	1731
Northtown MUD	270,556	701	307,718	945	317,037	969	318,331	824	314,571	815
Austin Independent School District ⁽⁵⁾	<u>313,089</u>	<u>1,627</u>	<u>242,568</u>	<u>1,907</u>	<u>224,754</u>	<u>1,810</u>	<u>296,899</u>	<u>2,208</u>	<u>312,320</u>	<u>2,291</u>
Total ⁽⁶⁾ :	6,042,638	\$27,225	6,246,599	\$31,308	5,864,078	\$29,611	6,729,540	\$31,450	7,059,595	\$33,520
Mid America Apartments LP ⁽³⁾	204,572	\$1,083	234,555	\$1,226	241,296	\$1,252	233,526	\$1,095	203,175	\$959

(1) Totals for University of Texas include all accounts.

(2) Totals for NXP USA, Inc. include its East Austin and West Austin plant sites.

(3) 2019 was the first year that Mid America Apartments LP was a Top 10 customer.

(4) 2023 was the first year that Tesla Motors, Inc. was a Top 10 customer. 2021 is the first year data was collected.

(5) Totals for Austin Independent School District include all campuses and locations.

(6) Total may not add due to rounding.

Source: Austin Water.

WASTEWATER SYSTEM

Service Area

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

Facilities

As of March 27, 2024, Austin Water has two main wastewater treatment plants with a total permitted capacity of 175 mgd, one biosolids treatment and beneficial reuse facility, five minor wastewater treatment plants, three land application treatment plants, one reclaim plant, and over 2,996 miles of sanitary wastewater mains and lines, and 137 city-owned, in-service lift stations. The two treatment plants are the Walnut Creek Wastewater Treatment Plant, which began operations in 1977, is currently operating in the 75 mgd phase with permitted capacity up to 100 mgd after expansion. The South Austin Regional Wastewater Treatment Plant, which started operating in 1986, is currently operating in the 75 mgd phase. The Hornsby Bend Biosolids Treatment Plant operates as a sludge treatment and beneficial reuse facility and was placed in operation in 1956. The Hornsby Bend Biosolids Management Plant permit was renewed by TCEQ on April 5, 2019 with an expiration date of April 5, 2024. The Walnut Creek Wastewater Treatment Plant permit was renewed on March 12, 2020, with an expiration date of March 12, 2025. The South Austin Regional Wastewater Treatment Plant permit was renewed on December 19, 2019 with an expiration date of December 19, 2024.

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

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

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

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

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

Lift Stations

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

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

Source: Austin Water.

Historical Wastewater Flows

The following table summarizes the historical influent wastewater flows to the City's wastewater treatment facilities from fiscal years 2014 through 2023.

<u>Fiscal Year</u>	<u>Total Wastewater Flow (Millions of Gallons)</u>	<u>Percent Change</u>
2014	37,298	7.1
2015	40,711	9.2
2016	41,668	2.4
2017	37,804	(9.3)
2018	35,996	(4.8)
2019	41,992	16.7
2020	36,127	(14.0)
2021	38,706 ⁽¹⁾	7.1
2022	37,002	(4.4)
2023	36,657	(0.9)

Source: Austin Water.

- (1) 2021 water pumpage was higher than 2020 (see "WATER SYSTEM – Historical Water Pumpage") primarily due to below average rainfall for majority of the fiscal year, including a hotter, drier summer which increased irrigation demand but did not impact wastewater flows. Generally, periods of below average rainfall results in increased water demand and pumpage without significantly impacting wastewater influent levels. Conversely, periods of above average rainfall results in decreased water demand and pumpage while wastewater flows increase due to inflow and infiltration.

Projected Wastewater Flows

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

<u>Fiscal Year</u>	<u>Total Wastewater Flow (Millions of Gallons)</u>	<u>Percent Change</u>
2024	41,324	12.7
2025	41,845	1.3
2026	42,479	1.5
2027	43,109	1.5
2028	43,857	1.7
2029	44,361	1.2

Source: Austin Water.

COMBINED WATER AND WASTEWATER SYSTEM INFORMATION

State and Federal Regulatory Matters

The City is subject to the environmental laws and regulations of the State and the United States in the operation of the Water and Wastewater System, including the federal Safe Drinking Water Act (the “SDWA”), the federal Clean Water Act (the “CWA”), and the Texas Water Code. These laws and the regulations issued pursuant to these laws are subject to change, both in text and in administrative interpretation, and the City may be required to improve, expand, or modify the Water and Wastewater System to maintain compliance with regulatory requirements.

Safe Drinking Water Act...Treated drinking water provided by Austin Water is subject to the SDWA and the rules and regulations promulgated by the United States Environmental Protection Agency (“EPA”) and the TCEQ under the SDWA to regulate a wide variety of contaminants that may be present in drinking water. All of Austin Water’s water treatment facilities and the distribution system meet or surpass the requirements of the SDWA and the rules and regulations promulgated under the SDWA.

On January 15, 2021, the EPA published the final “Lead and Copper Rule Revisions” (the “LCRR”) under the SDWA. The EPA’s LCRR established a new “trigger level” for lead of 10 parts per billion (ppb) and the lead “action level” of 15 PPB was unchanged from the previous rule. On November 30, 2023, the EPA published the proposed “Lead and Copper Rule Improvements” (the “LCRI”) under SDWA. The LCRI proposes to eliminate the lead trigger level and reduce the lead action level from 15 ppb to 10 ppb. Under the new lead regulations, extensive water sampling and analysis protocol are required, including mandatory lead testing at elementary schools and childcare facilities. Public water systems in Texas with lead test results exceeding the final trigger (or action) levels that are established under the LCRI are required to work with the State to take steps that control corrosion and/or replace service lines that contain lead in its distribution system. The LCRR requires a complete service line inventory, including any lead service lines, in both the water system’s distribution system and in customer systems. The effective date for the LCRR was December 16, 2021 and the compliance date currently is October 16, 2024. The proposed LCRI is also expected to be finalized by October 16, 2024. If the EPA chooses to modify or withdraw the LCR there may be delays in the effective and compliance dates of those regulations.

The City is in the process of completing a full inventory of Austin Water’s service lines. In the event any lead service lines are found, the City expects to remove and replace those service lines prior to the October 16, 2024 compliance date of the LCRR. It is not possible at this time to determine whether any lead service lines will need to be replaced or the potential cost of replacing those service lines.

Clean Water Act and Texas Water Code...The CWA and the Texas Water Code regulate Austin Water’s wastewater operations, including the collection system and the wastewater treatment plants. All discharges of pollutants into the nation’s navigable waters must comply with the CWA. The CWA allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed in permits issued by the EPA pursuant to the National Pollutant Discharge Elimination System (the “NPDES”) program, a national program established by the CWA for issuing, revoking, monitoring, and enforcing wastewater discharge permits. The CWA authorized the EPA to delegate the EPA’s NPDES permit responsibility to State or interstate agencies after certain prerequisites have been met by the relevant agencies. The EPA has delegated NPDES permit authority to the TCEQ, which means that the TCEQ is the lead agency for issuing CWA permits for the Wastewater System. The Wastewater System has current TPDES permits for all of its wastewater treatment facilities, issued by the TCEQ, which are also issued under authority granted to the TCEQ by the Texas Water Code. Both the EPA and the TCEQ have authority to enforce the TPDES permits. All of Austin Water’s wastewater treatment plants are in material compliance with their respective discharge permits.

Future Capital Improvements for Water and Wastewater System

On August 16, 2023, City Council approved Austin Water’s five-year capital spending plan for FY 2024-2028 with approximately \$1.87 billion of funding for system improvements. The future Water and Wastewater System improvements included in the five-year capital spending plan include treatment facilities, reservoir, pump station and lift station improvements, and major transmission distribution and collection improvements. Austin Water anticipates financing such improvements with: (1) the issuance of \$1.43 billion additional Parity Water/Wastewater Obligations (including refunding of commercial paper issued to provide interim financing for such improvements); and (2) the application of \$386 million of anticipated transfers from current Water and Wastewater System revenues and amounts on hand.

TWDB SWIFT Funding... The City submitted its State Water Implementation Fund for Texas (“SWIFT”) applications to the TWDB in fiscal year 2016 for the purposes of obtaining low-interest rate loans for the following projects: (1) development and implementation of Advanced Metering Infrastructure (“AMI”) also known as the smart meter system for Austin Water and (2) multiple capital improvement projects associated with reclaimed water systems. Funding to the City under the SWIFT program was approved by the TWDB in 2016, and loan closings to-date are \$65.6 million for projects associated with reclaimed water systems and \$80.15 million for AMI, as Parity Water/Wastewater Obligations issued by the City.

TWDB SRF Funding... The City submitted its Clean Water State Revolving Fund (“CWSRF”) and Drinking Water State Revolving Fund (“DWSRF”) applications to the TWDB in fiscal year 2019. In February 2020, the City was awarded funding from the TWDB, in the form of low-interest CWSRF and DWSRF loans, for a combined total of \$120.83 million, of which \$67.83 million is for water and \$53 million is for wastewater infrastructure projects. The SRF loan financings are structured as Parity Water/Wastewater Obligations of the City privately placed with the TWDB. The City closed on all its SRF loans. The final loan closing was in November 2022. Accordingly, no additional funding remains under these CWSRF or DWSRF application awards.

Services Financed by Utility Districts

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

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

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

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

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

In February 2011, the City Council approved a resolution that superseded the existing resolution with regard to the policy and general criteria under which the City Council will consider requests to create MUDs. The policy states that the City Council shall consider the following criteria: adherence to the comprehensive plan; extension of public infrastructure with MUD or developer financing; affordable housing; environmental improvement; public transportation facilities; open space; green building; development standards; amenities; school and public safety sites; City provision of water and wastewater services; and financial viability.

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

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

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

Since 2017, the City has not annexed any additional MUDs. For additional information on the City's annexation program, see "THE CITY – Annexation Program," "– Recent Annexation" and "– Future Annexation" in this document.

Water Reuse Facilities

The City implemented the water reclamation initiative to develop facilities and processes to make purified wastewater effluent available for irrigation, manufacturing, toilet flushing, and cooling uses. The water reuse facilities operated as part of the Water and Wastewater System include three pump stations, two pressure zones with a boosted area, four water storage facilities with 7.5 MG in storage, and 72.8 miles of mains. An additional 10.2 miles of mains are in design or under construction. The water reuse facilities presently serve a total of 182 metered customers.

Customer demand is highly dependent on weather conditions. In calendar year 2023, customers used 1.53 billion gallons of reclaimed water. Efforts to promote the use of reclaimed water focus on existing large-volume commercial and industrial potable water users that can convert a portion of their use of treated potable water to reclaimed water. The water reuse facilities extend from the eastern edge of the City, where the reclaimed water originates at the wastewater treatment plants, to the center of the City, where most of the reclaimed water customers are located.

Austin Water's Financial Policies

Austin Water performed a review of its financial policies in 2021 and recommended updates to its policies, effective from fiscal year 2022, for debt service coverage, capital expenditures, operating cash reserves and drinking water protection zones. After a public comment period and presentations to the City's Audit and Finance Committee and City Council, the updated financial policies were incorporated since fiscal year 2022 budget. Some of the more significant financial policies for Austin Water which were reviewed and approved by the City Council during the budget process are:

- Debt service coverage of at least 1.75x shall be maintained (this internal policy does not alter the City's obligation under the City's ordinances governing the Parity Water/Wastewater Obligations).
- Capital projects should be financed through a combination of pay-as-you-go financing and debt. An equity contribution ratio of at least 35% to 50% is desirable.
- Operating cash reserves of at least 180 days of budgeted operations and maintenance expense shall be maintained.
- Capital improvement projects for new water and wastewater treatment plants, capital expansions, and growth-related projects that are located in the Drinking Water Protection Zone (DWPZ) will be identified and submitted, as part of the annual budget process, to the Water and Wastewater Commission. The Water and Wastewater Commission will review growth-related DWPZ capital projects spending plans, obtain Commission and citizen input, review consistency with Imagine Austin Comprehensive Plan, review effect on growth within the DWPZ, and make recommendations on project approval for inclusion in Austin Water's five-year capital spending plan.

In addition to the updates of financial policies since fiscal year 2022, Austin Water continues to maintain higher internal targets for budgeting purposes of a 1.85x debt service coverage ratio and 245 days operating cash reserves.

Water and Wastewater Rates

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

In fiscal year 2014, Austin Water implemented a fixed revenue goal of 20%, new volumetric rates and block intervals. A revenue stability reserve fund (the “Water Revenue Stability Reserve Fund”) was established to help cover costs during extreme weather or economic events. The Water Revenue Stability Reserve Fund is an account within the Water Fund that is funded by a volumetric surcharge applied both to retail and wholesale monthly bills, which became effective in February 2013. See “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Service Rates” in this document. The Water Revenue Stability Reserve Fund exists separate and distinct from Austin Water Reserve Fund established by Austin Water Master Ordinance. The target funding level for the Water Revenue Stability Reserve Fund is 120 days of the budgeted water operating requirements of Austin Water, which includes operations and maintenance, and other operating transfers, but excludes debt service and other transfers. In the event that any portion of the Water Revenue Stability Reserve Fund is used, the balance will be replenished to the target level within 5 years. Upon creation of the Water Revenue Stability Reserve Fund, the goal to reach the target funding level of 120 days of budgeted water operating requirements was no later than 5 years. If the fund is drawn down prior to reaching the 120 day target during the first 5-year development period, the reserve fund surcharge shall not be lower than it was during the year in which the draw down occurred until such time as the fund reaches its 120 days of operating costs. Moneys in the Water Revenue Stability Reserve Fund are Gross Revenues of Austin Water under the Master Ordinance. The Water Revenue Stability Reserve Fund cannot be used for purposes other than for water operating purposes of Austin Water, is primarily intended to pay operating expenses or debt service on Parity Water/Wastewater Obligations related to water purposes, and may only be used to offset current year shortfalls in gross revenues of water operations that exceed 10% of budgeted levels. The City Council must approve any use of funds in the Water Revenue Stability Reserve Fund, no more than 50% of the balance would be used in any one year, and, if used, the Water Revenue Stability Reserve Fund balance will be replenished to the 120-day level within a five-year period.

As of September 30, 2023, the balance of the Water Revenue Stability Reserve Fund was \$59.23 million and was fully funded. No assurance can be given that the balance of the Water Revenue Stability Reserve Fund will remain at the 120-day goal; however, the volumetric surcharge for the Water Revenue Stability Reserve Fund has been reduced to a level to maintain the 120 days of Operating Expenses funding goal. As of the date of this document, Austin Water has not drawn any moneys from the Water Revenue Stability Reserve Fund. Notwithstanding the foregoing policy restrictions of the City currently in effect with respect to the use of moneys within the Water Revenue Stability Reserve Fund, the provisions of the Master Ordinance regarding the use of moneys on deposit in the Water Fund (including the Water Revenue Stability Reserve Fund in this document) govern and control.

Following the 2017 Cost of Service update, Austin Water implemented a 4.8% combined rate reduction for the fiscal year ending September 30, 2018. Subsequent to the 2018 rate reduction, Austin Water has focused its efforts on maintaining level debt service costs. On November 1, 2023, Austin Water increased retail rates for water and wastewater at a combined increase of 3.4% to keep up with rising costs while making investments in service reliability and water quality for the growing region. Austin Water has defeased portions of outstanding Parity Water/Wastewater Obligations; the defeasances, which were funded with Capital Recovery Fee collections and operating funds, have allowed Austin Water to realize approximately \$394 million in present value savings since 2016.

Austin Water prepares a five-year financial forecast each year as part of the City’s forecast and budget development process, which includes a City Council-approved policy to forecast gross revenues and operating expenses that provide for at least 1.50 times debt service coverage through FY 2021 and, as recently updated after FY 2022, at least 1.75 times debt service coverage for the Parity Water/Wastewater Obligations by Net Revenues of the Water and Wastewater System. The audited City of Austin Annual Comprehensive Financial Report for fiscal year 2023 reports a Water and Wastewater Utility debt service coverage of 1.85 times. The approved fiscal year 2024 budget for Austin Water projects debt service coverage levels in fiscal year 2024 of 1.81 times after giving effect to an additional cash defeasance transaction. The forecasted coverage levels assume the 3.4% retail water and wastewater combined rate increase approved for fiscal year 2024.

On April 9, 2020, in response to the impact of the Pandemic, the City Council approved a 10% rate reduction of tiers 1, 2 and 3 for water volume rates and tiers 1 and 2 for wastewater volume rates, for both of the CAP customer rates and residential Non-CAP customer rates. These temporary rates were effective through October 31, 2020. The current Non-CAP rates that were effective November 1, 2019 resumed November 1, 2021. The CAP customer 10% rate reduction will remain in effect throughout FY 2024. See “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Service Rates” in this document.

Any increase in the rates, charges or fees for water and wastewater services furnished by the Water and Wastewater System must be approved by the City Council. As a result of Austin Water's annual budgeting process, a 3.4-percent retail water and wastewater combined rate increase was proposed by Austin Water and approved by City Council on August 16, 2023, for FY 2024. Any rate increase approved by City Council as part of the fiscal year 2025 proposed budget will not take effect

prior to November 1, 2024. On March 7, 2024, City Council approved a Go-Purple Community Benefit Charge of \$0.15 per thousand gallons on Austin Water customers' water consumption and wastewater flows to support reuse strategies in the Water Forward plan. This fee will be in effect beginning June 1, 2024. The City is committed to complying with the agreements and covenants of the City in the Prior Subordinate Lien Ordinance and the Master Ordinance with respect to establishing, maintaining and collecting rates, charges and fees for water and wastewater services furnished by the Water and Wastewater System. See "DESCRIPTION OF THE BONDS – Bondholders' Remedies," "SECURITY FOR THE BONDS – Rate Covenant Required by Prior Subordinate Lien Ordinance" and "– Rate Covenant Required by Master Ordinance" in this document. See also, Section 4 of "APPENDIX C – COPY OF MASTER ORDINANCE" and "Rates and Charges" in "APPENDIX D – SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO PRIOR SUBORDINATE LIEN OBLIGATIONS" in this document.

