

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF TEXAS
AUSTIN DIVISION

LONESTAR AIRPORT HOLDINGS, LLC,)
)
Plaintiff,)
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v.)
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CITY OF AUSTIN, TEXAS,)
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Defendant.)
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_____)

CIVIL ACTION NO. 1:22-CV-00770-RP

FIRST AMENDED COMPLAINT

Plaintiff Lonestar Airport Holdings, LLC, by and through its attorneys, files the following First Amended Complaint, pursuant to Fed. R. Civ. P. 15(a)(1)(b), against Defendant, the City of Austin, Texas, for declaratory and injunctive relief and damages based on the City’s imminent unlawful taking of Lonestar’s property and the City’s ongoing breaches of its agreement with Lonestar. Amendment of the complaint is authorized by Fed. R. Civ. P. 15 without leave of Court because this pleading is being filed within 21 days of the City’s “service of a motion under Rule 12(b)” directed at Lonestar’s original complaint. As explained below, the City’s actions have caused or threaten to cause Lonestar irreparable injury as well as hundreds of millions of dollars in damages.

INTRODUCTION

1. In 2016, the City of Austin sought private-sector investment in a new terminal at the Austin-Bergstrom International Airport. The City hoped to attract low-cost airlines, while shifting the significant cost of renovating and operating a then-defunct remote terminal to the private sector. In exchange for the significant up-front investment—and for taking the risk that

new tenants for the terminal might not materialize—the City was willing to grant its private-sector partner a 40-year lease and concession agreement. The investor would build and operate the terminal. The ultimate investor, Lonestar, agreed to make the needed investment in exchange for the long-term lease and concessions *and* a first right to participate in any expansion of the terminal or any new facilities at the airport. The long-term goal of both parties, reflected in the plain language of the agreement, was to build and operate an airport for the future.

2. This lawsuit arises from the City’s unlawful attempt to avoid the obligations of the contract it only recently entered, seize for itself the significant business Lonestar has successfully developed at the new terminal at the Austin Airport, and deprive Lonestar of all of its economic and other rights under the 40-year lease and concession agreement. The result is an unconstitutional taking in violation of the Fifth and Fourteenth Amendments to the U.S. Constitution, and breaches of multiple express terms of the contract between the City and Lonestar. That contract provides for jurisdiction in this Court and for injunctive relief for any such breach.

3. The City negotiated and, with the unanimous approval of the City Council, entered into the South Terminal Lease and Concession Agreement (the “Agreement”) in March 2016. The City did so with the intent of inducing Lonestar to invest the tens of millions of dollars needed to renovate and operate the “South Terminal,” which is owned by the City. The parties’ shared vision was to turn the South Terminal into a profitable and efficient commercial airline terminal for ultra-low-cost air travel that could benefit Austin residents. By its express terms, the Agreement is not only a “lease”; it also grants a “concession” to Lonestar to operate a business on the property subject to the lease and grants enforceable rights to participate in future development and expansion of the Airport. The City’s grant to Lonestar of the enforceable right to participate in

future development and expansion of the Airport was a central part of the bargain: absent the City's grant of such right as part of the parties' relationship, Lonestar would not have entered the deal.

4. Lonestar has held up its end of the bargain. In 2016 and 2017, in express reliance on the rights granted by the City in the agreement, it invested tens of millions of dollars, executed a gut remodel of the terminal, and negotiated and entered agreements with Allegiant, Frontier, and the myriad service providers necessary to run an airport terminal. In short, it developed a thriving business, which currently serves more than 57,000 passengers a month under Lonestar's management. In so doing, Lonestar conveyed substantial value to the City by adding substantial capacity to the Austin Airport at Lonestar's own expense. Lonestar could serve even more passengers at the South Terminal but for the breaches of the Agreement by the City.

5. Precisely because Lonestar has proven to be exactly the partner the City hoped for when it entered into the Agreement, the City is now attempting to seize Lonestar's successful business unlawfully and to deprive Lonestar of its rights under the Agreement by purporting to condemn the Agreement it induced Lonestar to enter into just a few years ago. In the words of the City's current Executive Director of Aviation in a letter to Lonestar, the City wants to condemn Lonestar's rights under the Agreement in order to gain "control" over the South Terminal, *i.e.*, to take Lonestar's business.

6. The City's Executive Director of Aviation's statement reveals that the City's current scheme is not motivated by legitimate City needs at the Austin airport, but instead is simply the product of an intentional decision by the City's current airport administration to reverse the City's earlier decision to enter into a public-private partnership with Lonestar. Specifically, new leadership of the City's Department of Aviation wants out of the City's lawful contract with Lonestar, and the City is deliberately abusing the Texas condemnation process to advance its plan

to take over and operate the business Lonestar has built and operate it. The City's officials, acting under the color of state law, are invoking Texas's "quick-take" statute, Tex. Prop. Code § 21.020, to assert immediate control over Lonestar's entire business at the South Terminal before the propriety of the taking can even be challenged, yet alone assessed.

7. The City's unlawful actions are creating an immediate and tangible threat to Lonestar's constitutional rights secured under the Fifth and Fourteenth Amendments, and are breaching the City's contractual obligations. Both warrant immediate, and eventually permanent, injunctive and declaratory relief. The City's unlawful campaign to deprive Lonestar of its rights under the parties' Agreement has already caused Lonestar to suffer substantial damages.

OVERVIEW OF THE PARTIES' RELATIONSHIP

8. Lonestar and the City entered the Agreement in March 2016. Under the Agreement, Lonestar committed to make significant investments in renovating and operating the South Terminal. In exchange, Lonestar negotiated for, and received, numerous commercial rights from the City. These include:

- (i) a right to occupy and use the premises on which the South Terminal lies for a 40-year term without interference from the City;
- (ii) an exclusive first right to participate in any expansion at the South Terminal or construction of new facilities at the Airport; and
- (iii) an express obligation on the part of the City not to take "any action . . . the primary purpose of which is to avoid honoring any of its commitments and obligations under this Lease."

9. The City also agreed to have any disputes between the parties heard in this Court and that any breach of the Agreement could be prevented with a request for injunctive relief.

10. Lonestar honored—and continues to honor—its obligations under the Agreement. Its operation of the South Terminal has been an extraordinary success.

11. After execution of the Agreement, Lonestar infused \$12.5 million to overhaul the South Terminal, resulting in a completely remodeled interior, improved customer amenities, and additional parking. Lonestar officially re-opened the improved South Terminal on April 13, 2017, with Allegiant Airlines serving as the first tenant. Lonestar has continued to invest heavily in the South Terminal, spending more than \$20 million. To date, more than 10,000 ultra-low-cost carrier flights have departed from the South Terminal. In the first six months of 2022 alone, Lonestar’s airline tenants accommodated more than 257,000 passengers at the South Terminal (over 1,400 daily).

12. Lonestar’s rapid renovation of the South Terminal and development of a successful business there have been lauded by the City and by third parties. The City’s prior Executive Director of the Department of Aviation (“DOA”), Jim Smith, referred to the South Terminal partnership with Lonestar as “cutting edge,” and a “test-case” for public-private partnership at airports.

13. Industry and media sources also regularly refer to Austin’s partnership with Lonestar as a model for how to efficiently improve airport operations. Politico Magazine, for example, profiled Lonestar’s renovation of the South Terminal as an example of “[p]rivate capital ... driving long-overdue improvements.”¹ Separately, CAPA - Centre for Aviation—a leading

¹ Politico Magazine, The Cure For America’s ‘Third-World’ Airports (Feb. 16, 2017), *available at* <https://www.politico.com/magazine/story/2017/02/america-airports-investment-improvement-infrastructure-214790/>.

international industry publication—noted U.S. airports’ funding crunch while observing that “public-private partnerships” such as the South Terminal “are (comparatively) thriving.”²

14. Despite the South Terminal’s success, the City’s approach to its partnership with Lonestar drastically changed in the summer of 2019—three years into the Agreement—when Jacqueline Yaft replaced Jim Smith as Executive Director of the DOA. The new administration reversed the City’s prior approach to its partnership with Lonestar, based on its stated desire to reassert “local control” over the Airport. Where the prior administration sought to have Lonestar take on the substantial risk needed to invest in, renovate, and operate the South Terminal and to participate in any expansion or new facilities at the Airport, once Lonestar’s renovations and business model proved to be successful, the City’s new administration embarked on a campaign to avoid its obligations under the Agreement, damage Lonestar’s business, and oust Lonestar from the Airport.

15. These efforts began with the City’s sudden change of approach to the potential expansion of the South Terminal. Before the change in administration, Lonestar and the City were in advanced discussions about a substantial expansion to the South Terminal, dubbed “South Terminal 2.0.”

16. But the new administration ceased good faith negotiations regarding “South Terminal 2.0,” and deliberately interfered with Lonestar’s efforts to raise funds with potential investors for that effort. It did so by submitting—and simultaneously disseminating through Austin’s media—an unsolicited offer to buy-out Lonestar’s rights under the Agreement for a mere \$10 million in November 2019. That amount was significantly less than Lonestar had invested in

² CAPA – Centre for Aviation, U.S. airports' funding crunch – are P3s the answer? (Feb. 23, 2021), *available at* <https://centreforaviation.com/analysis/reports/us-airports-funding-crunch--are-p3s-the-answer-550179>.

the South Terminal, and a mere fraction of the actual value of Lonestar's business and its rights under the Agreement. This is not simply Lonestar's opinion: there were contemporaneous market bids for Lonestar's interest that suggested the City's offer bore no relation to the market value.

17. In so doing, the DOA sought to cast doubt on Lonestar's continued right and ability to continue to operate the South Terminal, thereby deliberately undermining and damaging Lonestar's relationships with its present and prospective customers, employees, and business partners.

18. This offer was a complete surprise to Lonestar, given that the Agreement does not contain any such mechanism for a buyout. Lonestar rejected the City's offer but indicated willingness to meet with the City to understand any concerns. After its \$10 million offer was rejected, the City switched gears and pursued a strategy to cancel the Agreement and seize for itself the business Lonestar had developed at the South Terminal.

19. To accomplish this objective, the City has purported to exercise its eminent domain powers to "condemn" Lonestar's rights and is attempting to exploit Texas's quick-take procedure to obtain immediate possession of the South Terminal.

20. Lonestar recognizes the City's general eminent domain authority to take real estate, and such takings sometimes result in a business needing to relocate or otherwise adjust its operations. Indeed, in the Agreement the parties recognized the City's general authority to condemn property as an exercise of sovereign authority, provided that Lonestar was paid fair market value for any interest taken and assuming the taking was lawful. But nothing in the Agreement authorizes the City to use its eminent domain powers to serve an unlawful public objective and for the sole purpose of escaping its contractual obligations. In fact, the Agreement's provisions prohibit the City from taking actions to interfere with Lonestar's ability to operate the

Terminal. Nonetheless, the City is attempting to abuse its condemnation power to oust Lonestar from the Airport altogether, cancel the Agreement, take Lonestar's going concern business, and compensate Lonestar only for the value of the land on which Lonestar's business sits (which the City already owns).

21. The City's actions, which are merely a stratagem to cancel its own valid contract, not only violate the express terms of the Agreement, but also are an unconstitutional use of the City's eminent domain powers. Well-established precedent confirms that the government cannot "take" the entirety of a business under the guise of condemnation without paying just compensation. Yet that is precisely what the City intends to do. Lonestar's business at the Airport cannot be run anywhere else—*i.e.*, Lonestar cannot deliver low-cost air carrier services at any other location than the Airport. The City intends to take Lonestar's business for itself under the guise of a real estate condemnation that would terminate without compensation the very contractual rights and business that were the heart of the Agreement. If the City is allowed to proceed, it would effectively authorize the City—and any municipality in Texas—to use the power of eminent domain to take a business created by a private enterprise under a public-private partnership. That is not a constitutional use of eminent domain.

22. The City has made plain that it intends to take Lonestar's business and the entirety of its interests under the Agreement while only compensating Lonestar for the real estate on which the South Terminal sits. The City has expressly—and unilaterally—ignored the value of Lonestar's commercial interests in the Agreement, asserting, without foundation, that the key rights granted to Lonestar in the Agreement are not enforceable. These provisions were the fundamental inducement for Lonestar to enter into the Agreement less than seven years ago, and

for the City to attempt to take Lonestar's rights without assigning value to those rights demonstrates, in and of itself, the City's bad faith.

23. The City's efforts to take Lonestar's entire business under the color of state condemnation proceedings violates Texas law, the U.S. Constitution, and the plain terms of the contract. Moreover, because of how the City has chosen to proceed, absent action by this Court Lonestar will not have the opportunity to challenge the lawfulness of the City's taking until *after* the loss of Lonestar's entire business is complete. That is irreparable injury as a matter of law, and it must be halted.

PARTIES

24. Plaintiff Lonestar Airport Holdings, LLC is a Delaware limited liability corporation, primarily engaged in the financing, development, management, and operation of the South Terminal at the Austin-Bergstrom International Airport. It is a single-member LLC, with its sole member being Lonestar Airport Intermediate, Inc., a Delaware corporation. Lonestar Airport Intermediate, Inc.'s principal place of business is New York.

25. Defendant the City of Austin, Texas is a Texas home rule municipality and corporate body politic with a principal place of business in Austin, Travis County, Texas. It is acting by and through its Executive Director of the Department of Aviation in this case.

JURISDICTION AND VENUE

26. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and 42 U.S.C. § 1983 because Lonestar alleges an ongoing violation of its rights under the Constitution and laws of the United States.

27. This Court also has jurisdiction over Lonestar's state-law claims pursuant to 28 U.S.C. § 1332. Lonestar is a limited liability company, and none of the members of Lonestar who

are individuals or corporations are residents of the State of Texas. The City is a citizen of Texas, and the amount in controversy far exceeds \$75,000.

28. This Court also has jurisdiction over Lonestar's state-law claims under 28 U.S.C. § 1367 because those claims arise from the same set of facts as Lonestar's federal claims and because those claims are so related to Lonestar's federal claims that they form part of the same case or controversy under Article III of the U.S. Constitution.

29. This Court may also declare the legal rights and obligations of the parties in this action pursuant to 28 U.S.C. § 2201 because the action presents an actual controversy within the Court's jurisdiction.

30. This Court has personal jurisdiction over the City because it is domiciled in the state of Texas.

31. Venue is proper in this Court because the City and Lonestar have agreed that "[v]enue for any action arising out of or concerning this Lease shall be proper and lie exclusively in the Austin Division of the United States District Court for the Western District of Texas." *See* South Terminal Lease and Concession Agreement, ¶ 41.03, attached as Ex. A. Additionally, the facts and circumstances underlying the action arise from conduct occurring in Travis County, Texas. 28 U.S.C. § 1391(b).

FACTUAL ALLEGATIONS

A. History of the South Terminal and Agreement

32. The South Terminal is located at the Austin Bergstrom International Airport. It is physically separated from the Airport's Barbara Jordan Terminal (the "Main Terminal") and sits on a tract of land south of the Main Terminal. The South Terminal first opened for commercial operation in 2008 after being refurbished to accommodate flights for the Mexican airline

VivaAerobus. VivaAerobus operated out of the South Terminal for only a year before vacating it. With no airline serving the Terminal, the empty building was fenced off, and the City left the terminal vacant for years.

33. In 2015, the City began exploring options for alleviating capacity stress at the Airport. The Executive Director of the DOA decided that reopening the South Terminal presented an attractive option for the growing needs of the Airport. But having been vacant for over half a decade, the terminal needed significant work before it could be re-opened. And, as the City's experience in 2008 showed, it was far from a foregone conclusion that this would be a successful and profitable enterprise.

34. Shifting this financial and operational risk was a key part of the rationale for the City's decision to enter a public-private partnership with Lonestar: a public-private venture had the benefit of minimizing financial risk for the City, while providing the Airport the capacity it needed to keep up with the population growth in the Austin metropolitan area and corresponding increase in demand for air travel.

35. Key City personnel—including the then-Executive Director of the DOA—were keen on the idea of public-private partnerships: a public-private partnership allowed the City to shoulder little to no risk but enjoy the opportunity for significant gain at the South Terminal, while Lonestar assumed significant risk of funding and ultimate success or failure.

36. Lonestar presented a proposal to the City, including an initial investment of \$12.5 million into renovating the South Terminal to get it up and running, as well as committing the operating capital and personnel to make it a success. The City and Lonestar spent countless hours considering, negotiating, and reviewing the terms of a proposed 40-year lease that would include, among other things, a significant investment by Lonestar to bring the South Terminal back into

operation. In August 2015, the DOA Executive Director praised the deal for relieving the City of all risk relating to the South Terminal, stating at an Austin City Council session: “So [Lonestar] is accepting the risk for all the long-term [of] what happens [with the South Terminal].”

37. For Lonestar, the deal was about more than renovating the South Terminal; it was about operating a long-term business at the South Terminal and serving the Airport’s long-term needs—which were only increasing as the City of Austin grew. That goal was reflected in the express terms of the Agreement reached between Lonestar and the City and was an integral part of Lonestar’s decision to enter into the Agreement. And Lonestar relied on that Agreement in making the investments necessary to develop a successful business at the South Terminal.

38. Specifically, the City and Lonestar expressly contemplated at the time that continued growth at the Airport would require further expansion of the Airport’s facilities. To induce Lonestar to fund the multi-million-dollar renovation and expansion of the South Terminal, the City granted Lonestar the exclusive first right to participate at its own option in any required expansion or new facilities at the Airport—further reinforcing Lonestar’s ability to run a business at the Airport for the long-term.

39. Lonestar insisted on, and the City agreed to, the inclusion of Article 15 in the Agreement as a necessary and material part of its agreement with the City.

40. From the outset, both Lonestar and the City recognized that expansion of the South Terminal or the creation of a new terminal or other facilities would very likely be necessary over the 40-year term of the Agreement.

41. Lonestar was not willing to make the substantial investments required to renovate and operate the South Terminal without the City’s assurance that Lonestar would be afforded an exclusive opportunity to participate in later expansions or development at the Airport.

42. Without the prospect of future involvement in such expansions, the economic appeal of the proposed arrangement to Lonestar would have been minimal.

43. Lonestar considered the City's grant of such right to be a demonstration of the City's commitment to the long-term public-private partnership envisioned by and memorialized in the Agreement.

B. The South Terminal Lease and Concession Agreement

44. In March 2016, Lonestar and the City signed the Agreement. *See* Ex. A. The Austin City Council and its committees voted on the decision to enter into the Agreement with Lonestar three separate times, and the Agreement was approved unanimously with the full support of the Mayor and the City Council. Specifically, the City Council voted in June 2015 to authorize contract negotiations; the audit and finance committee voted again in August 2015 to recommend execution of the Agreement; and—by unanimous vote on August 27, 2015—the City Council approved execution of the Agreement.

45. The Agreement established a long-term partnership between Lonestar and the City, and, as with any contract, it conferred various rights and obligations on each party. Among other things, Lonestar was required to rehabilitate the South Terminal and commence and maintain a specific degree of operations upon completion of the rehabilitation phase. Upon rehabilitating the terminal, Lonestar was granted the 40-year right to operate the terminal “peaceably and quietly” and to “have, hold, occupy, use and enjoy the Premises during the Term ... without ejection or interference by Owner.” Ex. A, ¶ 2.03.

46. In addition, in consideration for its significant upfront investment, Lonestar was granted an exclusive first right to participate in any “Expansion” of the South Terminal or

construction of a “New Facility” at the Airport. That right is memorialized in Article 15 of the Agreement:

15.01 Expansion or New Facility. If Tenant determines that the growth of operations of existing or new air carriers requires an Expansion or if Tenant or Owner determines that the growth of operations of existing or new air carriers requires a New Facility, either Tenant or Owner, as applicable, shall provide a written notice to the other Party of such determination. If Tenant provides a written notice to Owner that it is interested in investing in such Expansion or New Facility, then, subject to Owner’s agreement and in accordance with the Airport Master Plan, (a) in the event of an Expansion that does not require additional land or other material changes to this Lease, Owner and Tenant will amend this Lease to reflect such Expansion, and (b) in the event of an Expansion that requires additional land or the construction of a New Facility, **Owner will provide Tenant with the exclusive first right to, as applicable, develop, construct and operate such Expansion or New Facility**, and both Parties shall work together in good faith to enter into an agreement regarding such Expansion or New Facility on mutually agreeable terms. Owner will coordinate with Tenant to seek FAA approval to update the Airport Layout Plan accordingly to identify the Tenant’s Expansion or New Facility on the Airport Layout Plan. In the event an update to the Airport Layout Plan is necessary due to Tenant’s Expansion or New Facility as approved by Owner, Tenant shall be responsible for the cost of any environmental studies in connection with FAA and state approvals.

Ex. A (emphasis added).

47. Both “Expansion” and “New Facility” are defined broadly under the Agreement. “Expansion” is defined to mean “any expansion of the South Terminal for the Authorized Use, including the development of any additional parking facilities serving the South Terminal, to accommodate the growth of operations of Airlines (or other air carriers) at the Airport.” Ex. A, Article 1.01. “New Facility” is defined to include “the construction of any new passenger terminal or concourse, including without limitation any new Limited Services Terminal, or other facilities at the Airport, including any new or expanded parking facilities, to accommodate the growth of

operations of Airlines (or other air carriers) at the Airport.” *Id.* And “Airport” is defined as the Austin-Bergstrom International Airport, located in the City of Austin, Travis County, Texas. *Id.*

48. In sum, Article 15 grants Lonestar an exclusive first right to develop, construct, and operate any Expansion of the South Terminal or New Facility, and requires the City to “work together” with Lonestar “in good faith to enter into an agreement regarding such Expansion or New Facility.”

49. Significantly, Article 34 contemplates a possible use of eminent domain—preserving the City’s sovereign right to exercise eminent domain when justified unconnected with its obligations under the Agreement—but expressly provides that the City must pay fair market value for *all* of Lonestar’s interests taken.

50. Article 41.13 of the Agreement prohibits the City from “taking any action the primary purpose of which is to avoid honoring any of its commitments and obligations” under the Agreement.

51. Article 18.05 provides that the City “shall provide, at no cost to Tenant, Shuttle Bus Service for passengers and employees between the South Terminal and the North Terminal/CONRAC facility,” and that “[o]peration of the Shuttle Bus Service shall be sufficiently coordinated with the arrival and departure of commercial airline flights at the South Terminal in accordance with Tenant’s Airport Operational Manual as approved by Owner to accommodate actual passenger traffic levels and projected passenger traffic levels provided by Tenant to Owner.”

C. Lonestar Invests Millions of Dollars in the South Terminal, Turning It into a Successful and Profitable Enterprise

52. Lonestar’s and the City’s deal regarding the South Terminal was touted by the City as a highly effective public-private partnership. The DOA Executive Director at the time gave an interview to POLITICO in February 2017—shortly before the South Terminal became

operational—as part of an article entitled: “The Cure For America’s ‘Third-World’ Airports.” The subheading of the article was “Private capital is driving long-overdue improvements.” The executive director spoke glowingly about the public-private partnership with Lonestar, which had been called “cutting-edge” and a “test-case” for public-private partnerships at airports.

53. Pursuant to its obligations under the Agreement, Lonestar infused millions of dollars into a complete overhaul of the South Terminal. The interior was demolished and rebuilt. This was not a cookie-cutter project; it was a bespoke design intended to appeal to the customers the South Terminal would be serving. The retro design theme throughout was specifically chosen to provide a sense of place in the Austin market. Windows were added, providing the building with much needed natural light. Food trucks, kiosks, an indoor and outdoor waiting area with a stage and bar, and 1,000 parking spaces were added. All of these investments and improvements were made at Lonestar’s expense and direction.

54. Photographs of the South Terminal before and after Lonestar’s renovation show the South Terminal’s transformation.

Photos of South Terminal Before Renovation

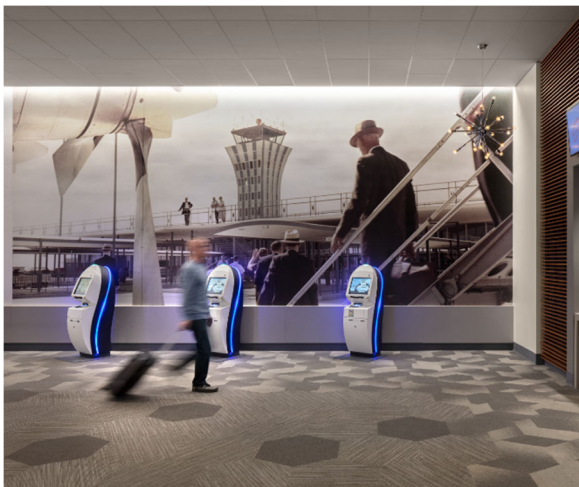




Photos of South Terminal During Renovation



Photos of South Terminal After Renovation



55. In addition to the physical renovations, Lonestar invested heavily in infrastructure, such as a new IT system, baggage handling, and other critical systems.

56. Lonestar also committed the personnel and expertise to make the South Terminal a success. It hired an exemplary CEO in Jeff Pearse; Mr. Pearse has over 30 years of experience managing airports and airport capital projects, having previously worked at Atlanta's Hartsfield-Jackson Airport, Hong Kong International Airport, and the Port Authority of New York and New Jersey—some of the largest and most complicated airports in the world. Mr. Pearse relocated from New York City to spearhead the South Terminal construction and operations in August 2015.

Lonestar also took advantage of institutional prior experience within its funding sources with successful operation of airports around the world. Mr. Pearse and his team spent thousands of hours preparing for the opening of the South Terminal, working with all stakeholders, customers, and vendors to make the South Terminal a success. During this period, Lonestar also provided additional start-up capital to ensure that the South Terminal operations were well funded, regardless of the initial financial profitability of the enterprise. Through this entire period, Lonestar strived to ensure that it was a good partner to the City and DOA, knowing that this was the start of a 40-year relationship.

57. This significant investment built the foundation for Lonestar's success in running a business at the South Terminal delivering ultra-low-cost carrier services to the Austin community.

58. On April 13, 2017, the South Terminal celebrated its opening with Allegiant Airlines as its first tenant. The speed with which Lonestar was able to overhaul the South Terminal and acquire its first tenant airline demonstrates the efficiency of the public-private partnership recognized by the DOA at the time, and is a testament to Lonestar's unique strengths, experience, and dedication to performing under the Agreement.

59. Lonestar has continued to invest tens of millions of dollars into developing and operating its business at the South Terminal since that date.

60. With its significant capital expenditure, and with only Allegiant as a customer, Lonestar operated the South Terminal at a loss for the first 20 months.

61. In November 2018, Frontier Airlines moved its operations to the South Terminal from the Main Terminal. This move created much-needed space for additional flights to the Main Terminal. With the addition of Frontier, by March 2019, the South Terminal became profitable.

62. At this time, Lonestar continues to successfully operate the South Terminal, delivering ultra-low-cost-carrier service to the Airport. It does so through several key contracts, including contracts between Lonestar and (1) airline tenants, Allegiant and Frontier; (2) a food and beverage provider; (3) a terminal management and maintenance provider; (4) media and advertising entities; and (5) ride share companies.

63. Lonestar has invested significant time and resources into negotiating favorable contracts and building a successful business at the South Terminal.

64. Each of the contracts Lonestar has negotiated for operation of the South Terminal is premised on Lonestar's ongoing right to occupy the South Terminal.

65. The revitalization of the South Terminal has been crucial for the Airport's continuing operations more broadly. The Main Terminal was originally built with an 11 million annual passenger capacity, but it handled 13.9 million passengers in 2017 and almost 16 million passengers in 2018—and in 2022, the Main Terminal is expected to handle more than 20 million passengers. Those ever-increasing passenger numbers have created, since 2018, a clear need for further Expansion or a New Facility.

D. Lonestar and the City Begin Discussions Regarding Expansion of the South Terminal

66. In Fall 2018, Lonestar began discussions with the City's DOA for an Expansion of the South Terminal to accommodate the future growth of its newest customer, Frontier Airlines. The City, through the DOA, agreed that an Expansion along the lines of what Lonestar proposed was needed. In fact, the DOA asked Lonestar if it would be interested in an even more substantial Expansion of the South Terminal in a new location ("South Terminal 2.0" or "ST 2.0"). The plan was for South Terminal 2.0 to have an additional six to ten gates (expandable up to 12 gates in the future).

67. In accordance with Article 15 of the Agreement, Lonestar communicated its interest in investing in and developing ST 2.0 and began developing plans for this new terminal. Discussions between Lonestar and the DOA continued on an almost monthly basis, including about a lease amendment and financial deal to accomplish the plans to develop ST 2.0.

68. The City actively worked with Lonestar to develop ST 2.0 in recognition of the fact that Lonestar had an enforceable, exclusive right under Article 15 to participate in any expansion of the South Terminal.

69. Throughout this process, Lonestar invested a significant amount of time and resources into the plans for ST 2.0, continually demonstrating its commitment to its partnership with the City.

70. In connection with preparing to develop ST 2.0, which was initially on an expedited time frame, Lonestar sought a development partner to provide additional capital and received credible proposals sufficient to fund the proposed development that valued Lonestar's interest in the Agreement at amounts ranging from \$135,000,000 to \$305,000,000.

71. Meanwhile, in February 2019 the long-time executive director of the DOA announced his intent to retire. Discussions between Lonestar and the DOA to finalize the agreement regarding ST 2.0 were put on hold in March 2019 as the parties waited for the arrival of a new executive director.

E. The City Breaches Article 15

72. With the arrival of the new administration, the DOA's posture toward Lonestar—which had been an exemplary partner to the City and Airport—went from cooperative to adversarial. With evidence that Lonestar's investments and efforts were successful, the DOA

sought to escape its contractual obligations to prevent Lonestar from expanding the South Terminal and to improperly take control of Lonestar's successful business for the City's own uses.

73. Despite the DOA's new reluctance to work cooperatively with Lonestar, Lonestar continued to meet with the DOA in good faith to finalize the plans for ST 2.0. This involved Lonestar explaining the prospective funding, deal structure, and expected timing, and Lonestar reinforcing that it was committed to remaining an integral part of the future of the South Terminal.

74. Even after the City changed course, Lonestar continued to invest a significant amount of time and resources into the plans for ST 2.0.

75. In November 2019, right around the time Lonestar was preparing the final bidding process, the City unexpectedly sent Lonestar a letter offering to buy Lonestar's interest in the South Terminal under the Agreement for just \$10,000,000—which was far less than the amount that Lonestar had invested in remodeling and operating the South Terminal, and significantly less than the bids Lonestar had received from investors interested in purchasing Lonestar's interests.

76. This buy-out offer, which was well below market value, not only had a chilling effect on Lonestar's capital raising process, but also came as a surprise given the Agreement did not contemplate or otherwise include a buy-out clause for the City. Lonestar had been a great partner to the City, had fully complied with the terms of the Agreement (which had 36 years left on the lease), and was in the middle of good faith negotiations under Article 15 for Expansion of the South Terminal.

77. The City's November 2019 letter stated that "the City is not inclined to approve any expansion of the South Terminal facility," and instead "*wishes to acquire the leasehold*

interest of the South Terminal facility to regain local control.” Letter from J. Yaft to J. Burchetta (dated Nov. 7, 2019), attached as Ex. B (emphasis added).

78. Before Lonestar had a chance to respond, the City released an internal memorandum discussing the City’s intention to buy out Lonestar’s interest in the South Terminal and provided that memorandum to the press. An article, published on ABC-affiliate KVUE’s website and entitled “City offering \$10M to buy Austin airport’s South Terminal back,” declared that the “airport wants to buy it [the South Terminal] back so that it can have more control over what happens with it in the future.”³

79. This press release destroyed real economic value that Lonestar had created, particularly given that Lonestar was in late-stage talks with prospective investors regarding funding for ST 2.0. The City’s actions effectively killed Lonestar’s discussions with potential investors.

80. In essence, the City cut off all “good faith” negotiations, breaching its obligations under the Agreement. In fact, from this point forward the City’s new administration engaged in ongoing course of conduct to deny Lonestar the benefit of its bargained-for rights in the Agreement.

81. In addition, and unbeknownst to Lonestar, the City also sent a letter to Frontier Airlines (among others)—a key customer for the South Terminal—similarly communicating the City’s desire to take over Lonestar’s business and clients.

82. Lonestar communicated to the City that it was not interested in selling its business to the City and reiterated its commitment to enforcing its rights under the Agreement and funding

³ City offering \$10M to buy Austin airport’s South Terminal back, KVUE (November 8, 2019), *available at* <https://www.kvue.com/article/news/local/city-offering-10m-to-buy-austin-airports-south-terminal-back/269-1c97faed-26b7-487d-84f4-a4ef5d3460ed>.