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

Water Service Rates

(Effective as of November 1, 2023)

Monthly Customer Charges

<u>Customer Account Charge</u>	<u>Meter Size</u>	<u>Retail Equivalent Meter Charge per Month (1)</u>	<u>Multi-family Charge per Month (2)</u>	<u>Commercial Charge per Month (2)</u>
Retail Customer Account Charge(\$/Month)	5/8	\$7.45	\$12.50	\$8.75
	3/4	10.81	21.00	15.00
	1	13.87	33.00	23.00
	1½	15.81	42.00	29.00
	2	25.91	83.00	58.00
	3	76.60	292.00	204.00
	4	127.30	500.00	350.00
	6	258.88	1,042.00	729.00
	8	491.84	2,000.00	1,400.00
	10	775.40	3,167.00	2,217.00
	12	1,018.37	4,167.00	2,917.00
		<u>Retail per 1,000 Gals. (3)</u>	<u>Wholesale per 1,000 Gals. (3)</u>	
Water Revenue Stability Reserve Fund Surcharge		\$0.05	\$0.10	
Community Benefit Charge				<u>Charge per 1,000 Gals. (5)</u>
Community Benefit Charge				\$0.15
Go-Purple Community Benefit Charge				\$0.15
Residential Monthly Tiered Minimum Charge		Minimum Charge Per Month (4)		
0 – 2,000 Gallons		\$ 1.25		
2,001 – 6,000 Gallons		3.55		
6,001 – 11,000 Gallons		9.25		
11,001 – 20,000 Gallons		29.75		
20,001 – Over Gallons		29.75		
Large Volume Fixed Minimum Charge		Min. Charge per Month (2)		
NXP - Ed Bluestein (formerly Freescale)		\$29,250.00		
NXP - W. William Cannon (formerly Freescale)		21,400.00		
Samsung		121,100.00		
Skorpios (formerly Novati) (6)		4,250.00		
Cypress (formerly Spansion)		22,800.00		
University of Texas		16,350.00		

(1) Charge is applied to all customer classes.

(2) Fee is charged in addition to the Retail Equivalent Meter Charge.

(3) Surcharge is assessed to all water customers per 1,000 gallons of water billed for the billing period to fund the Water Revenue Stability Reserve Fund. See “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates” in this document.

(4) Fee charge per 1,000 gallons of water and wastewater billed for the billing period to fund the CAP. Fee only applies to retail customers.

(5) Fee is charged in addition to the Retail Equivalent Meter Charge and is applied based on the total billed consumption for the billing period as it falls within the rate block, not as a volumetric charge per 1,000 gallons.

(6) Skorpios is no longer Austin Water’s customer starting FY2024.

Source: Austin Water.

Volume Unit Charge (1)

	Charge per 1,000 Gals.
Single-Family Residential (Non-CAP) (2)	
0 – 2,000 Gallons	\$ 3.00
2,001 – 6,000 Gallons	4.99
6,001 – 11,000 Gallons	8.65
11,001 – 20,000 Gallons	13.18
20,001 – Over Gallons	14.74
Single-Family Residential (CAP) (2)	
0 – 2,000 Gallons	1.23
2,001 – 6,000 Gallons	3.65
6,001 – 11,000 Gallons	6.00
11,001 – 20,000 Gallons	11.51
20,001 – Over Gallons	14.21
Multi-family (3)	
Off Peak	\$4.67
Peak	5.15
Commercial (3)	
Off Peak	\$5.46
Peak	5.86
Large Volume (3)	
NXP – Ed Bluestein (formerly Freescale)	
Off Peak	\$4.81
Peak	5.32
NXP – W. William Cannon (formerly Freescale)	
Off Peak	\$4.87
Peak	5.39
Samsung	
Off Peak	\$4.82
Peak	5.32
Skorpios (formerly Novati)	
Off Peak	\$5.12
Peak	5.65
Cypress (formerly Spansion)	
Off Peak	\$5.10
Peak	5.62
University of Texas	
Off Peak	\$5.46
Peak	5.86

(1) Wholesale unit charges vary between \$2.60 and \$5.35 per 1,000 gallons.

(2) The City has approved an inclining block rate structure to promote water conservation for Single Family Residential customers. These rates will be administered on the basis of 1,000 gallon increments. See “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates” in this document.

(3) Off Peak: November 1 – June 30 bills. Peak: July 1 – October 31 bills.

Source: Austin Water.

Wastewater Service Rates

(Effective as of November 1, 2023)

Customer Account Charge

	<u>Retail Customers</u>	<u>Wholesale Customers</u>
Customer Account Charge (\$/month)	\$10.35	\$10.30

Community Benefit Charge

	<u>Charge per 1,000 Gallons (3)</u>
Go-Purple Community Benefit Charge	\$0.15

Volume Unit Charge (1)

	<u>Unit Cost per 1,000 Gallons (2)</u>
Retail	
Single-Family	
0 - 2,000 Gallons	\$ 5.10
2,001 - Over Gallons	10.45
Single-Family Customer Assistance Program (3)	
0 - 2,000 Gallons	\$ 3.11
2,001 - Over Gallons	7.90
Multi-family	\$ 9.32
Commercial	\$ 9.36
Large Volume:	
Skorpios (formerly Novati)	\$ 8.14
NXP – Ed Bluestein (formerly Freescale)	8.95
NXP – W. William Cannon (formerly Freescale)	9.10
Samsung	8.14
Cypress (formerly Spansion)	8.24
University of Texas	9.36

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

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

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

Source: Austin Water.

Wholesale and Outside City Rate Challenges

The City Council has original jurisdiction over Water and Wastewater rates. State law, however, does allow water districts and any customers outside city boundaries to appeal the City's water and wastewater rates to the Public Utilities Commission of Texas ("PUCT").

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

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

On April 15, 2019, Austin Water filed an application to the PUCT for authority to change water and wastewater rates for the four wholesale water petitioners. The City withdrew this application on December 2, 2019. The case was dismissed on January 10, 2020.

[Update]The four wholesale water customers represented \$6.3 million, or 2.1%, of the approximate \$300.5 million annual water service revenue for fiscal year 2020.

Water and Wastewater Capital Recovery Fees

On September 3, 1982, the City Council adopted an ordinance under which all new non-industrial and non-commercial customers of the Water and Wastewater System must pay a Capital Recovery Fee at the time that the customer's new tap is purchased. The fee has been revised several times since that date and is currently applied to all connections added to the Water and Wastewater System unless expressly waived by the City Council. In 1989, the City Council appointed an Impact Fee Advisory Committee and reauthorized the Capital Recovery Fee in compliance with procedures and methodology established by State law. The total Water and Wastewater Capital Recovery Fee was implemented August 5, 1999, and was most recently revised effective October 1, 2023. The revised fees are shown below, and under the terms of the Water and Wastewater System Master Ordinance, such fees do not constitute gross revenues of the Water and Wastewater System. There are several of express exemptions from payment of these fees. The City's policy is to use Capital Recovery Fee receipts to either service debt, defease debt, or finance growth-related capital improvement projects, thus reducing the amount required to be debt financed and saving the Water and Wastewater System the related financing costs. The fees listed below are based on one service unit (5/8" meter).

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

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

Fees for lots that were platted between January 1, 2014 and September 30, 2018.

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

Fees for lots that were platted between October 1, 2018 and September 30, 2023.

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

Fees for lots that were platted on or after October 1, 2023.

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
All Areas	\$4,800	\$2,900	\$7,700

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Analysis of Water Bills

	Fiscal Year Ended September 30				
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Average Monthly Bill Per Customer - Water					
Residential (1)	\$43.67	\$49.92	\$45.52	\$53.30	\$52.08
Multifamily (1)	704.57	756.41	771.64	801.75	803.51
Commercial (1)	320.16	321.18	308.11	347.93	357.67
Large Volume	297,756.97	293,838.57	275,901.94	300,225.33	319,974.03
City Departments	612.03	513.13	567.15	581.43	589.40
Average Monthly Bill – Above Customers	\$90.88	\$97.34	\$92.31	\$103.43	\$103.01
Sales to Other Water Utilities (2)	\$42,926.88	\$48,396.20	\$46,391.50	\$52,454.64	\$49,407.87
Average Monthly Bill – All Customers	\$93.96	\$100.74	\$95.52	\$107.01	\$106.34
Average Monthly Use in 1,000 Gallons – Water					
Residential (1)	5.24	5.98	5.77	6.20	6.01
Multifamily (1)	123.67	134.81	137.14	143.08	143.55
Commercial (1)	46.64	49.22	47.28	50.79	52.44
Large Volume	52,294.19	51,816.62	48,271.15	53,167.57	56,917.65
City Departments	89.69	94.03	104.37	106.79	107.97
Average Monthly Use – Above Customers	13.03	14.14	13.77	14.67	14.62
Sales to Other Water Utilities (2)	11,264.47	12,768.25	12,013.09	14,163.39	13,123.60
Average Monthly Use – All Customers	13.84	15.04	14.60	15.64	15.51
Average Revenue Per 1,000 Gallons – Water					
Residential (1)	\$8.33	\$8.35	\$7.89	\$8.59	\$8.67
Multifamily (1)	5.70	5.61	5.63	5.60	5.60
Commercial (1)	6.86	6.52	6.52	6.85	6.82
Large Volume	5.69	5.67	5.72	5.65	5.62
City Departments	6.82	5.46	5.43	5.44	5.46
Average Revenue – Above Customers	\$6.97	\$6.88	\$6.70	\$7.05	\$7.05
Sales to Other Water Utilities (2)	\$3.81	\$3.79	\$3.86	\$3.70	\$3.76
Average Revenue – All Customers	\$6.79	\$6.70	\$6.54	\$6.84	\$6.86

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

(2) Includes all Wholesale customers.

Source: Austin Water.

Analysis of Wastewater Bills

	Fiscal Year Ended September 30				
	2019	2020	2021	2022	2023
Average Monthly Bill Per Customer – Wastewater					
Residential (1)	\$35.34	\$35.29	\$36.74	\$37.96	\$37.08
Multifamily (1)	1,135.09	1,268.46	1,244.10	1,331.97	1,351.26
Commercial (1)	413.43	335.48	354.73	376.86	425.77
Large Volume	299,193.33	295,026.24	283,208.25	306,821.75	337,143.11
City Departments	383.47	359.36	364.89	352.60	562.06
Average Monthly Bill – Above Customers	\$ 89.63	\$ 88.01	\$88.63	\$93.02	\$95.70
Sales to Other Utilities (2)	\$54,713.65	\$53,992.98	\$55,173.11	\$49,835.14	\$48,664.17
Average Monthly Bill – All Customers	\$92.32	\$110.91	\$111.51	\$95.35	\$97.94
Average Monthly Use in 1,000 Gallons – Wastewater					
Residential (1)	3.53	3.68	3.71	3.79	3.71
Multifamily (1)	125.95	140.64	138.16	147.96	150.16
Commercial (1)	45.04	36.40	38.45	40.94	46.39
Large Volume	37,394.54	39,603.01	38,121.63	41,143.91	42,231.61
City Departments	41.70	40.15	40.77	39.40	62.80
Average Monthly Use – Above Customers	\$ 9.65	\$ 9.68	\$9.62	\$10.07	\$10.32
Sales to Other Utilities (2)	\$9,934.19	\$9,659.09	\$10,794.51	\$10,479.49	\$9,694.91
Average Monthly Use – All Customers	\$10.14	\$10.15	\$10.13	\$10.56	\$10.77
Average Revenue Per 1,000 Gallons – Wastewater					
Residential (1)	\$10.01	\$9.60	\$9.91	\$10.01	\$10.00
Multifamily (1)	9.01	9.02	9.00	9.00	9.00
Commercial (1)	9.18	9.22	9.23	9.21	9.18
Large Volume	8.00	7.45	7.43	7.46	7.98
City Departments	9.20	8.95	8.95	8.95	8.95
Average Revenue – Above Customers	\$9.29	\$9.09	\$9.21	\$9.23	\$9.27
Sales to Other Utilities (2)	\$5.51	\$5.59	\$5.11	\$4.76	\$5.02
Average Revenue – All Customers	\$9.10	\$10.93	\$11.01	\$9.03	\$9.09

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

(2) Includes all Wholesale customers.

Source: Austin Water.

ELECTRIC UTILITY SYSTEM “AUSTIN ENERGY”

Management (as of February 29, 2024)

	<u>Years at City</u>	<u>Additional Years of Experience</u>	<u>Total</u>
General Manager			
Bob Kahn, <i>General Manager</i>	17	22	39
Deputy General Managers			
Tammy Cooper, <i>Regulatory, Communications & Compliance</i>	3	23	26
Lisa Martin, <i>Chief Operating Officer</i>	13	5	18
Kerry Overton, <i>Chief Customer Officer</i>	22	11	33
Stuart Reilly, <i>Business Services</i>	17	0	17
Senior Vice President			
Russell Maenius, <i>Chief Financial Officer</i>	24	16	40
Vice Presidents			
Michael Enger, <i>Market Operations and Resource Planning</i>	23	0	23
Greg Flay, <i>Technology & Data</i>	7	25	32
Gerardo Galvan, <i>Customer Care Services</i>	7	15	22
Kathleen Garrett, <i>Interim Power Production</i>	16	25	41
Richard G��nec��, <i>Customer Energy Solutions</i>	2	27	29
Monica Joyner, <i>Acting Customer Account Management</i>	10	17	27
Elton Richards, <i>Electric System Field Operations</i>	4	40	44
Elaine Veselka, <i>Electric Systems Engineer and Technical Services</i>	16	12	28

Service Area

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

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

Real Estate Taxes

Austin Energy pays no real property taxes on facilities inside or outside the City.

Customer Base – Average Monthly Number of Customers

<u>For the 12-Month Period ended September 30, 2023</u>	<u>Average Monthly Number of Customers</u>	<u>Percent</u>
Residential	487,097	89.98%
Commercial	51,445	9.50%
Industrial	122	0.02%
Public Street & Highway	10	0.00%
Governmental Authorities	<u>2,694</u>	<u>0.50%</u>
Total Service Area Customers	<u>541,368</u>	<u>100.00%</u>

Source: Austin Energy.

Physical Property

The City either owns or has an ownership interest in a diverse mix of generation sources, including coal, nuclear, natural gas, and biomass facilities. In addition, Austin Energy has renewable energy installations or contracts for purchased power from wind and solar. See “DESCRIPTION OF AUSTIN ENERGY’S PHYSICAL PROPERTY” and “AUSTIN ENERGY’S STRATEGIC PLANS, GOALS AND POLICIES – Austin Energy Resource, Generation and Climate Protection Plan to 2030” in this document.

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Generation Facilities

As of March 1, 2024, generation facilities wholly or partially owned by Austin Energy and in operation are as follows.

<u>Unit</u>	<u>Year Installed</u>	<u>Nameplate Rating (MW)</u>	<u>Fuel</u>
Fayette Power Project			
Unit No. 1	1979	285.0	Coal
Unit No. 2	1980	285.0	Coal
Decker Power Station			
Gas Turbines	1988	200.0	Gas
Sand Hill Energy Center			
Gas Turbines	2001	180.0	Gas
Gas Turbines	2010	90.0	Gas
Combined Cycle	2004	300.0	Gas
MEC CHP (Dell Children's Hospital)	2006	4.6	Gas
South Texas Project Electric Generating Station			
Unit No. 1	1988	200.0	Nuclear
Unit No. 2	1989	200.0	Nuclear
Nacogdoches Biomass Facility	2012	<u>115.0</u>	Biomass
Total Capacity owned by Austin Energy		<u>1,859.6</u>	
Purchased Power (1):			
Ecofin Whirlwind Energy LLC	2007	59.80	Wind
Skyline Renewables RES North America Hackberry Wind, LLC	2008	165.6	Wind
Exelon Whitetail Wind Energy, LLC	2012	92.3	Wind
Deriva Energy Los Vientos IB, LLC	2012	201.6	Wind
FRV Solar AE, LLC	2011	30.0	Solar
Duke Energy Los Vientos III, LLC	2015	200.0	Wind
BHE Renewables TX Jumbo Road Wind, LLC	2015	300.0	Wind
Deriva Energy Los Vientos IV, LLC	2016	200.0	Wind
Southern Power Roserock Solar, LLC	2016	157.5	Solar
Southern Power East Pecos Solar, LLC	2017	118.5	Solar
Consolidated Edison CED Upton County Solar, LLC	2017	157.5	Solar
DESRI Midway Solar, LLC	2018	178.5	Solar
Power Fin Texas Solar Project, LLC	2018	3.2	Solar
Avangrid Karankawa Wind, LLC	2019	206.6	Wind
RWE Raymond Wind Farm LLC	2020	200.0	Wind
Pattern Gulf Wind LLC	2021	170.98	Wind
Deriva Energy East Blackland Solar Project 1 LLC	2021	144.0	Solar
SE Aragorn Solar LLC	2021	180.0	Solar
ENGIE 2019 ProjectCo-Tx1 LLC	2021	1.8	Solar
Total Capacity from Purchased Power		<u>2,767.88</u>	
Total Capacity including Purchased Power		<u>4,627.48</u>	

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

Source: Austin Energy.

See "AUSTIN ENERGY'S CUSTOMER STATISTICS - Generation and Use Data" in this document for more information on peak demand and generation capacity.

Fuel Supply

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

<u>Fuel Type</u>	Percentage Net Load (*)				
	Fiscal Year Ended September 30				
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	2023
Coal	26.49%	18.71%	25.47%	17.89%	10.61%
Natural Gas	15.58	16.61	15.76	11.52	13.42
Nuclear	25.07	24.57	25.74	24.22	22.34
Renewable Energy	38.39	41.64	47.67	54.03	49.08
Net Market Purchases/(Sales)**	<u>(5.53)</u>	<u>(1.53)</u>	<u>(14.64)</u>	<u>(7.66)</u>	<u>4.54</u>
Total	100.0	100.0	100.0	100.0	100.0

* Inputs have been updated for "Power Purchase Agreement" generation.

** Includes bilateral purchases and sales.

Source: Austin Energy.

Fuel Type

Coal . . . Coal supply and rail transportation are procured through a portfolio of contracts designed to minimize cost. Typically, several weeks of coal inventory are maintained to protect against disruptions. Coal inventories are managed within targeted ranges, and depending on the efficiency of railroad performance, train sets are either removed from or added to service to maintain desired inventory levels. Austin Energy's coal inventory is targeted to be 40-70 days. Austin Energy's coal inventory share was 75 days as of February 29, 2024.

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

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

Renewable Energy . . . Renewable Energy purchases result from a recurring Request for Proposals (RFP) process under which proposals are submitted to Austin Energy from renewable energy developers with renewable projects located within the ERCOT or the Austin Energy service territory. After a rigorous project evaluation process, Austin Energy may elect to negotiate Power Purchase Agreements with selected developers and then submit finalized contracts to the Austin City Council for approval.

DESCRIPTION OF AUSTIN ENERGY'S PHYSICAL PROPERTY

Fayette Power Project

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

FPP installed scrubbers on Units 1 and 2 in 2011 to meet sulfur dioxide (SO₂) permit levels and to help meet limits of air toxics in the federal Mercury and Air Toxics Standards ("MATS") rules published in 2012. Beginning in 2012, FPP installed mercury removal technology equipment to reach compliance with the MATS rule on Units 1 and 2. See "CERTAIN

FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental Regulation Related to Air Emissions – Mercury and Air Toxics Standards (“MATS”)” in this document. For additional information regarding FPP, see “STRATEGIC PLANS, GOALS AND POLICIES” in this document.

Gas Generation Facilities

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

Decker Power Plant consists of four Pratt and Whitney aeroderivative gas turbines with a combined generating capacity of 200 megawatts placed into service in 1988. The Decker plant is served by two natural gas pipelines. Decker 1 steam unit was retired in 2020 and Decker 2 steam unit was retired in 2022.

In 2001, Austin Energy placed four simple cycle gas turbines (GT’s) into operation at the Sand Hill Energy Center (SHEC). Each GT has a nominal generating capacity of 45 MW. In 2004, Austin Energy began commercial operation of a 300 MW combined cycle gas-fired generating unit at SHEC. The “one-on-one” combined cycle unit consists of one “F” class combustion turbine (CT), one natural circulation, duct fired, heat recovery steam generator (HRSG), and one steam turbine and balance of plant equipment and controls. The unit was designed so that a future “F” technology CT/HRSG train may be added to achieve a nominal rating of 500 MW for this power block. In 2010, Austin Energy placed two General Electric LM6000 aeroderivative GT’s into service at SHEC. Each LM6000 unit has a nominal capacity of 45 MW. The nominal plant total generating capacity is 570 MW. The plant is served by three natural gas pipelines.

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

South Texas Project

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

	Ownership	
	Effective November 1, 2023 (1)	
	%	MW (Approximate)
Constellation Energy Generation	44.0	1,188
CPS Energy (City of San Antonio)	40.0	1,080
City of Austin – Austin Energy	<u>16.0</u>	<u>432</u>
	<u>100.0</u>	<u>2,700</u>

(1) Effective November 2023, Constellation Energy Generation, LLC purchased NRG Energy Inc.’s 44% interest in STP.

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

STP Units 1 and 2 each originally had a 40-year Nuclear Regulatory Commission (“NRC”) license that was scheduled to expire in 2027 and 2028, respectively. Under NRC regulations, the STP owners requested a 20-year license renewal which was approved for STP Units 1 and 2 on September 18, 2017. The license renewals allow operation of STP Units 1 and 2 until August 20, 2047 and December 15, 2048, respectively.

On November 13, 2008, NRG South Texas LP, one of the STP partners at that time, provided Austin Energy with notice of an updated proposal to add STP Units 3 and 4 at the STP site. The City had the right to participate in the ownership of the proposed new units, up to its existing 16 percent share of the STP. Austin Energy evaluated the City’s ownership option and provided City Council with an analysis on which to base a decision. The City Council elected to decline participation

in this expansion as then proposed. Nuclear Innovation North America (“NINA”), operating as a subsidiary of NRG Energy, Inc., became the lead applicant for the license and assumed responsibility for design, construction, and licensing prior to operation of STP Units 3 and 4 on January 24, 2011. The NRC issued the Combined License for STP Units 3 and 4 on February 12, 2016.

Low Pressure turbine upgrades were completed in 2007 for STP Units 1 and 2. The replacement resulted in an additional 136.9 MW of capacity, of which Austin Energy’s share is 21.9 MW. STP Unit 1 was retrofitted with a High Pressure Turbine upgrade in 2020 which resulted in an additional 21.9 MW of capacity, of which Austin Energy’s share is 3.5 MW.

In 2018, STP completed construction of an on-site Dry Cask Storage (“DCS”) system and NRC licensed Independent Spent Fuel Storage Installation (“ISFSI”). The DCS and ISFSI are necessary to store spent nuclear fuel on-site as the spent fuel pool for both STP Units 1 and 2 were nearing their full design limit. The DCS and ISFSI were successfully placed into operation in early 2019 with the off-loading of spent nuclear fuel from the STP Units 1 and 2 spent fuel pool.

Nacogdoches Biomass Facility

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

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

District Energy & Cooling Program

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

The DEC Program serves the City’s Central Business District, Domain development (the “Domain”), the Mueller Redevelopment Zone (“Mueller”) and the newly completed Austin Community College (“ACC”) Highland Campus. The DEC Program currently has 72 customers with over 26 million square feet of space connected to its district energy and cooling systems including residential towers, office buildings, hotels, the Austin Convention Center, downtown library and City Hall. The systems serving the Central Business District, ACC and Domain provide chilled water services while the system serving Mueller provides chilled water, steam, and on-site generated electricity to the Dell Children’s Medical Center of Central Texas and chilled water to neighboring buildings.

The DEC Program is supported by revenue from its customers and offers many benefits in return, including reduced construction and capital costs, extraordinary reliability, and simple, low risk operations. Benefits to Austin Energy and the City include having a valuable tool for economic development, reduce CO2 emissions, reduce electrical consumption, and providing new revenue from long-term service agreements, and environmental stewardship. All Austin Energy customers benefit from reduced electric market and regulatory charges due to the active electric demand management provided by the thermal energy storage elements of the DEC Program. The Resource, Generation and Climate Protection Plan to 2030 includes a goal of 30 MW and 40 MW of thermal demand shift by 2027 and 2030 respectively. The DEC Program currently provides a peak of 22 MW shift and is projected to reach 40 MW by 2030.

AUSTIN ENERGY'S CUSTOMER RATES

Retail Service Rates

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

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

Austin Energy's financial policies require that its rates be reviewed at least every five years. On December 8, 2022, the City Council approved a system average 4.6% base rate increase, or \$29.5 million, effective March 1, 2023. The City Council's affordability goals provide that (a) future rate increases should not result in system average rates exceeding a 2% annual compounded growth rate that began October 2012, and (b) Austin Energy average system rates should remain in the lower 50% among Texas electric utilities. For FY2024, the City Council approved an across-the-board 2% electric base rate increase. This increase took effect on November 1, 2023.

In addition to base rates, the City Council approved pass-through rates which include the following charges that are reviewed at least annually and are passed through dollar-for-dollar on customers' bills:

- Power Supply Adjustment ("PSA"): recovers fuel and net power supply costs.
- Regulatory Charges: recovers Austin Energy's retail transmission expenses and other regulatory expenses, such as the Administrative Fees of ERCOT. Congestion Revenue Rights are netted against the system regulatory costs. The Regulatory Charges are set as a uniform rate across the system, as opposed to being set on a class basis. The Regulatory Charge is recovered through energy charges (kWh) for non-demand customers and demand charges (kW) for demand customers.
- Customer Assistance Program ("CAP"): funds utility bill discounts, weatherization, arrearage management and emergency financial assistance for low-income residential customers (approximately 40,000 customers through Fiscal Year 2023). Service Area Lighting ("SAL"): maintains and powers the streetlights and traffic signals in the City (outside-the-city customers are not assessed this fee). The SAL charge reflects a system-wide recovery approach.
- Energy Efficiency Services ("EES"): funds energy efficiency programs. The EES charge reflects a system-wide recovery approach.

Residential rates and structure: Residential base rates consist of a customer charge and tiered energy rates. Residential customers also pay the pass-through rates itemized above.

Commercial rates: Commercial rates generally include a customer charge, demand charge (based on monthly peak demand), energy charge, and the above pass-through rates.

Industrial rates: Generally, industrial rates are comprised of a customer charge, demand charge, and in some instances, an energy charge. Industrial customers pay pass-through rates for the PSA and the Regulatory Charge, and in some instances, all or part of the Community Benefit Charge.

Contract rates: In March 2017, the State of Texas agreed to a new long-term contract for large accounts, extending through August 2026. The City Council approved a new tariff in May 2015 for Austin Energy's largest transmission customers, replacing the prior long-term contract. As a result, four of Austin Energy's largest customers are served under a tariff that includes an executed long-term contract.

2022 Base Rate Review: As described above, the City Council approved a \$29.5 million base rate increase. The approved rates include a significant update to residential rate design, including an increase in the customer charge, a reduction in the number of tiers for inside City customers (from five tiers to four tiers) and a reduction in the total spread in the Energy charge rates from eight cents down to six cents. The residential class's customer charge increased from the rate of \$10 to \$13, effective March 1, 2023. Effective FY2024, the customer charge increased to \$14 and an additional increase will be implemented in FY2025 to \$15. The residential class's energy charge will decrease to make the subsequent customer charge updates revenue neutral.

Power Supply Adjustment

During the annual budget process, the City Council reviews Austin Energy’s proposal for updating the PSA, which recovers ERCOT Settlements, fuel and other power supply costs, and purchased power agreement costs, plus an adjustment for the prior year over/under-recovery. In FY2023, City Council delegated administrative authority to Austin Energy to adjust the PSA plus or minus 5% per month if needed to respond to power market conditions.

Typical Monthly Residential Electric Bills of Large Texas Cities

<u>City</u>	<u>Monthly Electric Bill*</u>
Dallas/Fort Worth	\$ 128.52
Austin	121.32
Houston	136.90
Corpus Christi	134.86
San Antonio	121.38

* Average monthly residential bill for 1,000 kWh during the period October 2022 – September 2023, including fuel costs. Dallas, Houston, and Corpus Christi are served by competitive retail service providers (“REP”). Many REPs design their offerings around the 1,000 kWh standard, resulting in an atypically low rate at the 1,000 kWh level, compared to the 500 kWh or 2,000 kWh consumption levels.
Source: Public Utility Commission of Texas and powertochoose.org.

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AUSTIN ENERGY'S CUSTOMER STATISTICS

Five Year Electric Customer Statistics

The table below shows service area billed customer sales for fiscal years 2019 through 2023. The revenue per year varies in large degree due to the price of power which is passed through to customers in the Power Supply Adjustment as stated above as well as a base rate increase in 2023. MWH sales variances are due to a combination of customer growth, changes in weather, and changes in consumption patterns due to the COVID-19 pandemic.

	Fiscal Year Ended September 30				
	2019	2020	2021	2022	2023
<u>Revenue (000's)</u>					
Residential	\$ 496,643	\$ 499,893	\$ 458,914	\$ 604,330	\$ 656,555
Commercial	484,138	453,953	416,375	522,936	542,221
Industrial	187,206	178,007	156,274	214,100	240,389
Public Street & Highway	2,788	2,450	2,148	3,189	3,105
Sales to Government Authorities	<u>73,274</u>	<u>60,301</u>	<u>64,777</u>	<u>80,773</u>	<u>81,268</u>
Total	\$ 1,244,049	\$ 1,194,603	\$ 1,098,489	\$ 1,425,327	\$1,523,538
<u>MWH</u>					
Residential	4,522,859	4,740,214	4,632,514	5,116,975	5,114,804
Commercial	4,937,091	4,702,026	4,653,262	4,980,367	5,047,483
Industrial	2,962,835	3,003,001	2,929,849	3,124,701	3,264,345
Public Street & Highway	52,087	52,817	50,389	55,941	53,100
Sales to Government Authorities	<u>854,147</u>	<u>824,112</u>			<u>684,277</u>
Total	13,329,019	13,322,171	13,102,598	14,177,016	14,164,009
<u>Average Monthly Number of Customers</u>					
Residential	443,792	454,616	467,291	476,722	487,097
Commercial	49,587	50,135	50,561	51,099	51,445
Industrial	114	115	112	113	122
Public Street & Highway	4	9	10	10	10
Sales to Government Authorities	<u>2,761</u>	<u>2,785</u>	<u>2,783</u>	<u>2,754</u>	<u>2,694</u>
Total	496,258	507,660	520,757	530,698	541,368
<u>Average Monthly kWh per Customer</u>					
Residential	849	869	826	894	875
Commercial	8,297	7,816	7,669	8,122	8,176
Industrial	2,168,986	2,168,232	2,175,092	2,312,880	2,225,184
Public Street & Highway	1,108,227	517,816	423,441	482,250	446,215
Sales to Government Authorities	25,781	24,661	25,048	27,205	21,163
<u>Average Monthly Bill per Customer</u>					
Residential	\$ 93.26	\$ 91.63	\$ 81.84	\$ 105.64	\$112.32
Commercial	813.61	754.55	686.26	852.81	878.32
Industrial	137,047.14	128,524.59	116,016.69	158,475.31	163,864.18
Public Street & Highway	59,312.68	24,024.08	18,052.82	27,493.11	26,090.80
Sales to Government Authorities	2,211.65	1,804.49	1,939.49	2,444.25	2,513.47
<u>Average Revenues per kWh</u>					
Residential	\$ 0.10981	\$ 0.10546	\$ 0.09906	\$ 0.11810	\$0.12836
Commercial	0.09806	0.09654	0.08948	0.10500	0.10742
Industrial	0.06318	0.05928	0.05334	0.06852	0.07364
Public Street & Highway	0.05352	0.04640	0.04263	0.05701	0.05847
Sales to Government Authorities	0.08579	0.07317	0.07743	0.08984	0.11876

Source: Austin Energy.

Electric Rates

The PSA, Regulatory Charge, and Community Benefit Charges are effective as of November 1. Austin Energy's approved rates schedules are contained in the City's annual continuing disclosure filing for the fiscal year ended September 30, 2023 for the City's outstanding Parity Electric Utility Obligations, which filing is available from the Municipal Securities Rulemaking Board (the "MSRB") on its Electronic Municipal Market Access ("EMMA") system website (see "CONTINUING DISCLOSURE OF INFORMATION – Availability of Information" in this document), and such rate schedules are incorporated into this document by reference.

Transmission Rates

The PUCT has exclusive jurisdiction over rates and terms and conditions for the provision of transmission services by the City. On August 24, 2022, the PUCT approved the City's most recent wholesale transmission annual access rate of \$1.24822/kW. Transmission revenues totaled \$94.4 million in fiscal year 2023. Austin Energy will continue to manage and review the need for wholesale transmission rate increases as necessitated by its investment and cost to serve.

GreenChoice® Energy Rider

GreenChoice® is Austin Energy's renewable energy program that allows residential and commercial customers to meet their electricity needs by purchasing 100% renewable Texas wind power. Customers who subscribe to the GreenChoice program pay, a renewable energy premium as determined by Austin Energy. Residential customers enjoy no contract, no subscriber fees, or penalties for unsubscribing. Commercial customers can choose from three subscription options: BusinessCents, Energizer, and Patron. GreenChoice renewable energy sales are certified by Green-e, a leading national independent consumer protection program for the sale of renewable energy and greenhouse gas reductions in the retail market.