ST 2.0.

83. The parties continued discussions over the next several months. During this time, the City acknowledged that the Agreement as written would not allow the City to expand or construct at the airport without Lonestar's involvement, and proposed amending the agreement to limit Lonestar's rights. In January 2020, the executive director of the DOA wrote: "I propose another meeting to discuss potential modifications to the South Terminal Lease [i.e., the Agreement]. Further dialogue, resulting in amendments to the South Terminal Lease, may allow the City to proceed, unencumbered, with the 2040 Airport Master Plan, while still allowing [Lonestar] to retain much of its interest in the South Terminal Lease." Letter from J. Yaft to J. Burchetta (dated Jan. 27, 2020), attached as Ex. C.

F. The City Plans a New Facility That Involves Demolishing the South Terminal

84. As negotiations continued, it became clear to Lonestar that the City had no interest in dealing in good faith with Lonestar or recognizing Lonestar's rights under the Agreement.

85. Instead, in each communication, the City began laying the groundwork to permanently and unlawfully deny Lonestar's rights under the Agreement. For example, on February 14, 2020, the City stated in writing, for the first time, that it believed Article 15 of the lease was limited to a "right to negotiate" a future expansion of the South Terminal. Letter from J. Yaft to J. Burchetta (dated Feb. 14, 2020), attached as Ex. D. This statement runs directly contrary to the clear language and parties' intent and understanding at the time the Agreement was negotiated and executed. It also runs contrary to the parties' ongoing discussions to that point, in which the City had acknowledged Lonestar's exclusive first right under Article 15 as written. Lonestar responded to the City's letter the same day, reiterating that Lonestar had a contractual

right to participate in the development of ST 2.0 under the Agreement. *See* Letter from J. Burchetta to J. Yaft (dated Feb. 14, 2020), attached as Ex. E.

86. Just one month later, in March 2020, the City informed Lonestar that plans for ST 2.0 would not advance and that the City now purportedly intended to demolish the existing South Terminal to build a taxiway in its place. The City also stated again that it believed Lonestar’s Article 15 rights were limited to the mere “right to negotiate.” Letter from J. Yaft to J. Burchetta (dated March 3, 2020), attached as Ex. F.

87. Three days later, Lonestar responded to the City’s letter. Lonestar “reiterate[d] [its] disagreement with [the City’s] statement that negotiation is the only right afforded [to Lonestar] under [the] current Lease.” Lonestar also continued to express its intent to invest in a new cost-efficient facility, per Article 15 of the Lease Agreement, and its “commit[ment] to working with... the City of Austin.” Letter from J. Burchetta to J. Yaft (dated March 6, 2020), attached as Ex. G.

88. Discussions between Lonestar and the City related to airport expansion stalled for the next year as the City took time to re-evaluate the overall scope and timeline for expansion at the Airport in light of the COVID-19 health crisis. Notably, during this difficult time, Lonestar continued to make timely rental payments to the City, did not lay off any employees, and maintained functional operations. Lonestar achieved this despite having no material revenue and asking for no assistance from the federal or City government. Instead, it invested more of its own capital to help the Airport and the City through the difficult time.

89. On July 13, 2021, without warning or any prior direct communication to Lonestar, the City publicly announced its intention to demolish the South Terminal and build in its place a New Facility—specifically, a midfield concourse with at least 10 new gates and two new taxiways. This new “Airport Expansion Development Plan” or “AEDP” was concocted by the new

administration at the DOA—without any input from, or discussion with, Lonestar—solely for the purpose of taking over Lonestar’s business and ousting Lonestar from the Airport. Indeed, at the same time the City announced the Airport Expansion Development Plan, the City also announced its plan to both buy out Lonestar’s interest in the South Terminal and exclude it from any plans for a New Facility going forward.

90. In a July 13, 2021, letter, the DOA made its intentions clear: “[P]lease contact me within the next ten (10) days to discuss the scheduling of a meeting to begin to negotiate a mutually agreeable purchase price. If LoneStar fails to respond timely, we will assume LoneStar has no intention to sell its South Terminal leasehold interest voluntarily to the City. In that event, the City will pursue all other available legal remedies, including condemnation proceedings....” Letter from J. Yaft to S. Litman and T. Molz (dated July 13, 2021), attached as Ex. H.

91. On July 28, 2021, Lonestar responded to the City’s July 13 letter, writing “to confirm again that Lonestar is interested in investing in and exercising its rights under Article 15 of the [Agreement] to develop, construct, and/or operate any such New Facility.” Letter from J. Burchetta to J. Yaft (dated July 28, 2021), attached as Ex. I. Indeed, Lonestar was “prepared to make a significant financial investment in exercising these rights.” *Id.* But despite notifying the City that it was interested in investing in the New Facility, Lonestar made clear that such notification did “not obviate [its] position that there are several alternatives that can fully address the growth of operations at AUS” without removal of the South Terminal. *Id.*

92. The City did not engage with Lonestar’s stated interest in investing in any Expansion or New Facility pursuant to its Article 15 rights. Instead, the City has proceeded not only with the development of a New Facility without Lonestar, but has undertaken numerous other

significant development projects without affording Lonestar an opportunity to participate as required by Article 15 of the Agreement.

93. The City's refusal to honor its obligations under Article 15 serves no legitimate governmental function. Lonestar remains a willing and capable partner, fully qualified to develop any Expansion or New Facility pursuant to its Article 15 rights. The City's refusal to honor its obligations under Article 15 is motivated by an improper interest in appropriating a successful business run by a private enterprise partner and in effecting the termination of a long-term agreement that the City no longer wants to perform.

94. If the City is permitted to deny the enforceability of Article 15, it will result in a manifest injustice to Lonestar. The Agreement, including the rights granted in Article 15, was unanimously approved just a few years ago by the Austin City Council and publicly hailed and promoted by the City as a model public-private partnership, reflecting the City's understanding, prior to the recent change of Airport administration, that the entirety of the Agreement—including the rights afforded by Article 15—is valid and enforceable. It would be grossly unjust and inequitable to permit the City now to avoid its valid and enforceable obligations merely because it has changed its mind about the Agreement and wishes to “regain local control” over the Airport. Allowing the City to “pick and choose” which provisions it wishes to be bound by in an otherwise valid contract fundamentally undermines the basis of the bargain upon which that Lonestar entered into the Agreement as well basic contract law.

G. The City Proceeds with Condemnation as a Pretext to Evade the City's Contractual Obligations and Take Lonestar's Business

95. On March 29, 2022, the City informed Lonestar that the South Terminal was “under the imminence of condemnation” and that the City had valued Lonestar's leasehold interest in the South Terminal at a mere \$1,954,000—less than 20% of what it had offered in 2019 and a fraction

of the business's true value. *See* Letter from T. Forestier to J. Pearse (dated March 29, 2022), attached as Ex. J. Despite purporting to condemn Lonestar's *entire* interest under the leasehold, including the value of Lonestar's going-concern business, and its forward-looking rights under Article 2 and Article 15, the City's offer valued only the real estate subject to the Agreement, and took the position that "***there are no enforceable rights pertaining to Article 15,***" and therefore, Article 15 "was not part of [the] scope of the appraisal." *Id.*

96. In other words, the City expressed its intent to pay only for the real estate itself, even though it seeks to take Lonestar's entire business and all of Lonestar's contractual rights under the Agreement, including its right to operate and expand its business and its right of first refusal under Article 15 with respect to investing in any New Facility. The City's conduct violates the City's commitment not to engage in any act for the purpose of avoiding its obligations under the Agreement as set forth in Article 41.13 of the Agreement. It also violates well-settled constitutional principles, which entitle Lonestar to just compensation. And it runs directly contrary to Section 34 of the Agreement, which provides that, in the event of a lawful taking of Lonestar's Interest, the City must compensate Lonestar for the fair market value of any Lonestar Interest that is taken.

97. On April 18, 2022, pursuant to Section 40.01 of the Agreement, Lonestar invoked the Agreement's dispute resolution process and requested a meeting with the City "to attempt in good faith to negotiate a resolution of the dispute." Letter from J. Pearse to J. Yaft (dated April 18, 2022), attached as Ex. K.

98. Then, Lonestar sent a formal letter rejecting the City's offer and highlighting the City's "bad-faith attempt to wrongfully circumvent the terms of the concession agreement and

deprive Lonestar of the benefit of its bargain.” Letter from C. Clough to T. Forrestier (dated April 27, 2022), attached as Ex. L.

99. A month later, the City presented to Lonestar its “final offer” for the premises, in the amount of \$1,954,000. *See* Ex. M (May 16, 2022 Final Offer Letter and attached Appraisal Report). The offer was based on a written appraisal that, among other things, fails to value Lonestar’s going-concern business and expressly declined to value Lonestar’s Article 15 rights. *Id.*

100. On June 16, 2022, the City obtained approval from the City Council—including from members who had voted in favor of the Agreement just a few years earlier—to initiate condemnation proceedings without an opportunity for public debate.

101. On June 17, 2022, the City filed its Petition for Condemnation.

102. On July 13, 2022, the Travis County Probate Court appointed commissioners in the condemnation case.

103. The condemnation proceeding remains in an administrative phase, with no judge or court exercising control over it.

104. To date, despite Lonestar’s providing its availability for a hearing before the commissioners, the City has made no effort to set such a hearing.

105. The City is improperly weaponizing these proceedings to condemn Lonestar’s business and interests in the Agreement—so it can operate Lonestar’s business itself—while compensating Lonestar only for the value of the real estate. The City has no valid public purpose for condemning Lonestar’s rights under the Agreement, but instead intends to abuse that procedure in bad faith for the sole purpose of avoiding contractual obligations that it freely entered.

H. Texas Eminent Domain Procedure

106. Under the Texas Property Code, a condemning authority can acquire a right of possession before the condemnee is afforded the ability to contest the validity of the taking—commonly referred to as a “quick take” statute. *See* Tex. Prop. Code § 21.001, *et. seq.*

107. Specifically, under the Texas Property Code, once an eminent domain petition describing the property interests that the condemning authority wishes to condemn is filed, a panel of three special commissioners is appointed. *Id.* § 21.014.

108. The special commissioners consider the value of the property taken (and the damages to any property not taken) and issue an award. *Id.* §§ 21.014, 21.015. Once that award is issued, the condemnor may take possession of the property so long as it pays the amount set forth in the special commissioners’ award. *Id.* § 21.021.

109. The property owner may contest the validity of the taking on appeal, but only after the filing of objections to the award, which can occur after the condemning authority has already entered and taken possession of the property. *Id.* § 21.018.

110. Further, in the typical eminent domain case, when the property owner’s real estate is taken, his business can be relocated to a new location. Thus, because the typical case assumes the potential relocation of any business displaced by a taking of real estate, the quick-take process does not provide a framework for ensuring just compensation for a taking of a going-concern value of a business. *City of Blue Mound v. Sw. Water Co.*, 449 S.W.3d 678, 683-4 (Tex. App.—Fort Worth 2014, no pet.) (explaining that because usually “the property owner is free to move his business to another location,” the “general rule is that the taking by the government of a fee simple in real property does not entitle a property owner to compensation for loss of the value of his

business as a going concern”). In this case, however, Lonestar obviously has no ability to relocate its business.

111. Notwithstanding the well-settled requirement of just compensation, the City also made it abundantly clear that it intends to compensate Lonestar only for the value of the real estate through its state condemnation process. The City has expressly stated its position that “lost business income, profits, capital investments and any alleged return on those investments are . . . not compensable” in the condemnation process. Letter from T. Forestier to C. Clough (dated May 11, 2022), attached as Ex. N. Moreover, the City’s appraisal offer and condemnation Petition make plain that the City’s valuation is based only on the real estate itself, excluding the value of Lonestar’s business and its very significant rights and interests under the Agreement. Ex. J (City’s Appraisal); *see also* Plaintiff’s Original Statement and Petition for Condemnation (dated June 17, 2022), attached as Ex. O. The City has accordingly made clear that it intends to co-opt the Texas quick-take procedure to obtain immediate possession of Lonestar’s business while only compensating Lonestar for the value of Lonestar’s interest in the real estate on which Lonestar developed that business under an express contract with the City.

112. The United States Supreme Court has held that a condemnation process cannot ignore going concern value where, as here, “the Government has condemned business property with the intention of carrying on the business, as where public-utility property has been taken over for continued operation by a governmental authority. If, in such a case, the taker acquires going

concern value, it must pay for it.” *Kimball Laundry Co. v. United States*, 338 U.S. 1 at 12, 69 S. Ct. 1434, 93 L. Ed. 1765 (1949).

113. *Blue Mound*, the leading Texas case on this issue, recognized the fundamental shortcomings of the Texas eminent domain process for the valuation of a going concern when such is required under *Kimball Laundry*, and ultimately held that such a taking is void:

Because as a matter of law the City is attempting to condemn Appellees’ water and wastewater system as a going concern, because as a matter of law Appellees are entitled to compensation for going-concern value as an element of this purported taking, because the general Texas condemnation statutes provide no mechanism for the awarding of going-concern value as held in *Lone Star Gas Co.*, and because *Lone Star Gas Co.* remains binding precedent, we hold that Appellees conclusively established their entitlement to summary judgment on the ground that no statutory procedures exist authorizing the City’s condemnation suit in this case in district court.

Blue Mound, 449 S.W.3d at 692–93.

114. The situation here is even more problematic because the City is not attempting to condemn a fee simple or easement interest in land, but rather is condemning contractual rights arising under an agreement the City itself entered into, for land it already owns. That agreement includes significant rights to not only run a business at the Airport but also to develop, construct, and operate any Expansion or New Facility at the Airport. And, in reliance on that Agreement, Lonestar has developed a significant business that it can only operate at the South Terminal.

115. The City’s attempt to abuse the condemnation process and take unlawful advantage of the quick-take procedure to nullify Lonestar’s rights under the Agreement and gain possession of Lonestar’s business—without compensating for Lonestar’s business or its valuable rights under

the Agreement—is a violation of Lonestar’s constitutional entitlement to just compensation, Texas Law, and the Agreement.

116. Quick take procedures are uniquely subject to abuse. *See Dep’t of Pub. Works & Bldgs. v. Vogt*, 366 N.E.2d 310, 316 (Ill. App. 1977) (“[I]t is an abuse of power for a condemning authority to ‘quick take’ property under the pretense of imminent necessity when there exists only some possibility of need at an indefinite future date.”); *Transwestern Pipeline Co. v. 17.19 Acres of Property Located in Maricopa County*, 550 F.3d 770, 774 (9th Cir. 2009) (recognizing that quick take procedures are an exception to the usual rule that government takes possession only after a determination of just compensation). Indeed, courts have recognized that, when government entities coopt quick take procedures merely to avoid contractual obligations to third parties, it is nothing more than “municipal thuggery.” *See, e.g., Union Station Assocs. v. Rossi*, 862 A.2d 185, 187 (R.I. 2005).

I. The City’s Unlawful Abuse of the Condemnation Process Will Cause Lonestar Irreparable Harm

117. While pressing forward with its improper attempt to condemn business without compensation, the City has breached the Agreement by moving forward with the AEDP without providing Lonestar any ability to participate in the development, construction, or operation of the New Facility contemplated by the AEDP. The City never even presented the AEDP to Lonestar before announcing it as the City’s official plan—nor did it provide Lonestar its contractually-guaranteed ability to provide input or comment on development of the plan for New Facilities at the Airport.

118. Since categorically announcing the AEDP as the “best” option for the City, the City has moved forward with the AEDP—again, without Lonestar. Specifically, the City has issued bonds for constructing the AEDP; put out RFPs for engineering, architecture, and other contractors

for the project; and engaged a project manager. In other words, the New Facility contemplated by the AEDP—exactly the sort of facility Lonestar has a right to develop under Article 15—is well underway, and Lonestar was never provided any opportunity to participate in any way in the development, construction, or operation of the Facility. Lonestar’s exclusion from these processes causes Lonestar ongoing harm; Lonestar is contractually entitled to be involved in the ongoing development process but has instead been wrongfully excluded. Further, the City is using the AEDP as an excuse to snuff out Lonestar’s bargained-for contractual rights under the Agreement and seize its business at the South Terminal.

119. In addition, upon information and belief, the City has engaged in other significant Capital Development projects at ABIA without including Lonestar. These include development, construction, and operation of the Blue Parking Garage, the Department of Aviation Administration Building, the Remain-Overnight-Parking for aircraft, the Barbara-Jordan Terminal Concession Program, the landside travel plaza commercial development, and the West-side Aircraft Fuel Farm. Engaging in these Expansions and New Facilities without affording Lonestar an opportunity to participate violated Lonestar’s contractual rights.

120. In addition to breaching its obligations to Lonestar—and refusing to compensate Lonestar for those rights in the condemnation proceeding—the City also has taken affirmative steps to take over Lonestar’s business at the South Terminal.

121. The City has reached out to Lonestar’s business partners as well as its key customers, Allegiant and Frontier, about transitioning to contracts with the City. The City

informed Allegiant and Frontier, Lonestar's airline tenants, that Lonestar will not be operating the South Terminal after November of 2022.

122. The City has also contacted two of Lonestar's other primary business partners, ClearedDirect, LLC and Happy Goods, Inc., stating that it wishes to develop a "transition plan for the future" regarding the South Terminal

123. In a bond prospectus it issued on April 26, 2022, the City stated that it expected the South Terminal to continue to operate through the end of 2023. Ex. P at p. 154, Airport System Revenue Bonds, Series 2022 (dated April 26, 2022).

124. The City has also demanded meetings with Lonestar to discuss the "transition" of its business at the South Terminal to the City.

125. The City's attempt to condemn Lonestar's leasehold interest and take Lonestar's business violates well-settled Texas law because the Texas Property Code does not authorize the City to take Lonestar's business so that it may operate that business itself. The fact that the City has evinced an intent *not* to pay for Lonestar's business rights under the Agreement further supports the unlawfulness of the City's condemnation attempt, as well as the constitutional infirmity of the state eminent domain system which, as applied in these circumstances, will allow the City to take a going concern business prior to any challenge to that taking, and without providing any compensation for that business.

126. Further, the City's attempt to pay only for Lonestar's interest in the physical real estate impacted by the Agreement disregards Lonestar's rights under the Agreement, including its right to operate the South Terminal and develop and operate New Facilities. The City cannot re-write a contract that it voluntarily entered into merely because a new administration has a different view as to the desirability of public-private partnerships, especially after reaping the benefits of

that partnership. And it certainly cannot take Lonestar's business without honoring Lonestar's Fifth Amendment right to just compensation.

127. If the City's condemnation is allowed to proceed, Lonestar will be irreparably harmed because, by operation of the Texas quick-take procedure, the City will be allowed to take possession of Lonestar's business (including all of its contractual relationships with airlines, vendors, and service providers), terminate the Agreement, and potentially demolish the South Terminal without just compensation before Lonestar has the ability to challenge the legality of the City's condemnation. Where, as here, a going concern business is at issue, the harm that results from the City's conduct and the Texas procedure is irreparable. Moreover, if the City proceeds as planned, it would be impossible to restore Lonestar's current business at the South Terminal, even if Lonestar's challenge to the condemnation process ultimately prevails, further demonstrating the irreparable harm posed by the City's conduct.

128. Lonestar's ability under the Texas condemnation procedure to challenge the lawfulness of the City's action arises only after the taking has already occurred. The City's possession of the South Terminal, even if only temporary, will cause Lonestar significant and irreparable harm to its business. Immediately upon taking possession of the South Terminal, the City will either terminate or take over all of Lonestar's contracts. And Lonestar will be required to terminate key employees and executives who are instrumental to the success of the South Terminal. In the event Lonestar successfully challenges the condemnation and returns to the South Terminal (assuming it is able to do so before the City demolishes it) the damage to Lonestar's business will be done—including harm to Lonestar's relationships with its customers, as well as harm to Lonestar's ability to attract airline customers and renegotiate favorable contracts. Once

the taking has occurred, money damages will be insufficient to compensate Lonestar for the loss of its business.

J. Lonestar Has Fulfilled its Obligations Under Article 40 and Is Entitled to Seek Damages

129. Article 40 of the Agreement requires that “[s]hould any dispute arise between the Parties,” then Lonestar and the City “agree to negotiate prior to prosecuting a suit for damages.” Lonestar diligently pursued a resolution of this dispute pursuant to the requirements of Article 40.

130. Specifically, Lonestar initiated the dispute resolution processes under Article 40 based on the existence of multiple disputes between the parties; served a “Notice of Mediation” required by Article 40; and participated in good faith in meetings between representatives of the parties as required by Article 40.

131. Lonestar and the City participated in an initial mediation session on August 12, 2022 and a follow-up mediation session on August 28, 2022. The mediation sessions were conducted in Austin, Texas in accordance with Article 40. The mediation efforts were unsuccessful.

132. Because Lonestar has fully complied with its obligation to participate in good faith negotiations and mediation under Article 40, it is permitted to assert claims for damages against the City.

133. Based on market valuations and other intrinsic and extrinsic evidence, the City’s actions have damaged Lonestar and diminished the value of its business by hundreds of millions of dollars. Lonestar also is entitled to damages for the lost opportunity to develop and operate any Expansion or New Facility that the City ultimately constructs in violation of Lonestar’s contractual rights. Prior to the City’s actions, one market participant had valued Lonestar’s business at over \$300 million, and Lonestar expects to prove hundreds of millions in damages directly caused by

the City's unlawful actions taken in violation of the Agreement and the United States and Texas Constitutions. Even these monetary damages, however, will be inadequate to compensate Lonestar for the ongoing injury that the City is causing by depriving Lonestar of its contractual and constitutional rights.

CLAIMS FOR RELIEF

**COUNT I: Violation of the Fifth and Fourteenth Amendments of the U.S. Constitution,
Pursuant to 42 U.S.C. § 1983 and the Court's Equitable Powers**

134. Lonestar repeats and reiterates the allegations above as if fully set forth herein.

135. The Fifth Amendment to the U.S. Constitution provides that "private property [shall not] be taken for public use, without just compensation." This requirement has been incorporated against the states via the Fourteenth Amendment.

136. Acting under color of law, the City has proximately caused and is imminently threatening wrongful deprivation of Lonestar's constitutional rights secured under the Fifth and Fourteenth Amendments by pursuing a condemnation of Lonestar's going concern business at the South Terminal and all of Lonestar's rights and interests under the Agreement—including the value of its contractual rights under Article 15 to "develop, construct and operate" any "Expansion or New Facility"—without just compensation.

137. Acting under color of law, the City has further proximately caused and is imminently threatening additional wrongful deprivation of Lonestar's constitutional rights secured under the Fifth and Fourteenth Amendments, by pursuing wrongful condemnation proceedings that are unsupported by a valid public purpose and impermissibly attempt to seize Lonestar's "going concern" business so that the City may operate that business itself.

138. The City is using its condemnation authority for the purpose of avoiding its contractual obligations to Lonestar rather than for any valid public purpose.

139. Lonestar cannot operate its business elsewhere.

140. The City's decision to violate Lonestar's Fifth and Fourteenth Amendment rights was directed by, and the product of, an official decision, implemented by the City, the DOA, and the DOA's Executive Director.

141. Under Texas's quick take procedure, the City has indicated its intent to take Lonestar's going concern business at the South Terminal and all of Lonestar's rights and interests under the Agreement before Lonestar has the ability to challenge the legality of the taking. Lonestar therefore cannot obtain just compensation in the state court condemnation proceeding.

142. Lonestar seeks a preliminary and permanent injunction to prevent the City's ongoing violation of Lonestar's rights under the Fifth Amendment.

143. Lonestar lacks an adequate remedy at law for the City's current and threatened unconstitutional actions, thus warranting such preliminary and permanent injunctive relief.

144. In the alternative, to the extent the Court declares that Lonestar has an adequate remedy at law, Lonestar reserves the right to seek money damages for the harms caused by the City's violation of the Fifth and Fourteenth Amendments, in an amount to be determined at trial.

145. The City does not have governmental immunity for actions that are unconstitutional. *See City of El Paso v. Heinrich*, 284 S.W.3d 366, 372 (Tex. 2009).

COUNT II: Request for Declaratory Judgment as to the City's Unconstitutional Taking

146. Lonestar repeats and reiterates the allegations above as if fully set forth herein.

147. The Declaratory Judgment Act, 28 U.S.C. § 2201, provides, "In a case of actual controversy within its jurisdiction ... any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration

shall have the force and effect of a final judgment or decree and shall be reviewable as such.” Courts are also empowered to provide “[f]urther necessary or proper relief based on a declaratory judgment.” *Id.* § 2202.

148. As set forth herein, the City has violated Lonestar’s constitutional rights secured under the Fifth and Fourteenth Amendments by condemning Lonestar’s rights and interests under the Agreement, and by impermissibly attempting to seize Lonestar’s “going concern” business, without just compensation.

149. Lonestar is entitled to a declaration that the City’s actions constitute an unlawful taking without just compensation, in violation of the Fifth and Fourteenth Amendments.

150. Lonestar further requests a declaration that it must be paid business value for the taking of its going concern business.

151. The City does not have governmental immunity from declaratory judgment actions seeking to determine or protect a party’s rights. *See Fed. Sign v. Texas S. Univ.*, 951 S.W.2d 401, 404 (Tex. 1997).

COUNT III: Violation of Article I, Section 17 of the Texas Constitution

152. Lonestar repeats and reiterates the allegations above as if fully set forth herein.

153. Article I, Section 17 of the Texas Constitution provides that “[n]o person’s property shall be taken, damaged, or destroyed for or applied to public use without adequate compensation being made.”

154. The City has violated Article I, Section 17 of the Texas Constitution by depriving Lonestar of its rights and interests under the Agreement, by pursuing a condemnation of Lonestar’s going-concern business and all of its contractual rights under the Agreement—including the value

of its contractual rights under Article 15 to “develop, construct and operate” any “Expansion or New Facility”—without just compensation.

155. The City has also violated Article I, Section 17 of the Texas Constitution by pursuing wrongful condemnation proceedings that are unsupported by a valid public purpose and impermissibly attempt to seize Lonestar’s “going concern” business.

156. The City is using its condemnation authority to shirk its contractual obligations to Lonestar, rather than for any valid public purpose.

157. Lonestar cannot operate its business elsewhere.

158. Under Texas’s quick take procedure, the City intends to take Lonestar’s going concern business at the South Terminal and all of Lonestar’s rights and interests under the Agreement before Lonestar has the ability to challenge the legality of the taking. Lonestar therefore cannot obtain just compensation in the state court condemnation proceeding.

159. Lonestar seeks a preliminary and permanent injunction to prevent the City’s ongoing violation of Lonestar’s rights under Article I, Section 17.

160. Lonestar lacks an adequate remedy at law for the City’s current and threatened unconstitutional actions, thus warranting such preliminary and permanent injunctive relief.

161. Lonestar also seeks money damages for the harms caused by the City’s violation of Article I, Section 17 of the Texas Constitution, in an amount to be determined at trial.

162. The City does not have governmental immunity for claims alleging violation of Article I, Section 17. *Steele v. City of Houston*, 603 S.W.2d 786, 791 (Tex. 1980).

COUNT IV: Breaches of the Agreement

163. Lonestar repeats and reiterates the allegations above as if fully set forth herein.

164. The Agreement is a valid and enforceable contract between Lonestar and the City that contains all material terms.

165. Lonestar has performed all of its obligations under the Agreement, including by investing millions of dollars into the renovation of the South Terminal and paying all rents and other sums owed to the City under the Agreement.

166. As explained in more detail below, the City has and continues to breach multiple provisions of the Agreement.

167. Lonestar seeks specific performance, and a preliminary and permanent injunction to prevent the City's ongoing breaches of the Agreement.

168. Lonestar also seeks money damages for the City's violation of the Agreement, in an amount to be determined at trial, for the City's prior conduct and in the alternative, to the extent the Court deems that Lonestar has an adequate remedy at law, for damages arising from the City's future threatened and ongoing breaches of the Agreement.

169. Lonestar has satisfied the requirements of Article 40 to the extent it establishes a condition precedent to Lonestar's initiating a suit for damages, as well as any other conditions precedent to asserting claims for damages against the City.

170. The City has agreed to "waive[] its rights to assert sovereign or governmental immunity from suit or liability for contract claims asserted by [Lonestar]" set forth in section 29.02.

171. The Texas legislature has waived governmental immunity where a municipality enters into a "written contract stating the essential terms of the agreement for providing goods and services to the local governmental entity." Tex. Loc. Gov't Code § 271.151(2)(A). The Agreement

is a written contract containing all essential terms, and it involves the provision of services to the City.

Article 2.03

172. Article 2.03 of the Agreement contains a covenant of quiet enjoyment, which grants Lonestar the right to “peaceably and quietly have, hold, occupy, use and enjoy the Premises during the Term, and may exercise all of its rights hereunder, without ejection or interference by Owner or any person or entity claiming by, through or under Owner, subject to the provisions of this Lease and Applicable Law.”

173. Article 2.03 represents an enforceable agreement between the City and Lonestar. Despite the parties’ initial commitment to the Agreement, the City has since adopted a course of conduct that repeatedly fails to recognize and uphold Lonestar’s rights and has “interfere[d]” with Lonestar’s ability to quietly occupy, use and enjoy the South Terminal for the purposes set out in the Agreement, including by the City’s improper attempt to use condemnation to avoid the City’s obligations under the Agreement and the City’s actions to interfere with Lonestar’s business relationships.

174. The City’s material actions substantially interfere with Lonestar’s intended use and enjoyment of the Premises and threaten a permanent deprivation of Lonestar’s use and enjoyment of the Premises.

175. In particular, the City interfered with Lonestar’s right of quiet enjoyment when it indicated that “the City is not inclined to approve any expansion of the South Terminal facility” and that it instead “wishe[d] to acquire the leasehold interest of the South Terminal facility to regain local control.” Ex. B. The City’s communication was not just an offer to buy out Lonestar’s lease but was a notification to Lonestar’s airline customers, employees, vendors, and potential

investors of the City's intent to take control of the property and stop ST 2.0—which was a significant undertaking specifically designed to serve the City's needs and that Lonestar had devoted significant resources to for over a year.

176. The City's communication in November 2019, and similar communications thereafter, effectively halted Lonestar's plans regarding ST 2.0 and interfered with its ability to exercise its right to "peaceably and quietly have, hold, occupy, use any enjoy" the property that it bargained for in the Agreement, including by thwarting efforts to raise capital and solicit bids.

177. Similarly, the City interfered with Lonestar's right of quiet enjoyment when it—without notice to Lonestar—sent a letter to Frontier Airlines communicating the City's desire to buy-out Lonestar and regain control of the Terminal.

178. The City also released an internal memorandum discussing the City's intention to buy out Lonestar's interest in the South Terminal under the Agreement, which was picked up by the press, published, and disseminated in a news article to third parties.

179. This unilateral and unsolicited communication to a key customer for the South Terminal, as well as other airlines serving the Airport, coupled with the City's revelation of its position to the press, interfered with Lonestar's ability to attract new investors for ST 2.0, to obtain additional customers for the South Terminal, and to further develop ST 2.0.

180. Additionally, the City violated Article 2.03 when it communicated its position in early 2020 that it intended to demolish the South Terminal and build a New Facility, purportedly requiring the City to pursue condemnation of Lonestar's rights to the South Terminal.

181. Then, in its March 29, 2022 condemnation notice to Lonestar, the City formally made clear its position that it would not honor any of Lonestar's rights under Article 15.

182. These communications, beginning in November 2019, have materially and negatively affected Lonestar's business. The public nature of the DOA's threats to the South Terminal's existence put an immediate chilling effect on Lonestar's ability to obtain financing and operate its business—to attract new airline customers, attract and retain talent, and damages its relationship with its business partners. This is evidenced in the relative passenger numbers at the two terminals.

183. In 2019, the South Terminal served 1,077,912 passengers, while the Main Terminal served 16,266,637 million passengers. To date in 2022, the South Terminal has served 256,660 passengers and the Main Terminal has served 9,738,825 passengers. In other words, in 2019, the South Terminal represented 6.64% of the passenger traffic in Austin, but today the South Terminal represents just 2.64% of the traffic. By publicly and privately calling into question the future viability of the South Terminal, the DOA has intentionally and severely damaged the business of Lonestar, and therefore has significantly impaired the value of Lonestar's business. This targeted campaign has deprived Lonestar of the fundamental rights Lonestar signed up for in Section 2.03 of the Agreement.