GreenChoice Sales (kWh) by Calendar Year

2014	683,986,607
2015	637,575,000
2016	719,814,465
2017	708,313,000
2018	759,088,000
2019	775,538,662
2020	709,063,075
2021	753,287,074
2022	1,020,485,039
2023	824,181,067

Power and Energy Sales Contracts

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

Generation and Use Data

	Fiscal Year Ended September 30									
	2023		2022		2021		2020		2019	
	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		14,021,562,952		15,697,987,911		15,583,185,677		13,833,141,055		14,686,072,244
kWh Received from ERCOT		1,744,666,405		892,757,385		376,332,458		1,066,246,223		858,953,254
Less: kWh Delivered to ERCOT		<u>(990,258,495)</u>		<u>(1,974,600,450)</u>		<u>(2,371,576,205)</u>		<u>(1,270,282,001)</u>		<u>(1,590,257,054)</u>
						-				
Total kWh Delivered to Service Area		<u>14,775,970,863</u>		<u>14,616,144,846</u>		<u>13,587,941,930</u>		<u>13,629,105,277</u>		<u>13,954,768,444</u>
Service Area Energy Use:										
Residential	487,097	5,114,804,256	476,722	5,116,975,278	467,291	4,632,514,399	454,616	4,740,214,005	443,792	4,522,859,322
General Service (Less UT & ENW)	<u>53,196</u>	<u>8,559,828,217</u>	<u>52,911</u>	<u>8,590,715,748</u>	<u>52,383</u>	<u>8,039,134,230</u>	<u>52,045</u>	<u>8,135,854,225</u>	<u>51,485</u>	<u>8,387,249,208</u>
	<u>540,293</u>	<u>13,674,632,473</u>	<u>529,633</u>	<u>13,707,691,026</u>	<u>519,675</u>	<u>12,671,648,629</u>	<u>506,661</u>	<u>12,876,068,230</u>	<u>495,277</u>	<u>12,910,108,530</u>
Public Street Lighting	10	53,099,614	10	55,940,972	10	50,389,428	9	52,817,241	4	52,086,667
City Utility Departments (*)	301	306,537,384	304	286,500,966	310	269,822,873	294	281,553,057	294	252,419,089
Other City Departments (*)	<u>764</u>	<u>129,739,529</u>	<u>751</u>	<u>126,883,036</u>	<u>762</u>	<u>110,737,070</u>	<u>696</u>	<u>111,732,472</u>	<u>683</u>	<u>114,404,714</u>
	<u>1,075</u>	<u>489,376,527</u>	<u>1,065</u>	<u>469,324,974</u>	<u>1,082</u>	<u>430,949,371</u>	<u>999</u>	<u>446,102,770</u>	<u>981</u>	<u>418,910,470</u>
Total Service Area Sales	541,368	14,164,009,000	530,698	14,177,016,000	520,757	13,102,598,000	507,660	13,322,171,000	496,258	13,329,019,000
Loss and Unaccounted For		611,961,863		<u>439,128,844</u>		<u>485,343,930</u>		<u>306,934,277</u>		<u>625,749,444</u>
Total kWh Delivered to Service Area	<u>541,368</u>	<u>14,775,970,863</u>	<u>530,698</u>	<u>14,616,144,844</u>	<u>520,757</u>	<u>13,587,941,930</u>	<u>507,660</u>	<u>13,629,105,277</u>	<u>496,258</u>	<u>13,954,768,444</u>
System Peak Demand (kW)		<u>3,064,000</u>		<u>2,953,000</u>		<u>2,644,000</u>		<u>2,810,000</u>		<u>2,810,000</u>

*Source: Austin Energy. Figures may differ from previously reported data due to the correction of generation data related to two purchase power agreements that came online in Fiscal Year 2021.

Energy Risk Management

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

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

Premiums paid for options are deferred until the contract is settled. As of September 30, 2023, no premiums were deferred. As of September 30, 2023, the fair value of Austin Energy's futures, options and swaps was an unrealized gain of \$1.2 million, all of which is reported as derivative instruments in assets. The fair values of these derivative instruments are deferred until future periods on the balance sheet using deferred outflows and deferred inflows.

Further explanation and historical information at last fiscal year end can be found in the footnotes to the financial statements for the fiscal year ended September 30, 2023. See "APPENDIX B – AUDITED FINANCIAL STATEMENTS – Note 12 – Energy Risk Management Program" in this document.

Power and Energy Purchase Contracts

The City has signed several long-term energy purchase agreements for conventional, wind, and solar electric generation. All power generated from these facilities is sold into the ERCOT market.

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

In August 2007, Austin Energy signed a 15-year contract with RES to purchase the output of a 165.6 MW wind energy project located in Shackelford County, Texas near Abilene. On September 6, 2007, RES assigned the contract to Hackberry Wind, LLC. The project began full-scale commercial operation in December 2008. In December of 2023, Austin Energy extended the contract for an additional nine years.

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

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

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

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

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

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

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

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

In December 2017 Austin Energy entered into a Power Purchase Agreement with SE Aragorn, LLC, an SB Energy (formerly Intersect Power) subsidiary, for the sale and purchase of solar power generated from a planned 180 MW project in Culberson County, Texas. Commercial operations commenced on December 31, 2021.

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

In March 2019, Austin Energy signed a 20-year Power Purchase Agreement with a subsidiary of Pattern Energy Group, Inc. for the purchase and sale of 170 MW of energy output from a wind project located in Kenedy County, Texas. Commercial operation started in May, 2021.

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

In December 2019, Austin Energy and an ENGIE subsidiary entered into a 25-year Power Purchase Agreement for the purchase and sale of energy generated from a 1.8 MW rooftop solar project located at the City-owned and operated Austin-Bergstrom International Airport. Commercial operations began in May 2021.

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

Electric Transmission and Distribution System Statistics

The transmission and distribution plant statistics of Austin Energy as of September 30, 2023 are as follows:

	<u>Number of Substations</u>	<u>Miles of Lines</u>	<u>Kilovolts</u>
Transmission	17	633	345/138/69
Distribution	63	12,264	35/12.5/7.2
Overhead Primary		2,413	
Overhead Secondary		2,589	
Underground Primary		3,718	
Underground Secondary		3,544	

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

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

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

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

ISO 9001 Registration

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

- The Electric Systems Field Operations and Electric Systems Engineering and Technical Services business units – responsible for the construction, maintenance and operation of the City’s Electric Utility System - became the first of any utility in the nation to earn ISO-9001:2000 registration. Auditors from the National Standards Authority of Ireland (“NSAI”), the worldwide entity that certifies ISO quality management program, issued the registration on January 3, 2008. The certification followed a rigorous four-day review in December 2007 of the Electric Systems Quality Management System by NSAI auditors. In June 2012, Electric Systems Quality Management System was re-registered under the ISO- 9001:2008 standard. More recently, in June 2022, Austin Energy’s Electric Systems Quality Management System was recommended for continued certification under the ISO-9001: 2015 standard, by NSAI.
- In June 2010, Austin Energy’s Customer Care Services (“CCS”) business unit was also registered as an ISO 9001:2008 organization. CCS is responsible for receiving customer requests, responding to customer requests, billing customers, processing customer payments, and managing customer accounts. In June 2013, Austin Energy’s CCS Quality Management System was re-registered under the ISO-9001: 2008 standard. In February 2017, Austin Energy’s CCS Quality Management System was upgraded to certification under the ISO-9001:2015 standard. At the same time, Austin 311, received initial certification under the ISO–9001:2015 standard – the first distinction of this kind for a 311 Contact Center in the United States. In February 2019, both the CCS Quality Management System, and Austin 311’s Quality

Management System were recertified to ISO-9001:2015, and combined into a single registration. March of 2022 recertification was successfully granted.

These business units continue to maintain their respective certifications.

Conventional System Improvements

Austin Energy's five-year Capital Improvements Spending Plan (the "Capital Plan"), which was approved by the City Council in August 2023, addresses approximately \$1.18 billion of capital spending needs for fiscal years 2024-2028. Funding for the Capital Plan is expected to be provided from revenues of Austin Energy and the issuance of debt, including short-term commercial paper and long-term revenue bonds. Austin Energy currently anticipates that approximately 50% of the five-year Capital Plan will be debt funded and 50% will be funded from revenues.

The Capital Plan provides continued funding for distribution and street lighting additions, including line extensions for new service, system modifications for increased load, and relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for transmission, generation and other general additions. Major projects in the Capital Plan include the construction of a new East Village substation, Southeast substation, Kramer Lane substation as well as the purchase of Austin Energy's new warehouse.

Five Year Capital Spending Plan

<u>\$ in Millions</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>	<u>2027-28</u>	<u>Total</u>
Distribution	\$106.3	\$98.5	\$93.3	\$93.4	\$93.4	\$485.1
Distribution Substation	\$15.4	\$15.8	\$16.5	\$8.9	\$14.4	\$70.9
Transmission	<u>\$56.9</u>	<u>\$81.4</u>	<u>\$84.2</u>	<u>\$80.7</u>	<u>\$46.3</u>	<u>\$485.1</u>
Total Electric Service Delivery	\$178.7	\$195.7	\$194.1	\$183.0	\$154.1	\$905.6
Power Production	\$48.6	\$47.5	\$32.1	\$21.3	\$21.1	\$170.6
Customer Service Billing & Metering	\$0	\$0	\$0	\$0	\$0	\$0
Facilities, Technology & Support Services	<u>\$35.4</u>	<u>\$64.2</u>	<u>\$1.7</u>	<u>\$1.2</u>	<u>\$1.2</u>	<u>\$103.7</u>
Total	\$262.7	\$307.4	\$227.9	\$205.5	\$176.4	\$1,179.9

Austin Energy Smart Meter Installation Program

Austin Energy maintains an Advanced Metering Infrastructure ("AMI") program. A component of the AMI program is the installation of AMI meters, which send and receive commands related to acquiring consumptive and diagnostic data, including daily meter reads via radio signals. As of 2015, Austin Energy has deployed a full 2-way AMI system. Continued improvements in AMI technology utilized at Austin Energy have provided demonstrable enhancements to customer service and reliability while reducing operating costs. Austin Energy currently has approximately 543,705 AMI meters: 490,069 2-way communicating residential meters and 53,636 2-way communicating commercial and industrial meters.

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AUSTIN ENERGY'S STRATEGIC PLANS, GOALS AND POLICIES

Strategic Plan

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

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

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

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

To measure performance over time, Austin Energy has established thirteen Key Performance Indicators ("KPIs"), and a target value for each KPI. Austin Energy publicly reports on progress towards key indicator targets at boards and commissions. The Austin Energy Executive Team also meets quarterly to review progress and status of key strategic projects. Austin Energy is currently reviewing the Strategic Plan.

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

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

The Austin Energy Resource, Generation and Climate Protection Plan to 2030 approved by the City Council on March 26, 2020 (the "2030 Plan") outlines the Working Group's recommendations and strategic goals and represents an extensive effort of the Austin community working through the Working Group and Austin Energy staff. The 2030 Plan is based on analysis of the risks, costs and opportunities to meet future demand for electricity. The 2030 Plan is intended to be flexible and dynamic to respond to changing circumstances, including customer electric load, economic conditions, energy prices, and technological development, while strictly committing to firm carbon reductions.

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

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

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

Generation Resource Objectives – As of December 2023, Austin Energy generates energy on an annualized basis equal to approximately 70% of its total customer load using carbon-free resources, which includes both renewable resources and the South Texas Project nuclear facility. As explained in more detail below, under the 2030 Plan, Austin Energy will eliminate its existing emissions through retirement of its carbon-emitting generation plants and anticipates purchasing additional, cost-effective, renewable energy resources.

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

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

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

Specific Actions to Achieve Generation Resource Objectives

Fayette Power Project – Austin Energy seeks to cease operation of Austin Energy’s portion of the Fayette Power Project coal plant. Austin Energy will continue to recommend to the City Council the establishment of any cash reserves necessary to accomplish this goal. As an update to the plan, Austin Energy plans to continue operating its share of the Fayette Power Project but minimize the scheduled generation utilizing the REACH plan.

Decker Creek Power Station – Austin Energy planned to cease operations and begin retirement of existing Decker Steam gas-fired units, assuming ERCOT approval, with Steam Unit 1 ceasing operations after summer peak of 2020 and Steam Unit 2 ceasing operations after summer peak of 2021. As planned, Unit 1 ceased operations in September 2020 and Unit 2 ceased operations in March 2022.

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

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

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

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

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

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

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

Financial Policies

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

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

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

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Rate Regulation

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

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

ERCOT serves as the Independent System Operator ("ISO") for the ERCOT region of Texas. ERCOT was certified in 2000 to serve as the ISO by the PUCT under Senate Bill 7, adopted by the State legislature and signed into law in 1999 ("SB7"). The ISO's responsibilities as detailed in SB7 are to (1) ensure nondiscriminatory access to the ERCOT transmission system; (2) ensure the reliability and adequacy of the ERCOT network; (3) ensure timely and accurate customer switching; and (4) ensure the accuracy of accounts among wholesale buyers and sellers. Austin Energy is a member of ERCOT, and Austin Energy staff are active in the ERCOT stakeholder process. ERCOT membership includes stakeholders from all segments of the Texas electric market. ERCOT is responsible for the management and oversight of the day-to-day operations of the transmission network and wholesale market settlement. Under PURA, the PUCT has jurisdiction over ERCOT and oversees its operations and market participant compliance with ERCOT Protocols, Operating Guides, and Other Binding Documents.

SB7 also amended PURA to provide for retail deregulation of the investor-owned electric utilities in the ERCOT region beginning January 1, 2002. SB7 allows local authorities to choose whether to bring retail competition to their Municipally Owned Utilities (“MOUs”) and leaves key municipal utility decisions (like local rate setting and utility policies) in the hands of those who have a stake in the local community. Once a resolution to “opt in” for retail competition is adopted by the MOU’s governing body, the decision is irrevocable. The City has not opted in to retail competition. As a result, Austin Energy is the sole retail electric power provider within its service territory and retail competition is not allowed.

ERCOT Wholesale Market Design

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

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

The PUCT is currently considering changes to the ERCOT wholesale market to address reliability and enhance stability for generator revenue. In June 2023, a new ancillary service, the ERCOT Contingency Reserve Service (“ECRS”), which can respond within 10 minutes, was rolled out to address forecasting error and provide capacity during large load ramps. With regard to market design, the proposed Performance Credit Mechanism (“PCM”), which would create a resource adequacy mechanism for ERCOT’s energy-only market, has an uncertain future after the passage of HB 1500 in the 2023 legislative session, which mandated “guardrails” on the PCM including a \$1 billion annual net cost cap. ERCOT and the PUCT are slowly moving forward with several projects necessary for development of the PCM, including calculating a new value of lost load (“VOLL”), crafting a reliability standard, and developing a strawman version of the PCM for stakeholder input. The timeline is consistently being pushed beyond the 2027 implementation date. ERCOT is also implementing a new 4-hour ancillary service, the Dispatchable Reliability Reserve Service (“DRRS”). This ancillary service must be able to dispatch within 2 hours and provide service for 4 hours. It is expected to reduce procurement of ECRS and lower costly out of market actions.

Implementation of real-time co-optimization of energy and ancillary services (“RTC”) in the ERCOT market was delayed by Winter Storm Uri. However, the 2023 legislature made implementation of the PCM contingent on completion implementation of RTC, which is ultimately expected to improve the efficiency of the market and lower prices with expected completion in late 2026. Austin Energy staff closely monitors PUCT activities and provide comments to the PUCT regarding possible market design changes.

Federal Rate Regulation

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

Pursuant to the Energy Policy Act of 2005, Austin Energy is subject to certain FERC authority on reliability under section 215. On July 20, 2006, FERC certified the North American Electric Reliability Corporation (“NERC”) as the nation’s Electric Reliability Organization responsible for developing and enforcing mandatory electric reliability standards under FERC’s oversight. Every five years, FERC reviews and approves the Delegation Agreement between NERC and Texas Reliability Entity, Inc. (“Texas RE”), which governs the responsibilities of Texas RE as the Regional Entity responsible for overseeing the NERC reliability standards in the ERCOT region. The PUCT retains authority over Austin Energy’s compliance with the ERCOT protocols and other reliability-related rules. Currently, ERCOT serves as the PUCT’s Electric Reliability Monitor (“ERM”). Austin Energy has established a Reliability Compliance Program to examine the requirements for compliance with reliability standards and to evaluate and implement any needed changes to systems and procedures.

Austin Energy's compliance with reliability standards is verified through external audits and other oversight processes conducted by Texas RE and the ERM.

Environmental Regulation - General

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

Environmental Regulation Related to Air Emissions

Cross-State Air Pollution Rule and Clean Air Interstate Rule

Austin Energy's large facilities have been complying with the Cross-State Air Pollution Rule ("CSAPR") since 2015. On September 7, 2016, EPA finalized an update to the CSAPR rule. The final rule lowered the State's Phase II ozone season budgets by approximately an additional 10%. No CSAPR allowance purchases were required for FY2022 due in part to the retirement of Decker unit 2 in March 2022. A proposed update to the CSAPR rule released in early 2022 may change how allowances are allocated to utilities subject to the rule, with the final rule expected from US EPA by March 15, 2023.

In March 2023 EPA released its Good Neighbor Program for the ozone National Ambient Air Quality Standards ("NAAQS"). This program would implement an ozone emissions cap in upwind states that would decline over time. EPA later announced that it would delay implementation in several states, including Texas, pending court review. The Supreme Court heard oral arguments in February 2024 and is expected to rule sometime in summer 2024.

Environmental Regulation Related to Hazardous Wastes and Remediation

In January 2015, the EPA promulgated a rule that sets new requirements for the storage of Coal Combustion Residuals ("CCRs") and potentially reclassifies those CCRs as a hazardous waste when stored in a landfill. FPP, like all coal burning plants, generates CCRs such as fly ash, bottom ash and gypsum. FPP currently recycles the majority of its CCR for beneficial use, such as for road base or as cement substitutes, with the remaining fractions stored onsite in a landfill for possible future use (recycle rates depend on market demand for the product). In 2011, Austin Energy and the LCRA completed a project to permanently close a "wet" ash pond where ash slurry had previously been sent for dewatering before recycle, and converted ash handling to a dry system. The final rule does not designate CCRs as hazardous and largely minimizes any requirements on existing CCR storage units currently at FPP. In June 2021, the EPA approved the Texas partial CCR state permit program which allows the TCEQ to issue CCR permits and enforce permit violations. The Texas program contains all the elements of the federal rule, including requirements for location restrictions, design and operating criteria, groundwater monitoring and corrective action, closure requirements and post-closure care, recordkeeping, notification and internet posting requirements. FPP is compliant with existing CCR rule requirements and Austin Energy does not anticipate any significant future costs associated with this rule at this time. In May 2023 EPA has proposed creating a new category of regulated CCR units that would potentially include previously unregulated closed CCR landfills at currently operating coal plants including FPP, which could require upgrading old landfills to meet existing standards. This could potentially have a major impact on FPP.