184. The City's conduct has permanently interfered with Lonestar's ability to operate its business as granted pursuant to the Agreement, and to develop, construct, and operate any Expansion or New Facility at the South Terminal, two essential aspects of the Agreement that form the basis of the bargain.

185. These actions encapsulate the kind of improper interference with Lonestar's right of quiet enjoyment that Article 2.03 of the Agreement is designed to prevent.

186. Lonestar is not required to abandon the premises to assert a claim that the City has breached its contractual promise of quiet enjoyment. *See Goldman v. Alkek*, 850 S.W.2d 568, 572 (Tex. App.—Corpus Christi 1993, no writ).

187. Lonestar seeks specific performance, and a preliminary and permanent injunction to prevent the City’s ongoing breaches of Article 2.03.

188. Lonestar seeks money damages for the City’s past breaches of Article 2.03.

Article 15

189. Article 15 of the Agreement provides Lonestar “with the exclusive first right to, as applicable, develop, construct and operate” any “Expansion or New Facility” at the Airport.

190. Article 15 contains all material terms and is sufficiently definite to enforce.

191. Article 15 was heavily negotiated, approved by an Assistant City Attorney, and its essential terms were considered and approved three times by the Austin City Council.

192. Article 15 was a material part of the Agreement.

193. The City first breached Article 15 in the fall of 2019 when—after the parties agreed Expansion was necessary, Lonestar exercised its option under Article 15, and the parties were in active negotiations to reach an agreement with respect to ST 2.0—the City cut off all negotiations regarding ST 2.0.

194. Specifically, Lonestar initially tendered performance under Article 15 when it began discussions with the City, through the DOA, in the fall of 2018 for a small Expansion of the South Terminal. At that point, Lonestar had decided that an Expansion was needed and provided notice of such to the City. The City agreed to the need for an Expansion when the DOA suggested developing something more substantial on a new location (what later became known as ST 2.0). Finally, Lonestar provided notice of its intent to invest in ST 2.0, began to develop plans for the

ST 2.0, and embarked on a process to raise funding for the development and construction of ST 2.0.

195. At that point in time, the City was obligated to work with Lonestar in good faith to enter into an agreement regarding ST 2.0. The City did so through late 2018 and the early months of 2019.

196. The City breached its obligations under Article 15, however, when the DOA's new Executive Director notified Lonestar on November 7, 2019, that "[a]t this time, the City is not inclined to approve any expansion of the South Terminal facility." This statement was directly contrary to the DOA's prior express approval of ST 2.0 and constitutes a breach of the City's obligation to work in good faith to reach an agreement once the parties agree to the necessity of Expansion.

197. In a clear demonstration that the City was declining to honor Lonestar's Article 15 rights, the November 7 letter also included "written notice . . . of [the City's] desire to acquire the South Terminal leasehold interest to regain local control of the facility." Ex. B. In other words, the City was refusing to partner with Lonestar for future Expansion at the Airport in direct contravention of the express terms of the Agreement inked just a few years prior.

198. The City again breached Article 15 when it announced the need for a New Facility and—despite Lonestar's express invocation of its Article 15 right with respect to the New Facility contemplated by the AEDP—denied Lonestar's right to participate in any way in the New Facility.

199. Specifically, as early as February 2020, the City notified Lonestar of plans for a new cost-efficient facility at the Airport as part of the City's AEDP. At the same time, the City denied that the Agreement "confer[s] any right of first refusal to Lonestar in any manner at AUS." Ex. F.

200. Despite the City's express refutation of the terms of the Agreement, Lonestar—pursuant to Article 15—provided written notice to the City of its interest in working with the City in developing the new cost-efficient facility at the Airport. *See* Ex. G.

201. Then, in a July 13, 2021 press release, the City publicly announced the City's plan to add a new concourse (as well as two new taxiways). According to the DOA, the City's plan for a New Facility would require the City to condemn Lonestar's rights to the South Terminal. The City sent Lonestar a letter the same day confirming the City's plan for New Facilities at the Airport (July 13, 2021 letter).

202. Lonestar tendered performance under Article 15 through a formal, written response confirming (again) Lonestar's interest in investing in and exercising its rights under Article 15 of the Agreement. *See* Ex. I. The City again breached its obligations under Article 15 by categorically denying Lonestar its exclusive first right to invest.

203. Instead of proceeding with good faith negotiations with respect to plans for the New Facility—as required by Article 15—the City notified Lonestar of its intent to condemn the South Terminal to remove Lonestar from the Airport altogether. At the same time, the City has moved forward with developing and constructing the AEDP, including by engaging contractors and project managers after a RFP process, without involving Lonestar, as Article 15 requires.

204. In its March 29, 2022 condemnation notice to Lonestar, the City made clear its position that it would not honor any rights under Article 15 by refusing to value those rights as purportedly “unenforceable.” Ex. J. In other words, the City is purporting to condemn the South Terminal in furtherance of the AEDP, while at the same time denying Lonestar's right to participate in the development of the New Facilities contemplated by the plan.

205. Because the City both refused to compensate Lonestar for its Article 15 rights through the condemnation while also refusing to honor those rights with respect to the New Facility, the City has breached (and continues to breach) Article 15 and is liable to Lonestar for damages flowing from that breach.

206. The City separately has breached the Agreement by developing, constructing, and operating Expansions and New Facilities at the Airport without affording Lonestar its contractual right of participation.

207. The City remains in breach of the Agreement by proceeding with the AEDP without allowing Lonestar its contractually guaranteed participation.

208. Having benefited from Lonestar's significant investment in the South Terminal, which was predicated on Lonestar's exclusive right to participate in any expansion, the City is estopped from denying the enforceability of Article 15. Allowing the City to deny the enforceability of Article 15 would work severe prejudice to Lonestar and would be unconscionable.

209. Estoppel is necessary to prevent manifest injustice to Lonestar and will not impair any governmental function. *See City of Hutchins v. Prasifka*, 450 S.W.2d 829, 836 (Tex. 1970).

210. Lonestar seeks specific performance, and a preliminary and permanent injunction to prevent the City's ongoing breaches of Article 15.

211. Lonestar seeks money damages for the City's past breaches of Article 15.

Article 34

212. Nothing in the Agreement permits the City to exercise its general eminent domain authority for the primary purpose of breaching its contractual obligations or interfering with Lonestar's rights under the Agreement.

213. The Agreement instead addresses a situation where a governmental entity exercises its general eminent domain authority for other lawful public purposes. In those circumstances, Article 34.03 of the Agreement provides that “[i]f the condemning authority is the City, Tenant shall be entitled to compensation for the Fair Market Value of Tenant’s Interest so taken.”

214. The Agreement further defines “Tenant” to be Lonestar and “Tenant’s Interest” to mean “Tenant’s right, title and interest in, to, under or derived from this Lease, including the rights of Tenant under Article 2 and Article 15, and the Trade Fixtures.” Agreement, ¶ 1.01.

215. Article 34 does not expand or otherwise modify the City’s authority to use eminent domain beyond what is otherwise authorized by law.

216. The express terms of Article 34.03 obligate the City to compensate Lonestar for its rights under Article 2 and 15 in the event of a taking of Lonestar’s entire interest under the Agreement. Despite these provisions in the Agreement, the City has breached its contractual obligations by condemning the South Terminal and Lonestar’s rights without offering to provide compensation for Lonestar’s “Interest,” as defined in the Agreement.

217. Instead, the City has offered to compensate Lonestar only for the value of the land itself, even though the Agreement explicitly requires “the Fair Market Value of Tenant’s Interest so taken” to be included in any award.

218. The City’s breach deprived Lonestar of its rights and Interests negotiated for and memorialized in the Agreement.

219. Having benefited from Lonestar’s significant investment in the South Terminal, which was predicated on Lonestar’s right to receive compensation for its entire interest under the Agreement in the event the City elected to condemn the South Terminal, the City is estopped from exercising its condemnation power without paying Lonestar the compensation it is owed under the

Agreement. Allowing the City to condemn the South Terminal without paying such full compensation would work severe prejudice to Lonestar and would be unconscionable.

220. Estoppel is necessary to prevent manifest injustice to Lonestar and will not impair any governmental function. *See Prasifka*, 450 S.W.2d at 836.

221. Lonestar seeks specific performance, and a preliminary and permanent injunction to prevent the City's ongoing breaches of Article 34.

222. Lonestar seeks money damages for the City's past breaches of Article 34.

Article 41

223. Article 41.13 prevents the City from "taking any action the primary purpose of which is to avoid honoring any of its commitments and obligations" under the Agreement.

224. Article 41.13 represents an enforceable agreement between the City and Lonestar.

225. The City breached Article 41.13 by taking actions that are specifically designed to prevent Lonestar from exercising its rights under the Agreement, including, but not limited to, Lonestar's Article 15 right as described above.

226. In addition, the City's condemnation proceeding is a clear pretext for avoiding the City's obligations under the Agreement altogether, including the 40-year grant to Lonestar to operate facilities at the Airport, and instead, operate Lonestar's business itself.

227. By preventing Lonestar from exercising such rights, the City took an action the primary purpose of which was to avoid honoring its commitments and obligations to Lonestar under the Agreement.

228. Such improper interference constitutes a clear breach of Article 41.13.

229. Lonestar seeks specific performance, and a preliminary and permanent injunction to prevent the City's ongoing breaches of Article 41.

230. Lonestar seeks money damages for the City's past breaches of Article 41.

Article 18

231. Article 18.05 provides that the City “shall provide, at no cost to Tenant, Shuttle Bus Service for passengers and employees between the South Terminal and the North Terminal/CONRAC facility.” It further provides that “[o]peration of the Shuttle Bus Service shall be sufficiently coordinated with the arrival and departure of commercial airline flights at the South Terminal in accordance with Tenant’s Airport Operational Manual as approved by Owner to accommodate actual passenger traffic levels and projected passenger traffic levels provided by Tenant to Owner.”

232. The City consistently has failed to provide reliable shuttle bus service contemplated by this provision.

233. Their shuttle-bus service provider rarely has the staff resources necessary to operate the number of shuttles required to meet passenger demand.

234. The problem is exacerbated by the poor signage the DOA provides to passengers flying Allegiant and Frontier from the South Terminal. In many cases, passengers erroneously park at the north terminal believing their Allegiant and Frontier flights depart there – only to find out once inside that such flights operate at the South Terminal. Hundreds of passengers have missed their flights from the South Terminal in the last five years due to poor signage and inadequate shuttle bus service.

235. Lonestar has supplemented the City’s shuttle service at its own cost. Since January 2022, alone, Lonestar has operated more than 1,000 trips to and from the Main Terminal. The direct, indirect, and opportunity costs associated with using Lonestar shuttles and staff has exceeded hundreds of thousands of dollars.

236. Further, Lonestar took it upon itself to improve access roadways to the South Terminal that are not even on its leasehold because the City of Austin refused, and Lonestar was committed to the safety and efficiency of its passengers and operations.

237. The City's failures amount to a clear breach of Article 18.

238. Lonestar seeks specific performance, and a preliminary and permanent injunction to prevent the City's ongoing breaches of Article 18.

239. Lonestar seeks money damages for the City's past breaches of Article 18.

**COUNT V: Promissory Estoppel – Article 34
(In the Alternative)**

240. Lonestar repeats and reiterates the allegations above as if fully set forth herein.

241. To the extent the City is not legally obligated under Texas law to compensate Lonestar for the full value of its business and Interests under the Agreement—including Articles 2 and 15—equity requires the City to provide such compensation to prevent a manifest injustice.

242. In 2016, the City made a specific promise to Lonestar that it would value and provide compensation for Lonestar's entire "Interest" in the South Terminal under the Agreement upon any condemnation initiated by the City.

243. The City reasonably expected that Lonestar would rely on such a promise when the parties discussed and agreed to form a public-private partnership for the development and operation of the South Terminal and any necessary future expansion of the Airport.

244. Lonestar acted definitively and substantially in reliance on the promise that its Interests would be valued and compensated for in the event of condemnation and developed a valuable business operation at the South Terminal. Indeed, Lonestar relied on the promise that it would have the right to construct and operate the South Terminal by immediately committing

millions of dollars, people, and thousands of hours to making the South Terminal a successful operation.

245. Lonestar also actively pursued investment opportunities and development proposals in furtherance of its business at the South Terminal and Article 15 rights and the Airport's overall growth.

246. Lonestar similarly communicated to the City its desire to participate in any of the City's plans for the Airport's future development and expansion—evidencing the value Lonestar placed in its Article 2 and Article 15 rights under the Agreement.

247. Despite Lonestar's development of a successful business and active pursuit of opportunities to develop and expand the Airport in reliance on the City's assurances, the City disregarded its private commitments by turning around and threatening Lonestar with condemnation of the rights the City had just willingly contracted for.

248. Worse still, the City offered Lonestar a meager compensation award for the value of the leasehold interest itself, rather than including the significant value of Lonestar's business and Interests under the Agreement, as expressly promised by the City. The City's valuation did not include Lonestar's rights under Article 2 or Article 15 of the Agreement.

249. The City has unfairly and unjustly reneged on the promise it made to Lonestar in its private capacity, and disregarded Lonestar's Interests entirely, by exercising its public eminent domain power.

250. To the extent that the Court concludes that, as a result of Texas condemnation law, Article 34.03 of the Agreement is unenforceable as written, the Court should exercise its equitable powers to enforce the City's promises contained therein to prevent manifest injustice.

251. Enforcing the promise would not interfere with the City's exercise of its governmental functions or condemnation powers because it will not operate to expand or change those powers as provided under Texas law. Rather—while allowing the City to exercise its condemnation authority in connection with the real estate beneath the South Terminal—the Court would simultaneously require the City to provide Lonestar with compensation for the remainder of its rights under the Agreement not based on condemnation law, but based on the parties' mutual understanding and agreement.

252. Because the City has disregarded the promises it made to Lonestar, Lonestar has suffered (and continues to suffer) damages, in an amount to be determined at trial.

253. The City does not have governmental immunity from estoppel claims where estoppel is necessary to prevent injustice, and there is no interference with the exercise of its governmental functions. *See Prasifka*, 450 S.W.2d at 836.

**COUNT VI: Promissory Estoppel – Article 15
(In the Alternative)**

254. Lonestar repeats and reiterates the allegations above as if fully set forth herein.

255. To the extent the City is not legally obligated under Texas law to honor Lonestar's rights under Article 15, equity requires the City to provide Lonestar with such right to prevent a manifest injustice.

256. In 2016, the City made a specific promise to Lonestar that Lonestar would have “the exclusive first right to, as applicable, develop, construct and operate” any “Expansion or New Facility” at the Airport.

257. The City reasonably expected that Lonestar would rely on such a promise when the parties discussed and agreed to form a public-private partnership for the development and operation of the South Terminal and any necessary future expansion of the Airport.

258. Lonestar acted definitively and substantially in reliance on the promise that it would have the exclusive right to participate in any future development at the Airport when it developed a valuable business operation at the South Terminal. Indeed, Lonestar relied on the promise that it would have the right to construct and operate the South Terminal by immediately committing millions of dollars, people, and thousands of hours to making the South Terminal a successful operation.

259. In further reliance on the City's promise that Lonestar would have the exclusive right to participate in any future development in the Airport, Lonestar also actively pursued investment opportunities and development proposals in furtherance of its business at the South Terminal and the Airport's overall growth.

260. Lonestar has further relied on the City's promise by communicating to the City its desire to participate in any of the City's plans for the Airport's future development and expansion, and by investing a significant amount of time and resources in the plans for ST 2.0.

261. Despite Lonestar's development of a successful business and active pursuit of opportunities to develop and expand the Airport in reliance on the City's assurances, the City has made clear that it does not intend to honor Lonestar's rights under Article 15 by attempting to extinguish those rights through condemnation and by arguing that those rights are not enforceable.

262. The City has unfairly and unjustly reneged on the promise it made to Lonestar in its private capacity. Ordering the City to honor its contractual commitments to Lonestar is therefore necessary to prevent a manifest injustice.

263. Moreover, ordering the City to honor its contractual commitments to Lonestar will not interfere with the exercise of any governmental function. Lonestar remains a willing and capable partner for developing any Expansion or New Facility pursuant to its Article 15 rights.

Rather than serving a governmental function, the City's refusal to honor its obligations under Article 15 is instead motivated by the improper purpose of forcing the termination of a long-term agreement that the City no longer wants to perform so the City can operate Lonestar's business itself.

264. Because the City has disregarded the promises it made to Lonestar, Lonestar has suffered (and continues to suffer) damages, in an amount to be determined at trial.

265. The City does not have governmental immunity from estoppel claims where estoppel is necessary to prevent injustice, and there is no interference with the exercise of its governmental functions. *See Prasifka*, 450 S.W.2d at 836.

REQUEST FOR RELIEF

WHEREFORE, Plaintiff Lonestar Airport Holdings, LLC prays for this Court to enter an order:

- A. Enjoining Defendant, as well as its officers, agents, employees, and attorneys as well as those persons acting in concert with them, from violating Lonestar's rights in its property by asserting control over Lonestar's business and/or rights and interests in the Agreement, including without limitation its right to occupy the South Terminal and operate its business there, without paying for the full value of the rights and property taken;
- B. Declaring that the City may not breach its obligations and attempt to take Lonestar's business and/or rights and interests in the Agreement without compensating Lonestar for the full value of the rights it seeks to take;
- C. Enjoining Defendant, as well as its officers, agents, employees, and attorneys as well as those persons acting in concert with them, from its ongoing breach of Article 15, by barring Defendant from "develop[ing]," "construct[ing]," or "operat[ing]" an Expansion or New Facility without honoring Lonestar's rights under Article 15;

- D. Enjoining Defendant, as well as its officers, agents, employees, and attorneys as well as those persons acting in concert with them, from its ongoing breach of Articles 34.03 and 41.13, by enjoining Defendant from further pursuing improper condemnation proceedings in which Defendant refuses to adequately compensate Lonestar as required by the Agreement;
- E. Enjoining Defendant, as well as its officers, agents, employees, and attorneys as well as those persons acting in concert with them, from its ongoing violation of Lonestar's Fifth and Fourteenth Amendment rights, by enjoining Defendant from further pursuing improper condemnation proceedings unsupported by a public purpose and aimed at impermissibly taking a "going concern" without compensation;
- F. Declaring that Defendant is in breach of Articles 2.03, 15, 34.03, and 41.13 of the Agreement;
- G. Awarding Plaintiff specific performance;
- H. Awarding Plaintiff the costs and expenses of this suit, including its reasonable attorneys' fees (including pursuant to 42 U.S.C. § 1988);
- I. Awarding Plaintiff damages, in an amount to be determined at trial;
- J. Awarding pre- and post-judgment interest at the statutory rate; and
- K. Granting such other further relief as the Court may deem just and proper.

Dated: October 12, 2022.

/s/ Edward F. Fernandes

KING & SPALDING LLP

Edward F. Fernandes (SBN 06932700)

Julia C. Barrett (SBN 24116075)

500 W 2nd St #1800

Austin, TX 78701

T: 512 457 2000

efernandes@kslaw.com

jbarrett@kslaw.com

Lawrence A. Slovensky (*pro hac vice*)

Mandi Goodman (*pro hac vice*)

1180 Peachtree St NE

Atlanta, GA 30309

T: 404 572 4600

lslovensky@kslaw.com

mgoodman@kslaw.com

MUNGER, TOLLES & OLSON LLP

Bethany Kristovich (*pro hac vice*)

Michael Doyen (*pro hac vice*)

John Major (*pro hac vice*)

350 South Grand Avenue

Los Angeles, CA 90071

T: 213 683 9292

Michael.doyen@mto.com

Bethany.kristovich@mto.com

John.major@mto.com

BARRON, ADLER, CLOUGH & ODDO, LLP

Christopher M. Clough (SBN 24044802)

Christopher J. Oddo (SBN 24013257)

Andrew York (SBN 24066318)

808 Nueces Street

Austin, TX 78701

T: 512 478 4995

clough@barronadler.com

oddo@barronadler.com

*Attorneys for Plaintiff Lonestar Airport Holdings,
LLC*

CERTIFICATE OF SERVICE

I hereby certify that, on October 12, 2022, I electronically submitted the foregoing document with the clerk of the United States District Court for the Western District of Texas, using the CM/ECF system of the Court, which will send notification of such filing to all counsel of record who are deemed to have consented to electronic service.

/s/ Edward F. Fernandes

Edward F. Fernandes

EXHIBIT A



SOUTH TERMINAL LEASE AND CONCESSION AGREEMENT

by and between

CITY OF AUSTIN

(Owner)

and

HIGHSTAR CAPITAL IV, L.P.

(Tenant)

TABLE OF CONTENTS

ARTICLE 1 DEFINITIONS AND INTERPRETATION1
 1.01 Definitions.....1
 1.02 Interpretations10
 ARTICLE 2 GRANT OF LEASE11
 2.01 Premises11
 2.02 Existing Condition11
 2.03 Quiet Enjoyment11
 ARTICLE 3 TERM12
 3.01 Term.....12
 3.02 Early Termination12
 3.03 Transfer of Rights13
 ARTICLE 4 USE OF PREMISES13
 4.01 Authorized Use13
 4.02 Prohibited Uses13
 4.03 Permits and Licenses.....13
 ARTICLE 5 RENT, REPORTS, AND AUDIT13
 5.01 Gross Revenue13
 5.02 Rent14
 5.03 Payment of Pre-Commencement of Operations Date Rent15
 5.04 Payment of Post-Commencement of Operations Date Rent.....15
 5.05 Rent Payment Delivery15
 5.06 Late Payment Penalty15
 5.07 Security Deposit.....15
 5.08 Disputes.....16
 5.09 No Abatement16
 5.10 Tenant Monthly Reports17
 5.11 Tenant Annual Report.....17
 5.12 Tenant Audit Report17
 5.13 Late Report Penalty.....17
 5.14 Internal Control Structure17
 5.15 Records Retention.....18
 5.16 Audit18

5.17	Confidentiality	18
5.18	Certain Notices.....	18
ARTICLE 6	TAXES AND LIENS.....	19
6.01	Payment of Taxes and Assessments	19
6.02	Liens.....	19
ARTICLE 7	NET LEASE	19
7.01	Net Lease	19
ARTICLE 8	UTILITIES.....	19
8.01	Utilities.....	19
ARTICLE 9	CONSTRUCTION.....	20
9.01	Conditions to Commencement of the Rehabilitation Project	20
9.02	Demolition	20
9.03	Improvements	21
9.04	Design and Construction Review.....	21
9.05	Construction Plans	22
9.06	Limitation of Owner Responsibility	23
9.07	Construction Standards	23
9.08	Owner’s Right of Inspection.....	23
9.09	Tenant’s Representative.....	24
9.10	Construction Contract Close-Out.....	24
9.11	Amendment of Lease	24
9.12	Ownership.....	24
9.13	No Liens.....	24
9.14	Initial Capital Investment.....	25
ARTICLE 10	TENANT OPERATIONS, MAINTENANCE, AND REPAIRS	25
10.01	Conditions to Commencement of Operations.....	25
10.02	Operations	27
10.03	Maintenance Capital Investment.....	27
10.04	Maintenance and Repair	27
10.05	Tenant Apron	28
10.06	Trash/Recycling	28
10.07	Owner’s Right to Maintain	28

ARTICLE 11 PARKING FACILITIES28

 11.01 South Terminal Parking28

 11.02 Additional Parking Development29

ARTICLE 12 AIRLINE LEASING PROGRAM.....29

 12.01 General29

 12.02 Airline Fees29

ARTICLE 13 MARKETING SUPPORT AND INCENTIVES TO AIR CARRIERS30

 13.01 General30

 13.02 South Terminal Marketing Program30

 13.03 Implementation30

 13.04 Cooperation.....30

ARTICLE 14 CONCESSION PROGRAM.....30

 14.01 General30

 14.02 Owner Review31

 14.03 ACDBE Goals.....31

 14.04 Local Concessionaires31

ARTICLE 15 EXPANSION OR NEW FACILITY31

 15.01 Expansion or New Facility.....31

ARTICLE 16 FINANCING.....32

 16.01 Tenant’s Right to Finance32

 16.02 Tenant’s Lender Rights and Obligations32

 16.03 Owner’s Right to Finance32

ARTICLE 17 OTHER TENANT OBLIGATIONS33

 17.01 Premises Security.....33

 17.02 Compliance with Airport Rules33

 17.03 Signs.....33

 17.04 Customer Claims, Comments, and Complaints33

 17.05 Maintenance of Legal Existence.....34

 17.06 Personnel.....34

 17.07 Meetings.....34

 17.08 Addition of Certain Amenities.....34

ARTICLE 18 OTHER OWNER’S OBLIGATIONS34

 18.01 Operation as a Public Airport34

18.02	Maintenance of Public Runways, Taxilanes, Taxiways, Ramps, and Aprons.....	34
18.03	Use of Public Runways, Taxilanes, Taxiways, Ramps, and Aprons	34
18.04	Signage.....	34
18.05	Shuttle Bus Service	35
18.06	Rental Car Revenue Sharing.....	35
18.07	Federal Compliance	37
18.08	Passenger Facility Charge; Airport Improvement Program.....	37
18.09	Security	37
18.10	Lighting.....	37
18.11	De-Icing	37
18.12	Access to South Terminal	37
ARTICLE 19	SHARED USE AND COMMUNICATIONS SERVICES	37
19.01	Shared Use	37
19.02	Wireless Service.....	38
19.03	Radio.....	38
19.04	Communications Services.....	38
19.05	Shared Telephone Service.....	39
19.06	Television Service.....	39
19.07	Computer Networks	39
ARTICLE 20	ENVIRONMENTAL CONDITION OF PREMISES	40
20.01	Environmental Assessments	40
20.02	Acknowledgement of Hazardous Materials.....	40
20.03	Tenant’s Inspection Rights	40
ARTICLE 21	ENVIRONMENTAL COMPLIANCE.....	40
21.01	Definitions.....	40
21.02	Compliance	41
21.03	Responsibility	41
21.04	Indemnity	42
21.05	Stormwater Requirements.....	42
21.06	Sustainability.....	42
21.07	Survival.....	42
21.08	Hazardous Materials	42
21.09	Storm Water Pollution Prevention Plan	43

21.10	Spill Prevention, Control and Countermeasure Plan	43
21.11	Violation of Environmental Laws.....	43
21.12	Inspection; Test Results	44
21.13	Removal of Hazardous Materials.....	44
21.14	Remedies Not Exclusive	44
21.15	Environmental Indemnity	45
21.16	Tenant Environmental Parties.....	45
21.17	Survival.....	45
ARTICLE 22	INSURANCE.....	45
22.01	General.....	45
22.02	Waiver.....	45
22.03	Limits	46
22.04	Modification.....	46
22.05	Amendment Required	46
22.06	Owner’s Right to Maintain	46
ARTICLE 23	INDEMNITY	47
23.01	General.....	47
23.02	Defense of Claims.....	47
23.03	Maintenance of Insurance	47
23.04	Subcontractors.....	48
ARTICLE 24	DISADVANTAGED BUSINESS ENTERPRISES, M/WBE PROCUREMENT PROGRAM AND WAGE RATES	48
24.01	Disadvantaged Business Enterprise (DBE) Procurement Program	48
24.02	Minority and Women Business Enterprises.....	48
24.03	Worker Safety	49
24.04	Wage Rates/Prevailing Wage	49
24.05	Living Wage.....	49
ARTICLE 25	CAPITAL RECOVERY PAYMENT.....	49
25.01	Capital Recovery Payment.....	49
25.02	Capital Recovery Event	50
ARTICLE 26	LAWS AND GRANT CONDITIONS	50
26.01	Grant Assurances	50
26.02	National Emergencies	50
26.03	Non-Discrimination and Affirmative Action.....	50

26.04	Public Accommodation Laws	51
26.05	Compliance with Laws	51
26.06	Lighting, Electrical and Radio Interference	51
26.07	Amendment.....	51
26.08	Airport Development	52
26.09	Economic Nondiscrimination	52
ARTICLE 27	AVIGATION RIGHTS.....	52
27.01	General.....	52
27.02	Owner’s Reservation of Rights.....	52
27.03	Waiver.....	52
ARTICLE 28	TENANT DEFAULT AND REMEDIES.....	53
28.01	Default by Tenant	53
28.02	Remedies of Owner.....	54
28.03	Additional Rights of Owner.....	55
ARTICLE 29	OWNER DEFAULT AND REMEDIES	55
29.01	Default by Owner.....	55
29.02	Tenant’s Remedies.....	56
ARTICLE 30	SURRENDER OF PREMISES	57
30.01	Condition of Premises.....	57
30.02	Repossession and Holding Over	57
30.03	Tenant’s Personal Property	58
ARTICLE 31	FORCE MAJEURE	58
31.01	General.....	58
31.02	Impairment of Use	58
ARTICLE 32	INSPECTION	59
32.01	Owner’s Right to Inspect	59
ARTICLE 33	CASUALTY LOSS	59
33.01	Restoration Upon Casualty Loss.....	59
33.02	No Restoration Following Casualty Loss	59
33.03	Abatement.....	60
ARTICLE 34	CONDEMNATION AND BUSINESS INTERRUPTION	60
34.01	Taking in Entirety	60
34.02	Partial Taking.....	60

34.03 Damage Award60

34.04 Definition of Taken; Taking61

34.05 Contingent Business Interruption61

ARTICLE 35 ASSIGNMENT AND SUBLEASING61

35.01 By Tenant.....61

35.02 Transfer of Owner’s Interest.....62

ARTICLE 36 APPROVALS AND AUTHORITY62

36.01 Owner.....62

36.02 Tenant63

ARTICLE 37 NOTICES AND CONTRACT ADMINISTRATION.....63

37.01 Contract Administrator63

37.02 Notices63

ARTICLE 38 CONFIDENTIALITY/PROPRIETARY INFORMATION64

38.01 Confidentiality64

38.02 Sensitive Security Information65

ARTICLE 39 BOND ORDINANCES65

39.01 Bond Ordinance Provisions65

39.02 Certificate in Connection with Issuance of Bonds.....65

39.03 Tenant Tax Elections66

ARTICLE 40 ALTERNATIVE DISPUTE RESOLUTION66

40.01 General.....66

40.02 Mediation66

ARTICLE 41 MISCELLANEOUS67

41.01 Gratuities.....67

41.02 Modification and Non-Waiver.....67

41.03 Governing Law67

41.04 Severability67

41.05 Relation of Parties.....67

41.06 Recordation.....68

41.07 Successors and Assigns.....68

41.08 Survival.....68

41.09 No Commissions.....68

41.10 Time of the Essence68

41.11	Reservation of Immunities	68
41.12	Special Damages	68
41.13	Avoidance of Obligations	68
41.14	No Exclusive Rights	68
41.15	Capacity of Owner	68
41.16	Counterparts	69
41.17	Entire Agreement	69

SOUTH TERMINAL LEASE AND CONCESSION AGREEMENT

THIS SOUTH TERMINAL LEASE AND CONCESSION AGREEMENT (this “Lease”) is entered into by and between CITY OF AUSTIN, a Texas home rule city and municipal corporation (“Owner”) acting by and through the Executive Director of the Department of Aviation, and HIGHSTAR CAPITAL IV LP, a limited partnership formed and existing under the laws of the State of Delaware (“Tenant”). Owner and Tenant, collectively, shall be referred to in this Lease as the “Parties” and each as a “Party”.

WHEREAS:

- A. Owner owns and operates Austin-Bergstrom International Airport, located in the City of Austin, Travis County, Texas (the “Airport”); and
- B. Owner desires to reopen the South Terminal at the Airport as a Limited Services Terminal to expand the air carrier service options available in the City of Austin; and
- C. Owner desires to outsource the rehabilitation, development and operation of the South Terminal in order to expedite the availability of a Limited Services Terminal to the City of Austin; and
- D. Tenant has engaged in the business of operating airport facilities and desires to provide such services; and
- E. Owner desires to lease to Tenant, and Tenant desires to lease from Owner, certain premises, and to provide and obtain from each other certain rights, services and privileges, in order to reactivate the South Terminal, and appurtenant parking and other related facilities, to serve air carriers that serve the Airport and passengers served by such air carriers, all on a financially self-sustaining basis.

Now, therefore, for and in consideration of mutual promises and covenants hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Owner and Tenant enter into this Lease and agree as follows:

**ARTICLE 1
DEFINITIONS AND INTERPRETATION**

1.01 Definitions. As used in this Lease, the following terms shall be defined as follows:

ACDBE – has the meaning set forth in Section 14.03.

ADA – has the meaning set forth in Section 26.04.