Nuclear Regulation

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

The South Texas Nuclear Power Plant, in which the City owns a partial interest (“STP”), is protected by provisions of the Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities even though the statutory protections for many non-commercial reactors are different. The Price-Anderson Act is set to expire on December 31, 2025. As of January 1, 2024, the limit of liability under the Price-Anderson Act for licensees of nuclear power plants is \$16.26 billion per unit per incident, and the maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is \$165.927 million per unit, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at \$24.714 million per year per reactor for each nuclear incident. The City and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of the assessments, STP has two licensed reactors. The participants (including the City) have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of \$500 million (as of January 1, 2024) for the nuclear industry as a whole, provides protection from nuclear-related claims of workers employed in the nuclear industry after January 1, 1988 who do not use the workers’ compensation system as sole remedy and bring suit against another party.

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

The owners of STP currently maintain \$2.75 billion of nuclear property insurance, which is above the legally required amount of \$1.06 billion for such nuclear losses (\$2.75 billion is the maximum amount available for purchase from Nuclear Electric Insurance Limited (“NEIL”). Nuclear property insurance consists of \$1.5 billion in primary nuclear property damage insurance and shares \$1.25 billion of excess nuclear property damage insurance, both subject to a retrospective assessment being paid by all members of NEIL. In the event that property losses as a result of an accident at any nuclear plant insured by NEIL warrants additional funds needed by NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for accidental outage insurance, primary and excess nuclear property damage insurance is \$52.8839 million during any one policy year with insurance premiums being prorated per member share. This number changes annually and is calculated as 10 times the current premium for each policy. A small portion of the primary nuclear property damage insurance is provided by European Mutual Association for Nuclear Insurance (“EMANI”) which is also subject to retrospective assessment of up to \$2.0146 million, which is six times the current calendar year premium.

The NRC regulations set forth minimum amounts required to demonstrate reasonable financial assurance of funds for decommissioning of nuclear reactors. Beginning in 1990, each holder of an operating license is required to submit to the NRC a bi-annual report indicating how reasonable assurance would be provided. The City provides the required report on its share of STP to the NRC which is based on the minimum amount for decommissioning, excluding waste disposal, as required by the NRC regulations of \$105 million per unit (January 1986 dollars). This minimum is required to be adjusted annually in accordance with the adjustment factor formula set forth in the regulations. The 2022 report provided by the City based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City established an external irrevocable trust for decommissioning with JPMorgan Chase Bank, N.A., and as of October 2016, transferred the trust to Wilmington Trust, National Association. The City has been collecting for its share of anticipated decommissioning activities, which may begin as early as 2047, through its rates since Fiscal Year 1989. The market value of assets held in the decommissioning trust as of September 30, 2023 was approximately \$259 million. For Fiscal Year 2024, Austin Energy estimates that it will continue to collect approximately \$5 million for nuclear decommissioning expense. In 2023 dollars, the minimum amount for decommissioning the City’s share of STP is \$415 million. See “INVESTMENTS – Legal Investments” in this document.

Events Affecting the Nuclear Industry

Fukushima

On March 11, 2011, a region of Japan sustained significant loss of life and destruction because of a major earthquake and resulting tsunami. Included in the damage areas were the Fukushima nuclear units, which lost power to components of the backup and safety control systems and began emitting radiation into the surrounding environment. Following the incident, the NRC began looking into the safety aspects of nuclear plant operations in the United States with the objective of assuring that events such as those at the Fukushima plant do not occur in this country. On August 31, 2012, the NRC issued Interim

Staff Guidance (“ISG”) to U.S. nuclear power plants to ensure proper implementation of three orders the agency issued in March 2012, in response to lessons learned from the Fukushima Daiichi nuclear accident. The ISGs represent acceptable approaches to meeting the orders’ requirements before their December 31, 2016 compliance deadline.

The ISGs are not mandatory, but U.S. nuclear power plants would have to seek NRC approval to follow a different compliance approach. As detailed below, all required actions by STP related to these orders have been completed and accepted by the NRC.

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

The second NRC order applies only to U.S. boiling-water (“BWR”) reactors that have “Mark I” or “Mark II” containment designs. Mark I reactors must improve installed venting systems that help prevent core damage in the event of an accident; Mark II reactors must install these venting systems. The ISG for this order provides more detailed technical information on the vents, as well as how vent designs and operating procedures should avoid, where possible, relying on plant personnel taking actions under hazardous conditions. The second ISG is available in ADAMS under accession number ML12229A475. Since the STP units are Pressurized Water Reactor’s and not BWR’s, no changes are required.

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

Russian Invasion of Ukraine 2022

On February 24, 2022, Russia invaded Ukraine and subsequently the United States and its allies imposed sanctions on various goods and services provided by Russia to the world. Russia supplies approximately 14% and their ally Kazakhstan supplies approximately 35% of uranium to the United States nuclear reactor fleet. According to the Nuclear Energy Institute, Russia supplies approximately 20% of the low-enriched uranium needed to operate United States nuclear reactors. Sanctions imposed on Russian imports to the United States could raise the global cost of enriched uranium, increase generating costs, and impact reliability. However, STP does not procure any uranium or enrichment services from Russia or Kazakhstan. All STP fuel and fuel related services are supplied by North American companies.

**COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM
AND WATER AND WASTEWATER SYSTEM OPERATIONS
OCTOBER 1, 2019 TO SEPTEMBER 30, 2023**
(in thousands rounded)

	Fiscal Year Ended September 30				
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
INCOME					
Revenue	\$2,477,113	\$2,312,797	\$1,844,585	\$1,959,941	\$2,031,435
Operating Expense	<u>1,776,660</u>	<u>(1,628,986)</u>	<u>(1,253,026)</u>	<u>(1,332,726)</u>	<u>(1,366,470)</u>
Balance Available for Debt Service	700,453	683,811	591,559	627,215	664,965
Depreciation and Amortization Expense	<u>(357,514)</u>	<u>(416,289)</u>	<u>(413,388)</u>	<u>(413,711)</u>	<u>(327,840)</u>
Earnings Before Interest Expense	342,939	267,522	178,171	213,504	337,125
Interest Incurred on Debt	(149,719)	(146,242)	(152,752)	(154,451)	(148,596)
Other	<u>12,484</u>	<u>(7,181)</u>	<u>(6,131)</u>	<u>2,728</u>	<u>(11,113)</u>
INCOME (LOSS) BEFORE TRANSFERS (1) (2) (3) (4)	<u>\$205,704</u>	<u>\$114,099</u>	<u>\$19,288</u>	<u>\$61,781</u>	<u>\$177,416</u>
PERCENTAGES					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	<u>(71.72%)</u>	<u>(70.43%)</u>	<u>(67.93%)</u>	<u>(68.00%)</u>	<u>(67.27%)</u>
Balance Available for Debt Service	28.28%	29.57%	32.07%	32.00%	32.73%
Depreciation and Amortization Expense	<u>(14.43%)</u>	<u>(18.00%)</u>	<u>(22.41%)</u>	<u>(21.11%)</u>	<u>(16.14%)</u>
Earnings Before Interest Expense	13.84%	11.57%	9.66%	10.89%	16.60%
Interest Incurred on Debt	(6.04%)	(6.32%)	(8.28%)	(7.88%)	(7.31%)
Other	<u>0.50%</u>	<u>(0.31%)</u>	<u>(0.33%)</u>	<u>0.14%</u>	<u>(0.55%)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>8.30%</u>	<u>4.93%</u>	<u>1.05%</u>	<u>3.15%</u>	<u>8.73%</u>

(1) Income before transfers to the General Fund and Other Funds for the 12 months ended September 30, 2023. Transfers are as follows (in thousands rounded):

Transfer to General Fund: \$152,037

Transfers to Other Funds: \$31,847

(2) Excludes Combined Utility Funds' deferred costs recovered in future years of \$35,002 for the 12 months ended September 30, 2023 (in thousands rounded).

(3) Excludes capital contributions of \$123,498, for the 12 months ended September 30, 2023 (in thousands rounded).

(4) Excludes other post-employment benefits ("OPEB") accrual of \$50,230, net pension liability accrual of \$101,247 and amortization of excess consideration of \$3,288 for twelve months ended September 30, 2023.

Source: City Financial Services Department - Financial Accounting and Reporting.

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

	Fiscal Year Ended September 30				
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
REVENUE					
ELECTRIC UTILITY					
Domestic and Rural Residential	\$659,615	\$604,376	\$456,953 (1)	\$495,735 (1)	\$498,903 (1)
Commercial General	862,500	820,299	636,136 (1)	690,723 (1)	746,932 (1)
Sales to Other Utilities	46,863	55,166	15,813	30,354	47,092
Transmission	94,402	86,064	84,029	83,791	81,734
Rent from Electric Property	7,707	7,451	10,313 (1)	10,227	7,735 (1)
Customers' Forfeited Discounts and Penalties	5,971	5,824	3,749	2,611 (1)	5,540
Miscellaneous	<u>111,564</u>	<u>97,128</u>	<u>64,815</u> (1)	<u>60,115</u> (1)	<u>59,363</u> (1)
Total Electric Utility	<u>\$1,778,622</u>	<u>\$1,676,308</u>	<u>\$1,271,808</u>	<u>\$1,373,556</u>	<u>\$1,447,299</u>
WATER UTILITY					
Water Services	\$320,563	\$322,001	\$282,932	\$288,337	\$275,095
Miscellaneous Revenue	10,888	10,655	8,099	12,162	8,444
Revenue Stability Fee	-	-	-	-	-
Reserve Fund Surcharge	2,269	2,246	2,042	2,073	1,901
Reclaimed Revenue	<u>2,872</u>	<u>2,818</u>	<u>2,221</u>	<u>2,499</u>	<u>2,013</u>
Total Water Utility	<u>\$336,592</u>	<u>\$337,720</u>	<u>\$295,294</u>	<u>\$305,071</u>	<u>\$287,453</u>
WASTEWATER UTILITY					
Wastewater Services	\$292,078	\$280,740	\$264,020	\$256,298	\$258,349
Miscellaneous Revenue	9,761	7,469	7,907	4,756	5,769
Reclaimed Revenue	-	-	-	-	-
Total Wastewater Utility	<u>\$301,839</u>	<u>\$288,209</u>	<u>\$271,927</u>	<u>\$261,054</u>	<u>\$264,118</u>
Interest	<u>\$50,060</u>	<u>\$10,560</u>	<u>\$5,556</u>	<u>\$20,260</u>	<u>\$32,565</u>
TOTAL REVENUE	<u>\$2,447,113</u>	<u>\$2,312,797</u>	<u>\$1,844,585</u>	<u>\$1,959,941</u>	<u>\$2,031,435</u>

Source: City Financial Services Department - Financial Accounting and Reporting.

(1) Inputs in the above table related to the Electric Utility System have been updated in the following categories to reflect appropriate classification of revenue: Domestic and Rural Residential, Commercial General, Rent from Electric Property, Customers' Forfeited Discounts and Penalties and Miscellaneous.

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

	Fiscal Year Ended September 30				
<u>EXPENSE</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
ELECTRIC UTILITY (1)					
Production	\$646,820	\$580,544	\$255,969 (3)	\$195,132 (3)	\$206,631 (3)
Joint Facility Production	131,496	187,340	183,173	167,851 (3)	190,741 (3)
System Control	17,826	16,894	15,155	19,007	21,490
Transmission and Distribution	294,799	256,097	234,774	216,225	198,816
Jobbing and Contract Work	5,289	3,409	1,907	2,098	2,222
Customer Accounting and Collection	38,948	25,528	23,456	24,224	25,457
Customer Services	30,043	28,425	26,249	23,817	24,944 (3)
Administrative and General	<u>280,893</u>	<u>235,001</u>	<u>239,593 (3)</u>	<u>418,312 (3)</u>	<u>435,165 (3)</u>
Total Electric Utility	<u>\$1,446,112</u>	<u>\$1,333,238</u>	<u>\$980,276</u>	<u>\$1,066,666</u>	<u>\$1,105,466</u>
WATER UTILITY					
Operations	\$95,539	\$83,272	\$76,906	\$73,672	\$71,373
Engineering Services	4,559	4,715	5,037	4,853	5,572
Water Resources Management	5,768	4,914	4,508	4,126	3,901
Environmental Affairs & Conservation	11,172	10,181	9,840	9,411	7,496
Support Services - Utility	22,512	20,503	18,098	15,794	21,899
One Stop Shop	-	-	-	-	-
Reclaimed Water Services	821	615	545	1,652	1,312
Other Operating Expenses	<u>38,558</u>	<u>36,690</u>	<u>33,903</u>	<u>33,980</u>	<u>27,580</u>
Total Water Utility	<u>\$178,931</u>	<u>\$160,890</u>	<u>\$148,837</u>	<u>\$143,488</u>	<u>\$139,133</u>
WASTEWATER UTILITY					
Operations	\$81,193	\$70,282	\$65,910	\$66,473	\$65,585
Engineering Services	7,829	8,219	7,546	8,030	6,936
Water Resources Management	5,732	5,151	5,062	4,786	4,673
Environmental Affairs & Conservation	4,383	3,715	3,349	3,098	3,013
Support Services - Utility	21,034	18,478	16,833	15,789	21,791
One Stop Shop	-	-	-	-	-
Other Operating Expenses	<u>31,446</u>	<u>29,013</u>	<u>25,213</u>	<u>24,396</u>	<u>19,873</u>
Total Wastewater Utility	<u>\$151,617</u>	<u>\$134,858</u>	<u>\$123,913</u>	<u>\$122,572</u>	<u>\$121,871</u>
TOTAL EXPENSE (2)	<u>\$1,776,660</u>	<u>\$1,628,986</u>	<u>\$1,253,026</u>	<u>\$1,332,736</u>	<u>\$1,366,470</u>
NET REVENUE AVAILABLE FOR DEBT SERVICE					
	<u>\$700,453</u>	<u>\$683,811</u>	<u>\$591,559</u>	<u>\$627,215</u>	<u>\$664,965</u>
Electric Customers	541,368	530,698	520,757	507,660	496,258
Water Customers	252,918	250,705	247,037	243,820	239,291
Wastewater Customers	238,748	236,768	233,637	230,127	225,940

- (1) Inputs in the above table related to the Electric Utility System have been updated in the following categories to reflect appropriate classification of revenue: Domestic and Rural Residential, Commercial General, Rent from Electric Property, Customers' Forfeited Discounts and Penalties and Miscellaneous.
- (2) **Interest expense, depreciation, amortization, other non-operating items, NPO and OPEB accruals are not included in total expense. Lease and SBITA expenses are included in total expense.**
- (3) Inputs in the above table related to the Electric Utility System have been updated in the following categories to reflect appropriate classification of expenses: Production, Joint Facility Production, Customer Services, and Administrative and General. Total Electric Utility expenses remain unchanged.

Source: City Financial Services Department - Financial Accounting and Reporting.

DISCUSSION OF OPERATING STATEMENT

Austin Energy Revenues

Variations in total Austin Energy revenues for the fiscal years (“FY”) ended September 30, 2019 through September 30, 2023 were attributable to changes in cost of fuel for power generation and weather variations as well as increased base rates. Total power supply costs are passed through to the consumer.

Water and Wastewater System Revenues

Variations in Water and Wastewater System revenues for the period FY 2019 through FY 2023 were largely attributable to weather and system rate changes, including imposition of Stage 2 watering restrictions beginning in September 2011. See “WATER SYSTEM – Water Use Management Plans, Austin’s Integrated Water Resource Plan and LCRA Water Management Plans” and “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates” in this document.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY 2019 through FY 2023 were largely attributable to changes in the cost of power supply for power generation and general inflationary increases in other expense categories.

Water and Wastewater System Expenses

Changes in Water and Wastewater System expenses for the period FY 2019 through FY 2023 were primarily attributable to inflationary increases in the cost of power and chemicals, along with system growth.

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The Electric Utility System and Water and Wastewater System
(in thousands rounded)

	Fiscal Year Ended September 30				
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Plant Cost					
Utility Systems					
Electric	\$7,022,101	\$6,869,742	\$6,748,786	\$6,418,934	\$6,179,413
Water	3,465,472	3,318,519	3,177,882	3,077,482	2,983,187
Wastewater	<u>3,224,313</u>	<u>3,082,618</u>	<u>2,933,872</u>	<u>2,812,618</u>	<u>2,698,343</u>
Total Cost	<u>\$13,711,886</u>	<u>\$13,270,879</u>	<u>\$12,860,540</u>	<u>\$12,309,034</u>	<u>\$11,860,943</u>
Allowance for Depreciation:					
Electric	3,988,576	3,843,299	3,701,521	3,451,096	3,175,348
Water	1,162,294	1,103,161	1,039,088	985,972	926,457
Wastewater	<u>1,385,517</u>	<u>1,318,051</u>	<u>1,247,983</u>	<u>1,187,002</u>	<u>1,123,127</u>
Total Depreciation	<u>\$6,536,387</u>	<u>\$6,264,511</u>	<u>\$5,988,592</u>	<u>\$5,624,070</u>	<u>\$5,224,932</u>
Cost after Depreciation	<u>\$7,175,499</u>	<u>\$7,006,368</u>	<u>\$6,871,948</u>	<u>\$6,684,964</u>	<u>\$6,636,011</u>
Equity in Utility Systems					
Utility Systems	\$13,711,886	\$13,270,879	\$12,860,540	\$12,309,034	\$11,860,943
Plus: Inventories, Materials and Supplies (1)	90,968	73,186	69,912	69,575	66,269
Net Construction Assets and Unamortized Bond Issue Cost	<u>96,099</u>	<u>110,842</u>	<u>176,999</u>	<u>141,133</u>	<u>148,739</u>
	<u>\$13,898,953</u>	<u>\$13,454,907</u>	<u>\$13,107,451</u>	<u>\$12,519,742</u>	<u>\$12,075,951</u>
Less:					
Allowance for Depreciation	<u>\$6,536,387</u>	<u>\$6,264,511</u>	<u>\$5,988,592</u>	<u>\$5,624,070</u>	<u>\$5,224,932</u>
Utility Systems, Net	<u>\$7,362,566</u>	<u>\$7,190,396</u>	<u>\$7,118,859</u>	<u>\$6,895,672</u>	<u>\$6,851,019</u>
Revenue Bonds and Other Debt Outstanding (2)	\$4,660,668	\$4,631,645	\$4,652,775	\$4,537,293	\$4,487,193
Net Debt	\$4,660,668	\$4,631,645	\$4,652,775	\$4,537,293	\$4,487,193
Equity in Utility Systems	<u>\$2,701,898</u>	<u>\$2,558,751</u>	<u>\$2,466,084</u>	<u>\$2,358,379</u>	<u>\$2,363,826</u>
Percentage of Equity in Utility Systems	36.70%	35.59%	34.64%	34.20%	34.50%

(1) Does not include fuel, oil or coal inventories of approximately \$27,075,000 as of September 30, 2023; consists primarily of spare parts inventory at Fayette Plant and South Texas Project.