Additional Rent – means all fees, charges, and amounts payable by Tenant to Owner under this Lease other than Fixed Rent and Variable Rent.

Affiliate – means an entity that directly or indirectly through one (1) or more intermediaries, controls, or is controlled by, or is under common control with, another entity. An entity “controls” any other entity in which it has the power to vote, directly or indirectly, five (5)% or more of the voting interests in such entity or, in the case of a partnership, if it is a

general partner. An entity may be a person, corporation, association, partnership or limited liability company of any type or kind.

Airfield Use Agreement – means an agreement between an Airline and Owner for use of the airfield at the Airport.

Airline Leasing Program – has the meaning set forth in Section 12.01.

Airlines – means commercial airlines providing Air Transportation at the Airport and/or the South Terminal.

Airport – has the meaning set forth in the Recitals.

Airport Enplaned Passengers – means all originating passengers departing from the Airport.

Airport Layout Plan – means Owner's Airport Layout Plan, approved by the FAA, attached hereto as Exhibit K, as the same may be modified, amended, and/or restated from time to time.

Airport Master Plan – means Owner's Airport Master Plan, dated as of December 2003, as the same may be updated, modified, amended, and/or restated, and as accepted by the FAA in conjunction with the approved Airport Layout Plan, from time to time, which, as of the Effective Date, may be found at <http://www.austintexas.gov/page/airport-master-plan>.

Air Transportation – means the carriage of persons, property, cargo and/or mail by aircraft.

Applicable Law – means all applicable federal, state and local laws, codes, ordinances, rules, regulations, judgments, decrees or directives of any Governmental Authority (but with respect to any of the foregoing of the City, only to the extent (i) generally applicable to the regulated community, (ii) not disproportionately affecting Tenant, and (iii) not enacted or issued in violation of Section 41.13 hereof) having jurisdiction over the Airport or the Premises, including all Environmental Laws as defined herein and FAA rules, regulations, and policies.

As Built Plans – has the meaning set forth in Section 9.10.

Assessment Report – has the meaning set forth in Section 20.03.

Authorized Use – has the meaning set forth in Section 4.01.

Building Permit Documents - means the documents consisting of structural drawings and specifications, required City permits, and plans including information technology infrastructure, security, ingress/egress, life safety systems, architectural, mechanical, electrical, and plumbing to be prepared or assembled by the Tenant as part of the design review process contemplated by Article 9 of this Lease.

Capital Recovery Event – has the meaning set forth in Section 25.02.

Capital Recovery Factor – means the following percentage of capital invested by Tenant in the Premises and the South Terminal that Tenant may recover upon termination of this Agreement under Section 25.01, based on the date of the Capital Recovery Notice: 100% in the first three years after the Effective Date; 75% in the fourth year after the Effective Date; 50% in the fifth year after the Effective Date; and 25% in the sixth year after the Effective Date.

Capital Recovery Notice – has the meaning assigned to such term in Section 25.01.

Capital Recovery Payment – means an amount equal to the product of (a) the Capital Recovery Factor, multiplied by (b) the total of (i) the Initial Capital Investment, plus (ii) any remaining obligations under capital leases related to the South Terminal (unless assumed by Owner), less (iii) any cash distributions of South Terminal revenues made by Tenant to its investors from and after the Effective Date, but in no event to exceed ELEVEN MILLION AND NO/100 DOLLARS (\$11,000,000.00). Notwithstanding the foregoing, no amount from the Initial Capital Investment shall be included in the Capital Recovery Payment unless such amount has been approved by Owner in accordance with Section 9.14.

Casualty – has the meaning set forth in Section 33.01.

Certificate of Occupancy Date – means the date on which a certificate of occupancy for the Covered Improvements is issued by the applicable Governmental Authority in order for the Premises and Covered Improvements to be open for business to the public.

CFC – has the meaning set forth in Section 18.06(a).

City - City of Austin, Travis County, Texas.

Claims – has the meaning set forth in Section 23.01.

Commencement of Operations Date – means the first date after the Effective Date on which a commercial airline flight arrives at or departs from the South Terminal, provided the conditions in Section 10.01 have then been met or have been waived by Tenant.

Concession Program – has the meaning set forth in Section 14.01.

Confidential Information – has the meaning set forth in Section 38.01.

CONRAC – means the Consolidated Rental Car Center at the Airport.

Construction Contract Close-Out – shall have occurred when: (i) Tenant and Owner have performed a final walkthrough and inspection and shall have reasonably determined that the Rehabilitation Project (inclusive of all punch list items) has, in all material respects, been completed in accordance with construction contract documents and (ii) Tenant and Owner have each received the following: (a) An affidavit from contractor stating that all subcontractors and material suppliers have been paid in full, subject to collection of final payment; (b) A complete waiver and release of any lien from each contractor, subcontractors or suppliers which has furnished material, goods or services in connection with the Rehabilitation Project or a conditional waiver and releases for any contractor, subcontractors or material suppliers entitled

to receive any portion of the final payment; (c) Copies of all guarantees and warranties from the contractor, from subcontractors, and from suppliers; (d) Copies of all operating and maintenance data for equipment installed as part of the Rehabilitation Project; and (e) All other submittals required by the construction contract documents, including the SMBR's Compliance Plan Program final closeout.

Contract Rate – means the lesser of the rate of interest specified in Texas Government Code Section 2251.025, or the highest non-usurious rate permitted by law.

Covered Improvements – has the meaning set forth in Section 9.03.

CPI – means the Consumer Price Index for Urban Consumers published by the U.S. Department of Labor, Bureau of Labor Statistics. In the event that the CPI should cease to be published, the Parties shall use good faith efforts to agree upon a substitute index that most closely approximates the CPI in gauging changes in the cost of living for urban consumers. If the Parties are unable to agree upon a substitute index, Owner may select a reasonable substitute index published by the Bureau of Labor Statistics, or successor agency.

Deplaned Passengers – means all deplaning passengers arriving at the South Terminal.

Design Review Procedures – has the meaning set forth in Section 9.03.

DHS – has the meaning set forth in Section 17.01.

Director – means the Executive Director of the City of Austin Department of Aviation or his or her duly authorized designee.

DOT – has the meaning set forth in Section 17.01.

Effective Date – means the date stated on the signature page of this Lease.

Enplaned Passengers – means all originating passengers departing from the South Terminal.

Environmental Assessment – shall refer to and include any environmentally related study, report, analysis, investigation, site assessment, intrusive sampling or any results of the foregoing relating to the Environmental Condition of the Premises.

Environmental Claims – shall refer to, and include, without limitation, all claims, demands, suits, actions, judgments, and liability for: (a) removal, remediation, assessment, transportation, testing and disposal of Hazardous Materials as directed by any government agency, court order, or Environmental Law; (b) bodily injury or death; (c) damage to or loss of use of property of any person; (d) injury to natural resources; (e) fines, costs, fees, assessments, taxes, demands orders, directives or any other requirements imposed in any manner by any governmental agency under Environmental Laws; and (f) costs and expenses of cleanup, remediation, assessment testing, investigation, transportation and disposal of a Hazardous Material spill, release or discharge.

Environmental Condition – shall mean any condition with respect to the soil, surface waters, groundwaters, surface or subsurface strata, ambient air or other environmental medium on or off the Premises, whether or not yet discovered, which could or does result in any Environmental Claim to or against Tenant or Owner by any third party (including any Governmental Authority), including any condition resulting from the activities, operation or business of any other property lessee, tenant, licensee, owner or operator on, off or in the vicinity of the Premises.

Environmental Laws – shall refer to and include, without limitation, all federal, state, and local statutes, laws, ordinances, rules and regulations, now or hereafter in effect, and as amended from time to time, that are intended for the protection of the environment, or that govern, control, restrict or regulate the use, handling, treatment, storage, discharge, disposal or transportation of Hazardous Materials. Environmental Laws specifically include but are not limited to, the National Environmental Policy Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act, the Hazardous Materials Act, the Toxic Substances Control Act, the Clean Water Act, the Clean Air Act, the Superfund Authorization and Recovery Act, the Occupational Safety and Health Administration Hazard Communication Standards, the Texas Water Code, the Texas Hazardous Materials Act and the Texas Water Quality Control Act.

Expansion – means any expansion of the South Terminal for the Authorized Use, including the development of any additional parking facilities serving the South Terminal, to accommodate the growth of operations of Airlines (or other air carriers) at the Airport.

Extension Notice – has the meaning assigned to such term in Section 3.01(b).

Extension Term – has the meaning assigned to such term in Section 3.01(b).

FAA – means the Federal Aviation Administration or successor agency that regulates civil aviation, airports and airport operations.

Fair Market Value – the amount that a willing and able buyer would offer, and a willing and able seller would accept, for the purchase and sale of Tenant's Interest, in an arm's length transaction, assuming: (a) neither Party is under economic compulsion or has special bargaining power; (b) the buyer possesses all information in the possession of Tenant relating to the Premises, the condition of the Premises and the revenues and expenses of Tenant; and (c) that the event giving rise to such determination (*e.g.*, a Taking or a termination of this Lease) had not occurred.

FIDS Monitors – means flight information display monitors for the display of information on all departing and arriving flights at the South Terminal and the North Terminal.

Fixed Rent – has the meaning assigned to such in Section 5.02(b).

GAAP – means generally accepted accounting principles in the United States of America.

GASB – means the Government Accounting Standards Board.

Governmental Approval – means any federal, state or local government agency approval, authorization, certification, consent, decision, exemption, filing, lease, license, permit, agreement, concession, grant, franchise, registration or ruling, required to be filed with, issued by or entered into with any Governmental Authority for the Premises.

Governmental Authority – means any governmental, judicial or administrative entity, body or authority

Gross Revenue – has the meaning assigned to such term in Section 5.01.

Hazardous Materials – shall refer to, and include, without limitation, all substances whose use, handling, treatment, storage, disposal, discharge or transportation is governed, controlled, restricted or regulated by Environmental Laws, that have been defined, designated or listed by any responsible regulatory agency as being hazardous, toxic, radioactive or that may present an actual or potential hazard to human health or the environment if improperly used, handled, treated, stored, disposed, discharged, generated or released. Hazardous Materials specifically include, without limitation, asbestos and asbestos-containing-materials, petroleum products, solvents and pesticides.

Indemnified Parties – has the meaning set forth in Section 23.01.

Initial Capital Investment – means the amount invested by Tenant for the rehabilitation, reactivation and initial working capital requirements of the South Terminal, which are estimated as of the Effective Date to be approximately \$11.2 million. Notwithstanding the foregoing, no amount from the Initial Capital Investment shall be included in the Capital Recovery Payment unless such amount has been approved by Owner in accordance with Section 9.14.

Initial Term – means the period commencing on the Effective Date and expiring at 11:59 p.m., Austin, Texas time, on the last day of the three hundred sixtieth (360) full calendar month ending after the Effective Date.

Lease – has the meaning set forth in the Preamble.

Lease Year – means a period of twelve (12) calendar months commencing on October 1 of each calendar year during the Term, but (a) for the first Lease Year, the period from the Effective Date through the following September 30 and (b) for the final Lease Year, the period from October 1 of such Lease Year through the last day of the Term.

Limited Services Terminal – means an airport passenger terminal that is constructed and operated with fewer operational amenities than the North Terminal, such as a terminal without passenger loading bridges, which supports a lower cost structure.

MWBE – has the meaning set forth in Section 24.02.

MWBE Program – has the meaning set forth in Section 24.02.

New Facility – means the construction of any new passenger terminal or concourse, including without limitation any new Limited Services Terminal, or other facilities at the

Airport, including any new or expanded parking facilities, to accommodate the growth of operations of Airlines (or other air carriers) at the Airport.

North Terminal – means and refers to the Barbara Jordan Terminal at the Airport.

Notice to Proceed – has the meaning set forth in Section 9.04.

NPDES – has the meaning set forth in Section 21.05.

Outside Date – has the meaning set forth in Section 10.01(c).

Owner – has the meaning set forth in the Preamble.

Owner Annual Report – has the meaning set forth in Section 18.06(e).

Owner Default – has the meaning set forth in Section 29.01.

Owner Environmental Parties – shall include Owner and its elected and non-elected officials, officers, agents, employees and contractors and any other person or entity that is not a Tenant Environmental Party.

Owner Monthly Report – has the meaning set forth in Section 18.06(b).

PDS – has the meaning set forth in Section 19.04.

Permitted Liens – means any liens (a) related to current period Taxes or assessments imposed upon Seller that are not yet due and payable, (b) related to any financing of Tenant as permitted under Section 16.01, or (c) otherwise agreed to, in writing, by Owner.

PFCs – has the meaning set forth in Section 18.08.

Pre-Existing Environmental Claim – has the meaning set forth in Section 21.03.

Premises – means the South Terminal, the land described on Exhibit A attached hereto, and all improvements and other buildings therein and thereon leased to Tenant by Owner.

Public Owner – has the meaning set forth in Section 35.02(a).

Qualified Entity – means with respect to any of Tenant’s rights and obligations hereunder any entity proposed by Tenant as assignee, sublessee, subcontractor, manager or transferee under Section 11.01 or a transferee under Section 35.01 which has (or with its contractors collectively have), in the reasonable determination of Owner, (a) the financial strength and integrity, (b) experience of the day-to-day team managing airports or other comparable or relevant businesses and (c) background and reputation to perform such obligations.

Qualifying Terminal Use Agreement – has the meaning set forth in Section 10.01(a).

Radio Communications Facilities – has the meaning set forth in Section 19.03.

Rehabilitation Project – has the meaning set forth in Section 9.01(a).

Rent – has the meaning set forth in Section 5.02. Rent includes Fixed Rent and Variable Rent, as defined in Section 5.01, and Additional Rent.

Rental Car Revenue Share – has the meaning set forth in Section 18.06(a).

Request for Mediation – has the meaning set forth in Section 40.01.

Revenue Sharing Rate – has the meaning set forth in Section 18.06(a).

Security Deposit – has the meaning set forth in Section 5.07(a).

Shuttle Bus Service – means the rental car shuttle bus service providing transportation between the South Terminal and the North Terminal/CONRAC facility.

Site Development Correction Documents – shall mean the overall site plan with all proposed changes to improvements made on the Premises to be prepared or assembled by the Tenant.

SMBR – has the meaning set forth in Section 14.03.

South Terminal – means the South Terminal of the Airport, including all existing fixtures and equipment therein; facilities for ground transportation staging; motor vehicle parking;; in-terminal food and beverages, retail, news and gift concessions; advertising; passenger services; storage; ground handling; and office, passenger, air carrier, user or ground handling accommodations.

South Terminal Marketing Program – has the meaning set forth in Section 13.02.

SPCC Plan – has the meaning set forth in Section 21.10.

Specified Event – shall mean (a) any transfer of Owner’s rights and obligations under this Lease to any person or entity other than to a Public Owner in accordance with Section 35.02; (b) construction by any person or entity other than Tenant of a stand-alone Limited Services Terminal at the Airport; and (c) in the case of each of sub-clause (a) and (b) above), any action by the City Council of Austin, or any letter of intent, memorandum of understanding, solicitation for proposals or other written commitment by Owner to negotiate, implement or authorize any such transfer or construction.

SSI – has the meaning set forth in Section 38.02.

STS – has the meaning set forth in Section 19.05.

Substantial Completion – shall mean the stage in the progress of the construction of the Rehabilitation Project when the work is sufficiently complete so that Tenant can occupy or use the South Terminal and its Premises for its Authorized Use. Substantial Completion shall include, without limitation, all required permit sign-offs, regulatory inspections and structural

components completed, equipment and systems installed and functional and all interior and exterior wall, ceiling and floor finish materials installed excluding only the completion of the Punch-List Items. In no event shall Substantial Completion be later than two hundred seventy (270) days after the Airport's Notice to Proceed.

Survey – has the meaning set forth in Section 9.10.

SWPPP – has the meaning set forth in Section 21.02.

Taxes – has the meaning set forth in Section 6.01.

Tenant – has the meaning set forth in the Preamble.

Tenant Annual Report – has the meaning set forth in Section 5.11.

Tenant Apron – means the aircraft parking and maneuvering areas adjacent to the South Terminal included in Tenant's Premises as designated in Exhibit A.

Tenant Default – has the meaning set forth in Section 28.01.

Tenant Environmental Parties – shall mean Tenant and Tenant's directors, officers, agents, employees, contractors, subtenants, customers, invitees, , its and their Affiliates, and its and their successors and assigns, but shall specifically exclude any Owner Environmental Party.

Tenant's Airport Operational Manual – has the meaning set forth in Section 10.02.

Tenant's Interest – means all Tenant's right, title and interest in, to, under or derived from this Lease, including the rights of Tenant under Article 2 and Article 15, and the Trade Fixtures.

Tenant Monthly Reports – has the meaning set forth in Section 5.10(b).

Term – has the meaning set forth in Section 3.01(b).

Terminal Use Agreements – means the Terminal Use and Lease Agreements between Tenant and Airlines for the use of, or use of space in, the South Terminal.

TPDES – has the meaning set forth in Section 21.05.

Trade Fixtures – All furniture, equipment, fixtures, and furnishings installed or constructed by Tenant, at its expense, on the Premises, including baggage handling systems, ticket and check-in counters, signs, seating, display cabinets, communications equipment, special lighting fixtures and all other equipment, furniture, furnishings and supplies that can be removed from the Premises without material damage to the Premises, specifically excluding Owner's Shared Use Passenger Processing System equipment, hardware, software, and supplies.

TSA – the United States Transportation Security Administration or successor agency that regulates airport or aviation security.

Variable Rent – has the meaning assigned to such term in Section 5.02(b).

1.02 Interpretations. In this Lease and any certificate or other document delivered pursuant hereto, unless otherwise expressly provided herein or therein or unless the context requires another meaning, the following rules of interpretation shall apply:

(a) Headings and underlinings are for convenience only and do not affect the interpretation of an agreement.

(b) Words importing the singular include the plural and vice versa and the masculine, feminine or neuter gender shall include all genders. The word “or” is not exclusive.

(c) The words “hereof,” “herein,” and “hereunder” and words of similar import when used in any agreement shall refer to such agreement as a whole and not to any particular provision of such agreement.

(d) Any reference to an agreement shall include a reference to each exhibit, annex, schedule and other attachment thereto.

(e) Any reference in an agreement to a Section, Clause, subsection, sub-clause, paragraph, Party, Exhibit, Annex or Schedule is a reference to that Section, Clause, subsection, sub-clause or paragraph of, or that Party, Exhibit, Annex or Schedule to, such agreement unless otherwise specified.

(f) Any reference to an agreement or document is to such agreement or document as amended, varied, supplemented, replaced, novated or modified from time to time in accordance with the terms of such agreement or document.

(g) Any reference to any Applicable Law shall be construed so as to include such Applicable Laws as amended, modified, extended, reenacted, redesignated or replaced from time to time.

(h) A reference to a person or entity includes that person’s or entity’s successors and permitted assigns.

(i) The term “including” shall mean “including without limitation” and any list of examples following such term shall in no way restrict or limit the generality of the word or provision in respect of which such examples are provided.

(j) Accounting terms shall have the respective meanings given to them under GAAP, or if specific to Owner, under GASB.

(k) References to “days” shall mean calendar days and to “business days” shall mean any day except a Saturday, Sunday or other day on which commercial banks in New York, New York or Austin, Texas are authorized or required by law to close. Any action required to be taken on or by a day that is not a business day may be taken on or by the next succeeding business day. References to a time of day or business day shall mean such time in Austin, Texas.

(l) This Lease is the result of negotiations among, and has been reviewed by each Party and its respective counsel. Accordingly, this Lease shall be deemed to be the product of both Parties, and no ambiguity shall be construed in favor of or against either Party.

(m) References to any condition or any representation by any Party being to the (i) best knowledge of such Party shall be deemed to be to the best knowledge of such Party after due inquiry, and (ii) knowledge of such Party shall be deemed to be to the actual knowledge of such Party.

ARTICLE 2 GRANT OF LEASE

2.01 Premises. Owner hereby leases and demises to Tenant, and Tenant hereby leases and takes from Owner, the Premises; TO HAVE AND TO HOLD the Premises, together with all and singular the rights, privileges, and appurtenances thereto attaching or in anywise belonging, unto Tenant, its successors and permitted assigns, for the Term, and subject to and in accordance with (a) the covenants, agreements, terms, provisions and limitations of this Lease; (b) all rights, restrictions, encumbrances and matters of record; and (c) the present or future right of Owner to construct, install, establish, maintain, use, operate, renew, and connect with any existing public utility facilities, franchised public utilities, roadways, sidewalks, streets, or other public improvements on, under, above, or adjacent to the Premises. For avoidance of doubt, this Lease shall include and cover all existing fixtures and equipment at the South Terminal and its adjacent airside and landside facilities on the Premises, including, but not limited to holdroom seating currently in storage in the South Terminal, baggage belt systems, baggage handling systems, mechanical, HVAC and plumbing, fire alarm and protection, security equipment, and spill containment controls, located at the South Terminal as of the Effective Date.

2.02 Existing Condition. Except as provided in Article 20 or Article 21 or as otherwise expressly provided herein, Tenant shall take the Premises **AS IS, WITH ALL FAULTS**, and Tenant acknowledges that Owner has not made any representations, warranties, covenants or agreements, express or implied, regarding (a) the value, nature, quality or condition of the Premises, (b) the income to be derived from the Premises, (c) the suitability of the Premises for any activity or use which Tenant may conduct thereon, (d) the compliance of the Premises with any Applicable Laws, or (e) the habitability, marketability or fitness for a particular purpose of the Premises. Tenant further acknowledges and agrees that any information which Owner procures from a third party and provides to Tenant with respect to the Premises may be delivered without any independent investigation or verification of such information by Owner, and Owner makes no representations as to the accuracy or completeness of such information.

2.03 Quiet Enjoyment. Owner covenants that Tenant, upon paying the Rent and performing and observing the covenants and agreements herein required to be paid, performed or observed by it, may peaceably and quietly have, hold, occupy, use and enjoy the Premises during the Term, and may exercise all of its rights hereunder, without ejection or interference by Owner or any person or entity claiming by, through or under Owner, subject to the provisions of this Lease and Applicable Law. Notwithstanding the foregoing,

Tenant hereby grants to Owner the non-exclusive right of vehicular and pedestrian access across any roadways constructed on the Premises, which access shall not, at any time, materially and adversely impair or interfere with Tenant's use and enjoyment of the Premises.

ARTICLE 3 TERM

3.01 Term.

(a) This Lease shall be and remain in effect for the Initial Term, subject to the Parties' rights of termination as specified in this Lease and extension under Section 3.01(b) below.

(b) Tenant shall have the option to extend the Term for up to two (2) additional terms of five (5) years each (each, an "Extension Term", and the Initial Term, together with any Extension Term, being herein called the "Term") commencing at the expiration of the Initial Term or the first Extension Term, as applicable, upon the reasonable consent of Owner, provided (i) no Tenant Default has occurred and is then continuing under this Lease, (ii) Tenant provides Owner with notice (an "Extension Notice") of such extension on or before one hundred eighty (180) days prior to the expiration of the Initial Term or the first Extension Term, as applicable; (iii) more than 400,000 Enplaned Passengers (or such increased number of Enplaned Passengers as mutually agreed to by the Parties if Tenant operates additional gates as a result of Expansion) have passed through the South Terminal in the twelve (12) month period immediately preceding the delivery of the applicable Extension Notice; (iv) Tenant has operated as a Qualified Entity for the five (5) year period immediately preceding the delivery of the applicable Extension Notice; and (v) Tenant has received satisfactory scores under applicable customer service surveys, with such surveys to be reasonably mutually agreed to by the Parties, for the three (3) year period immediately preceding the delivery of the applicable Extension Notice. Notwithstanding the foregoing, in the event that an Owner Default has not been cured at the time required for delivery of an Extension Notice, Tenant may provide notice of such to Owner and the Term shall automatically be extended until such time as such Owner Default is cured. In such event, Tenant shall have an additional thirty (30) days after the cure of the Owner Default to provide an Extension Notice; provided that, any extension will not cause the overall Term of this Lease to exceed forty (40) years.

3.02 Early Termination. Owner shall submit this Lease to the FAA for review within ten (10) business days after the Effective Date. Owner shall promptly deliver to Tenant written notice of any written response by the FAA resulting from its review of this Lease. Within thirty (30) days after the date Tenant receives notice of FAA's response to Owner's submission of this Lease to the FAA, either Owner or Tenant may elect in its sole discretion to terminate this Lease pursuant to a written notice delivered to the other Party in the event that, as a result of the review of this Lease by the FAA, such Party will be materially and adversely affected by any amendments to this Lease that are required pursuant to Section 26.01 or Section 26.07 hereof.

3.03 Transfer of Rights. Upon termination or expiration of this Lease, Tenant shall transfer all right, title and interest in and to the Premises, to Owner without additional payment or cost; provided, however, that at all times during the Term, Tenant will retain all right, title and interest in and to any Trade Fixtures and Tenant shall be entitled (but not required) to remove and dispose of such Trade Fixtures, subject to Owner's rights under Section 28.02(f). If Tenant has failed to remove such Trade Fixtures from the Premises within sixty (60) days after termination or expiration of this Lease, such Trade Fixtures shall be conclusively presumed to have been abandoned by Tenant.

ARTICLE 4 USE OF PREMISES

4.01 Authorized Use. The Premises shall be used for the rehabilitation, operation, and maintenance of the South Terminal as a stand-alone Limited Services Terminal to accommodate Air Transportation (an "Authorized Use"). It is the intent of both Owner and Tenant that the South Terminal be rehabilitated, operated, and maintained as a Limited Services Terminal. Tenant may not change the character of the South Terminal as a Limited Services Terminal without the prior written consent of Owner.

4.02 Prohibited Uses. Tenant shall not use or occupy, permit the Premises to be used or occupied, or do or permit anything to be done in or on the Premises in a manner which (a) is not an Authorized Use, (b) would constitute a public or private nuisance, (c) would violate Airport rules or regulations or (d) would violate any Applicable Laws.

4.03 Permits and Licenses. Tenant, at Tenant's expense, shall obtain and maintain in force and effect all Governmental Approvals, to the extent required for the reactivation and operation of the South Terminal. Owner will make commercially reasonable efforts to assist and support Tenant in securing the necessary Governmental Approvals for such reactivation and operation, but nothing herein shall be construed to require Owner to waive, release or modify any of its site development ordinances, rules or regulations, or requirements in connection with the granting of any such Governmental Approvals.

ARTICLE 5 RENT, REPORTS, AND AUDIT

5.01 Gross Revenue.

(a) "Gross Revenue" shall mean the total amount actually charged to all customers by Tenant arising from its operation of the Premises, including Owner's cash payments to Tenant under Section 18.06 (Rental Car Revenue Sharing), whether for cash, credit or exchange, regardless of when collected. It shall include all transactions, regardless of place or time of actual payment. For the avoidance of doubt, Gross Revenues will not be deemed to have been earned by Tenant until such time that Tenant is entitled to collect such revenues from the applicable counterparty under an installment sales contract.

(b) There shall be no reduction allowed from Gross Revenue for bad debts, personal property, or other ad valorem taxes, loss from theft, or any deduction except as expressly stated below. The following, to the extent properly documented and recorded, are the

only amounts that Tenant may exclude or deduct, as the case may be, from the computation of Gross Revenue:

(i) Federal, state, and local excise, sales and use taxes that are remitted to the taxing authorities by Tenant that have been either (A) passed through to and directly collected from the customer, or (B) remitted by the customer to, and collected by Tenant from, any of the Airlines, concessionaires or other users of the Premises;

(ii) the amount of any refunds or adjustments (either cash or credit) granted by Tenant to any such Airlines, concessionaires, or users of the Premises because of returned or defective goods or dissatisfactory service; and

(iii) incentives permitted under the South Terminal Marketing Program.

(c) Tenant shall keep and maintain full and adequate documentation to support all claimed exclusions and deductions from Gross Revenue. Failure to adequately document any exclusion or deduction to the reasonable satisfaction of Owner shall result in denial of the exclusion or deduction.

(d) Tenant may conduct all or part of its business on a credit basis, provided that the risk of collection shall be borne solely by Tenant. Tenant shall pay Variable Rent on such credit transactions, and report all sales, charges and receipts, both cash and credit, in its monthly statement to City.

5.02 Rent. Tenant shall pay Owner rent ("Rent") for the Premises and the South Terminal, which will be calculated on an annual basis, as follows:

(a) From the Effective Date through the date immediately preceding the Commencement of Operations Date, the amount of EIGHTY THOUSAND AND NO/100 Dollars (\$80,000.00) per Lease Year, pro-rated for any partial Lease Years; and

(b) From and after the Commencement of Operations Date through the early termination or expiration of the Term, the greater of (i) THREE HUNDRED THOUSAND AND NO/100 DOLLARS (\$300,000.00) per Lease Year, pro-rated for any partial Lease Years, and adjusted effective as of the first day of each Lease Year beginning with the second Lease Year commencing after the Commencement of Operations Date, based on any percentage increase in the averaged CPI of the prior 12-month period running from July 1st through June 30th over the immediately preceding July 1st through June 30th (the "Fixed Rent"), or (ii) a percentage of annual Lease Year Gross Revenues, pro-rated for any partial Lease Year, based on the actual Enplaned Passengers for the applicable Lease Year in accordance with the following schedule (the "Variable Rent"):

- i. 0 to 399,999 Enplaned Passengers, 0% of Gross Revenue;
- ii. 400,000 to 699,999 Enplaned Passengers, 5% of Gross Revenue;
- iii. 700,000 to 999,999 Enplaned Passengers, 10% of Gross Revenue;

- iv. 1,000,000 to 1,299,999 Enplaned Passengers, 15% of Gross Revenue; and
- v. more than 1,299,999 Enplaned Passengers, 20% of Gross Revenue.

For the avoidance of doubt, for purposes of calculating Rent for the Lease Year in which the Commencement of Operations Date occurs, there will be deemed to be two partial Lease Years for which the Rent, as determined pursuant to Section 5.02(a) and Section 5.02(b), will be prorated. In the event Tenant operates additional gates as a result of an Expansion or a New Facility, both Parties shall work together in good faith to modify the Rent calculation on mutually agreeable terms.

5.03 Payment of Pre-Commencement of Operations Date Rent. Commencing on the Effective Date, and prior to the Commencement of Operations Date, Tenant shall pay to Owner on the first of each month, without notice, and free from any and all claims, deductions or set-offs against Owner except as expressly provided for in Section 29.02 with adequate documentation to support any claim, deduction, or set-off, an amount equal to the Rent payable under Section 5.02(a) multiplied by one-twelfth (pro-rated for any partial month).

5.04 Payment of Post-Commencement of Operations Date Rent.

(a) Commencing on the Commencement of Operations Date and throughout the remaining Term, Tenant shall pay to Owner on the first of each month, without notice and free from any and all claims, deductions or set-offs against Owner except as expressly provided for in Section 29.02 with adequate documentation to support any claim, deduction, or set-off, an amount equal to the Fixed Rent multiplied by one-twelfth (pro-rated for any partial month).

(b) If the Variable Rent reflected in the Tenant Annual Report provided in accordance with Section 5.11 exceeds the total amount of Fixed Rent paid by Tenant with respect to the applicable Lease Year, Tenant shall pay Owner the amount by which such Variable Rent exceeds the Fixed Rent previously paid by Tenant for such Lease Year, within thirty (30) days after the delivery of the Tenant Annual Report, free from any and all claims, deductions or set-offs against Owner except as expressly provided for in Section 29.02 with adequate documentation to support any claim, deduction, or set-off.

5.05 Rent Payment Delivery. Unless otherwise directed, in writing, by Owner, Tenant shall remit any payment of Rent and any other payment obligations of Tenant to Owner, through an Automated Clearing House (ACH) electronic transfer of funds.

5.06 Late Payment Penalty. If any payment required hereunder by Tenant under this Article 5 is not made within thirty (30) days after such payment is due, Tenant shall pay interest at the Contract Rate on the amount outstanding from the payment due date until paid in full.

5.07 Security Deposit.

(a) Upon execution of this lease, Tenant shall deposit with Owner the sum of TWENTY THOUSAND DOLLARS (\$20,000.00), being three months total Pre-Commencement rent due and payable by Tenant. Prior to Post-Commencement, Tenant shall deposit with Owner

an incremental FIFTY-FIVE THOUSAND DOLLARS (\$55,000.00) for a total security deposit amount of \$75,000.00, being three months of total Post-Commencement rent due and payable by Tenant for under this Agreement, to be held by Owner as security for Tenant's full, faithful, and timely performance of its obligations under this Lease (the "Security Deposit"). The Security Deposit shall be in the form of cash, certified check, or letter of credit. The letter of credit must be in a form, and drawn on a bank, reasonably acceptable to City, and must remain in effect throughout the term of this Lease and for a period of ninety (90) days thereafter. If a letter of credit expires in accordance with its terms prior to such time, Tenant must provide a replacement letter of credit to Owner at least thirty (30) days before its expiration date. The Security Deposit shall not be considered an advance payment of Rent or a measure of damages in the event of default by Tenant. Owner shall not be required to pay interest to Tenant on the Security Deposit, or to keep the Security Deposit in a separate fund apart from other Owner funds.

(b) As the Rent adjusts during the Term, Owner shall periodically review the adequacy of the Security Deposit, and may, by written notice to Tenant, reasonably adjust the required amount of the Security Deposit. Such notice shall include a calculation of the revised Security Deposit, which shall not exceed three times the average monthly Rent for the immediately preceding completed Lease Year. Tenant shall within twenty (20) business days of receipt of such written notice from Owner increasing the Security Deposit, deposit the additional amount with Owner by cash, certified check or supplemental letter of credit.

(c) Owner shall have the right, but not the obligation, to apply all or any part of the Security Deposit to cure any Tenant Default, including, but not limited to, (i) any arrearages of Rent, fees or charges, or (ii) any other amounts due to Owner from Tenant under this Lease. In such event, Tenant must deposit with Owner an amount equal to the amount so applied by Owner within twenty (20) business days of written notice from Owner of the nature and amount of the application.

(d) Owner shall return the Security Deposit to Tenant, less any amounts applied by Owner under clause (c) above, within sixty (60) days after the later of the end of the Term or the date on which Tenant surrenders possession of the Premises to Owner.

5.08 Disputes. If either Party disputes the amount or calculation of any payment obligation of such Party under this Lease, including under this Article 5 and under Section 18.06, such Party shall pay the other Party the undisputed amount, together with a written notice of protest. Such notice of protest shall state the amount in dispute and describe in detail the basis of the dispute. If the Parties are unable to resolve the dispute at a staff level, the matter shall be resolved pursuant to Article 40. The Party found to owe an amount to the other Party shall promptly pay such other Party the amount determined to be owed.

5.09 No Abatement. Except as may otherwise be expressly provided in this Lease, no event or situation during the Term, whether foreseen or unforeseen, and however extraordinary, shall relieve a Party from its obligations hereunder or entitle a Party to an abatement or offset, and each Party waives any rights now or hereafter available at law or in equity to any abatement, diminution, reduction, offset or suspension for any reason.

5.10 Tenant Monthly Reports.

(a) Commencing with the month in which the Commencement of Operations Date occurs, no later than twenty (20) days after the end of each month during the Term, Tenant shall submit to Owner a reasonably detailed statement reflecting (i) the number of Enplaned Passengers and (ii) the number of Deplaned Passengers, for the applicable month and for the Lease Year to date; and

(b) Commencing with the month in which the Commencement of Operations Date occurs, no later than thirty (30) days after the end of each month during the Term, Tenant shall submit to Owner a reasonably detailed statement reflecting the Gross Revenues for the applicable month and for the Lease Year to date (collectively, the "Tenant Monthly Reports"). The Tenant Monthly Reports shall be prepared on a consistent basis and shall be certified by a responsible financial officer of Tenant. The Parties acknowledge that the Tenant Monthly Reports and Gross Revenue calculations are subject to year-end adjustments and true-ups based on annual reports provided to Tenant (i) by Owner with respect to Rental Car Revenue Share and (ii) Airlines regarding Enplaned Passengers and Deplaned Passengers.

5.11 Tenant Annual Report. Within one hundred fifty (150) days after the close of each Lease Year, Tenant shall furnish Owner a reasonably detailed statement (the "Tenant Annual Report") reflecting (a) the Gross Revenues, (b) the number of Enplaned Passengers, (c) the number of Deplaned Passengers and (d) Variable Rent due for the Lease Year. The Tenant Annual Report shall be prepared in accordance with GAAP and certified by a responsible financial officer of Tenant.

5.12 Tenant Audit Report. Within one hundred twenty (120) days after the close of each Lease Year, Tenant shall furnish to Owner an audited annual accounting statement of Gross Revenues and the calculation of Variable Rent due for the Lease Year, prepared by an independent Certified Public Accountant, in accordance with GAAP. The audit will express an opinion as to whether the reported Gross Revenues and Variable Rent due for the applicable Lease Year have been accurately calculated in accordance with the terms of this Lease.

5.13 Late Report Penalty. If Tenant fails to timely submit any report or audit required under Sections 5.10, 5.11, or 5.12, Tenant shall pay Owner the following as liquidated damages. For purposes of assessing damages under Sections 5.10, 5.11, or 5.12, a report shall be deemed late if it is not received by Owner within ten (10) days after the due date specified above.

- (a) Each late Tenant Monthly Report: \$100
- (b) Each late Tenant Annual Report: \$500
- (c) Each late Tenant Audit Report: \$500

5.14 Internal Control Structure. Tenant shall maintain an internal control structure designed to provide reasonable assurance that South Terminal assets are safeguarded from loss or unauthorized use, transactions are executed in accordance with Tenant's authority, and financial records are reliable for the purposes of preparing the reports required under this Article 5. The internal control structure shall be supported by the selection, training and

development of qualified personnel, by an appropriate segregation of duties, and by the dissemination of written policies and procedures.

5.15 Records Retention. Tenant shall maintain full and accurate records, accounts, books, and data with respect to business done by it hereunder which shall show all of the Gross Revenue, in sufficient detail to readily permit verification of Gross Revenues by Owner. Such records shall include all books, records and documents generated or maintained by Tenant concerning or relating to Tenant's operations under this Lease, the collection of and calculation of Gross Revenue and the Rent or other rents, fees or charges payable under this Lease, such as general ledgers, sales journals, daily sales reports, detailed daily reports, cash register tapes, trial balances, sales tax reports, subsidiary ledgers, daily journals, original and closed rental agreements, corporate chart of accounts, and lists of all rental locations on the Airport, as applicable. Tenant shall retain all such records, accounts, books, ledgers, journals, business reports, rental agreements, and all other pertinent data and supporting documentation ("books and records") for the longer of three (3) years after the end of the Lease Year to which they pertain or until completion of all pending audits or litigation between the Parties.

5.16 Audit. Upon written notice at any time or times during the Term within three (3) years after the end of any Lease Year, Owner may inspect, reproduce and audit the books and records of Tenant relating to its operations at the Airport. If, as a result of such inspection and audit, it is established that additional Rent is due to Owner, Tenant shall, upon written notice by Owner, pay such additional Rent, plus interest, calculated at the Contract Rate, within ten (10) days of written notice. If, on the other hand, such audit determines that Tenant has overpaid Rent due Owner, Owner shall refund to Tenant the amount of such overpayment. If the results of such audit reveal an underpayment of more than five percent (5%) of Gross Revenue as reported by Tenant, the cost of the audit shall be paid by Tenant to Owner as Additional Rent within thirty (30) days from invoice date. Tenant shall cooperate fully with any audit or examination initiated by Owner, and shall produce all books and records requested for audit to a designated location at the Airport, or in Austin, Texas, within thirty (30) days of the date of written request. To facilitate the inspection of Tenant's books and records, documents provided for audit shall be made available in an electronically downloadable format acceptable to Owner whenever possible. When electronic files do not exist, legible printed copies of books and records must be provided. Owner's rights and Tenant's obligations under this Section shall survive the expiration or earlier termination of this Lease.

5.17 Confidentiality. Owner's obligations with respect to information provided by Tenant under this Article 5 include the confidentiality covenants under Article 38.

5.18 Certain Notices. Notice is hereby given Tenant of Article VIII, Section 1 of the Austin City Charter which prohibits the payment of any money to any person, firm or corporation who is in arrears to the City for taxes, and of §2-8-3 of the Austin City Code of 1992, as amended, concerning the right of the City to offset indebtedness owed the City.

**ARTICLE 6
TAXES AND LIENS**

6.01 Payment of Taxes and Assessments. Tenant shall pay, or in good faith contest, on or before their respective due dates, to the appropriate collecting authority, all federal, state and local taxes, charges and fees (“Taxes”), which are now or may hereafter be levied upon the Premises, personal property of Tenant, or upon the business activities of Tenant on the Premises, except to the extent payable by any subtenant under Applicable Law. Tenant shall give notice to Owner if it plans to contest such Taxes and provide to Owner all related documentation and information reasonably requested by Owner. If the nonpayment of any such Taxes may result in a lien on the Premises, the Airport or personal property of Owner, Tenant shall timely pay or take such action as provided under Applicable Law to avoid or release any lien that may otherwise attach due to contesting the same. If Tenant contests such Taxes, Owner may require Tenant to establish and sufficiently fund an escrow account or bond to cover payment of such Taxes, if determined to be due and owing, and Tenant shall diligently pursue any such contest to conclusion. For the avoidance of doubt, any payment of any Taxes assessed by Owner, that Tenant is contesting, shall not be deemed a waiver of any right of contest with respect to such Taxes or any waiver of an Owner Default related to such Taxes.

6.02 Liens. Tenant agrees not to directly or indirectly create, permit or suffer any lien to be imposed upon the Premises or any part thereof as a result of Tenant’s activities and operations on the Premises other than a Permitted Lien. In the event any lien is created by or permitted by Tenant in violation of this Section 6.02, Tenant shall immediately: (a) give notice to Owner of such lien and provide to Owner all related documentation and information reasonably requested by Owner; (b) discharge such lien of record, by payment, bond or as otherwise allowed by Applicable Law; and (c) provide to Owner a copy of the recorded release or discharge of such lien and all related documentation and information reasonably requested by Owner. TENANT SHALL ALSO DEFEND (WITH COUNSEL APPROVED (CONSENT NOT TO BE UNREASONABLY WITHHELD) BY OWNER), FULLY INDEMNIFY AND HOLD ENTIRELY FREE AND HARMLESS OWNER FROM ANY ACTION, SUIT OR PROCEEDING THAT MAY BE BROUGHT ON OR FOR THE ENFORCEMENT OF ANY SUCH LIEN.

**ARTICLE 7
NET LEASE**

7.01 Net Lease. Except as expressly set forth in this Lease, Owner shall not be required hereunder to make any expenditure, incur any obligation, cost, expense or liability of any kind in connection with this Lease or the financing, ownership, construction, maintenance, operation or repair of the Premises, it being intended that this Lease be a completely net lease which assures Owner the Rent herein reserved on an absolute net basis.

**ARTICLE 8
UTILITIES**

8.01 Utilities. Tenant shall pay or cause to be paid all fees and charges for all utility services to the Premises, including, gas, electricity, light, heat, water, wastewater (other

than fees and charges for collection and disposal of de-icing run-off), cable television, telephone and other communication services, and drainage and transportation fees. Owner, at Owner's expense, shall maintain all utility lines (*e.g.*, water, wastewater, electricity, communications and natural gas) within the utility corridors on Airport property. Tenant, at Tenant's expense, shall extend utility lines, as applicable, (*e.g.*, water, wastewater, electricity, communications and natural gas) from the Airport's utility corridors as necessary to support the Premises. Tenant shall establish separate utility accounts for the Premises and the South Terminal in Tenant's name. Utilities for portions of the Premises subleased to an authorized subtenant may be separately metered and established in the names of the respective subtenant, if and to the extent permitted by Applicable Laws and utility regulations.

ARTICLE 9 CONSTRUCTION

9.01 Conditions to Commencement of the Rehabilitation Project.

(a) Promptly after the Effective Date, Tenant will commence the rehabilitation of the South Terminal as described in Exhibit B attached hereto (the "Rehabilitation Project"), provided that (A) the obligations of Tenant to commence and complete the Rehabilitation Project and to reactivate the South Terminal are subject to the following terms and conditions:

- (i) no Specified Event having occurred;
- (ii) any necessary plan for remediation of Hazardous Materials or other Environmental Conditions having been agreed upon in accordance with Article 20; and
- (iii) Tenant having received Airport's Notice to Proceed as contemplated under Section 9.04;

and (B) the right of Tenant to commence and complete the Rehabilitation Project and to reactivate the South Terminal are subject to Tenant's compliance with Sections 9.01 through 9.04 with respect to the Rehabilitation Project.

(b) If on or prior to May 15, 2016, any of such conditions described in (i) Section 9.01(a)(A) have not been satisfied, or waived by Tenant, Tenant shall have the right, or (ii) Section 9.01(a)(B) have not been satisfied, or waived by Owner, Owner shall have the right, to terminate this Lease, without penalty, by notice to the non-terminating Party (such termination to take effect on the date specified by the terminating Party in such notice, which date shall be not earlier than thirty (30) days after the date of such notice and not later than ninety (90) days after the date of such notice), unless the terminating Party has taken any willful act or omission to cause such condition to not be satisfied, in which case such Party shall have no such right of termination under this Section 9.01(b), and provided that nothing herein shall relieve any Party hereto from liability for willful acts or omissions, the purpose of which is to avoid honoring any of its commitments and obligations under this Lease.

9.02 Demolition. All demolition of existing improvements within the South Terminal required for the Rehabilitation Project and reactivation of the South Terminal,

excluding demolition of any non-structural improvements, shall be subject to the prior approval of Owner in accordance with this Article 9 and shall be undertaken by Tenant at Tenant's sole cost and expense; provided, however, that notwithstanding the foregoing, if any preexisting Hazardous Materials must be investigated, excluding building components containing Hazardous Materials, remediated, disposed of and/or otherwise addressed as a result of any such demolition, such investigation, remediation, disposal or other activity shall be the responsibility of Owner, in accordance with Article 20 and Article 21 hereof, and all of such activities shall be undertaken pursuant to a separate agreement between Owner and Tenant.

9.03 Improvements. Any improvement, construction, alteration, import of material, export of material or any other alteration or addition to the Premises as described in this Lease shall be completed in accordance with the provisions of: (a) this Lease, (b) Applicable Law, (c) Design Review Procedures (as defined below), (d) the City codes and standards and (e) City building permit requirements. Tenant may not construct or install any new improvements or infrastructure on the Premises, or materially modify or demolish any improvements or infrastructure on the Premises, without the prior written consent of the Director and, to the extent required, in accordance with the applicable provisions of the Airport Policies and Procedures for Design Review attached hereto as Exhibit C, as such policies and procedures may be amended from time to time (the "Design Review Procedures"), to the extent such policies and procedures are not in conflict with the express provisions of this Lease, any such improvements being referenced to herein as "Covered Improvements"; provided, however, that the Rehabilitation Project shall be completed in accordance with the Airport Policies and Procedures for Design Review in effect as of the date hereof and attached hereto as Exhibit C.

9.04 Design and Construction Review. To obtain the consent of the Director to proceed with construction, modification or demolition of any Covered Improvements, including the Rehabilitation Project ("Notice to Proceed"), Tenant shall submit to Owner the following:

(a) one (1) complete copy of all work product for the design and construction of the South Terminal in electronic file formats (9CD-R) and prepared with computer-aided design and drawing technology utilizing the Airport's current CADD standards;

(b) at least three (3) sets of full-size printed drawings, plans and specifications (in hard copies and electronic format specified by Owner), which may be submitted in stages depending on the stages or phases of construction and which provide, in sufficient detail for Owner to evaluate the Covered Improvement and its scope, including, as applicable;

(c) a site plan showing, with horizontal dimensions and elevations, proposed work to be performed and improvements to be constructed on the Premises, including the location of all proposed utility lines and connections, drainage, vehicle parking, landscaping, paths, drainage, roads and easements;

(d) architectural drawings sufficiently complete for construction, showing front and side elevation views, floor plans for each floor, if applicable, and dimensions of any proposed structure and the materials, including colors and exterior finishes, to be used, finished floor elevation data for each level and maximum elevation (height) of the South Terminal;

(e) a survey of the Premises, incorporating any boundary changes previously approved by Owner;

(f) a copy of the schedule for the completion of the construction of the Premises and a schedule of values composing the fixed price for the construction;

(g) documentation showing that the plans and specifications for the scope of work to be undertaken have received any approvals required by Governmental Authorities having jurisdiction over the proposed Covered Improvement, including but not limited to the City, TSA and FAA;

(h) certificates of insurance, in a form and for coverage amounts and with deductibles or self-insured retention amounts reasonably satisfactory to Owner, evidencing Tenant's construction contractor's "all risk" type Builder's Risk insurance coverage, Commercial General Liability Insurance coverage, Business Automobile Liability Insurance Coverage, and Workers' Compensation Insurance Coverage, as specified on Exhibit E. Tenant's contractor's insurance policies must be endorsed to name Owner as an additional insured, waive subrogation against Owner and provide Owner not less than thirty (30) days' prior written notice of cancellation;

(i) valid performance bonds and payment bonds without expense to Owner. Such bonds shall be maintained and kept in full force and effect until all work required to construct, install, modify or demolish (as applicable) the Covered Improvement is complete. The bonds shall be in a form, and issued by a surety licensed to transact business in the State of Texas, reasonably acceptable to Owner. The bonds shall be in a penal amount equal to the full amount of all contract(s) required for the construction, installation, modification or demolition relating to the Covered Improvement. The performance bond shall be for the protection of Owner, and ensure the full faithful and timely performance by Tenant or its contractors of the obligations to construct, install, modify or demolish the Covered Improvement in accordance with the plans, specifications and contract documents. The payment bond shall guarantee the prompt payment by Tenant or its contractors to all persons supplying labor, materials, provisions, supplies and equipment, used directly or indirectly by any contractor, subcontractor(s) and suppliers in the construction, installation, modification or demolition of the Covered Improvement, and shall protect Owner from any liability, losses, or damages arising therefrom; and

(j) any additional data or documents reasonably requested by City.

The Director will provide the Notice to Proceed within ten (10) business days of receiving the foregoing in form acceptable to Owner.

9.05 Construction Plans. Tenant shall provide interim construction plans for the Rehabilitation Project at (a) one hundred percent (100%) Building Permit Documents and (b) one hundred percent (100%) Site Development Correction Documents, respectively, to allow for comments by Owner before City issues any applicable permits to Tenant, and thereafter for approval of any proposed significant change. The Building Permit Documents and the Site Development Correction Documents may be submitted in stages in advance of the construction

of various elements of the Rehabilitation Project. Owner agrees to review all plans and specifications and comment within fourteen (14) days of the delivery so long as Tenant provides at least three (3) days advance written notice to Owner prior to delivery for review.

9.06 Limitation of Owner Responsibility. The approval by Owner of any construction design or any other provision does not waive Tenant's legal responsibility or liability to comply with all Environmental Laws, Applicable Law and City codes and standards in accordance with this Agreement, including those concerning the construction and design of the South Terminal, all of which shall be Tenant's sole responsibility. In addition, such review or approval shall not constitute a waiver by Owner of the right thereafter to require Tenant to correct any failure by Tenant to comply with any Environmental Laws, Applicable Law, or City codes and standards. It is agreed and understood that the review of plans and specifications by Owner is only for compliance with this Lease, and not for architectural or engineering design; and that Owner assumes no liability or responsibility for the design or for any defect in the design or in any work performed pursuant to such plans and specifications.

9.07 Construction Standards. Construction or modification of any Covered Improvements shall comply with the following requirements.

(a) Improvements and modifications shall be constructed in a good and workmanlike manner, utilizing good industry practice for the type of work in question, and in compliance in all material respects with all Applicable Laws, including applicable building codes.

(b) Improvements and modifications shall be designed and constructed in accordance with the applicable provisions of Austin-Bergstrom International Airport Design Guidelines, other applicable Airport rules and regulations, Federal Aviation Regulations governing the height and location of structures affecting airspace at the Airport as set forth in 14 CFR Part 77, Chapter 25-13 of the Austin City Code (Airport Hazard and Compatible Use Zoning Ordinance), and other Applicable Laws.

(c) All plans, drawings and specifications, preliminary and final, shall be prepared by registered architects or engineers licensed to practice in the State of Texas.

(d) After commencement, Tenant shall prosecute the authorized work with due diligence to meet Substantial Completion.

(e) Owner shall designate a haul route and Tenant shall designate a staging area for Tenant's construction project for any Covered Improvements on Tenant's Premises. Tenant shall not use, or permit its contractors to use, any area for staging or parking on Airport property, other than on Tenant's Premises, without the prior written consent by Owner.

9.08 Owner's Right of Inspection. During the course of the modification, construction or demolition necessitated by any Covered Improvements, Owner and its architects, engineers, agents and employees may enter upon and inspect the Premises for the purpose of inspecting the work for conformity with the requirements of this Lease and the plans and specifications approved by Owner, upon not less than two (2) business days prior notice to Tenant, except in the case of an emergency to public health or safety.

9.09 Tenant's Representative. Tenant shall designate an on-site representative who shall be available through final completion of any Covered Improvements to coordinate all design and construction activities, and to meet with Owner's representatives as necessary. Tenant shall submit written progress reports to the Director at least monthly. The reports shall describe significant achievements and problems that could affect the construction schedule or cost. The reports shall be sufficiently detailed to demonstrate compliance with approved plans and specifications, and this Lease. Tenant shall also furnish (or cause its contractors to furnish) at Tenant's expense, qualified safety personnel to be present during any construction activity.

9.10 Construction Contract Close-Out. Within ninety (90) days following Construction Contract Close-Out of any Covered Improvements, Tenant shall furnish Owner with (a) a certificate from Tenant's architect or engineer certifying that the work has been completed in accordance with the approved plans and specifications; (b) a complete set of electronic as-built drawings in Owner's current CADD standards of any Covered Improvements ("As Built Plans"); (c) to the extent not already provided to Owner by Tenant in accordance with Section 9.14 , a reasonably detailed itemization ask for the schedule of values of project costs including copies of invoices (addressed to, received by and directly paid by Tenant) and proof of payment to establish the verified cost of any Covered Improvements; (d) electronic PDF copies of all construction agreements, operation and maintenance manuals, and warranties on any Covered Improvements, including the Rehabilitation Project, and any component part thereof; (e) a list of all maintenance contractors and contracts for any Covered Improvements, or any part thereof; (f) a survey and metes and bounds description of the Premises by a professional land surveyor registered in the State of Texas using the then current professional survey standards as established by the Texas Society of Professional Surveyors ("Survey"); and (g) a copy of the certificate of occupancy for the Covered Improvements issued by the applicable Governmental Authority. If Tenant does not provide any applicable As-Built Plans and Survey within the designated period, Tenant shall pay Owner liquidated damages in the amount of Fifty Thousand Dollars (\$50,000.00) to cover Owner's cost of obtaining the same. Tenant covenants that Owner may use all plans and specifications submitted by Tenant pursuant to this Lease without payment to Tenant or any other person, for purposes relevant to and consistent with this Lease.

9.11 Amendment of Lease. After Owner's approval of the final as-built survey plat and metes and bounds description delivered to City in accordance with Section 9.10, Tenant and Owner shall execute an amendment to this Lease to identify the Premises.

9.12 Ownership. All improvements or modifications Premises resulting from any Covered Improvements, excluding Trade Fixtures related thereto, shall become the property of Owner at the end of the Term, whether by expiration, termination or otherwise, free from any liens or claims whatsoever created by Tenant, without any compensation from Owner to Tenant or to any other person or entity (except as otherwise expressly provided herein).

9.13 No Liens. Tenant shall be solely responsible for payment to all contractors and workers for all elements of construction, modification or demolition of any Covered Improvements, and shall keep the Premises and the South Terminal free and clear of all liens, other than Permitted Liens, resulting from any such work thereon, or the furnishing of labor or materials, by or on behalf of Tenant. Tenant shall obtain and deliver to Landlord, promptly upon the completion of any work performed at the Premises, written and unconditional

waivers of mechanic's liens upon the Premises and Covered Improvements for all work, labor, and services performed and materials furnished in connection with such work, signed by all contractors, subcontractors, material men, and laborers involved in such work. Notwithstanding the foregoing, any mechanic's lien filed against the Premises or the Covered Improvements for work claimed to have been done for or materials claimed to have been furnished to Tenant will be discharged by Tenant at its expense within thirty (30) calendar days after such filing, by payment or filing of the bond required by law. Tenant may contest the correctness or validity of any such lien, but shall indemnify, defend and hold harmless Owner from any and all such lien claims.

9.14 Initial Capital Investment. Within ninety (90) days after the Construction Contract Close-Out of the Rehabilitation Project, Tenant will provide Owner with a calculation of the actual Initial Capital Investment, together with invoices and cleared checks for payments made directly by Tenant to contractors, vendors and other third parties related to the Rehabilitation Project. Within ninety (90) days after Tenant's submission of its calculation of the actual Initial Capital Investment and such supporting documentation to Owner, Owner shall approve such calculation, in writing, such approval not to be unreasonably withheld, or else provide a notice to Tenant with any objections to Tenant's calculation of the Initial Capital Investment. Within thirty (30) days after any notice of objection by Owner, Owner and Tenant shall meet to negotiate in good faith and agree on the calculation of the amount of the Initial Capital Investment. If Owner fails to timely deliver a notice of objection to Tenant's calculation of the Initial Capital Investment, Owner shall be deemed to have approved Tenant's calculation of the Initial Capital Investment. The approved Initial Capital Investment shall be deemed final for purposes of any subsequent Capital Recovery Payment calculation.

ARTICLE 10 TENANT OPERATIONS, MAINTENANCE, AND REPAIRS

10.01 Conditions to Commencement of Operations.

(a) The Commencement of Operations Date shall not occur until the following conditions have been fulfilled or waived:

(i) no Specified Event shall have occurred upon the fulfillment or waiver of the items set forth in subsections (ii), (iii), (iv), (v), (vii), (viii), (ix), (x), (xi), (xii), (xiii), and (xiv) hereof;

(ii) Owner shall have installed roadway lighting along Emma Browning Drive, the South Terminal entrance and its roadways and the surface parking lots surrounding the South Terminal (fulfilled as of December 1, 2015);

(iii) the law enforcement and security activities contemplated under Section 18.09 shall commence;

(iv) the signage contemplated under Section 18.04 shall have been installed;

(v) Terminal Use Agreements between Tenant and air carriers that have an aggregate projected minimum of 200,000 Enplaned Passengers at the South Terminal for the twelve (12)-month period immediately following the Certificate of Occupancy Date satisfactory

to each of the parties thereto, shall have been fully executed and be in full force and effect and no default shall have occurred or be continuing thereunder (“Qualifying Terminal Use Agreement”);

(vi) no material changes to this Lease or the form of Terminal Use Agreement have been required or recommended by the FAA upon the fulfillment or waiver of the items set forth in subsections (ii), (iii), (iv), (v), (vii), (viii), (ix), (x), (xi), (xii), (xiii), and (xiv) hereof;

(vii) TSA screening activities at the South Terminal shall be ready and able to commence;

(viii) installation of a passenger processing system in the South Terminal by Tenant;

(ix) Substantial Completion has occurred;

(x) Tenant has satisfied the requirements under Section 10.02 and Articles 12, 13 and 14;

(xi) Tenant is ready to commence parking operations at the South Terminal as contemplated under Section 11.01;

(xii) FIDS Monitors shall have been installed in in the South Terminal in accordance with Section 19.01, which show departing and arriving flights for the South Terminal and the North Terminal;

(xiii) Certificate of Occupancy Date has occurred; and

(xiv) Airfield Use Agreements between Owner and air carriers that have an aggregate projected minimum of 200,000 Enplaned Passengers at the South Terminal for the twelve (12)-month period immediately following the Certificate of Occupancy Date, satisfactory to each of the parties thereto, shall have been fully executed and be in full force and effect and no default shall have occurred or be continuing thereunder.

(b) Notwithstanding anything to the contrary herein, Owner shall be deemed to have waived satisfaction of the conditions set forth in Section 10.01(a), and the Commencement of Operations Date shall be deemed to have occurred, solely for purposes of Section 25 hereof, thirty (30) days after receipt by Owner of written notice outlining Tenant’s compliance with its obligations under this Lease related to such conditions, including, where applicable, reasonable back-up information such as copies of filings with Governmental Authorities, *provided* that Tenant has also diligently and in good faith pursued fulfillment of all of the requirements set forth in Section 10.01(a) that are not fulfilled for purposes of the limited waiver under this Section 10.01(b).

(c) Notwithstanding anything to the contrary herein, if on or prior to March 31, 2017 (the “Outside Date”), (i) any of such conditions described in Section 10.01(a)(i) through (iv), or (xii) have not been fulfilled, waived, or firmly committed, then Tenant shall have the right, or (ii) any of such conditions described in Section 10.01(a), (viii), (ix), (x), (xi), or (xiii) have not been not fulfilled, waived, or firmly committed, then Owner shall have the right, to terminate this Lease, without penalty, by notice to the other Party (such termination to take

effect on the date specified in such notice, which date shall be not earlier than thirty (30) days after the date of such notice and not later than ninety (90) days after the date of such notice), provided that (x) the Party terminating the Lease under this Section 10.01(c) has not taken any willful action or omitted or failed to take any action required or contemplated hereunder for the purpose of causing a condition hereunder to not be fulfilled or firmly committed, (y) nothing herein shall relieve any Party hereto from liability for willful acts or omissions or failures to act, the purpose of which is to avoid honoring any of its commitments and obligations under this Lease and (z) the Outside Date shall be extended by a number of days equal to the sum of the number of days from the receipt by Owner of any proper written notice under Section 10.01(b) until the effectiveness of the deemed waiver under Section 10.01(b), plus five (5) business days.

10.02 Operations. Tenant shall develop (and periodically update) a comprehensive South Terminal operational manual detailing the standards and processes for operating and managing all facilities, passengers, concessions, parking, and aircraft operations on the Premises (“Tenant’s Airport Operational Manual”). The draft Tenant’s Airport Operational Manual shall be submitted to Owner for approval by Tenant within one hundred eighty (180) days after the Effective Date. In accordance with Tenant’s Airport Operational Manual and in compliance with the Owner’s Airport Standards Manual, which shall be provided to Tenant within sixty (60) days after the Effective Date, Tenant shall be solely responsible for operating and managing the Premises including the South Terminal, South Terminal airside operations (*e.g.*, including Tenant Apron and operations within the security identification display area (SIDA) of the South Terminal, but excluding dry weather glycol recovery in conjunction with the three gates located on the maintenance ramp at the South Terminal) and South Terminal landside operations (*e.g.*, including South Terminal parking, food and beverage, retail, news and gift concessions, ground transportation, advertising and other passenger services).

10.03 Maintenance Capital Investment. Tenant has budgeted approximately \$3.9 million for maintenance capital for the ten (10) year period following the Commencement of Operations Date. For each five (5) year period thereafter, during the Term, Owner and Tenant shall work in good faith to agree on the level of maintenance capital investment for each such five (5) year period, based upon (a) the maintenance capital investments made in the immediately preceding five years, (b) any reasonably anticipated necessary maintenance expenditures, (c) any industry standards for maintenance and repair of the terminal facilities comparable to the Premises, (d) maintaining the South Terminal in the condition required for surrender of the Premises at the expiration or earlier termination of this Lease under Section 30.01, and (e) any other agreement between Owner and Tenant. Owner and Tenant shall meet annually to discuss the next Lease Year’s maintenance capital budget. Failure to agree on such investment for any period shall not constitute a default under this Lease by either Owner or Tenant.

10.04 Maintenance and Repair. Except as otherwise expressly provided for in this Lease, Tenant shall be solely responsible for the maintenance of the Premises, including the Tenant Apron and South Terminal, and shall, at Tenant’s sole expense, (a) maintain and take good care of the Premises, including the buildings, storm water structural controls, fixtures, lighting, and vehicle parking lots, and (b) make or cause to be made all repairs thereto and replacements thereof which are necessary to maintain and keep the Premises in good order, repair and condition at all times, subject to normal wear and tear. Tenant, shall maintain and

repair all mechanical, electrical, plumbing, heating and cooling, communication lines, and security and fire-protection systems as well as the trench drainage system and spill containment system that are part of the storm water structural controls on the Premises. Subject to normal wear and tear, Tenant will not cause or permit any waste, damage, disfigurement or injury to or upon the Premises, or any part thereof. Tenant shall mow and maintain the grass and landscaping within the Premises. Tenant shall maintain and repair all utility lines, fixtures and equipment on the Premises, except to the extent maintenance and repair is the obligation of the utility serving the Premises. In the event de-icing drainage infrastructure is developed and constructed for the South Terminal, both Parties shall work together in good faith to determine the maintenance and repair of such de-icing drainage infrastructure on mutually agreeable terms.