(2) Includes Revenue Bonds and Tax and Revenue Bonds of \$4,483,114 (net of discounts and inclusive of premiums); Commercial Paper of \$176,300; General Obligation Bonds of \$1,254; and Contractual Obligation Bonds of \$0 at September 30, 2023.

Source: City Financial Services Department - Financial Accounting and Reporting.

LITIGATION

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

Electric Utility System Litigation

The Electric Utility System continues to defend multiple property damage and personal injury lawsuits and one wrongful death lawsuit, relating to outages caused by the 2021 Weather Event that affected the ERCOT system. A number of these lawsuits were filed in early 2023, prior to the expiration of the statute of limitations for such claims (two years after the 2021 Weather Event). See "THE SYSTEMS – Texas Winter Weather Event 2021" in this document. These cases are pending in the multi-district litigation proceeding that is identified as Master Cause No. 2021-41903 in the 281st District Court of Harris County, Texas.

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THE CITY

Administration

Incorporated in 1839, the City operates under a Council-Manager form of government under its Home Rule Charter. The City Council is comprised of an eleven-member council, with the Mayor elected at-large, and the remaining members elected from ten single-member districts. Councilmembers, including the Mayor, serve a four-year term, with the terms staggered so that every two years five of the councilmembers and the Mayor stand for election, and five councilmembers stand for election two years later. See “APPENDIX A – GENERAL INFORMATION REGARDING THE CITY – General Information” in this document.

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

City Manager – T.C. Broadnax

Mr. T.C. Broadnax began serving as Austin City Manager on May 6, 2024. Prior to being appointed to the City Manager of the City of Austin, he previously served as the City Manager of the City of Dallas from 2017 to 2024. Prior to joining the City of Dallas, he served as City Manager of Tacoma, Washington and has more than 25 years of local government management experience. Mr. Broadnax is an International City/County Manager’s Association Credentialed Manager and is recognized throughout the country for his significant contributions working in the public sector tackling issues relating to community and economic development, neighborhood revitalization, code enforcement, financial management and organizational leadership. His approach to public sector management and community engagement has been instrumental in enhancing quality of life for the residents of the cities he has served. Mr. Broadnax received a Bachelor of Arts degree in Political Science and Communications from Washburn University and a Master of Public Administration degree from the University of North Texas.

Chief Financial Officer – Ed Van Eenoo

Mr. Ed Van Eenoo was appointed Chief Financial Officer on December 6, 2020 and oversees the City’s Building Services Department, Financial Services Department and Fleet Mobility Services Department. Prior to his appointment as Chief Financial Officer, Mr. Van Eenoo served as Deputy Chief Financial Officer for eight years and as the Budget Officer at the City for four years. Before joining the City, he spent nine years with the City of Chula Vista including time as a Fiscal and Management Analyst, Assistant Director of Budget and Analysis, and four years as the Director of Budget and Analysis. Mr. Van Eenoo received a Bachelor of Science degree in Economics from The University of Eastern Michigan and a Master of Science degree in Applied Economics from Virginia Tech University.

Deputy Chief Financial Officer – Diana Thomas

Ms. Diana Thomas currently serves as Deputy Chief Financial Officer, where she oversees the Financial Systems & Information Technology, Support Services and Telecommunications & Regulatory Affairs programs within the Financial Services Department. She was appointed to the Deputy Chief Financial Officer position in June 2021 after serving as the City’s Controller from 2008 to 2021. Ms. Thomas started her career with the City in 1992 and has held various financial positions during her tenure. In 2006, she led the implementation of the City’s new financial system. Ms. Thomas received her Bachelor of Business Administration degree in Finance from the University of Texas at Austin and is a licensed CPA in the state of Texas.

Deputy Chief Financial Officer – Kimberly Olivares

Ms. Kimberly Olivares currently serves as Deputy Chief Financial Officer and oversees Real Estate, Treasury, strategic facility delivery (P3s), tax increment reinvestment zone (TIRZ) and public improvement district (PID) financing. Ms. Olivares joined the City in 2003 and has held positions in the City Manager's Office, Public Works Department, and Financial Services Department. Previously, she was the Chief Performance Officer leading the City's commitment to instilling a culture of continuous learning and improvement throughout the organization through strategic plan organizational alignment and culture change, performance measurement and data analytics, and process improvement consulting. Ms. Olivares was also the Deputy Budget Officer for the City, managing the capital improvement program financial services, Budget Office information technology support team, and performance measurement program. She received a B.A. from the University of Notre Dame, a Master of Public Affairs degree from the Lyndon B. Johnson School of Public Affairs at the University of Texas at Austin, and a Master of Business Administration degree from St. Edward's University. Ms. Olivares has also worked for the City of Southlake, Texas, and the City of Tampa, Florida. As a representative of the City, she is very active with the Government Finance Officers Association and serves as the Chair of its Committee on Economic Development and Capital Planning.

Services Provided by the City

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

Employees

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

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

Annexation Program

Chapter 43 of the Texas Local Government Code regulates annexation of property by Texas municipalities. Under current state law, landowner and/or voter approval is required as part of the process for the annexation of territory into a city. The process varies depending on the characteristics of the area being considered for annexation, generally involving a petition from each landowner, a petition signed by registered voters and owners of land in the area, or an election at which qualified voters approve the proposed annexation. Additionally, the process involves staff review, development of a written service agreement (or regulatory plan for a limited purpose annexation), notification, publication of a newspaper notice, public hearings, and ordinance approval.

Upon approval, the City provides a wide range of services to the annexed area – police and fire protection, emergency medical services, solid waste collection, and maintenance of public facilities such as water and wastewater, roads, streets, and parks. Failure to provide municipal services in accordance with the service plan may provide grounds for a petition and court action to compel compliance with the service plan or to disannex the area, and may also result in a refund of taxes and fees collected for services not provided. The City has never been forced to disannex due to such failure.

Some of the areas which may be considered for annexation include developed areas for which water, sewer, and drainage services are being provided by utility districts created for such purposes. Existing utility districts, as well as new districts that may be created from time to time, may issue bonds for their own improvements. Such bonds are generally payable from the receipts of ad valorem taxes imposed by the district and, in some cases, are further payable from any net revenues derived from the operation of its water and sanitary sewer systems. State law generally requires that if a city annexes a district, then the district must be annexed in its entirety. Upon annexation by a city, a district is dissolved and the city assumes the

district's outstanding bonds and other obligations. The City then levies and collects ad valorem taxes on taxable property within the corporate limits of the city, including the districts, sufficient to pay the principal of and interest on such assumed bonds.

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

The City Charter and the State's annexation laws provide the City with the ability to undertake two types of annexation. "Full purpose" annexation discussed above, annexes territory into the City for all purposes, including the assessment and collection of ad valorem taxes on taxable property. The second type of annexation is known as "limited purpose" annexation by which territory may be annexed for the limited purposes of "Planning and Zoning" and "Health and Safety." Territory so annexed is subject to ordinances relating to these purposes: chiefly, the City's zoning ordinance, building code, and related ordinances regulating land development. Taxes may not be imposed on property annexed for a limited purpose because municipal services are not provided and residents of the area are restricted to voting only in City elections for City Council and Charter amendments.

Annexations

The following table sets forth (in acres) the City's annual annexations since 2013.

<u>Calendar Year</u>	<u>Full Purpose Acres</u> ⁽¹⁾	<u>Limited Purpose Acres</u>
2013	3,484	594
2014	897	136
2015	1,911	3
2016	311	0
2017	1,283	0
2018	136	0
2019	185	166
2020	65	0
2021	92	243
2022	5,475	51
2023	12	0

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

Recent Annexation

In August 2023, the City annexed 12 acres at the request of property owners for full-purpose jurisdiction. The single annexation case was greenfield development proposed for high-density multifamily housing.

In 2022, the City annexed 5,526 acres at the request of property owners, of which 5,475 acres were full-purpose annexations and 51 acres were limited purpose annexations. The largest full purpose annexations were for City owned water quality protection lands, which totaled approximately 5,100 acres.

In 2020 and 2021, the City conducted full purpose annexations of greenfield land at the request of property owners. The 157 acres annexed during this time were proposed for development as residential and light industrial uses. In 2019, the City annexed for limited purposes several recently acquired and vacant outparcels located in the Pilot Knob MUD development project. Additionally, at the landowner's request, the City annexed for full purposes a 126-acre undeveloped parcel which the landowner plans to develop into a corporate campus.

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

The largest of the 2017 annexations was the River Place MUD area which converted approximately 1,040 acres from the City's limited purpose jurisdiction to full purpose. This area included an estimated population of approximately 3,125

persons. In addition, the City annexed several commercial properties in south Austin. The total TAV for these areas at the time of annexation was \$697.2 million.

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

In 2015 the City annexed eleven areas for full purposes and one area for limited purposes. These areas included an estimated total population of approximately 3,912 persons, mainly within the Lost Creek subdivision. Approved development plans for the remaining areas include an additional 1,944 single-family homes. The TAV for these areas at the time of annexation was approximately \$25.4 million.

Future Annexation

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

Pension Plans

The City has three contributory defined benefit retirement plans for its general municipal, fire, and police employees. These three plans include the City of Austin Employees' Retirement System ("COAERS"), the City of Austin Police Retirement System (the "Police Retirement System") and the City of Austin Fire Fighters Retirement Fund (the "Fire Fighters Retirement Fund"). These plans are single employer funded plans each, with a fiscal year end of December 31. The three retirement plans cover substantially all full-time employees. The contributions made by the City to the COAERS include amounts allocable to the City employees within Austin Energy, Austin Water, and the City's Aviation Department ("Aviation"); the contributions allocable to such employees are paid from gross revenues of the respective systems and constitute operating expenses of Austin Energy, Austin Water, and Aviation.

As of October 1, 2022, municipal employees contribute 8.0% and the City contributes 19.0% of payroll. Effective January 1, 2024, municipal employees' contributions to COAERS will increase to 9.0% and the City's contribution to COAERS will decrease to the actuarially determined amount of 8.68%. In addition, the City will also contribute according to a fixed payment plan established to eliminate the unfunded legacy liability existing as of December 31, 2022 over a 30 year period. The fiscal year 2024 budgeted amount related to the unfunded legacy liability payment is \$76.1 million.

As of October 1, 2022, Fire fighters (who are not members of the Social Security System) contribute 18.7% of payroll, and the City contributes 22.05% to the Fire Fighters Retirement Fund.

As of October 1, 2022, police officers contributed 15.0% and the City contributed 10.10% of payroll to the Police Retirement System. The City's contribution rate was updated to 9.85% on January 1, 2023, and effective January 1, 2024, the City's contribution will decrease to 9.59%. The City also contributes according to a fixed payment plan established to eliminate the legacy liability existing as of December 31, 2020 over a 30-year period. The fiscal year 2024 budgeted amount related to the unfunded legacy liability payment is \$40.7 million

As of December 31, 2022, the amortization period of the unfunded actuarial accrued liability was 34 years for the COAERS, 30 years for the Police Retirement System, and 35.7 years for the Fire Fighters Retirement Fund.

The City's net pension liability was measured as of December 31, 2022 for each of the City's three pension plans. Information on the liabilities and funding measurements of each plan is discussed below.

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

multiplier is 2.5%. The plan changes creating the second group were implemented to address long-term structural imbalances in the plan.

As of December 31, 2022, the COAERS reported a total net pension liability of \$2.9 billion, of which \$585.2 million is allocable to Austin Energy, \$322 million is allocable to Austin Water, and \$109.4 million is allocable to Aviation. The COAERS' fiduciary net position as a percentage of the total pension liability was 50.3%. The actuarial accrued liability for the COAERS as of December 31, 2022 was \$5.3 billion and the funded ratio was 64.1%. As of December 31, 2021, the COAERS reported a net pension liability of \$1.5 billion with a plan fiduciary net position as a percentage of the total pension liability of 70.9%. The actuarial accrued liability for the COAERS was \$5.0 billion and the funded ratio was 66.0%. In plan year 2021, COAERS changed the actuarial investment return assumption from 7.00% to 6.75%. The assumptions and methods used are the same used in prior year valuation.

In 2023, legislation was passed in the 88th Texas Legislature ("SB 1444") to address COAERS' liabilities and place it on an actuarially sound path. SB 1444, as passed by the Texas Legislature and signed by the Governor, includes the following reforms which took effect on January 1, 2024:

- Increased employee contributions from 8% to 10% over a two-year phase-in-period;
- Increased City contributions pursuant to an actuarially determined funding model, which included a carve out of the legacy liability (as of December 31, 2022) into a separate payment over 30 years;
- Established an actuarially determined contribution model to replace the fixed contribution model;
- Modified benefit policies such as service purchase and sick-leave conversions that will mitigate the risk of future costs;
- Eliminated the authority of the COAERS Board to unilaterally provide cost of living adjustments or to change member benefits; and
- Modified the COAERS Board of Trustees governance structure, replacing one active member seat with one City appointed seat.

After passage of SB 1444 in the 88th legislative session, the system's actuary performed a Risk Sharing Valuation Study (RSVS) as of December 31, 2022 to establish the Legacy Liability and City actuarially determined contribution rates. After the legislative changes, the unfunded actuarial accrued liability for COAERS as of RSVS December 31, 2022 is \$1.9 billion with a 30 year amortization schedule for payment of the Legacy Liability.

Police Retirement System. The members of the Police Retirement System include all cadets, upon enrollment in the Austin Police Academy, commissioned law enforcement officers employed by the City's Police Department, and full-time employees of the Police Retirement System. The Police Retirement System provides retirement, death, and disability benefits to plan members and their beneficiaries.

In 2021, legislation was passed in the 87th Texas Legislature to address the Police Retirement System's liabilities and place it on an actuarially sound path. The legislative reforms to the Police Retirement System, which took affect on January 1, 2022, included:

- Established a new benefit tier for new sworn police officers with the following benefit parameters:
 - a 2.5% multiplier;
 - retirement eligibility at age 50 and 25 years of service; and,
 - average salary calculated on the highest 60 months;
- Increased employee contributions from 13% to 15%;
- Increased City contributions, which included a carve out of the legacy liability (as of December 31, 2020) into a separate payment over 30 years;
- Established an actuarially determined contribution model to replace the fixed contribution model;
- Eliminated the authority of the Police Retirement System Board to provide cost of living adjustments, change member benefits or member contribution rates; and
- Reformed the governance structure by replacing one active member seat to a citizen seat appointed by City Council.

The Police Retirement System provides plan members with a monthly pension payment derived from a predetermined formula based on length of service, salary history, and payout options. Benefits are vested after 10 years. For employees hired prior to January 1, 2022, benefits are based on the years of service times the highest 36 months of salary in the last 10 contributing years of service. A multiplier of 3.2% is applied to the years of service. Eligibility occurs with 23 years of creditable service, at age 55 with 20 years of service, or at age 62. For employees hired on or after January 1, 2022, the years

of service times is increased to the 60 highest months, the multiplier is decreased to 2.5%, and eligibility is at age 50 with 25 years of service or at age 62.

As of December 31, 2022, the Police Retirement System reported a net pension liability of \$756.9 million for the 2022 plan year, which is an increase from the \$544.5 million net pension liability reported for the prior 2021 plan year. The fiduciary net position as a percentage of the total pension liability decreased to 55.2% for the 2022 plan year from 66.5% in the prior year. There were no changes to the actuarial assumptions and methodology during the most recent plan year. For plan year 2019, the Police Retirement System adopted changes to certain plan assumptions in May 2019, based on an experience study conducted in 2019, including a reduction to the investment return assumption (from 7.75% to 7.25%), a reduction of payroll growth assumption and adoption of a new mortality table. The assumption changes, among other contributing factors, resulted in a decrease in the funded ratio and an increase in the amortization period from infinite in 2018 to 30 years in 2021. Additionally, the use of a lower, blended discount rate – as required by GASB guidelines – contributed to the increase in the net pension liability. A full description of the assumptions for the Police Retirement System is available in the actuarial reports available on its website.

The actuarial accrued liability for the Police Retirement System as of December 31, 2022 was \$1.7 billion and the funded ratio was 60.1%. The actuarial accrued liability for the Police Retirement System as of December 31, 2021 was \$1.6 billion and the funded ratio was 60.2%.

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

As of December 31, 2022, the Fire Fighters Retirement Fund reported a net pension liability of \$278.3 million, with a plan fiduciary net position as a percentage of the total pension liability of 80.0%. The actuarial accrued liability for the Fire Fighters Retirement Fund was \$1.4 billion and the funded ratio was 86.9%. As of December 31, 2021, the Fire Fighters Retirement Fund reported a net pension liability of \$11.8 million and plan fiduciary net position as a percentage of the total pension liability of 99.1%. The actuarial accrued liability for the Fire Fighters Retirement Fund as of December 31, 2021 was \$1.3 billion and the funded ratio was 89.6%.

The Fire Fighters Retirement Fund assumption changes used in the 2022 actuarial valuation, included use of the base PubS-2010 mortality table with fully generational improvement, and a change to a more conservative Deferred Retirement Option Plan ("DROP") period assumption that assumes members will elect the DROP period that maximizes the value of their benefit and reflects any applicable previously granted COLAs. There was no cost of living adjustments granted for 2023.