10.05 Tenant Apron. Tenant shall have the exclusive right to designate or allocate use of the Tenant Apron and gate areas of the South Terminal at all times. Tenant, at its sole cost and expense, shall at all times provide and maintain the Tenant Apron with aircraft parking stands on the Premises. Owner shall provide and maintain, at its cost and expense, the taxilanes, taxiways, ramps, aprons, and runways not included in Tenant's Premises necessary for aircraft maneuvering to and from the South Terminal.

10.06 Trash/Recycling. Tenant shall provide, at its sole expense, all waste collection, handling and disposal services necessary or appropriate for the Premises, to keep the Premises free from trash, garbage and other refuse, and no such trash, garbage or other refuse shall be disposed of elsewhere on the Airport. In a manner consistent with other Airport terminal's then current operating standards, Tenant will provide recycling receptacles adjacent to each trash receptacle. Tenant will comply with the City's Universal Recycling Ordinance as defined in Title 15 of The Code of the City, as amended from time to time. Tenant shall provide, or cause to be provided, proper receptacles for trash, recycling, composting, garbage and other refuse generated on or from business operations on the Premises in a manner consistent with other Airport terminal's then current operating standards.

10.07 Owner's Right to Maintain. If Tenant fails to comply with its obligations to maintain or repair the Premises under this Article 10, and such failure is not cured within thirty (30) days of written notice from Owner, then in addition to any other rights or remedies Owner may have as a result of such failure, Owner shall have the right, but not the obligation, to perform such maintenance or repairs or other obligations at Tenant's expense provided that, if such failure is curable, but not capable of being cured within such thirty (30)-day period, Owner shall not be entitled to exercise such right unless Tenant fails to commence the cure of such failure during such thirty (30)-day period and thereafter fails to diligently and continuously pursue such cure to completion. The fully loaded cost, including a 20% administrative fee incurred by Owner to perform such maintenance or repair work or other obligations of Tenant shall be payable by Tenant to Owner within thirty (30) days from invoice date.

ARTICLE 11 PARKING FACILITIES

11.01 South Terminal Parking. Tenant shall operate and maintain the motor vehicle parking facilities to directly support the South Terminal. Tenant may not assign, subcontract, sublease or enter into a management agreement with respect to its rights and obligations under

this Lease related to the operation and management of motor vehicle parking to a third party without Owner's prior written consent, which may not be withheld by Owner if Tenant demonstrates to the reasonable satisfaction of Owner that the third party is a Qualified Entity. For purposes of this Section 11.01, to be a Qualified Entity, the third party (a) must have not less than five years' experience in operating car parking facilities with a minimum of not less than 500 spaces, (b) may not operate an Off-Airport Parking Business (as described in City Code Chapter 13-1) in Austin, Texas, and (c) must not be de-barred from contracting with the United States, the State of Texas or the City. The prior written consent of Owner will be required for construction of any multi-level parking facilities, in accordance with Article 15.

11.02 Additional Parking Development. Owner shall have the ability to develop any new parking facilities south of the mid-field taxiway that either (a) is exclusively Airport employee parking or (b) subject to Owner's full compliance with Article 15 hereof, supports operations of an Expansion or any New Facility developed south of the mid-field taxiway.

ARTICLE 12 AIRLINE LEASING PROGRAM

12.01 General. Tenant will maintain an airline leasing program for the South Terminal (the "Airline Leasing Program"), which shall include, but not be limited to, a Terminal Use Agreement containing rates and charges for terminal facilities that is in compliance with all applicable federal regulations. In structuring such an Airline Leasing Program, Tenant will comply with applicable FAA rules and regulations, including the FAA's Policy on Rates and Charges. Tenant shall submit to Owner for its review the Airline Leasing Program, including any modifications or amendments, and Owner shall review such Airline Leasing Program to verify that it (i) is FAA compliant, (ii) is fair and reasonable, (iii) is not unreasonably discriminatory, and (iv) does not violate any airport grant assurances or other regulations to which Owner is subject. Tenant and Owner acknowledge that nothing herein shall restrict any air carrier operating at the Airport from seeking to operate at the South Terminal under the terms and conditions established herein. Owner shall complete its review of the initial draft Airline Leasing Program for FAA compliance within thirty (30) days after submittal by Tenant. The draft Airline Leasing Program shall be submitted to Owner for review by Tenant within sixty (60) days after the Effective Date. For the avoidance of doubt, Owner has the sole right to charge the Airlines landing fees and other aircraft parking fees outside of Tenant's Premises.

12.02 Airline Fees. Tenant may charge various usual and customary fees to air carriers using the Premises and the South Terminal (including, without limitation, administrative and staff costs; check-in facilities; common use equipment charges; installation and maintenance of FIDS Monitors; baggage handling facility charges, including the usage of the centralized baggage conveyor installation (if any) and a system for outbound and inbound baggage, including oversized baggage; baggage and passenger screening; common use boarding areas; baggage claim areas; utilities such as electricity, water, gas, heating and cooling, waste disposal, wastewater, light, cable television, telephone and other communication services; employee parking; exclusive use space charges; and any ground handling services provided by Tenant. For the avoidance of doubt, Tenant has the right to charge the Airlines aircraft parking fees within the Tenant's Premises.

ARTICLE 13
MARKETING SUPPORT AND INCENTIVES TO AIR CARRIERS

13.01 General. Tenant and/or Owner may provide incentives to attract air carriers to the Airport including the South Terminal. Such incentives may, to the extent permitted by Applicable Law, include waived or discounted airfield and terminal rates and charges to carriers meeting qualifying service commitments. Only Owner may offer airfield incentives and only Tenant may offer Premises and South Terminal rate incentives.

13.02 South Terminal Marketing Program. Tenant may, to the extent permitted by Applicable Law, provide marketing incentives to air carriers meeting qualifying service commitments to offset the documented marketing costs incurred by air carriers in accordance with a marketing program relating to the South Terminal developed by Tenant and approved by Owner (the “South Terminal Marketing Program”); provided, however, that Owner’s review and approval of financial incentives in the South Terminal Marketing Program shall be limited to a determination, in accordance with Applicable Law, that such financial incentives are fair and reasonable, not unreasonably discriminatory, and do not otherwise violate any airport grant assurances or other regulations to which Owner is subject. Notwithstanding the above, and to the extent permitted by Applicable Law, Tenant agrees that it will not initiate discussions with, or actively solicit, any air carrier operating at the Airport to relocate its operations to the South Terminal, provided that the foregoing prohibition will not preclude contacts (a) in the ordinary course of business of Tenant or any of its Affiliates or (b) permitted under the South Terminal Marketing Program guidelines not reasonably objected to by Owner. Owner may participate in the South Terminal Marketing Program as the Parties may agree in writing. Tenant shall submit a draft South Terminal Marketing Program to Owner for review (as contemplated above) within sixty (60) days after the Effective Date.

13.03 Implementation. It is the intent of the Parties that funds expended in the South Terminal Marketing Program be recouped through incremental revenue (excluding passenger facility charges from the South Terminal benefitting Owner) generated from an increased volume of aircraft and passenger traffic at the South Terminal. Tenant and Owner may, to the extent permitted by Applicable Law, enter into one or more agreements to adopt and implement marketing programs. Such marketing agreements may address, among other things, the respective financial participation of Tenant and Owner in the marketing incentives, and the manner and order of priority in which various sources of incremental revenue shall be applied to reimburse each Party for its share of funds expended on marketing incentives.

13.04 Cooperation. Tenant and Owner will use commercially reasonable efforts to maximize the marketing incentives from other Austin, Texas and regional stakeholders, including tourism, economic development, employment and business associations, to attract air carriers to operate services from the South Terminal.

ARTICLE 14
CONCESSION PROGRAM

14.01 General. Tenant shall develop (and periodically update) a comprehensive terminal concession program (the “Concession Program”) outlining desired concessionaires for

all concessions related to the food and beverage, news and gifts and specialty retail operations, and advertising in the South Terminal and on the Premises. The draft Concession Program shall be submitted to Owner within sixty (60) days after the Effective Date and promptly finalized in good faith by Owner and Tenant.

14.02 Owner Review. Tenant shall submit the Concession Program, and any subsequent modifications or revisions to the Concession Program, to Owner for its review and approval and will consult with Owner regarding its content.

14.03 ACDBE Goals. Tenant shall take all necessary and reasonable steps to achieve the established goals under Owner's program under the U.S. Airport Concession Disadvantage Business Enterprise ("ACDBE") Rules (49 CFR Part 23). Tenant shall, promptly after the Effective Date, provide the City's Department of Small and Minority Business Resources Department ("SMBR") a copy of its ACDBE Compliance Plan concerning the ACDBE firms that will participate in the South Terminal concessions. Tenant shall provide Owner and SMBR each Lease Year with a copy of Tenant's ACDBE goals and results achieved, and with a copy of all ACDBE reports required to be submitted under Applicable Law to the DOT and other applicable Governmental Authorities. Such report will include the name and address of each firm, the annual estimated gross receipts to be earned by each named firm, a description of the legal arrangements utilized, and the total overall estimated annual gross receipts to be earned by such concessionaires.

14.04 Local Concessionaires. Tenant shall identify qualified local concessionaires and notify them of potential concession opportunities. However, in accordance with 49 CFR §23.79, nothing in this Section shall be construed to require Tenant to give preference to local concessionaires.

ARTICLE 15 EXPANSION OR NEW FACILITY

15.01 Expansion or New Facility. If Tenant determines that the growth of operations of existing or new air carriers requires an Expansion or if Tenant or Owner determines that the growth of operations of existing or new air carriers requires a New Facility, either Tenant or Owner, as applicable, shall provide a written notice to the other Party of such determination. If Tenant provides a written notice to Owner that it is interested in investing in such Expansion or New Facility, then, subject to Owner's agreement and in accordance with the Airport Master Plan, (a) in the event of an Expansion that does not require additional land or other material changes to this Lease, Owner and Tenant will amend this Lease to reflect such Expansion, and (b) in the event of an Expansion that requires additional land or the construction of a New Facility, Owner will provide Tenant with the exclusive first right to, as applicable, develop, construct and operate such Expansion or New Facility, and both Parties shall work together in good faith to enter into an agreement regarding such Expansion or New Facility on mutually agreeable terms. Owner will coordinate with Tenant to seek FAA approval to update the Airport Layout Plan accordingly to identify the Tenant's Expansion or New Facility on the Airport Layout Plan. In the event an update to the Airport Layout Plan is necessary due to Tenant's Expansion or New Facility as approved by Owner, Tenant shall be responsible for the cost of any environmental studies in connection with FAA and state approvals.

ARTICLE 16 FINANCING

16.01 Tenant's Right to Finance. To secure financing, subject to compliance with the provisions of this Article 16, Tenant may encumber its leasehold interest in the Premises, including any improvements thereto, under this Lease with one or more deeds of trust or mortgages, and may collaterally assign to such lender Tenant's rights in Owner-authorized subleases, including Terminal Use Agreements and concessionaire agreements, entered into during the Term. Tenant shall provide to Owner the name and notice address of the lender together with true copies of the loan documents, including, as applicable, deeds of trust, mortgages, security agreements and promissory notes, within ten (10) business days after execution by Tenant. No lien upon, or assignment of, Tenant's leasehold estate or this Lease hereunder shall encumber, subordinate or affect in any way the interest of Owner under this Lease or in the Premises, including any improvements thereto, except as expressly provided herein. The loan documents shall be consistent with this Lease. Upon written request from Tenant, Owner agrees to reasonably subordinate its statutory and contractual landlord's liens on Tenant's personal property and Trade Fixtures, to the lien of a lender providing financing to Tenant consistent with the terms of this Lease.

16.02 Tenant's Lender Rights and Obligations. Tenant's lender may, in case of default by Tenant, assume the rights and obligations of Tenant under this Lease, and become a substituted Tenant, with the further right to assign Tenant's interest to a Qualified Entity, subject to the approval of the Director, which shall not be unreasonably denied or delayed. Tenant's lender's obligations under this Lease as substituted Tenant shall cease upon assignment to an Owner-approved third party. Owner agrees to execute such non-disturbance and attornment agreements as Tenant's lender may reasonably request consistent with this Lease. If Tenant has provided the name of any third party lender and a notice address for such lender, Owner agrees to give Tenant's lender a duplicate copy of any notice of a breach of this Lease or any Tenant Default that Owner gives Tenant. The lender may then cure such breach or Tenant Default, for the account of Tenant or the lender (as the lender may elect), in the same manner and in the same period of time as allowed Tenant. Tenant shall promptly provide to Owner a copy of any notice delivered by Tenant's lender of Tenant's default or the lender's intent to exercise a remedy in response to Tenant's default with respect to its loan documents. Tenant's lender shall agree to provide copies of such notices directly to Owner, and to notify Owner if payments on such loans become delinquent for more than thirty (30) days. In the event of any conflict between the rights granted Tenant's lender under its loan documents and the terms of this Lease, the terms of this Lease shall control.

16.03 Owner's Right to Finance. Owner may, from time to time, without the consent or joinder of Tenant, encumber its interest in the Premises with one or more deeds of trust, mortgages or other lien instruments. Tenant shall execute and deliver to Owner such subordination and attornment agreements as Owner or its lender shall reasonably require, provided that such lender shall execute and deliver to Tenant a nondisturbance agreement reasonably satisfactory to Tenant, which shall include, without limitation, an express acknowledgement of Tenant's right to quiet enjoyment set forth in Section 2.03.

ARTICLE 17
OTHER TENANT OBLIGATIONS

17.01 Premises Security. Tenant recognizes that Owner is required to comply with the security directives and other mandates of the United States Department of Transportation (the “DOT”), the FAA, the TSA and the United States Department of Homeland Security (the “DHS”), and with other governmental and administrative rules and regulations relating to airports. Accordingly, Tenant shall operate and manage the Premises and the South Terminal in accordance with such security directives and other mandates of the DOT, the FAA, the TSA and the DHS, and other governmental and administrative rules and regulations relating to airports. In addition to the security provided by Owner under Section 18.09, Tenant shall hire additional security as necessary and at its own cost to perform day-to-day security functions, including but not limited to, alarm response, exit lane monitoring, calls for assistance, and incident documentation. Tenant shall purchase and install, at its expense, security equipment for the Premises, as mutually agreed to by Owner and Tenant and sufficient to ensure compliance with applicable security regulations. Tenant shall ensure that the Premises’ security system is connected to Owner’s existing security system for the Airport and Tenant will pay for such connection and service. The Premises’ security system shall be monitored by Owner at no charge to Tenant.

17.02 Compliance with Airport Rules. Owner may adopt and enforce reasonable rules, regulations and minimum standards, which Tenant agrees to observe and obey, with respect to the operation of the South Terminal and the use of the Airport and its appurtenances, together with all facilities, improvements, equipment and services of the Airport, for the purpose of providing for safety, good order, good conduct, sanitation and preservation of the Airport and its facilities, provided that such rules and regulations shall be consistent with Applicable Law and applied on a not unjustly discriminatory basis to any and all similarly situated ground lease tenants at the Airport.

17.03 Signs. All signs displayed on exterior of the South Terminal or other improvements and all free standing signs on the Premises are subject to the prior written approval of the Director. Approved signs shall be installed by Tenant at Tenant’s expense. Owner reserves the right to remove, without notice to Tenant, all unapproved signs. Tenant shall not erect, maintain or display any advertising signs on the exterior of the South Terminal or other improvements on the Premises, except as authorized under this subsection.

17.04 Customer Claims, Comments, and Complaints. Tenant shall maintain policies and procedures to address, and shall use good faith and commercially reasonable efforts to address, any claim, comment or complaint in respect of operations at the South Terminal made by Airlines, passengers or other users of the South Terminal. Nothing herein shall require Tenant to pay any claim that Tenant, in its sole discretion, does not believe is valid or justified. Without limiting the generality of the foregoing provision, if a claim, demand, suit, or other action is made or brought by any person against Tenant arising out of or concerning this Lease, Tenant shall give written notice thereof, to Owner within two (2) business days after being notified of such claim, demand, suit, or action. Such notice shall enclose a true copy of all written claims. If the claim is not written, or the information is not discernible from the written claim, Tenant shall state the date of notification of any such claim, demand, suit, or other action,

the names and addresses of the person asserting such claim or that instituted or threatened to institute any type of action or proceeding, the basis of such claim, action, or proceeding, and the name of any person against whom such claim is being made. The notice shall be given to the Director as provided herein, and to the Austin City Attorney, City Hall, 301 West 2nd Street, Austin, Texas 78701.

17.05 Maintenance of Legal Existence. During the Term, Tenant shall at all times maintain its legal existence and good standing, and its legal authority to perform its obligations under this Lease.

17.06 Personnel. Tenant shall employ or contract with experienced and qualified personnel and consultants to oversee the rehabilitation, reactivation, operation and maintenance of the Premises and the South Terminal, and any improvements thereon.

17.07 Meetings. Owner and Tenant shall meet regularly, but no less often than quarterly, to discuss (a) the operation of the Airport, (b) capital projects necessary for the Airport and ongoing maintenance and repair expenses, (c) matters relevant to the operation of the South Terminal, (d) air service development and marketing plans for the Airport, (e) opportunities to enhance operations at the Airport, and (f) any other matters pertaining to this Lease or operations on the Premises and at the South Terminal.

17.08 Addition of Certain Amenities. Tenant must obtain Owner's written consent prior to initial installation at the South Terminal of any passenger boarding bridges and other operational amenities similarly offered at the North Terminal.

ARTICLE 18 OTHER OWNER'S OBLIGATIONS

18.01 Operation as a Public Airport. Owner shall operate and maintain the Airport as a public airport in accordance with the requirements of the Federal Aviation Act and all other Applicable Laws.

18.02 Maintenance of Public Runways, Taxilanes, Taxiways, Ramps, and Aprons. In accordance with Applicable Law, Owner shall keep, maintain, repair and replace all public access runways, taxilanes, taxiways, ramps and aprons not included in Tenant's Premises and specifically excluding the Tenant Apron and aircraft parking stands within the Premises.

18.03 Use of Public Runways, Taxilanes, Taxiways, Ramps, and Aprons. Owner shall provide Tenant and the Airlines such taxilanes, taxiways, ramps and apron space, as identified on Exhibit A hereto, reasonably necessary to provide for aircraft maneuvering and ingress and egress between the Airport airfield and the Premises.

18.04 Signage. Owner, at no cost or expense to Tenant, will (a) use reasonable good faith efforts to facilitate the provision and maintenance of adequate advance signage by applicable authorities, including the Texas Department of Transportation, on major national and local approach roads to direct passengers to the South Terminal, and (b) provide and maintain similar air carrier and terminal identifying signage on applicable Airport roadways and properties.

18.05 Shuttle Bus Service. Owner shall provide, at no cost to Tenant, Shuttle Bus Service for passengers and employees between the South Terminal and the North Terminal/CONRAC facility. Operation of the Shuttle Bus Service shall be sufficiently coordinated with the arrival and departure of commercial airline flights at the South Terminal in accordance with Tenant's Airport Operational Manual as approved by Owner to accommodate actual passenger traffic levels and projected passenger traffic levels provided by Tenant to Owner.

18.06 Rental Car Revenue Sharing.

(a) In lieu of allowing rental car companies to enter into specific agreements with Tenant for rental car operations at the South Terminal, Owner shall make payments to Tenant, on a monthly basis, based on Tenant's verified reported Enplaned Passengers for the given month multiplied by the revenue sharing rate (the "Revenue Sharing Rate") calculated for the same given month (such amount, the "Rental Car Revenue Share"). The Revenue Sharing Rate shall be determined by dividing the actual gross rental car revenues (excluding any customer facility charge ("CFC") revenues) received by Owner in a given month from all rental car companies providing service to the Airport (on-airport and off-airport companies) by the total number of Airport Enplaned Passengers for the same month. Tenant and Owner agree that this Section 18.06 and Owner's obligations with respect to payments of the Rental Car Revenue Share shall become null and void upon the commencement of rental car operations, by Tenant, at (i) the South Terminal, (ii) an Expansion or (iii) a New Facility.

(b) Commencing with the month in which the Commencement of Operations Date occurs, no later than thirty (30) days after the end of each month during a Lease Year, Owner shall submit to Tenant a detailed statement (the "Owner Monthly Report") reflecting (i) actual gross rental car revenues (excluding any CFC revenues) received by Owner from all rental car companies providing service to the Airport (on-airport and off-airport), (ii) the total number of Airport Enplaned Passengers, and (iii) the Rental Car Revenue Share, for the applicable month. The Owner Monthly Report shall be prepared on a consistent basis and be certified by a responsible financial officer of Owner.

(c) Not later than the fifteenth (15th) day after delivery of an Owner Monthly Report pursuant to Section 18.06(b), Owner shall pay to Tenant an amount equal to the Rental Car Revenue Share for such calendar month (pro-rated for any partial month), as reflected in such Owner Monthly Report.

(d) If the Rental Car Revenue Share reflected in the Owner Annual Report provided in accordance with Section 18.06(e) exceeds the total amount of Rental Car Revenue Share paid by Owner with respect to the applicable Lease Year, Owner shall pay Tenant the amount by which such Rental Car Revenue Share for the Lease Year exceeds the total Rental Car Revenue Share payments previously paid by Owner to Tenant for such Lease Year, within thirty (30) days after the delivery to Tenant, of the Owner Annual Report. If the Owner Annual Report reflects an overpayment by Owner of Rental Car Revenue Share for such Lease Year, Tenant shall pay Owner the amount of Owner's overpayment within thirty (30) days after the delivery of the Owner Annual Report.

(e) Within ninety (90) days after the close of each Lease Year, Owner shall furnish Tenant with a detailed statement (the “Owner Annual Report”) reflecting (i) actual gross rental car revenues (excluding any CFC revenues) received by Owner from all rental car companies providing service to the Airport (on-airport and off-airport), (ii) the total number of Airport Enplaned Passengers, and (iii) the Rental Car Revenue Share, for the Lease Year. The Owner Annual Report shall be prepared in accordance with GAAP and be certified by a responsible financial officer of Owner.

(f) Within one hundred twenty (120) days after the close of each Lease Year, Owner shall furnish to Tenant an audited annual accounting statement of (i) actual gross rental car revenues (excluding any CFC revenues) received by Owner from all rental car companies providing service to the Airport (on-airport and off-airport) and (ii) the Rental Car Revenue Share, for the Lease Year, prepared by an independent Certified Public Accountant, in accordance with GAAP. The audit will express an opinion as to whether the reported gross rental car revenues and Rental Car Revenue Share, for the applicable Lease Year, have been accurately calculated in accordance with the terms of this Lease.

(g) Unless otherwise directed, in writing, by Tenant, Owner shall remit payment of any payment obligations of Owner to Tenant, through an Automated Clearing House (ACH) electronic transfer of funds.

(h) If any payment required hereunder by Owner under this Section 18.06 is not made within thirty (30) days after such payment is due, Owner shall pay interest at the Contract Rate on the amount outstanding from the payment due date until paid in full.

(i) Upon written notice at any time or times during the Term within three (3) years after the end of the any Lease Year, Tenant may inspect, reproduce and audit the books and records of Owner relating to the Rental Car Revenue Share. If, as a result of such inspection and audit, it is established that additional Rental Car Revenue Share is due Tenant, Owner shall, upon written notice by Tenant, pay such additional fees, plus interest, calculated at the Contract Rate, within thirty (30) days of written notice. If, on the other hand, such audit determines that Owner has overpaid the Rental Car Revenue Share due Tenant, Tenant shall refund to Owner the amount of such overpayment in cash. If the results of such audit reveal an underpayment of more than five percent (5%) of Rental Car Revenue Shares as reported by Owner, the cost of the audit shall be paid by Owner to Tenant as additional Rental Car Revenue Share, but such additional Rental Car Revenue Share shall not be included in Gross Revenues for purposes of this Lease.

(j) Tenant’s obligations with respect to information provided by Owner under this Section 18.06 include the confidentiality covenants under Article 38.

(k) Owner shall maintain all material books and records related to Rental Car Revenue Share in accordance with its record retention policy as required by Applicable Law. Owner shall cooperate fully with any audit or examination initiated by Tenant, and shall produce all books and records requested for audit to a designated location at the Airport, or in Austin, Texas, within thirty (30) days of the date of written request. To facilitate the inspection of Owner’s books and records, documents provided for audit shall be made available in an

electronically downloadable format acceptable to Tenant whenever possible. When electronic files do not exist, legible printed copies of books and records must be provided.

18.07 Federal Compliance. Owner will maintain Part 139 Certification and all compliance responsibilities vis-à-vis the FAA and the TSA.

18.08 Passenger Facility Charge; Airport Improvement Program. Owner shall be responsible during the Term for its Passenger Facility Charges (“PFCs”) collection authority and its Airport Improvement Program sponsor status.

18.09 Security. Owner shall provide uniformed law enforcement officers as required to meet and comply with the Airport Security Plan approved by TSA and other applicable regulatory requirements, at no cost to Tenant, as well as one (1) security manager to oversee the security program developed and implemented at the Premises. Owner’s security manager shall act as the liaison among Owner, Tenant, law enforcement and the TSA.

18.10 Lighting. As of the Effective Date, Owner has installed roadway lighting along the current Emma Browning Drive, the initial South Terminal entrance, exit roadways, and South Terminal parking. Throughout the Term, Owner shall maintain the lighting at all Airport locations, except for the Premises. Unless otherwise agreed to by Owner in writing, Owner is not responsible for the installation of any additional lighting upon Expansion or construction of a New Facility, additional parking facilities or other improvements by Tenant.

18.11 De-Icing. Owner will, at no cost to Tenant, provide the dry weather de-icing recovery for three aircraft positions located on the maintenance ramp at the South Terminal gates. Wet weather de-icing operations shall be performed within the area in proximity to the North Terminal and cargo ramp. The Airlines will be responsible for the cost of the de-icing fluid used and its application.

18.12 Access to South Terminal. Owner will maintain all access roadways to the South Terminal and at any time construction impairs such access for an extended period will provide alternative access routes, at Owner’s cost, to the South Terminal, which do not result in any delays for, or congestion of, traffic to or from the South Terminal.

ARTICLE 19 SHARED USE AND COMMUNICATIONS SERVICES

19.01 Shared Use.

(a) Tenant may elect to utilize Owner’s Shared Use Passenger Processing System (SUPPS). Tenant shall not make any modifications or improvements to the SUPPS nor allow any Airline to make any modifications or improvements to the SUPPS without the prior written approval of the Director. As of the Effective Date, Tenant has elected to utilize Owner’s SUPPS. To the extent that Tenant elects to discontinue its use of SUPPS, Tenant shall provide Owner not less than one hundred eighty (180) days’ prior written notice of such election and shall provide Owner access to the Premises for removal of any SUPPS equipment located at the Premises.

(b) If Tenant elects to participate in Owner's SUPPS, Owner shall provide FIDS Monitors in the South Terminal, which shall display departures and arrivals for the South Terminal and the North Terminal. Tenant shall pay Owner for Owner's actual and documented costs of initially installed equipment, the initial installation costs, and the annual support and maintenance costs of the equipment and service, which include replacements as necessary, within thirty (30) days from invoice date.

(c) If Tenant does not elect to participate in Owner's SUPPS, Owner shall provide the feed to display on the South Terminal monitors for the departing and arriving flights at the South Terminal and North Terminal, provided that Tenant shall pay an annual cost to supply the feed to the South Terminal monitors within thirty (30) days from invoice date.

(d) Tenant shall not install any proprietary terminal equipment in the South Terminal without the prior written approval of the Director. Tenant shall not allow any Airline to install any proprietary terminal equipment in the South Terminal without the prior written approval of the Director.

19.02 Wireless Service. In order for Tenant to receive approval from Owner's Manager of Information Technology for the installation of any wireless networks, including unlicensed and licensed networks and services, at the South Terminal, Tenant's use of a wireless service and equipment shall be in compliance with the Airport's Operator's Wireless Policy attached hereto as Exhibit G. Owner shall, at Tenant's request, extend Owner's existing public wireless service to the South Terminal, at no cost to Tenant, provided that Owner retains all rights to revenues generated from the extension of Owner's wireless service to the South Terminal. In no event shall Tenant enter into direct agreements with cellular carriers, their representatives or a third party provider to install a distributed antenna system, or any other system, for the purposes of augmenting cellular licensed frequency signal within the Premises. Furthermore, Tenant shall not cause or allow any installations that cause interference with Owner's frequency, wireless service or FAA infrastructure on the airfield.

19.03 Radio. Tenant shall have the right to install, maintain and operate radio communications and meteorological and aerial navigation equipment and facilities ("Radio Communications Facilities") as may be necessary for operations at the South Terminal in accordance with the Owner's Tenant Radio Installation Guidelines attached hereto as Exhibit H. Tenant shall notify and coordinate installations or modifications of equipment with Owner's Manager of Information Systems prior to installation or modification. Radio communications shall not interfere with other radio communications systems and facilities at the Airport, other air carriers or commercial licensed telecommunications providers. If the Radio Communications Facilities are causing radio interference, Tenant shall modify or cease its use of such Radio Communications Facilities to eliminate the interference.

19.04 Communications Services. Owner has installed a Premises Distribution System ("PDS"), consisting of copper and fiber optic cables, that spans the Airport. All external telecommunications providers will terminate at the demarcation point located in the Owner's Communications Center. Tenant shall use Owner's fiber optic and copper PDS to connect to the demarcation point. Tenant, at Tenant's expense, must provide all equipment necessary to connect to the PDS. All data transmission and switching equipment used shall comply with Owner's

PDS specifications. Tenant shall pay the fees established by Owner for the use of the PDS for data transmission within thirty (30) days from invoice date. Tenant may participate in Owner's shared tenant service telephone system ("STS") (as described in Section 19.05 below) that includes data transmission lines (Frame Relay, ISDN and T1) or choose to use the PDS to connect to an alternate provider at the demarcation point. All data communication service charges, including installation, maintenance, moves, additions and changes for the Premises shall be at the sole cost of Tenant and paid within thirty (30) days from invoice date. Tenant shall, at its sole expense, procure and install all equipment, conduit and other hardware necessary to connect the Premises to the PDS. Wiring installed by Owner shall be at Tenant's expense and paid within thirty (30) days from invoice date. Tenant and all persons occupying the Premises shall use the PDS and pay applicable fees for the PDS connections within thirty (30) days from invoice date. Fees for communication services are subject to change at any time. Owner shall give Tenant at least thirty (30) days advance written notice prior to the effective date of any estimated fee change.

19.05 Shared Telephone Service. Owner has installed an STS to serve the Airport. Tenant may either use the STS or select another telephone service provider. If Tenant chooses to participate in the STS, Tenant and subtenants occupying the Premises shall agree, subject to the express provisions of this Lease, to the Airport's STS Terms of Usage attached hereto as Exhibit D, and pay for its STS charges, as applicable. Payment and the required security deposit for PDS and STS charges are not included in the Rent or Security Deposit for the Premises under this Lease and must be paid as provided in the STS Terms of Usage. Non-payment by Tenant of telephone service charges shall be grounds for discontinuance of service and an event of default under this Lease. If Tenant and subtenants elect to install their own telephone services, Tenant shall provide its own telephone switches, instruments and other equipment necessary to interface via the PDS to the Airport telecommunications demarcation point. A monthly fee for use of the PDS shall be charged by Owner and paid by Tenant within thirty (30) days from invoice date. Furthermore, all telephone service charges, including installation, maintenance, moves, additions, changes, long distance and local provider service for the Premises shall be Tenant's sole responsibility. Tenant shall not enter into any telephone agreement that conflicts with the Owner's Minimum Point of Entry (MPOE), the telephone demarcation point or, if a party thereto, the STS Terms of Usage.

19.06 Television Service. Cable access television services are contracted through third party providers. A monthly fee for use of the PDS shall be charged by Owner and paid by Tenant and subtenants as applicable to connect cable television services from the demarcation point to the South Terminal. Alternatively, Tenant may install satellite dishes, antennae or similar receiving devices on the Premises upon Owner's prior written approval and subject to the service not interfering with other radio communications systems and frequencies at the Airport. All television service charges, including installation, maintenance, moves, additions and changes, and cable channel charges, shall be at Tenant's sole cost.

19.07 Computer Networks. Tenant shall, at its sole expense, procure, install and maintain all necessary or desired computer networks on the Premises.

ARTICLE 20
ENVIRONMENTAL CONDITION OF PREMISES

20.01 Environmental Assessments. The Airport is a former United States Air Force base that Owner acquired from the United States and has converted to a civilian airport. Owner may provide, upon request, Tenant with any available copies of Environmental Assessments it has in its possession, as of the Effective Date, relating to the Premises.