The financial statements for each plan are accessible on their respective websites. See "APPENDIX B – AUDITED FINANCIAL STATEMENTS – Note 10" in this document for additional information on the City's Pension Plans. Also, see Note 10 of the City's Annual Comprehensive Financial Report for their web addresses.

Other Postemployment Benefits

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

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

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

The City subsidizes between 16% and 80% of the projected medical premium for retirees and a lesser portion for dependents and surviving spouses depending on years of service at retirement. The retiree must pay the unsubsidized portion of the premium. Both the City and retirees' estimated premiums are deposited in the Employee Benefits Fund, which pays actual claims for medical and prescription drugs and 100% of the retiree's basic life insurance premium. The cost of coverage above the \$1,000 level for life insurance premium is paid by the retiree. Group dental and vision coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental and vision premium.

The City does not accumulate assets in a trust that meets the criteria in paragraph 4 of GASB Statement 75. The City funds its OPEB liabilities on a pay-as-you-go basis. The pay-as-you-go cost of providing medical and life benefits was \$74.8 million in fiscal year 2023 and \$63.7 million in fiscal year 2022.

The City commissions a biennial actuarial valuation of its OPEB liability with a roll-forward prepared in the year in which there is no formal valuation. As of the most recent December 31, 2022 roll-forward actuarial valuation date, the City's total OPEB liability decreased to \$3.35 billion from \$4.2 billion as of the biennial actuarial valuation measured as of December 31, 2021. The decrease in the total OPEB liability was primarily driven by the increase in the discount rate from 2.06% to 3.72%.

See "APPENDIX B – AUDITED FINANCIAL STATEMENTS" 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 \$8.7 million for claims and damages at the end of fiscal year 2023. Employee injuries are covered by the City's Workers' Compensation Fund and health claims are covered by the City's Employee Benefits Fund. The accrued liabilities for certain claims and expenses for enterprise funds of the City are funded separately, from funds of the respective enterprise systems.

INVESTMENTS

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

Legal Investments

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

- (1) obligations of the United States or its agencies and instrumentalities, including letters of credit;
- (2) direct obligations of the State or its agencies and instrumentalities;
- (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
- (4) other obligations, the principal and interest of which are guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or by explicit full faith and credit of the United States;
- (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent;
- (6) bonds issued, assumed or guaranteed by the State of Israel;
- (7) interest-bearing banking deposits that are guaranteed insured by the FDIC or the National Credit Union Share Insurance Fund ("NCUSIF") or their respective successors;
- (8) interest-bearing banking deposits other than those described by subdivision (7) if the funds invested in the banking deposits are invested through (a) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025; or (b) a depository institution with a main office or branch office in this state that the investing entity selects; (ii) the broker or depository institution selected as described above arranges

- for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (iv) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account (a) the depository institution selected as described above; (b) an entity described by Section 2257.041(d); or (c) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3);
- (9) certificates of deposit meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by a combination of cash and the FDIC or the NCUSIF, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for City deposits;
 - (10) (A) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clauses (1) and (12) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State and (B) joint account repurchase agreements satisfying the requirements of subsections (f) and (g) of Section 2256.011 of the PFIA;
 - (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency;
 - (12) commercial paper with a stated maturity of 365 days or less that is rated not less than "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank;
 - (13) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that comply with the United States Securities and Exchange Commission Rule 2a-7;
 - (14) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, and either has a duration of one year or more and is invested exclusively in obligations described in this paragraph, or has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities;
 - (15) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Code) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than "AAA," "AAA-m" or at an equivalent rating by at least one nationally recognized rating service; and
 - (16) a brokered certificate of deposit security invested through a Texas broker approved by the City Council in which the broker or depository arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the investing entity in an amount insured by the United States or an instrumentality of the United States. Texas law also permits the City to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the PFIA.

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

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

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

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

The City, as the owner of a municipal electric utility that is engaged in the sale of electric energy to the public, may invest funds held in a “decommissioning trust” (a trust created to provide the Nuclear Regulatory Commission assurance that funds will be available for decommissioning purposes as required under 10 C.F.R. Part 50 or other similar regulation) in any investment authorized by Subtitle B, Title 9, Texas Property Code (“Texas Trust Code”). The Texas Trust Code provides that a trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution. The City established an external irrevocable trust for decommissioning with JPMorgan Chase Bank, N.A., and, as of October 2016, transferred the trust to Wilmington Trust, National Association. The decommissioning trust market value, as of March 31, 2024, was approximately \$266,253,156.

The City is specifically prohibited from investing in:

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

Investment Policies

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

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

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

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

- (1) the investment position of the City;
- (2) that all investment officers jointly prepared and signed the report;
- (3) the beginning market value and the ending value of each pooled fund group;
- (4) the book value and market value of each separately listed asset at the end of the reporting period;
- (5) the maturity date of each separately invested asset;

- (6) the account or fund or pooled fund group for which each individual investment was acquired; and
- (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) State law.

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

Additional Provisions

Under Texas law, the City is additionally required to:

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

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

Current Investments

As of March 31, 2024, the City's investable funds were invested in the following categories.

<u>Type of Investment</u>	<u>Percentage</u>
U. S. Treasuries	51%
U. S. Agencies	23%
Local Government Investment Pools	26%

The dollar weighted average maturity for the combined City investment portfolios is 266 days. The City prices the portfolios weekly utilizing a market pricing service.

TAX MATTERS

Opinion

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

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

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

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

A ruling was not sought from the Internal Revenue Service by the City with respect to the Bonds or the facilities financed or refinanced with the proceeds of the Bonds. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the City that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the 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.

Interest on the Tax-Exempt Obligations may be includable in certain corporations' "adjusted financial statement income" determined under section 56A of the Code to calculate the alternative minimum tax imposed by section 55 of the Code.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, 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.

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

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

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the 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.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in the main text of this document within the following tables:

- 1) “WATER SYSTEM – Historical Water Pumpage,”
- 2) “WATER SYSTEM – Projected Water Pumpage,”
- 3) “WATER SYSTEM – Information Concerning Water Sales,”
- 4) “WATER SYSTEM – Large Water Customers,”
- 5) “WASTEWATER SYSTEM – Historical Wastewater Flows,”
- 6) “WASTEWATER SYSTEM – Projected Wastewater Flows,”
- 7) “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Service Rates,”
- 8) “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Wastewater Service Rates,”
- 9) “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Analysis of Water Bills,”
- 10) “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Analysis of Wastewater Bills,”
- 11) “ELECTRIC UTILITY SYSTEM – Generation Facilities,”
- 12) “AUSTIN ENERGY’S CUSTOMER STATISTICS – Five Year Electric Customer Statistics,”
- 13) “AUSTIN ENERGY’S CUSTOMER STATISTICS – Generation and Use Data,”
- 14) “DISCUSSION OF OPERATING STATEMENT – The Electric Utility System and Water and Wastewater System,”
- 15) “ELECTRIC UTILITY SYSTEM – Customer Base – Average Monthly Number of Customers,”
- 16) “ELECTRIC UTILITY SYSTEM – Fuel Supply,”
- 17) “AUSTIN ENERGY’S CUSTOMER RATES – Typical Monthly Residential Electric Bills of Large Texas Cities,”
- 18) Austin Energy’s approved rate schedules incorporated into this document by reference as described in the applicable Pricing Certificate and “AUSTIN ENERGY’S CUSTOMER STATISTICS – Electric Rates,”
- 19) “AUSTIN ENERGY’S CUSTOMER STATISTICS – GreenChoice® Energy Rider,”
- 20) “COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM OPERATIONS,”
- 21) “OPERATING STATEMENT ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM,”
- 22) The table of annual results of the City’s annexations in “THE CITY – Annexations,”
- 23) “INVESTMENTS – Current Investments,” and
- 24) Audited financial statements of the City, if not provided as part of such financial information and operating data, when and if available.

The City will (1) update and provide this financial information and operating data within six months after the end of each fiscal year, beginning with the fiscal year ending in 2024 and (2) if not provided as part of the financial information and operating data, audited financial statements, when and if available. If audited financial statements are not available within 12 months after any such fiscal year end, the City will provide notice that the audited financial statements are not available and will file unaudited financial statements within such 12-month period and audited financial statements for such fiscal year when and if the audit report on such statements becomes available. The City will provide the updated information to the MSRB through EMMA. 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 financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

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

Disclosure Event Notices

The City shall notify the MSRB, in a timely manner not in excess of 10 Business Days after the occurrence of the event, of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City or obligated person; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material; (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect Bond holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties. The City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data by the time required by the Forty-Seventh Supplement. Neither the Bonds nor the Forty-Seventh Supplement make any provision for debt service reserves or liquidity enhancement. See "SECURITY FOR THE BONDS - Bonds Not Secured by any Debt Service Reserve Fund" in this document. 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 Forty-Seventh Supplement.

As used in clause (12) above, the phrase "bankruptcy, insolvency, receivership or similar event" means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if jurisdiction has been assumed by leaving the City Council and officials or officers of the City in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. As used in clause (15) and clause (16) above, the term "Financial Obligation" means a: (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii); provided that "Financial Obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule. The term "Business Day" means a day other than a Saturday, Sunday, a legal holiday, or a day on which banking institutions are authorized by law or executive order to close in the City or the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located.

Availability of Information

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

Limitations and Amendments

The City has agreed to update information and to provide notices of certain events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement. No default by the City in observing or performing its obligations under its continuing disclosure undertaking for the Bonds shall constitute a breach of or default under the Forty-Seventh Supplement for purposes of any other provision of the Forty-Seventh Supplement.

The City may amend its continuing disclosure agreement for the Bonds 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 such Bonds in the offering described in this document in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of its continuing disclosure agreement for any series of Bonds 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 such Bonds in the primary offering of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “CONTINUING DISCLOSURE OF INFORMATION - Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received ratings of “Aa2” (stable outlook) from Moody’s Investors Service, Inc. (“Moody’s”), “AA” (stable outlook) from S&P Global Ratings, a division of S&P Global Inc. (“S&P”), and “AA–” (stable outlook) from Fitch Ratings, Inc. (“Fitch”). An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of one or all such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or by any one of them, may have an adverse effect on the market price and marketability of the Bonds. Except as provided under “CONTINUING DISCLOSURE OF INFORMATION – Disclosure Event Notices” in this document, the City will undertake no responsibility to notify the owners of the Bonds of any such revisions or withdrawal of ratings.

Registration and Qualification of Bonds

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political

subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the PFIA requires that the Bonds be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency. See “OTHER RELEVANT INFORMATION – Ratings” in this document. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Legal Opinions

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the City in accordance with their terms payable solely from and, together with the outstanding Parity Water/Wastewater Obligations and Prior Subordinate Lien Obligations, equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Water and Wastewater System in the manner provided in the Forty-Seventh Supplement and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes, subject to the matters described under “TAX MATTERS” in this document, including the alternative minimum tax on certain corporations. The form of Bond Counsel’s opinion is attached to this document as “APPENDIX E.”

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility for this Official Statement or undertaken independently to verify any of the information contained in it, except that, in their capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions “PLAN OF FINANCING”, “SECURITY FOR THE BONDS,” “DESCRIPTION OF THE BONDS,” “TAX MATTERS,” “CONTINUING DISCLOSURE OF INFORMATION,” “OTHER RELEVANT INFORMATION – Registration and Qualification of Bonds,” “OTHER RELEVANT INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas” and “OTHER RELEVANT INFORMATION – Legal Opinions,” and in “APPENDIX C” and “APPENDIX D” to verify that the information relating to the Bonds, the Master Ordinance and the Forty-Seventh Supplement contained under such captions and in APPENDICES C and D in all respects accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is true and accurate. The opinion of Bond Counsel will accompany the global certificate deposited with DTC in connection with the use of the Book-Entry-Only System. In addition, certain legal matters will be passed upon (i) for the Underwriters by Haynes and Boone, LLP, Underwriters’ Counsel, and (ii) for the City by Bracewell LLP, Disclosure Counsel. The payment of legal fees to Bond Counsel, Underwriters’ Counsel, 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 a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise from the transaction.

Financial Advisor

PFM Financial Advisors LLC (“PFM”), Austin, Texas, is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor’s fee for services rendered 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.

Independent Auditors

The financial data listed as fiscal year 2023 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 as of September 30, 2023 and for the year then ended included in APPENDIX B to this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing in APPENDIX B.

Underwriting

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

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the City and to persons and entities with relationships with the City, for which they received or will receive customary fees and expenses.

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

Forward-Looking Statements

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

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

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

Verification of Arithmetical and Mathematical Calculations

Prior to delivery of the Bonds, the Verification Agent, Robert Thomas, CPA, LLC, will deliver to the City its report indicating that it has examined the mathematical accuracy of computations prepared by PFM relating to the sufficiency of the payments on the Escrowed Securities and cash to be deposited in the Escrow Fund.

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

Miscellaneous Information

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

These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects. The Forty-Seventh Supplement approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the offering of the Bonds by the Underwriters.

Mayor
City of Austin, Texas

ATTEST:

City Clerk
City of Austin, Texas

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SCHEDULE I
SUMMARY OF REFUNDED BONDS ⁽¹⁾

Water and Wastewater System Revenue Refunding Bonds, Series 2012

Maturity	Interest Rate	Par Amount Refunded	Call Date	Call Price	CUSIP⁽²⁾
11/15/2024	5.000%	\$50,000	07/18/2024	100%	052477WV4
11/15/2027	4.000%	750,000	07/18/2024	100%	052477UP9
11/15/2027	5.000%	2,400,000	07/18/2024	100%	052477UW4
11/15/2028	5.000%	25,000	07/18/2024	100%	052477UY0
11/15/2029	5.000%	<u>10,000</u>	07/18/2024	100%	052477UZ7
	Total:	\$3,235,000			

Water and Wastewater System Revenue Refunding Bonds, Series 2013A

Maturity	Interest Rate	Par Amount Refunded	Call Date	Call Price	CUSIP⁽²⁾
11/15/2024	5.000%	\$145,000	07/18/2024	100%	052477WY8
11/15/2025	3.700%	1,365,000	07/18/2024	100%	052477WZ5
11/15/2026	3.850%	10,215,000	07/18/2024	100%	052477VD5
11/15/2027	4.000%	<u>15,815,000</u>	07/18/2024	100%	052477C48
	Total:	\$27,540,000			

Water and Wastewater System Revenue Refunding Bonds, Series 2014

Maturity	Interest Rate	Par Amount Refunded	Call Date	Call Price	CUSIP⁽²⁾
11/15/2024	5.000%	\$95,000	07/18/2024	100%	052477XF8
05/15/2025	5.000%	90,000	07/18/2024	100%	052477XG6
11/15/2025	5.000%	3,585,000	07/18/2024	100%	052477XH4
05/15/2026	5.000%	5,100,000	07/18/2024	100%	052477F52
11/15/2026	5.000%	5,195,000	07/18/2024	100%	052477F60
05/15/2027	5.000%	5,320,000	07/18/2024	100%	052477F78
11/15/2027	5.000%	5,460,000	07/18/2024	100%	052477F86
11/15/2028 ⁽³⁾	5.000%	18,470,000	07/18/2024	100%	052477VS2
11/15/2029 ⁽³⁾	5.000%	9,905,000	07/18/2024	100%	052477VT0
11/15/2030 ⁽³⁾	5.000%	12,480,000	07/18/2024	100%	052477G36
11/15/2031 ⁽³⁾	5.000%	13,075,000	07/18/2024	100%	052477G44
11/15/2032 ⁽³⁾	4.000%	13,715,000	07/18/2024	100%	052476G51
11/15/2033 ⁽³⁾	5.000%	14,410,000	07/18/2024	100%	052476G69
11/15/2034 ⁽³⁾	5.000%	15,140,000	07/18/2024	100%	052476G77
11/15/2039 ⁽³⁾	5.000%	52,865,000	07/18/2024	100%	052476G85
11/15/2043 ⁽³⁾	5.000%	<u>45,185,000</u>	07/18/2024	100%	052476G93
	Total:	\$220,090,000			

(1) Preliminary and subject to change. The refunding of any of the Refunded Bonds is contingent upon the delivery of the Bonds. The maturities and principal amounts of the Refunded Bonds, if any, to be refunded will depend on market conditions when the Bonds are sold and could differ materially from the information shown above. See "PLAN OF FINANCING" in this document.

(2) CUSIP numbers have been assigned by FactSet Research Systems Inc. on behalf of the American Bankers Association. None of the City, the Financial Advisor or the Underwriters are responsible for the selection or the correctness of the CUSIP numbers set forth herein. CUSIP is a registered trademark of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Services.

(3) Represents a term maturity.

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

General Information

The City of Austin (the “City”), chartered in 1839, has a Council-Manager form of government with a Mayor who is elected at large and ten Council members who are elected by geographic district. The districts, drawn by an independent citizen’s commission, are to be adjusted after each U.S. census. Following results of the 2020 Census, the Independent Citizens Redistricting Commission presented a certified map to City Council in October 2021 and the new geographic districts were implemented in 2022. The City’s elected officials serve four-year staggered terms subject to a maximum of two consecutive terms. The City Manager, appointed by the City Council, is responsible to the City Council for the management of all City employees, except City Council appointees, and for the administration of all City affairs.

Austin, the capital of Texas, is the fourth most populous city in the state (behind Houston, San Antonio, and Dallas) and the tenth largest in the nation with a July 1, 2022 population of 974,447 according to the U.S. Census Bureau. Geographically, Austin consists of approximately 327 square miles. The current estimated median household income for Austin residents is \$80,412 according to Nielsen Site Reports and Austin’s per capita personal income is estimated to be \$77,500 an 8.6% increase over 2021.