20.02 Acknowledgement of Hazardous Materials. A portion of the South Terminal was previously leased to the Texas National Guard and the South Terminal has been used by Owner as a storage facility. As such, the Premises may contain Hazardous Materials.

20.03 Tenant's Inspection Rights. Tenant shall have the right to inspect and conduct one or more Environmental Assessments of the Premises, including subsurface investigation of soil and groundwater conditions, subject to reasonable conditions established by Owner (an "Assessment Report"). Tenant shall provide Owner with a copy of the proposed location and scope of work for the Assessment Report, and Owner will provide Tenant with such information within its possession regarding the potential presence of underground utilities or structures or any other information regarding Environmental Conditions not otherwise conveyed in any Environmental Assessment. Tenant is responsible for coordinating with all utility providers to confirm the presence or absence of buried utilities. Tenant shall promptly provide Owner a copy of the Assessment Report upon its completion. If the Assessment Report determines the presence or threatened release of Hazardous Materials or other Environmental Conditions that require remediation under Applicable Law, Tenant, at its option, may (a) submit a written plan for remediation of the Premises, as applicable, which may include an allocation proposal to Owner regarding the cost of remediation and the responsibility for remediation of such Hazardous Materials or Environmental Conditions to the extent required under Applicable Law, or (b) if the cost to remediate Hazardous Materials or Environmental Conditions is unacceptable to Tenant in its sole discretion and the Parties are unable to agree upon a sharing of remediation costs, (i) terminate this Lease in whole or (ii) with the written consent of the Director, amend this Lease to delete the contaminated areas from the Premises, and adjust the Rent proportionately. Owner agrees to reasonably consider a proposal for sharing remediation costs and shall respond to a proposal from Tenant within forty-five (45) days from receipt, but nothing herein shall require Owner to agree to a remediation cost sharing. Owner's failure to respond within forty-five (45) days shall be deemed to be a rejection of Tenant's remediation cost allocation proposal. If Owner and Tenant are unable to agree upon a sharing of the costs of such remediation, Tenant shall retain its remaining options under this Section 20.03. Tenant may elect to place monitoring wells and stations on the Premises to detect or monitor any existing or potential Hazardous Materials or Environmental Conditions identified in any Assessment Report.

ARTICLE 21
ENVIRONMENTAL COMPLIANCE

21.01 Definitions. For the purpose of this Article 21, "Tenant" shall include Tenant Environmental Parties.

21.02 Compliance. In its operations on the Premises and at the Airport, Tenant shall strictly comply with all applicable Environmental Laws, the Airport Environmental Policies and Procedures (including without limitation, the Storm Water Pollution Prevention Plan (“SWPPP”) and Spill Response Plan), which are incorporated by reference, and as of the Effective Date of this Lease are located on the Airport’s website at: http://content.abia.org/environmental/storm_water.html. Without limiting the generality of the foregoing provision, Tenant shall not use or store Hazardous Materials on or at the Premises or Airport except as reasonably necessary in the ordinary course of its permitted activities at the Premises and Airport, and then only if such Hazardous Materials are properly labeled and contained as required pursuant to Applicable Laws, and notice of and a copy of the current material safety data sheet is provided to Owner for each such Hazardous Material. Prior to commencing operations at the Premises or Airport, Tenant will complete an Airport baseline environmental questionnaire form attached as Exhibit I. The Parties agree that certain Baseline Phase II Environmental Site Assessment, dated as of January 27, 2016, prepared for Tenant by TRC Environmental Corporation, attached hereto as Exhibit J, shall establish the baseline environmental condition of the Premises as of the Effective Date. Tenant shall not discharge, release or dispose of any Hazardous Materials on the Premises or Airport or surrounding air, lands or waters in violation of Applicable Laws. Tenant shall promptly notify Owner of any Hazardous Material spills, releases or other discharges by Tenant at the Airport in accordance with Owner’s Spill Response Plan and promptly abate, remediate and remove any the same to the extent required under Applicable Laws. Tenant shall provide Owner with copies of all written reports, complaints, claims, citations, demands, inquiries or notices relating to the environmental condition of the Airport, or any alleged material noncompliance with Environmental Laws by Tenant or, if known by Tenant, any Airline, within ten (10) days after such documents are generated by or received by Tenant. If Tenant uses, handles, treats or stores Hazardous Materials at the Premises or Airport, and it is necessary for Tenant to arrange for the disposal of the Hazardous Materials, Tenant shall comply with any applicable requirement under Applicable Laws to have a contract in place with an EPA or TCEQ approved waste transport or disposal company, and to identify and retain spill response contractors to assist with spill response and facilitate waste characterization, transport and disposal. Complete records of all disposal manifests, receipts and other documentation required by Applicable Laws shall be retained by Tenant and made available to Owner for review upon request. Owner shall have the right at any time to enter the Premises to inspect, take samples for testing and otherwise investigate the Premises for the presence of Hazardous Materials. In exercising its right of access, Owner shall use reasonable efforts to minimize disruption of or interfere with Tenant’s operations or use of the Premises and shall give Tenant reasonable notice with respect to Owner’s intention to take samples for testing to allow Tenant to split samples of such testing with the Owner as mutually agreed upon by Owner and Tenant.

21.03 Responsibility. Tenant’s Hazardous Materials shall be the responsibility of Tenant. Tenant shall be liable for and responsible to pay all Environmental Claims that arise out of or are caused in whole or in part from Tenant’s use, handling, treatment, storage, disposal, discharge or transportation of Hazardous Materials that Tenant brought on to or at the Premises or Airport, the violation of any Environmental Law by Tenant or the failure of Tenant to comply with the terms, conditions and covenants of this Article 21.

If Owner incurs any costs or expenses (including reasonable attorney, consultant and expert witness fees) arising from Tenant's use, handling, treatment, storage, discharge, disposal or transportation of Hazardous Materials that the Tenant brought on to the Premises or at the Airport, Tenant shall promptly reimburse Owner for such costs upon demand. All reporting requirements under Environmental Laws with respect to spills, releases or discharges of Hazardous Materials by Tenant at the Premises or Airport shall be the responsibility of Tenant. Tenant is not responsible for any Environmental Claims that arise out of or were caused in whole or in part from the use, handling, treatment, storage, disposal, discharge, or transportation of Hazardous Materials on or at the Premises or Airport, or the violation of any Environmental Law, prior to the Effective Date ("Pre-Existing Environmental Claim") to the extent Tenant did not cause in whole or in part the disturbance or aggravation of such Pre-Existing Environmental Claim.

21.04 Indemnity. IN ADDITION TO ANY OTHER INDEMNITIES IN THIS LEASE, TENANT SHALL DEFEND, INDEMNIFY AND HOLD HARMLESS OWNER FROM ANY AND ALL ENVIRONMENTAL CLAIMS (INCLUDING REASONABLE ATTORNEY'S FEES, LITIGATION AND INVESTIGATION EXPENSES, AND COURT COSTS) ARISING OUT OF OR RESULTING IN WHOLE OR IN PART FROM TENANT'S USE, HANDLING, TREATMENT, STORAGE, DISPOSAL, DISCHARGE OR TRANSPORTATION OF HAZARDOUS MATERIALS ON OR AT THE PREMISES OR AIRPORT, THE VIOLATION OF ANY ENVIRONMENTAL LAW BY TENANT OR THE FAILURE OF TENANT TO COMPLY WITH THE TERMS, CONDITIONS AND COVENANTS OF THIS ARTICLE 21 OR THIS LEASE.

21.05 Stormwater Requirements. Tenant acknowledges that the Airport is subject to the National Pollution Discharge Elimination System Program ("NPDES"), federal Stormwater Regulations (40 C.F.R. Part 122) and the Texas Pollution Discharge Elimination System Program ("TPDES"). In its operations at the Premises and Airport, Tenant shall comply with Applicable Law, including NPDES, TPDES, federal and state Stormwater Regulations, including any permits thereunder, and the applicable SWPPP.

21.06 Sustainability. Tenant shall comply with Applicable Laws pertaining to recycling, energy and natural resource conservation and management. Owner's Universal Recycling Ordinance (Ordinance No. 20130425-007), as it will be implemented, and all City ordinances and rules that pertain to recycling, energy and natural resource conservation, as such ordinances and rules are currently established, or as may be amended or developed and implemented, shall apply to the Premises and Tenant shall comply with such ordinances and rules. Tenant shall comply with all Airport rules, regulations, policies and operating procedures, as approved by the Director, that pertain to recycling, energy and natural resource conservation, and management at the Airport, as currently established, or as may be amended or developed and implemented.

21.07 Survival. The covenants, conditions and indemnities in this Article 21 shall survive the expiration or earlier termination of this Lease.

21.08 Hazardous Materials. Tenant shall not allow the release, spill, discharge, leak, emission, injection, escape, migration or dumping in, on, about, from or adjacent to

the Premises (including storm drains, sanitary sewer system, surface waters, soils, underground waters or air) of any Hazardous Material or other deleterious substance in any manner by any Tenant Environmental Party in violation of the Pollution Prevention Plan, the SPCC Plan, any City codes and standards, any City environmental permit or any of the Environmental Laws. Tenant shall make available to Owner upon request copies of all material safety data sheets for all Hazardous Materials used or stored on the Premises by any Tenant Environmental Party and Tenant's U.S. Environmental Protection Agency waste generator number and generator annual hazardous waste reports. Tenant shall provide Owner with copies of any environmentally related regulatory permits or approvals (including revisions or renewals) and any material written report or notice Tenant receives from, or provides to, any Governmental Authority in connection with the handling of Hazardous Materials on the Premises by any Tenant Environmental Party or the presence, or possible presence, of any Hazardous Material in, on, about, from or adjacent to the Premises. Tenant is responsible to report to Owner any spills or emissions of Hazardous Materials resulting from the acts or omissions of any Tenant Environmental Party in accordance with City's Spill Response Plan and to report to the appropriate governmental authorities any spills or emissions of Hazardous Materials by any Tenant Environmental Party that are above reportable quantities as defined by applicable Environmental Laws.

21.09 Storm Water Pollution Prevention Plan. Tenant shall either join the Airport's Storm Water Pollution Prevention Plan, or prepare and implement a SWPPP that addresses measures in effect by Tenant to prevent pollution (specifically including storm water) through appropriate pollution prevention and good housekeeping practices and to control and perform immediate removal, investigation, remediation and restoration action in the event of a release of a Hazardous Material or other deleterious material in connection with the operation of the Premises during the Lease. Owner reserves the right to approve or deny the Tenant prepared SWPPP. If applicable, Tenant's SWPPP shall be (a) provided to Owner not more than thirty (30) days after the Effective Date, and (b) updated to address future changes in its activities upon the Premises. Such SWPPP shall be updated as needed to address the operations and practices of Tenant. Tenant is responsible for ensuring Airline compliance with storm water regulations at the South Terminal.

21.10 Spill Prevention, Control and Countermeasure Plan. Tenant shall determine whether Section 112.7 of Title 40 of the Code of Federal Regulations is applicable to the Premises and its operations, and whether Tenant is required to prepare a Spill Prevention, Control and Countermeasure Plan ("SPCC Plan"). This determination must be submitted to Owner for approval. Preparation of an SPCC Plan shall be the responsibility of Tenant. Any SPCC Plan must be certified by a licensed professional engineer in accordance with all Applicable Laws (specifically including any applicable Environmental Laws).

21.11 Violation of Environmental Laws. If Tenant, or the Premises as a result of an act or omission of a Tenant Environmental Party, is in violation of any Environmental Law concerning the presence or use of Hazardous Materials or the handling or storing of hazardous wastes, Tenant shall promptly take such action as is necessary to mitigate and correct the violation. If Tenant does not act in such a manner, Owner reserves the right, but not the obligation, to come onto the Premises, to act in place of Tenant (and Tenant hereby

appoints Owner as its agent for such purposes) and to take such action as Owner deems necessary to ensure compliance or to mitigate the violation. If Owner has a reasonable belief that a Tenant Environmental Party is in violation of any of the Environmental Laws, or that a Tenant Environmental Party's acts or omissions present a threat of violation or a threat of damage to the Premises, Owner reserves the right to enter onto the Premises and take such corrective or mitigating action as it deems necessary. Interest shall accrue on all unpaid sums at the Contract Rate.

21.12 Inspection; Test Results. Owner shall have access to the Premises to conduct (but shall have no obligation to conduct) environmental inspections, including an Environmental Audit, and Tenant shall permit Owner access to the Premises for the purpose of conducting environmental testing; provided, however, except in the event of any real or threatened emergency, (a) such environmental testing by Owner shall occur only during normal business hours, or at such other times as Tenant shall reasonably approve; (b) Owner must provide notice to Tenant of its intention to conduct such tests at least five (5) Business Days prior to such date of testing; (c) such testing shall not unreasonably interfere with Tenant's normal business operations; and (d) any damages to the Premises caused by the environmental testing conducted by Owner shall be repaired by Owner at its sole cost and expense. Unless required by Applicable Law, Tenant shall not conduct or permit others to conduct environmental media testing on the Premises without first obtaining City's prior consent. Tenant shall promptly inform Owner of the existence of any environmental study, evaluation, investigation or results of any environmental testing conducted on the Premises whenever the same becomes known to Tenant, and Tenant shall provide copies thereof to City.

21.13 Removal of Hazardous Materials. Prior to its vacation of the Premises, and in addition to all other requirements under this Lease, Tenant shall remove and remediate any Hazardous Materials stored, released, spilled, discharged, leaked, emitted, injected, escaped or dumped in, on or about or adjacent to, or that has migrated from, the Premises by a Tenant Environmental Party during the Term or Tenant's possession of the Premises as a result of any act or omission of any Tenant Environmental Party if such Hazardous Material creates an Environmental Condition and shall demonstrate such removal to the reasonable satisfaction of Owner. Owner shall specifically have the right to insist on appropriate subsurface environmental investigations as part of any such demonstration. With respect to the removal and remediation of any Hazardous Materials on the Premises, Owner agrees that it will reasonably approve remediation criteria and investigation, monitoring and remediation activities which comply with Environmental Laws. To the extent that any remediation activities approved by Owner will occur after the expiration or termination of this Lease, Owner will grant to Tenant a non-exclusive, revocable license to access the Premises solely for the purpose of performing any such removals or investigations required by this Section 21.13.

21.14 Remedies Not Exclusive. No remedy provided herein shall be deemed exclusive. In addition to any remedy provided above, Owner shall be entitled to full reimbursement from Tenant whenever Owner incurs any costs resulting from the use or management of Hazardous Materials on the Premises by a Tenant Environmental Party, including costs of remedial activities, fines or penalties assessed directly against Owner,

injuries to third persons or other properties, and loss of revenues resulting from an inability to re-lease or market property due to its environmental condition, even if such loss of revenue occurs after the expiration or earlier termination of the Term.

21.15 Environmental Indemnity. IN ADDITION TO ALL OTHER INDEMNITIES PROVIDED IN THIS LEASE, TENANT AGREES TO DEFEND, INDEMNIFY AND HOLD OWNER AND ITS ELECTED AND NON-ELECTED OFFICIALS, MEMBERS, MANAGERS, OFFICERS, AGENTS AND EMPLOYEES, FREE AND HARMLESS FROM ANY AND ALL CLAIMS, CAUSES OF ACTION, REGULATORY DEMANDS, LIABILITIES, FINES, PENALTIES, LOSSES, AND EXPENSES, INCLUDING REMEDIAL COSTS (AND INCLUDING REASONABLE ATTORNEYS' FEES, COSTS AND ALL OTHER REASONABLE LITIGATION EXPENSES WHEN INCURRED AND WHETHER INCURRED IN DEFENSE OF ACTUAL LITIGATION OR IN REASONABLE ANTICIPATION OF LITIGATION), ARISING FROM THE EXISTENCE OR DISCOVERY OF ANY HAZARDOUS MATERIAL ON THE PREMISES, OR THE MIGRATION OF ANY HAZARDOUS MATERIAL FROM THE PREMISES TO OTHER PROPERTIES OR INTO THE SURROUNDING ENVIRONMENT, TO THE EXTENT ARISING OR RESULTING FROM ANY ACT OR OMISSION OF A TENANT PARTY, WHETHER (A) MADE, COMMENCED OR INCURRED DURING THE TERM, OR (B) MADE, COMMENCED OR INCURRED AFTER THE EXPIRATION OR TERMINATION OF THE TERM IF ARISING OUT OF EVENTS OCCURRING DURING THE TERM. TENANT'S OBLIGATIONS UNDER THIS SECTION SHALL SURVIVE THE TERM.

21.16 Tenant Environmental Parties. Tenant shall include obligations corresponding to those in this Article 21 in any written agreements with any Tenant Environmental Party and expressly include Owner as a third party beneficiary of such provisions, but nothing provided herein shall be deemed to make Tenant the principal, employer or operator of any such party for purposes of any Applicable Law. Notwithstanding the foregoing, Tenant is responsible for compliance with all applicable Environmental Laws on the Premises.

21.17 Survival. The covenants, conditions and indemnities in this Article 21 shall survive termination of this Lease.

ARTICLE 22 INSURANCE

22.01 General. Tenant will, at its cost and expense, throughout the Term obtain and maintain in full force and effect the policies of insurance applicable to Tenant's use of the Premises as described on Exhibit E, attached hereto. Insurance provided by Tenant shall be primary coverage for all covered losses.

22.02 Waiver. Notwithstanding the provisions of Section 22.01, if Tenant has used diligent efforts to procure, or cause to be procured, the insurance policies that are required hereunder and if, despite such diligent efforts and through no fault of Tenant or its principal subcontractor, coverage under any of the insurance policies or any of the required

terms of such policies, including policy limits, are or become unavailable, or are available, but not on commercially reasonable terms, Tenant shall give Owner written notice as soon as possible. Owner shall grant Tenant an interim written variance from such requirements under which Tenant shall procure and maintain alternative insurance packages and programs that provide risk coverage as comparable to that which would have been provided under such insurance policies as is available under then-existing insurance market conditions and on commercially reasonable terms. Any reference herein to insurance policies shall include a reference to any interim written variance therefrom granted to Tenant hereunder. To establish that the insurance policies, or any of the required terms of such policies, including policy limits, are not available on commercially reasonable terms, Tenant shall bear the burden of proving to Owner's reasonable satisfaction either that

- (a) the same is unavailable in the global insurance and reinsurance markets; or
- (b) the premiums for the same have so materially increased over those previously paid for the same coverage that such increased premiums are not justified by the risk protection afforded.

22.03 Limits. The limits of insurance coverage specified in Exhibit E are stated in 2015 dollars. No more often than once in any five (5) year period, Owner may, by written notice to Tenant, increase the policy limits to offset the impact of inflation based upon percentage changes in the CPI in order to maintain substantially the same level of coverage as existed on the Effective Date of this Lease. Upon receipt of such written notice from Owner under this Article 22, Tenant shall, subject to this Article 22, obtain the increased insurance coverage within sixty (60) days, and provide Owner updated insurance certificates.

22.04 Modification. Owner may at any time when it deems it to be reasonably necessary and prudent, upon written request to Tenant, propose to delete or revise or modify particular policy terms, coverages, conditions, limitations or exclusions, except where policy terms, coverages, conditions, limitations or exclusions are established by Applicable Law binding upon either of the Parties hereto or the underwriter of any such policies. If Owner proposes such changes to the insurance requirements of this Lease, the Parties agree to meet and negotiate in good faith mutually acceptable modifications to the insurance requirements. Failure to agree on such changes shall not be deemed to be an Owner Default or Tenant Default under this Lease.

22.05 Amendment Required. No changes to the insurance requirements of this Article 22 shall be effective unless made in a duly authorized and executed amendment to this Lease, except for (a) any interim variance referred to in Section 22.02, and (b) the increased coverage limits referred to in Section 22.03.

22.06 Owner's Right to Maintain. In the event that Tenant fails to obtain or cause to be obtained or to maintain or cause to be maintained the insurance coverage required by this Article 22, Owner, upon thirty (30) days prior notice to Tenant may (but shall not be obligated to) obtain or maintain or cause to be obtained or maintained the required insurance policies and pay or caused to be paid the premiums on the same. All

amounts so advanced by Owner on Tenant's behalf shall be reimbursed to Owner by Tenant.

ARTICLE 23 INDEMNITY

23.01 General. TENANT SHALL INDEMNIFY AND HOLD HARMLESS OWNER, ITS OFFICERS AND EMPLOYEES, AND REPRESENTATIVES, SUCCESSORS AND ASSIGNS (THE "INDEMNIFIED PARTIES"), FROM ALL LIABILITY, LOSS, CLAIMS, SUITS, ACTIONS AND PROCEEDINGS WHATSOEVER ("CLAIMS") THAT MAY BE BROUGHT OR INSTITUTED ON ACCOUNT OF OR GROWING OUT OF ANY AND ALL INJURIES OR DAMAGES, INCLUDING DEATH, TO PERSONS OR PROPERTY RELATING TO THE USE OR OCCUPANCY OF THE PREMISES DURING THE TERM INCLUDING CLAIMS THAT ARISE OUT OF OR RESULT FROM THE ACTIVE OR PASSIVE NEGLIGENCE, OR SOLE, JOINT, CONCURRENT OR COMPARATIVE NEGLIGENCE OF ANY OF THE INDEMNIFIED PARTIES AND REGARDLESS OF WHETHER LIABILITY WITHOUT FAULT OR STRICT LIABILITY IS IMPOSED OR ALLEGED AGAINST SUCH INDEMNIFIED PARTIES, AND ALL LOSSES, LIABILITIES, JUDGMENTS, SETTLEMENTS, COSTS, PENALTIES, DAMAGES, AND EXPENSES RELATING THERETO, INCLUDING, BUT NOT LIMITED TO, ATTORNEYS' FEES AND OTHER ACTUAL OUT OF POCKET COSTS OF DEFENDING AGAINST, INVESTIGATING, AND SETTLING THE CLAIMS. NOTWITHSTANDING THE FOREGOING, TENANT'S OBLIGATIONS UNDER THIS SECTION SHALL BE LIMITED TO THE PROPORTIONATE EXTENT ATTRIBUTABLE TO TENANT, AND EXCLUDE CLAIMS TO THE PROPORTIONATE EXTENT CAUSED BY THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF INDEMNIFIED PARTIES, TO THE EXTENT THAT THE CLAIMS ARE FINALLY JUDICIALLY DETERMINED TO BE AT LEAST 51% ATTRIBUTABLE TO THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE INDEMNIFIED PARTIES.

23.02 Defense of Claims. TENANT SHALL ASSUME ON BEHALF OF THE INDEMNIFIED PARTIES AND CONDUCT WITH DUE DILIGENCE AND IN GOOD FAITH THE DEFENSE OF ALL CLAIMS AGAINST ANY OF THE INDEMNIFIED PARTIES. THE INDEMNIFIED PARTIES SHALL HAVE THE RIGHT (BUT NOT THE OBLIGATION) TO PARTICIPATE, AT THEIR OWN EXPENSE, IN THE DEFENSE OF ANY CLAIM OR LITIGATION WITH ATTORNEYS OF THEIR OWN SELECTION WITHOUT RELIEVING TENANT OF ANY OBLIGATIONS IN THIS Article 23 OR COMPROMISING TENANT'S RIGHT CONDUCT SUCH DEFENSE. IN NO EVENT MAY TENANT ADMIT LIABILITY ON THE PART OF AN INDEMNIFIED PARTY WITHOUT THE WRITTEN CONSENT OF THE CITY ATTORNEY.

23.03 Maintenance of Insurance. MAINTENANCE OF THE INSURANCE REFERRED TO IN THIS LEASE DOES NOT AFFECT TENANT'S OBLIGATIONS UNDER THIS Article 23.

23.04 Subcontractors. TENANT SHALL REQUIRE ITS SUBCONTRACTORS TO INDEMNIFY OWNER, AS PROVIDED IN THIS SECTION AND AS PERMITTED UNDER APPLICABLE LAW.

ARTICLE 24
DISADVANTAGED BUSINESS ENTERPRISES,
M/WBE PROCUREMENT PROGRAM AND WAGE RATES

24.01 Disadvantaged Business Enterprise (DBE) Procurement Program. Tenant shall develop and implement a disadvantaged enterprise program for any Covered Improvements including the Rehabilitation Project. In connection therewith, Tenant and its prime contractor(s) will work with the SMBR to identify qualified DBE subcontractors and notify such subcontractors of potential contracting opportunities, and to track and report DBE participation in such contracts to SMBR. Tenant shall provide Owner with a copy of Tenant's DBE program. Tenant shall provide Owner with a simultaneous copy of all DBE reports submitted by Tenant to the SMBR and other applicable Governmental Authorities.

24.02 Minority and Women Business Enterprises. Tenant shall substantially comply with the requirements of the City Code Chapters 2-9(A), 2-9(B), 2-9(C), and 2-9(D) (Minority-Owned and Female-Owned Business Enterprise Procurement Program). It is Owner's policy to ensure that Minority-owned and Women-owned Business Enterprises ("MWBE") have the full opportunity to compete for and participate in Owner contracts. The policies and objectives of City Code Chapters 2-9(A), 2-9(B), 2-9(C), and 2-9(D) are incorporated into this Lease. Tenant shall develop and implement a MWBE Procurement Program ("MWBE Program"), which shall substantially comply with City Code Chapters 2-9(A) and 2-9(B) in the design and construction of the South Terminal. The current annual gender, ethnic-specific design and construction goals contained in City Code Chapters 2-9(A) and 2-9(B) are set forth on Exhibit F attached hereto and made a part hereof. The MWBE Program shall be incorporated into and made a part of this Lease for all purposes. If Tenant receives a notice of any violation of the MWBE Program, Tenant shall diligently work to cure such violation as is required and cooperate with Owner to correct such violations.

(a) MWBE Reporting. Within forty-five (45) days from the Effective Date of this Lease, Tenant shall provide Owner with a copy of Tenant's MWBE Program, and thereafter, Tenant shall provide monthly reports on progress toward meeting the MWBE participation goals on forms to be provided by Owner. Tenant may also be required to provide periodic reports to SMBR Citizen Advisory Committee regarding MWBE participation. Tenant shall maintain records showing (a) construction contracts and agreements with MWBEs, and (b) specific efforts to identify and award construction contracts and agreements to MWBEs.

(b) Outreach. In an effort to meet the gender and ethnic-specific MWBE utilization goals, Tenant shall implement an outreach program designed to solicit participation of MWBEs. These outreach efforts should also target small businesses generally. Tenant may seek the assistance of SMBR in these outreach efforts.

(c) Supplier Diversity Policy. Within ninety (90) days after the Effective Date, Tenant shall submit to Owner a reasonable supplier diversity policy which will not conflict with the MWBE Program regarding Tenant's procurement of materials and services to be used exclusively at the Premises which may be reasonably modified from time to time by the Tenant, provided the policy and all modifications are approved by SMBR.

24.03 Worker Safety. Tenant shall also comply with, and require its contractors and subcontractors to comply with, "Third Party Resolution" Worker Safety requirements pursuant to City Ordinance No. 20110728-106 throughout the construction, improvement, renovation, restoration, replacement and/or alteration of the South Terminal.

24.04 Wage Rates/Prevailing Wage. Tenant shall comply with, and require its contractors supplying construction labor or materials to the South Terminal to comply with, the City's prevailing wage requirements throughout solicitation of any construction contract or procurement of services for the construction of the South Terminal as described in this Lease. Owner has adopted the general prevailing rate of per diem wages established by the U.S. Department of Labor for work of similar character in the locality in which the work is performed as the minimum per diem wages to be paid in connection with a city public improvement project for the construction of public buildings. The rates Owner pays are the rates in effect for Travis County at the time Owner advertises these projects for bid. Resolution No. 20080605-047 adopts these same wage rates for public-private projects, such as the project contemplated by this Lease in which Owner is a participant.

24.05 Living Wage. Tenant shall ensure all personnel are paid the City's Living Wage in accordance with the policy set forth in City Council Resolution No. 20141016-035, or as may subsequently be amended. Tenant shall pay the City's current living wage rate for all of its workers at the South Terminal and such living wage rate shall be adjusted annually to reflect the City's new living wage rate that results from applying the cost of living index in accordance with City Council Resolution No. 20141016-035 or as may subsequently be amended.

ARTICLE 25 CAPITAL RECOVERY PAYMENT

25.01 Capital Recovery Payment. If at any time within the first six (6) years after the Effective Date, a Capital Recovery Event (as hereinafter defined) occurs, Tenant will notify Owner within six (6) months of the date any such Capital Recovery Event occurs (any such notice, a "Capital Recovery Notice"). If following delivery of any such Capital Recovery Notice, Owner and Tenant are unable to cure the Capital Recovery Event within six (6) months after receipt by Owner of such Capital Recovery Notice, Tenant may terminate this Lease upon one hundred twenty (120) days advance written notice to Owner, after which Owner will commence making the Capital Recovery Payment to Tenant in the following manner: the Capital Recovery Payment, which shall not in any event exceed ELEVEN MILLION AND NO/100 DOLLARS (\$11,000,000.00), shall be paid in four equal installments at each quarter-end of Owner's fiscal year following the termination of this Lease, commencing on the March 31, June 30, September 30 or December 31 immediately following the date this Lease is terminated, and such amounts,

to the extent of available funds, shall be paid out of lawfully available City of Austin Department of Aviation revenues, provided, that available Department of Aviation revenues shall not include funds raised or to be raised by taxation. For the avoidance of doubt, the payment of the Capital Recovery Payment is subject to the prior payment of any obligations then due and payable under any Bonds now or hereafter outstanding which are the subject of Article 39. For the avoidance of doubt, the four installment payments may straddle more than one fiscal year. Upon termination of this Lease, Owner will either assume operations of the South Terminal or Owner will close the South Terminal and the Airlines operating out of the South Terminal will be allowed to operate at the North Terminal. This Article 25 and Tenant's right to demand or make a claim against Owner based on this Article 25 for the Capital Recovery Payment shall expire on the sixth anniversary of the Effective Date. The City Council of Owner approved the potential Capital Recovery Payment set forth in this Section at its August 27, 2015 meeting.

25.02 Capital Recovery Event. A "Capital Recovery Event" shall occur if the Enplaned Passenger level at the South Terminal falls below, for any preceding twelve (12)-month period, with the first such period ending on the first anniversary of the Commencement of Operations Date, or is projected to fall below for a succeeding twelve (12)-month period, 200,000 Enplaned Passengers because any or all of the Airlines: (a) have failed to achieve such service levels; (b) have reduced service or provided notification of a reduction in service at the South Terminal; (c) have failed to have a fully executed Terminal Use Agreement(s) with Tenant, in full force and effect, and without default; or (d) have failed to have a fully executed Airfield Use Agreement with Owner, in full force and effect, and without default.

ARTICLE 26 LAWS AND GRANT CONDITIONS

26.01 Grant Assurances. This Lease is subject to the provisions of any agreement made between Owner and the United States Government relative to the operation or maintenance of the Airport, the execution of which has been required as a condition precedent to the transfer of federal rights or property to Owner for Airport purposes, or the expenditure of federal funds for the development of the Airport, including the expenditure of federal funds for the development of the Airport in accordance with the provisions of the FAA's Airport Improvement Program, or in order to impose and use passenger facilities charges under 49 U.S.C. Section 40117 or any successor thereto.

26.02 National Emergencies. This Lease shall be subject to whatever right the United States Government now has or in the future may have or acquire, affecting the control, operation, regulation and taking over of said Airport or the exclusive or nonexclusive use of the Airport by the United States during a time of war or national emergency.

26.03 Non-Discrimination and Affirmative Action. Tenant, for itself, its successors and assigns, as a part of the consideration of this Lease, does hereby covenant and agree that: (a) no person on the grounds of race, color, religion, sex, national origin or ancestry, or age, shall be excluded from participation in, denied the benefits of, or

otherwise be subjected to discrimination in the use of the Premises; (b) in the construction of any improvements on, over or under such land and the furnishing of services thereon, no person on the grounds of race, color, religion, sex, national origin or ancestry or age, shall be excluded from participation in, denied the benefits of, or otherwise be subjected to unlawful discrimination; (c) Tenant shall use the Airport facilities in compliance with all other requirements imposed by, or pursuant to, 49 CFR Part 21 (Non-discrimination in Federally Assisted Programs of the Department of Transportation), as said regulations may be amended; and (d) Tenant assures that it will undertake an affirmative action program as required by 14 CFR Part 152, Subpart E (Non-discrimination Airport in Aid Program), to ensure that no person shall on the grounds of race, color, religion, national origin or ancestry, sex, age or physical or mental handicap be excluded from participating in any employment activities covered in 14 CFR Part 152, Subpart E, or such employment activities covered in Chapter 5-3 of the Austin City Code. Tenant assures that no person shall be excluded on these grounds from participating in or receiving the services or benefits of any program or activity covered by this Section 26.03. Tenant assures that it will require that any covered subtenant similarly will undertake affirmative action programs and that the subtenant will require assurance from the subtenant's sub-subtenants, as required by 14 CFR Part 152, Subpart E, to the same effect. Tenant agrees to post, in conspicuous places available to employees and applicants for employment notices to be provided setting forth the provisions of this nondiscrimination clause.