Austinites know that despite tremendous growth, Austin remains a very special place to live. Austin’s special character in part derives from its diverse population, the unique beauty afforded being at the foothills of the hill country, as well as its reputation as a welcoming and collaborative community. Austin consistently ranks high in the U.S. News & World Report list of best places to live and ranked fifth for the 2021-2022 list. For quality of life, Austin ranked 4th in the US and 8th worldwide in a quality-of-life index based in part on purchasing power, safety, health care, and pollution and climate.

Higher education is a significant aspect of life in the Austin area which is host to six universities, a robust community college system, and numerous other institutions of higher learning. The University of Texas at Austin (“UT”), a world-class center of education and research, consistently ranks in the top 10 largest public universities in the U.S. in terms of undergraduate enrollment. In the 2022 U.S. News & World Report Best Colleges survey, the university ranks tenth (tied) among public universities and its business programs were ranked fifth (tied) among national universities, both public and private. Also, in a new global ranking, UT placed 43rd and was the top school in Texas.

Major Initiatives

Imagine Austin – Imagine Austin, a comprehensive plan for the City’s future approved by City Council in June 2012, sets a context to guide decision-makers for the next 30 years. The plan adheres to six core principles established in collaboration with Austin citizens:

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

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

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

As a result of the Strategic Direction 2023 effort, prior annual budgets underwent significant modification to present departmental expenditure plans and measures affecting these six outcomes, as well as to structure the City's organizational reporting hierarchy.

On September 30th, 2023, the City's prior strategic planning process, known as Strategic Direction 2023 (SD23), will reach its scheduled conclusion. As SD23 nears its conclusion, development of a new City-wide strategic plan is underway. The new strategic plan will update the former outcome-based model and realign the organization around new categories designed to be applied in future budget development processes.

The new strategic plan goals are organized around seven new categories rather than the six outcome areas utilized in SD23 and presented in prior budgets.

1. Community Health & Resilience
2. Economic & Workforce Development
3. Equitable Service Delivery
4. Homelessness & Housing
5. Mobility & Critical Infrastructure
6. Organizational Excellence
7. Public Safety

FINANCIAL INFORMATION

Internal Controls

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

Financial Policies

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

Long-term Financial Planning

Austin leaders are continually looking towards and planning for the future. A key City financial policy requires annual preparation of a five-year financial forecast projecting revenues and expenditures for all operating funds. This forecast is used as a tool to develop the following year's operating budget. In addition, the City annually prepares a five-year Capital Improvement Project (CIP) Plan that outlines all capital projects in progress, those that will be implemented in the five-year horizon, and related funding sources. Such an approach assists in aligning the City's CIP investments with the Imagine Austin Comprehensive Plan and the Council's strategic priorities as the City strives to strike a balance between ongoing capital needs necessary to maintain services for a rapidly growing community and strategic investments that support community priorities. City departments prepare a number of other long- and mid-range service plans that provide input into decisions made in the planning and budgeting process. These plans range from clean energy and climate protection to strategic mobility planning. Maintaining sound financial and economic development policies within the City organization allows for a high level of services to the community. It also results in positive bond ratings, which measures the City's ability to repay its debt. A strong bond rating allows for lower interest expense. The City's bond ratings for general obligation bonds remained AAA, the highest rating available, for S&P Global Ratings and AA+ for Fitch Ratings, Inc. In June 2022, Fitch ratings downgraded Austin Energy's revenue bond rating to AA- from AA with a stable rating outlook. In their analysis, Fitch cited increasing leverage over the past three years, driven by weaker operating cash flows and the purchase of Nacogdoches Power, LLC in 2019. In August 2022, S&P Global Ratings followed suit with the same downgrade to

Austin Energy's revenue debt. In 2022, the airport received a rating increase from S&P Global Ratings upgrading the Airport's credit rating to A+ from A citing 'increased demand and strong service area economy.

Budgetary Control

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

Throughout the year, primary responsibility for fiscal analysis of budget to actual expense or revenue and overall program fiscal standing rests with the department operating the program. The City Manager is authorized to transfer appropriation balances within a department of the City. The City Council must approve amendments to the budget and transfers of appropriations from one department to another. As demonstrated by the statements and schedules included in the 2022 Comprehensive Financial Annual Report, the City continues to meet its responsibility for sound financial management.

ADDITIONAL INFORMATION

Ten Largest Employers (As of Fiscal Year Ended September 30, 2023)

<u>Employer</u>	<u>Industry</u>	<u>Employees</u>	<u>Percent of MSA Total</u>
State Government	Government	38,681	2.91%
The University of Texas at Austin	Education	31,106	2.34%
HEB Grocery Stores	Grocery/Retail	22,955	1.73%
City of Austin	Government	16,029	1.21%
Ascension Seton	Healthcare	14,842	1.12%
Federal Government	Government	14,600	1.10%
Dell Computer Corporation	Computers	13,000	0.98%
Telsa, Inc.	Manufacturing	12,277	0.92%
St. David's Healthcare Partnership	Healthcare	11,484	0.86%
Amazon LLC	Retail	11,000	0.83%

Source: 2023 Annual Comprehensive Financial Report

Demographic and Economic Statistics - Last Ten Years

<u>Year</u>	<u>City of Austin Population (1)</u>	<u>Area of Incorporation (Square Miles) (1)</u>	<u>Population MSA (2)</u>	<u>Income (MSA) (thousands of dollars) (2)</u>	<u>Median Household Income MSA (3)</u>	<u>Per Capita Personal Income MSA (2)</u>	<u>Unemployment Rate (MSA) (4)</u>
2014	878,002	321	1,943,409	97,181,958	49,227	50,006	4.2%
2015	899,119	323	2,002,491	103,244,100	52,519	51,555	3.4%
2016	925,491	326	2,062,211	107,664,294	56,163	52,208	3.3%
2017	946,080	325	2,115,230	117,458,116	56,849	55,530	3.1%
2018	963,797	326	2,168,316	127,439,164	63,191	58,773	2.9%
2019	980,886	327	2,187,161	138,650,094	65,950	64,913	2.6%
2020	961,855	327	2,235,584	150,639,599	69,001	67,400	6.3%
2021	975,321	327	2,298,224	163,778,682	71,186	71,300	3.5%
2022	981,610	328	2,421,115	181,870,848	80,412	75,119	2.8%
2023	995,722	333	2,433,199 (3)	199,847,793 (5)	80,284	82,100 (5)	3.6%
2014-2023 Change	13.41%	3.64%	25.20%	105.64%	63.09%	64.18%	

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

- (1) Source: City Demographer, City of Austin, Housing and Planning Department based on full purpose area as of September 30, 2023.
- (2) Source: Bureau of Economic Analysis.
- (3) Source: Claritas, LLC. Figures are estimated.
- (4) Source: Bureau of Labor Statistics; United States Department of Labor as of September 30, 2023.
- (5) Data not available for 2023. Figures are estimated.

City Sales Tax Collections (In Millions) (1)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
1-1-18	\$18.369	1-1-19	\$18.697	1-1-20	\$20.198	1-1-21	\$19.781	1-1-22	\$26.385	1-1-23	\$29.410
2-1-18	22.174	2-1-19	23.474	2-1-20	26.824	2-1-21	25.532	2-1-22	30.963	2-1-23	33.666
3-1-18	17.895	3-1-19	19.197	3-1-20	20.704	3-1-21	18.927	3-1-22	24.307	3-1-23	27.506
4-1-18	16.939	4-1-19	18.499	4-1-20	19.065	4-1-21	17.768	4-1-22	24.174	4-1-23	26.758
5-1-18	21.249	5-1-19	21.771	5-1-20	20.801	5-1-21	26.089	5-1-22	31.042	5-1-23	32.064
6-1-18	18.371	6-1-19	20.966	6-1-20	16.875	6-1-21	23.139	6-1-22	27.873	6-1-23	25.599
7-1-18	19.552	7-1-19	20.275	7-1-20	18.096	7-1-21	23.952	7-1-22	28.586	7-1-23	29.860
8-1-18	20.338	8-1-19	21.556	8-1-20	21.667	8-1-21	26.558	8-1-22	31.773	8-1-23	32.428
9-1-18	19.701	9-1-19	21.797	9-1-20	19.750	9-1-21	25.021	9-1-22	29.397	9-1-23	28.401
10-1-18	19.502	10-1-19	20.080	10-1-20	19.178	10-1-21	25.356	10-1-22	29.675	10-1-23	29.965
11-1-18	20.661	11-1-19	22.017	11-1-20	22.036	11-1-21	28.990	11-1-22	31.441	11-1-23	30.475
12-1-18	20.482	12-1-19	21.463	12-1-20	20.670	12-1-21	25.930	12-1-22	29.425	12-1-23	29.037
	<u>\$235.23</u>		<u>\$249.79</u>		<u>\$245.86</u>		<u>\$287.04</u>		<u>\$345.04</u>		<u>\$355.169</u>

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

Utility Connections

Year	Utility Connections		
	Electric (1)	Water (1)	Gas (1)
2013	430,582	217,070	216,688
2014	439,403	217,036	223,500
2015	450,479	223,164	228,700
2016	461,345	227,432	223,158
2017	472,701	231,014	226,749
2018	485,204	235,174	221,314
2019	496,258	239,291	238,753
2020	507,660	243,820	239,063
2021	520,757	247,037	240,263
2022	530,698	250,705	240,048
2023	541,368	252,918	241,114

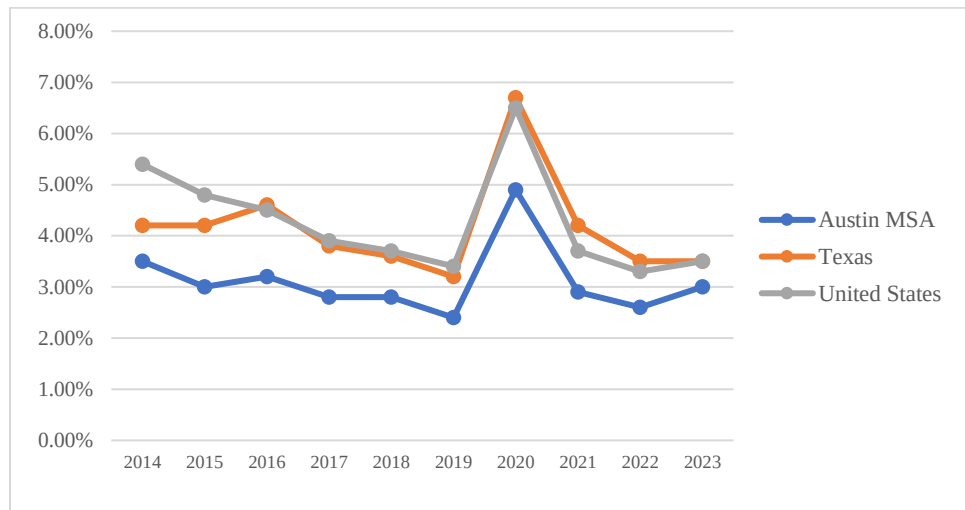
(1) Based on the City's fiscal year, which runs October 1 through September 30.
Source: Various, including the City of Austin, Texas Gas Services, Atmos Energy and Centerpoint Energy.

Employment by Industry in the Austin Metropolitan Area (1)

	2019		2020		2021		2022		2023	
		% of total		% of total		% of total		% of total		% of total
Mining, Logging, and Construction	69,000	6.18%	71,200	6.41%	73,300	6.29%	77,500	5.91%	85,600	6.37%
Manufacturing	62,500	5.60%	65,000	5.85%	64,800	5.56%	72,100	5.50%	72,200	5.37%
Trade, Transportation, and Utilities	184,800	16.56%	195,300	17.58%	190,300	16.32%	215,800	16.46%	216,300	16.09%
Information	38,400	3.44%	40,500	3.65%	45,100	3.87%	53,400	4.07%	51,800	3.85%
Financial Activities	66,200	5.93%	69,700	6.27%	73,000	6.26%	78,500	5.99%	78,800	5.86%
Professional and Business Services	198,700	17.80%	207,400	18.67%	235,200	20.18%	283,100	21.59%	288,400	21.46%
Education and Health Services	128,900	11.55%	124,900	11.24%	133,900	11.49%	146,200	11.15%	154,800	11.52%
Leisure and Hospitality	135,600	12.15%	106,400	9.58%	119,700	10.27%	146,800	11.20%	150,200	11.18%
Other Services	47,500	4.26%	42,300	3.81%	44,800	3.84%	49,600	3.78%	52,100	3.88%
Government	<u>184,600</u>	<u>16.54%</u>	<u>188,300</u>	<u>16.95%</u>	<u>185,600</u>	<u>15.92%</u>	<u>188,100</u>	<u>14.35%</u>	<u>193,700</u>	<u>14.41%</u>
Total nonfarm employment	<u>1,116,200</u>	<u>100%</u>	<u>1,111,000</u>	<u>100%</u>	<u>1,165,700</u>	<u>100%</u>	<u>1,311,100</u>	<u>100%</u>	<u>1,343,900</u>	<u>100%</u>

(1) Austin-Round Rock MSA includes the counties of Travis, Bastrop, Caldwell, Hays and Williamson. Information is updated periodically; data contained in this document is the latest provided. Based on calendar year.
Source: U.S. Bureau of Labor Statistics. Non-seasonally adjusted.

Average Annual Unemployment Rate



Year	Austin MSA	Texas	U.S.A.
2014	4.3%	5.2%	6.2%
2015	3.4%	4.5%	5.3%
2016	3.3%	4.6%	4.9%
2017	3.2%	4.3%	4.4%
2018	3.0%	3.9%	3.9%
2019	2.7%	3.5%	3.7%
2020	6.2%	8.9%	8.1%
2021	4.8%	6.6%	6.1%
2022	2.6%	3.5%	3.3%
2023	3.0%	3.5%	3.5%

Source: U.S. Bureau of Labor Statistics as of December 2023. Unemployment rates are non-seasonally adjusted. Information is updated periodically.

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Housing Units

Residential Sales Data (Austin-Round Rock MSA)

<u>Year</u>	<u>Number of Sales</u>	<u>Total Volume (\$)</u>	<u>Average Price (\$)</u>
2014	30,073	9,213,870,475	306,383
2015	31,326	10,342,187,130	330,147
2016	32,580	11,292,237,627	346,600
2017	33,842	12,376,009,278	365,700
2018	34,656	13,156,532,792	379,632
2019	37,057	14,570,169,172	393,183
2020	40,311	17,629,901,730	437,347
2021	41,413	23,397,281,957	564,974
2022	33,676	21,073,466,786	625,771
2023	30,459	17,503,065,986	574,643

Source: Real Estate Center at Texas A&M University; data as of December 2023.

City-Wide Austin Office Occupancy Rate

<u>Year</u>	<u>Occupancy Rate</u>
2013	89.2%
2014	90.9%
2015	90.9%
2016	91.8%
2017	89.5%
2018	89.4%
2019	89.4%
2020	90.0%
2021	80.7%
2022	78.9%
2023(1)	72.9%

(1) Fourth Quarter 2023.
Source: Cushman & Wakefield.

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APPENDIX B
AUDITED FINANCIAL STATEMENTS

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APPENDIX C

COPY OF MASTER ORDINANCE

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APPENDIX D

SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO PRIOR SUBORDINATE LIEN OBLIGATIONS

References in this Appendix to Prior Lien Bonds are no longer effective. As of May 15, 2019, the last of the outstanding Prior Lien Bonds were retired. Under the terms of the Master Ordinance, the City covenanted not to issue Prior Lien Bonds in the future.

Definitions. The following definitions are provided:

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

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

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

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

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

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

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

Outstanding-shall mean with respect to Bonds, as of the date of determination, all Bonds theretofore issued and delivered under this Ordinance, except:(i) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation; (ii) those Bonds for which payment has been duly provided by the City in

accordance with the provisions of Section 27 hereof; and(iii) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 30 hereof.

Subordinate Lien Bonds-shall mean the outstanding revenue bonds of those series designated) “City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998,” dated October 1, 1998.

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

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

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

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

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

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

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

Obligations now outstanding and hereafter issued, shall constitute a lien on the Net Revenues of the Waterworks and Sewer System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The total amount required to be accumulated and maintained in the Reserve Fund is \$106,790,325.15 (the Required Reserve), which amount is equal to or greater than the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds as determined on the date of the initial deposit of a Financial Commitment (as defined in this document) to the Reserve Fund.

Currently, the Reserve Fund is fully funded at the Required Reserve with Financial Commitments of Financial Security Assurance Inc. in the amounts of \$30,000,000 (the Initial Financial Commitment acquired) and \$76,790,325.15 (an additional Financial Commitment acquired on or about August 31, 2004). **THIS RESERVE FUND DOES NOT SECURE THE BONDS.**

When and so long as the money and investments, or Financial Commitments, are on deposit to the credit of the Reserve Fund in an amount equal to or exceeding the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Reserve, the City covenants

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

City to expend any funds derived from sources other than the operation of the Systems, but nothing in this document shall be construed as preventing the City from doing so.

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

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

- (a) A detailed statement of the income and expenditures of the Electric Light and Power System and of the Waterworks and Sewer System for such Fiscal Year.
- (b) A balance sheet for the Electric Light and Power System and the Waterworks and Sewer System as of the end of such Fiscal Year.
- (c) The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Prior Lien Bonds or Subordinate Lien Bonds and his recommendations for any changes or improvements in the operations, records and accounts of the respective Systems.
- (d) A list of insurance policies in force at the end of the Fiscal Year covering the properties of the respective Systems, setting out as to each policy the amount thereof, the risk covered, the name of the insurer and the policy's expiration date.

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

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

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

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

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

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

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

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

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

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

APPENDIX E

FORM OF BOND COUNSEL'S OPINION

DRAFT