26.04 Public Accommodation Laws. Tenant covenants that it shall comply with Applicable Laws governing non-discrimination in public accommodations and commercial facilities, including the requirements of the Americans with Disabilities Act of 1990, as amended (the "ADA") and all regulations thereunder, and that the Premises shall remain in compliance with such Applicable Laws throughout the Term.

26.05 Compliance with Laws. In its use and occupancy of the Premises, Tenant shall comply with all Applicable Laws and all Airport rules and regulations. Tenant shall not do or permit anything to be done in, on or at the Premises that would constitute a public or private nuisance.

26.06 Lighting, Electrical and Radio Interference. Tenant shall not permit or create any electrical or other interference with radio communications between the Airport and aircraft. Tenant may not install any lighting on the Premises that would make it difficult for pilots to distinguish between Airport lights and those of Tenant, impair visibility in the vicinity of the Airport or otherwise endanger landing, taking off or maneuvering of aircraft. Tenant shall coordinate the use of radio frequencies by Tenant, or any Airline, ground handler or other person occupying the South Terminal, with Owner prior to implementation to avoid interference with existing radio communications at the Airport.

26.07 Amendment. In the event that the FAA, the TSA or any other Governmental Authority of competent jurisdiction other than Owner shall require any modifications or changes in this Lease as a condition precedent to the granting of funds for the improvement of the Airport to use or impose PFCs, or if it is necessary to modify this Lease to comply with the requirements of Applicable Law, including regulations, orders

and decisions of the FAA, the TSA or such other Governmental Authority, Owner shall notify Tenant in writing. If the Parties are unable to agree upon and execute a suitable amendment within the time frame required by the Governmental Authority, Tenant agrees that Owner may unilaterally modify this Lease, upon advice of its legal counsel, as may reasonably be required to obtain such funds, to use or impose PFCs or comply with Applicable Law. Nothing herein shall preclude Tenant from contesting such orders or decisions, but Tenant shall abide by the unilateral modification by Owner until such time, if any, as such Governmental Authority's requirement is stayed, rescinded or invalidated as long as such stay, rescission or invalidation remains in effect. In no event will Tenant be required, pursuant to this Section 26.07, to pay Rent greater than specified herein.

26.08 Airport Development. Owner reserves the right to develop and improve the Airport and all roadways, terminal facilities, land areas and taxiways and any other facilities at the Airport for aviation or aeronautical purposes as it deems necessary or appropriate in its absolute discretion, subject only to Applicable Law and the express provisions of this Lease, including in Section 2.03 and Article 15.

26.09 Economic Nondiscrimination. Tenant shall make the South Terminal available to all users thereof on reasonable, and not unjustly discriminatory basis, and shall charge reasonable, and not unjustly discriminatory, rates and charges for the use of the South Terminal, provided that Tenant may make available reasonable and nondiscriminatory discounts, rebates or similar types of price reductions or modifications for volume users.

ARTICLE 27 AVIGATION RIGHTS

27.01 General. Tenant understands and acknowledges that the Premises are located between two active airport runways, that the Premises are subject to overflights of aircraft taking off or landing at the Airport, and that the Premises are currently, and will in the future, be subject to aircraft noise levels of DNL 65dB or greater, as well as vibration, air pollution and other effects from the flight of aircraft near or over the Premises.

27.02 Owner's Reservation of Rights. Owner reserves the right of flight for the passage of aircraft above the surface of the Premises, and such right of flight shall include the right to cause in such airspace such noises as may be inherent to the operation of aircraft now known or hereafter used for navigation of or flight in the air; and Owner reserves the right to use said airspace for landing at, taking off from or operating aircraft on or over said Airport.

27.03 Waiver. Tenant agrees that Owner shall not be liable for any damage to the Premises arising out of the operation of aircraft in air space above the Premises or other property in the vicinity of the Premises.

ARTICLE 28
TENANT DEFAULT AND REMEDIES

28.01 Default by Tenant. Each of the following shall be deemed a default by Tenant (“Tenant Default”) hereunder and a material breach of this Lease:

(a) Tenant shall fail to pay the amount of any installment of Rent or other sum payable by Tenant under this Lease when due, in accordance with the terms of this Lease, and such failure shall continue for twenty (20) days after delivery by Owner to Tenant of written notice specifying such failure;

(b) Tenant shall fail to commence or complete the Rehabilitation Project and the reactivation of the South Terminal in accordance with, and subject to the conditions set forth in, Article 10, and Tenant shall fail to cure such failure within thirty (30) days after delivery by Owner to Tenant of written notice specifying the failure; provided, however, if the failure is curable, but not capable of being cured within such thirty (30)-day period, Tenant Default shall not occur under this subsection unless Tenant fails to commence such cure of during such thirty (30)-day period and thereafter fails to diligently and continuously pursue the cure to its completion;

(c) Tenant shall abandon, desert or vacate the Premises, after the commencement of the Rehabilitation Project, for a period of thirty (30) days, for any reason excluding, for the avoidance of any doubt, an event of Force Majeure or Owner Default or authorized construction, repairs or maintenance, and the Premises remain abandoned, deserted or vacant for a period of thirty (30) days after delivery by Owner to Tenant of written notice thereof;

(d) Tenant shall fail to keep, perform or observe any other non-monetary material covenant, agreement, term or provision contained in this Lease to be kept or performed by Tenant hereunder or thereunder, and Tenant shall fail to cure such failure within thirty (30) days after delivery by Owner to Tenant of written notice specifying the failure; provided, however, if the failure is curable, but not capable of being cured within such thirty (30)-day period, Tenant Default shall not occur under this subsection unless Tenant fails to commence such cure of during such thirty (30)-day period and thereafter fails to diligently and continuously pursue the cure to its completion;

(e) An involuntary petition shall be filed against Tenant under applicable bankruptcy law, or a receiver of Tenant, or of all or substantially all of the property of Tenant, shall be appointed without acquiescence, and such petition or appointment shall not be discharged or stayed within sixty (60) days after the happening of such event;

(f) Tenant shall make an assignment of its interest in the Premises for the benefit of creditors or shall file a voluntary petition under applicable bankruptcy law, or seek relief under any other law for the benefit of debtors; or

(g) Any representation or warranty made by Tenant in Section 36.02 of this Lease shall be materially false, misleading or inaccurate when made, except where such incorrect representation or warranty is capable of being cured and is in fact remedied within thirty (30)

days after notice thereof is given by Owner to Tenant; provided, however, if the failure is curable, but not capable of being cured within such thirty (30)-day period, Tenant Default shall not occur under this subsection (g) unless Tenant fails to commence such cure during such thirty (30)-day period and thereafter fails to diligently and continuously pursue the cure to its completion.

28.02 Remedies of Owner. If a Tenant Default occurs, Owner may at any time thereafter and without waiving any other rights hereunder or available to Owner at law or in equity (Owner's rights being cumulative), do any one or more of the following, subject to all defenses, counterclaims, and set offs available to Tenant under Applicable Law:

(a) Owner may terminate this Lease by giving Tenant written notice thereof, in which event this Lease and the leasehold estate hereby created and all interest of Tenant and all parties claiming by, through or under Tenant shall automatically terminate upon the effective date of such notice; and Owner, its agents or its representatives may, without further demand or notice, reenter and take possession of the Premises and remove all persons and property therefrom with or without process of law, without being deemed guilty of any manner of trespass and without prejudice to any remedies for arrears of Rent or existing breaches hereof.

(b) Owner may terminate Tenant's right to possession of the Premises and enjoyment of the rents, issues and profits therefrom without terminating this Lease or the estate created hereby, reenter and take possession of the Premises, change the locks, and remove all persons and property therefrom (except for subtenants or users permitted by the terms of this Lease, including Airlines operating under Terminal Use Agreements), with or without process of law, without being deemed guilty of any manner of trespass and without prejudice to any remedies for arrears of Rent or existing breaches hereof. If Owner retakes possession of the Premises as provided herein, Owner shall have no obligation to tender to Tenant new keys or other entry devices to any new locks installed in the Premises, and Owner may lease, manage and operate the Premises and collect the rents, issues and profits therefrom for the account of Tenant, and credit to the satisfaction of Tenant's obligations hereunder such amounts thus received, after deducting therefrom all reasonable actual out of pocket third party costs and expenses of repossessing, leasing, managing and operating the Premises. If such net amounts so received by Owner exceed the amounts necessary to satisfy all of Tenant's obligations under this Lease, Owner shall nevertheless retain such excess. In no event shall Owner be liable for failure to so lease, manage or operate the Premises or collect the rentals due under any subleases, and any such failure shall not reduce Tenant's liability hereunder. If Owner elects to proceed under this Section 28.02, it may at any time thereafter elect to terminate this Lease.

(c) Owner shall have the right, but not the obligation, without judicial process and without incurring any liability therefor, to enter upon the Premises and perform any obligation under this Lease that Tenant has failed to perform. Performance by Owner shall not cure a Tenant Default, and all costs and expenses incurred by Owner in performing such obligations of Tenant shall be payable by Tenant to Owner as Additional Rent within thirty (30) days from invoice date, provided that such costs and expenses shall not exceed the actual out-of-pocket costs to complete such obligation, plus a twenty (20)% administrative fee.

(d) Owner may exercise any other right or remedy available to Owner under this Lease or at law or in equity.

(e) All Rent and other sums not paid on or before the date due shall bear interest at the Contract Rate from and after the date due; provided, however, that nothing herein shall operate or be construed to obligate Tenant to pay sums which are subject to applicable usury law which, taken together, exceed the maximum non-usurious amount or rate.

(f) Owner may, at Owner's election, either (i) purchase all Trade Fixtures at a cost equal to Tenant's unamortized cost of such Trade Fixtures, depreciated on a straight line basis over the lesser of the original Term or the useful life of such Trade Fixtures, or (ii) lease such Trade Fixtures at a fair market rental for such Trade Fixtures for a period of up to a maximum of three (3) years. Owner shall provide notice of its election to either purchase or lease such Trade Fixtures on or before the date the Lease will terminate. Within twenty (20) days after receipt of Owner's notice of intent to purchase or lease the Trade Fixtures, Tenant shall respond in writing with, as applicable, its calculation of the purchase price of the Trade Fixtures determined in accordance with this subsection, or its calculation of the fair market rental value of the Trade Fixtures. Tenant may not include any rent for the land or for any Trade Fixtures owned, installed or otherwise paid for or provided by Owner. If the Parties are unable to agree upon such purchase price or fair market rental for the Trade Fixtures, the Parties shall attempt to determine such purchase price or fair market rental pursuant to the process set forth in Article 40. If the process set forth in Article 40 is unsuccessful, and the Parties cannot agree on a subsequent process to resolve their differences, the remedies set forth in this Section 28.02(f) shall not be available to Owner.

28.03 Additional Rights of Owner. To the extent that Tenant fails to keep, perform or observe any covenant, agreement, term or provision of this Lease, whether or not such failure is excused by any applicable cure periods, and such failure continues for a period of thirty (30) days after delivery by Owner to Tenant of written notice specifying such failure, or upon repeated failure of Tenant to keep, perform or observe any covenant, term or provision of this Lease, Tenant shall, upon written request by Owner, cause a senior representative (Senior Vice President or higher) of Tenant to meet and confer with Owner, either in person or via teleconference, within ten (10) business days after receipt of such written request, to address such failure and, where necessary, formulate an action plan to ensure future compliance under the Lease.

ARTICLE 29 OWNER DEFAULT AND REMEDIES

29.01 Default by Owner. The following shall be deemed a default by Owner ("Owner Default") and a material breach of this Lease:

(a) Owner shall fail to pay the amount of any sum payable by Owner under this Lease, including under Section 18.06, when due in accordance with the terms of this Lease, and such failure shall continue for twenty (20) days after delivery by Tenant to Owner of written notice specifying such failure;

(b) Owner shall fail to keep, perform or observe any other non-monetary material covenant, agreement, term or provision contained in this Lease to be kept or performed by Owner hereunder or thereunder, and Owner shall fail to cure such failure within thirty (30) days after delivery by Tenant to Owner of written notice specifying the failure; provided, however, if the failure is curable, but not curable within such thirty (30)-day period, an Owner Default shall not occur unless Owner fails to commence the cure of the failure during such thirty (30)-day period and thereafter fails to diligently and continuously pursue the cure to its completion; or

(c) Any representation or warranty made by Owner in Section 36.01 of this Lease shall be false or materially misleading or inaccurate when made in any material respect, except where such incorrect representation or warranty is capable of being cured and is in fact cured within thirty (30) days after notice thereof is given by Tenant to Owner; provided, however, if the failure is curable, but not curable within such thirty (30)-day period, an Owner Default shall not occur unless Owner fails to commence the cure of the failure during such thirty (30)-day period and thereafter fails to diligently and continuously pursue the cure to its completion.

29.02 Tenant's Remedies. If an Owner Default occurs, Tenant may at any time thereafter and without waiving any other rights hereunder or available to Tenant at law or in equity (Tenant's rights being cumulative), do any one or more of the following, subject to all defenses, counterclaims, and set offs available to Owner under Applicable Law:

(a) Tenant may terminate this Lease by giving Owner written notice thereof, in which event this Lease and the leasehold estate hereby created and all interest of Tenant and all parties claiming by, through or under Tenant shall automatically terminate upon the effective date of such notice; and Tenant shall thereafter be released of all other duties, obligations and responsibilities with respect to this Lease.

(b) If Tenant exercises its right to termination under clause (a) above, Tenant may pursue a cause of action against Owner for its actual damages, which will be deemed to be equal the Fair Market Value of its Tenant's Interest.

(c) Tenant shall have the right, but not the obligation, without judicial process and without incurring any liability therefor, to perform any obligation under this Lease that Owner has failed to perform, upon ten (10) business days advance written notice, or prompt notice after incurrence in the case of any action necessary to protect public health or safety, to Owner. Performance by Tenant shall not cure the Owner Default, and all actual and verifiable costs and expenses incurred by Tenant in performing such obligations of Owner shall be payable by Owner to Tenant.

(d) Tenant may, at Tenant's election, cause Owner to purchase all Trade Fixtures at a cost equal to the greater of (i) Tenant's unamortized cost of such Trade Fixtures or (ii) the appraised value of such Trade Fixtures. Tenant shall provide notice of its election on or before the date the Lease will terminate. In such notice, Tenant shall provide Owner with its calculation of the purchase price of the Trade Fixtures, determined in accordance with this subsection. If the Parties are unable to agree upon such purchase price for the Trade Fixtures,

the Parties shall attempt to determine such purchase price pursuant to the process set forth in Article 40. If the process set forth in Article 40 is unsuccessful, and the Parties cannot agree on a subsequent process to resolve their differences, the remedies set forth in this Section 29.02(d) shall not be available to Tenant.

(e) Tenant may exercise any other right or remedy available to Tenant under this Lease or at law or in equity.

(f) Tenant may deduct and set off against the Rent owed by Tenant under this Lease the amount of any damages for any Owner Default.

(g) Tenant may seek specific performance and injunctive relief from a court of competent jurisdiction as a remedy for any Owner Default.

ARTICLE 30 SURRENDER OF PREMISES

30.01 Condition of Premises.

(a) Upon the expiration or earlier termination of this Lease, or of any renewal or extension hereof, Tenant shall peaceably quit, deliver up and surrender the Premises, in good order, repair and condition, subject to the provisions of Article 32 and Article 33 below. Tenant shall restore the Premises (including all improvements to the Premises) and make such repairs as may be necessary to restore the Premises to (i) at least substantially the same condition as the Premises were in on the Commencement of Operations Date, (ii) the condition of the Premises maintained by Tenant under Section 10.04 above and (iii) minimum standards adopted by Owner under Section 17.02 above, reasonable wear and tear and Owner-authorized improvements excepted. At Owner's written request, Tenant shall remove all goods, equipment or personal property owned by Tenant on the Premises; subject, however, to any valid lien that Owner may have thereon for unpaid Rent, fees or charges.

(b) Upon termination or expiration of this Lease, Tenant shall transfer all right, title and interest in and to the Premises, including all improvements, to Owner without additional payment or cost; provided, however, that Tenant will retain all right, title and interest in and to any Trade Fixtures and Tenant shall be entitled to remove and dispose of such Trade Fixtures, subject to Owner's rights under Section 28.02(f). In the event of a termination of this Lease by Tenant as the result of an Owner Default, Tenant shall retain Tenant's Interest until all amounts, if any, agreed or adjudicated to be payable by Owner on such termination are paid in full, or Owner has posted a bond sufficient to pay such amounts; provided, however Tenant may not conduct any business on the Premises after termination. For the avoidance of doubt, Tenant shall not be required to conduct any investigation, remediation, corrective action or other activities in connection with any Environmental Conditions on the Premises, except to the extent required under Article 20 or Article 21 above.

30.02 Repossession and Holding Over. Upon such expiration or termination, Owner may, without further notice, enter upon, reenter, possess and repossess itself of the Premises by summary proceedings, ejectment or otherwise, and may have, hold, and enjoy the Premises and all rental and other income therefrom, free of any claim by Tenant with

respect thereto. If Tenant does not surrender possession of the Premises at the end of the Term, such action shall not extend the Term, Tenant shall be a tenant at sufferance, and during such time of occupancy Tenant shall pay to Owner, as damages, an amount equal to one hundred fifty percent (150%) of the then current Rent. Owner shall not be deemed to have extended the Term, other than by execution of a written agreement specifically so stating.

30.03 Tenant's Personal Property. Except as otherwise expressly provided in this Lease, Tenant's Trade Fixtures, furnishings, signs, temporary buildings and equipment located on, in or at the Premises, shall remain Tenant's property for all purposes and, subject to Section 28.02(f), shall be removed by Tenant upon expiration or earlier termination of the Term. Tenant shall repair, at its sole expense, all damage to the Premises caused by such removal.

ARTICLE 31 FORCE MAJEURE

31.01 General. The failure of Tenant or Owner to perform its obligations hereunder shall be excused, to the extent, and for the period of time, such failure is caused by the occurrence of an event of Force Majeure. Force Majeure shall mean acts and events not within the control of the Party claiming suspension, and which that Party has been unable to avoid or prevent by the exercise of due diligence. Events of Force Majeure include: Acts of God; strikes, lockouts or other industrial disputes; inability to obtain material, equipment or labor; epidemics, civil disturbances, acts of domestic or foreign terrorism, wars, riots or insurrections; landslides, lightning, earthquakes, fires, storms, floods or washouts; arrests and restraint of rulers and people; interruptions by government or court orders; present or future orders of any Governmental Authority having proper jurisdiction and authority (unless arising out of a breach of Applicable Law by the Party asserting Force Majeure); failure to obtain or delay in obtaining any Governmental Approval from any Governmental Authority; explosions; breakage or accident to machinery; and the exercise of any rights of the United States Government affecting the control, operation, regulation and taking over of the Airport or the exclusive or nonexclusive use of the Airport by the United States during a time of war or national emergency as set forth in Section 26.02. Force Majeure does not include economic or market conditions which affect a Party's cost, but not its ability, to perform. The Party invoking Force Majeure shall give prompt, timely and adequate notice to the other Party, by electronic mail or telephone confirmed promptly thereafter in writing, and shall use due diligence to remedy the event of Force Majeure, as soon as reasonably possible. Nothing contained herein shall be construed to require a Party to settle a strike or other labor dispute against its will.

31.02 Impairment of Use. To the extent a Force Majeure impairs Tenant's use of the Premises, in whole or in part, Tenant's and Owner's obligations to make payments to each other in accordance with this Lease shall be proportionately reduced, in whole or in part, respectively, during the term of such Force Majeure. In addition, to the extent a Force Majeure's duration is in excess of ninety (90) days, the Term will be extended by the length of such Force Majeure in excess of ninety (90) days. Any right of either Party to terminate

this Lease shall be suspended for so long as the act, omission or other event or circumstance giving rise to such right is excused by an event of Force Majeure, provided that such Force Majeure does not continue for more than six (6) months. To the extent that any Force Majeure's duration is in excess of six (6) months, Tenant may elect to terminate this Lease.

ARTICLE 32 INSPECTION

32.01 Owner's Right to Inspect. When no state of emergency exists, after two (2) business days' notice to Tenant, Owner may enter upon the non-public areas of the Premises during normal operating hours in order to inspect same. Owner may enter upon all public areas of the Premises at any time without notice during normal business hours. In an emergency, Owner may enter upon the Premises at any time and without notice to Tenant. Owner will use reasonable efforts to minimize the disruption to Tenant resulting from any such inspections.

ARTICLE 33 CASUALTY LOSS

33.01 Restoration Upon Casualty Loss. If the South Terminal, or any buildings, terminals or leasehold improvements are wholly or partially destroyed or damaged by fire or any other casualty ("Casualty"), Tenant shall cause the same to be restored and reconstructed to the extent of available insurance proceeds (and such other proceeds, if any, as are made available to Tenant by or through Owner), unless otherwise agreed by Owner, in writing, and the following provisions shall apply:

(a) The design of all portions of the South Terminal to be restored and reconstructed shall meet the requirements of this Lease (including those set forth in Article 9 hereof) and Owner shall have the same rights of review, comment and approval with respect to such design as it has hereunder for Covered Improvements;

(b) Restoration and reconstruction shall commence as soon as reasonably feasible, but no later than six (6) months after the receipt of insurance proceeds available therefor, and shall be pursued thereafter with all due diligence to completion;

(c) Tenant shall use all available proceeds of Tenant's casualty insurance for the restoration and reconstruction of the South Terminal; and

(d) All proceeds from Tenant's rental insurance or business interruption insurance policies shall be the property of Tenant.

33.02 No Restoration Following Casualty Loss. If Tenant and Owner agree not to restore and reconstruct the South Terminal, then either Party may elect to terminate this Lease as to the portion of the Premises affected by the Casualty (as reasonably determined by the Parties) upon thirty (30) days' written notice to the other Party, and the following provisions shall apply:

(a) with available insurance proceeds, Tenant shall establish reasonable security for the Premises and, as soon as practicable, remove all debris resulting from the Casualty and bring the Premises to a clean and safe condition;

(b) the insurance proceeds received under Tenant's property insurance policies as a result of the Casualty shall be applied, first in accordance with sub-clause (a) above, and then to Tenant, to the extent of any remaining proceeds;

(c) all proceeds from Tenant's business interruption insurance policies shall be paid to Tenant;

(d) Tenant shall reasonably cooperate with Owner to cause Tenant's insurance company to apply the insurance proceeds as provided in this Section 33.02;

(e) If this Lease is terminated as to a portion of the Premises, Rent shall be reduced proportionately; and

(f) Notwithstanding anything to the contrary herein, if this Lease is terminated as a result of a casualty described in this Section 33.02, the provisions of Article 15 will remain in force and effect for a period of three (3) years from the date of such termination.

33.03 Abatement. Each Party's payment obligations shall abate following any Casualty, such abatement to expire on completion of restoration or reconstruction of the South Terminal with any period of abatement to be added to the Term.

ARTICLE 34 CONDEMNATION AND BUSINESS INTERRUPTION

34.01 Taking in Entirety. If the entire Premises and/or the entire Tenant's Interest are Taken by any public or governmental body by right of eminent domain or otherwise, this Lease shall terminate as of the date the condemning authority takes possession.

34.02 Partial Taking. If less than all of the Premises and/or Tenant's Interest (including a material right of use hereunder) is Taken by any Governmental Authority by right of eminent domain or otherwise, and in Tenant's reasonable judgment, the remainder lacks adequate area, location, configuration, improvements or other capacity or potential to use the Premises for their authorized uses, Tenant shall have the right to (a) terminate the Lease in its entirety, by giving Owner written notice within thirty (30) days after the date the condemning authority takes possession or (b) receive a damages award pursuant to Section 34.03 equal to the proportion of the Tenant's Interest that is impaired. If Tenant does not terminate the Lease, the Lease shall continue in full force and effect as to the remainder of the Premises, but with a proportionate reduction in Rent commensurate with the portion taken.

34.03 Damage Award. If the condemning authority is not the City, the Parties agree to apportion the damage award as follows: first, Tenant shall be entitled to receive compensation for the Fair Market Value of Tenant's Interest so taken, and Owner shall be

entitled to receive compensation for the residual value of the real estate taken, and for any improvements to the Premises that are owned or paid for by Owner to the extent not constituting a part of Tenant's Interest. If the condemning authority is the City, Tenant shall be entitled to compensation for the Fair Market Value of Tenant's Interest so taken. Payment by the City of the compensation due Tenant hereunder, and Tenant's acceptance of such compensation, shall not constitute a waiver by Tenant of any other rights and remedies that it has under Section 29.02. In the event that the damage award is not apportioned in a manner that is consistent with this Section 34.03, then the Parties shall re-apportion such damage award so as to be so consistent. Each Party shall be responsible to bear all costs, and take all action necessary or appropriate to assert its respective interests in the condemnation action, including hiring its respective legal counsel, appraisers and other experts.

34.04 Definition of Taken; Taking. As used in this Article, "Taken" or "Taking" shall mean any taking of the Premises in or by condemnation or other eminent domain proceedings pursuant to any law, general or special, or by reason of any agreement with any condemnor in settlement of or under threat of any such condemnation or other eminent domain proceedings or by any other means, or any *de facto* condemnation. Tenant shall have no right to voluntarily devote or dedicate any portion of the Premises to public use without Owner's prior written consent.

34.05 Contingent Business Interruption. In the event that Tenant's access to the Premises or the portion of the Airport of which the Premises are a part is materially impaired at no fault of Tenant for a period exceeding forty-five (45) consecutive days, Owner agrees that the Rent shall be abated in the same proportion that Tenant's access to or use of the Premises is impaired, for the period from the date of impairment to the substantial restoration of access and use.

ARTICLE 35 ASSIGNMENT AND SUBLEASING

35.01 By Tenant.

(a) Prior to the issuance of the Notice to Proceed, Tenant may not assign this Lease, other than to an Affiliate, without the prior written consent of Owner. After issuance of the Notice to Proceed, Tenant may not assign this Lease without Owner's prior written consent, which shall not be unreasonably denied or delayed if Tenant (i) is not at the time of assignment in default under this Lease and (ii) demonstrates to the reasonable satisfaction of Owner that the proposed assignee is a Qualified Entity capable of performing the obligations and covenants under this Lease. In the event of any permitted assignment, the transferor shall be relieved of all obligations of Tenant incurred under this Lease, and transferee shall be Tenant, after the effective date of such assignment, provided that the transferee agrees in writing to be bound by the provisions hereof. Any assignment that is not permitted by this Section 35.01(a) shall be void.

(b) For the avoidance of doubt, Owner and Tenant recognize that Tenant plans to enter into subleases or other agreements with design and construction contractors, air carriers, concessionaires, ground handlers and other service providers for use or occupancy of the

Premises. The prior written consent of Owner to any such sublease or occupancy agreement shall not be required provided that such Tenant's sublease or occupancy agreement with each such subtenant or occupant is consistent with and references and incorporates this Lease by reference, and is consistent with Tenant's Concession Program or Airline Lease Program. Notwithstanding any sublease or occupancy agreement, unless otherwise agreed to by Owner, Tenant shall remain primarily liable under this Lease for all of its obligations hereunder.

35.02 Transfer of Owner's Interest.

(a) Owner may freely transfer its interest in the Premises and under this Lease from time to time to any Government Authority which has comparable or greater financial resources, qualifications, experience and legal capacity and authority to perform the obligations of Owner under this Lease (a "Public Owner").

(b) In the event of any permitted transfer, the transferor shall be relieved of all obligations of Owner accruing under this Lease after the date such transfer is consummated provided that (i) any such transfer is expressly made subject to the terms, provisions and conditions of this Lease, and (ii) the transferee agrees in writing to be bound by the provisions hereof. Tenant agrees to attorn to any such transferee. Any transfer by Owner other than in accordance with this Section 35.02 shall be void.

ARTICLE 36
APPROVALS AND AUTHORITY

36.01 Owner. Owner represents, warrants and covenants that, as of the Effective Date (a) Owner is a home rule municipal corporation organized and existing under the laws of the state of Texas with full power and authority to enter into and be bound by this Lease; (b) the execution, delivery and performance of this Lease by Owner have been duly authorized by all required actions; (c) this Lease has been duly and validly executed and delivered by Owner, and constitutes the valid and binding obligation of Owner, enforceable against Owner in accordance with its terms, except as may be limited by governmental immunity under the Constitution and laws of the State of Texas, or applicable bankruptcy, insolvency or similar laws affecting creditor's rights; (d) no consent or approval of any third party is required in connection with the execution, delivery or performance by Owner of this Lease, except for such consents or approvals that are not required to be obtained as of the Effective Date and that will be obtained in due course; (e) neither the execution and delivery by Owner of this Lease, nor the consummation of the transactions contemplated hereby, is or at the time of execution will be in conflict with or will result in a default under or violation of any Applicable Law or any other agreement or instrument to which it is a Party or by which properties and assets may be bound or affected; (f) there is no action, suit, proceeding, investigation or litigation pending or threatened against Owner which challenges Owner's authority to execute, deliver or perform, or the validity or enforceability of, this Lease; and (g) Owner owns and has good, legal, valid and beneficial title to, or has all rights to use, the Premises, subject to rights, restrictions and encumbrances of record to the extent valid and in existence.

36.02 Tenant. Tenant represents, warrants and covenants that as of the Effective Date (a) Tenant is a limited liability company duly formed, validly existing and in good standing under the laws of the State of Delaware, with full power and authority to enter into and be bound by its obligations under this Lease; (b) the execution, delivery and performance of this Lease by Tenant have been duly authorized by all requisite corporate action; (c) this Lease has been duly and validly executed and delivered by Tenant, and constitutes the valid and binding obligation of Tenant, enforceable against Tenant in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency or similar laws affecting creditor's rights; (d) no consent or approval of any third party is required in connection with the execution, delivery or performance by Tenant of this Lease, except for such consents or approvals that are not required to be obtained as of the Effective Date and that will be obtained in due course; (e) neither the execution and delivery by Tenant of this Lease, nor the consummation of the transactions contemplated hereby, is or at the time of execution will be in conflict with or will result in a default under or violation of any Applicable Law or any other agreement or instrument to which it is a Party or by which its properties and assets may be bound or affected; and (f) there is no action, suit, proceeding, investigation or litigation pending or threatened against Tenant which challenges Tenant's authority to execute, deliver or perform, or the validity or enforceability of, this Lease.

ARTICLE 37
NOTICES AND CONTRACT ADMINISTRATION

37.01 Contract Administrator. The Department of Aviation Director of Facilities and Operations is Owner's designated representative for matters relating to the Rehabilitation Project and reactivation of the South Terminal. The Department of Aviation Manager of Administration and Business Development is Owner's designated contract administrator for this Lease, and is authorized to act on behalf of the Director to organize, schedule and coordinate matters related to this Lease and the Premises, and to review and approve requests by Tenant under this Lease. Owner may change its contract administrator by written notice to Tenant.

37.02 Notices. Any notice provided for or permitted to be given hereunder must be in writing and may be given by (a) depositing same in the United States Mail, postage prepaid, registered or certified, with return receipt requested, addressed as set forth in this Article 37; (b) hand delivering the same to the Party to be notified; or (c) overnight courier of general use in the business community of Austin, Texas. Notice given by United States Mail in accordance herewith shall be deemed delivered and effective on the earlier of actual receipt or three (3) calendar days next following deposit thereof in the United States Mail in accordance with the requirements above. Notices to Owner shall be sent to:

Executive Director
Department of Aviation
Austin-Bergstrom International Airport
3600 Presidential Blvd., Suite 411
Austin, Texas 78719

Telephone: 512-530-2242

Notices to Tenant shall be sent to:

Highstar Capital IV, L.P.
277 Park Avenue, 45th Floor
New York, New York 10172
Attention: General Counsel

Telephone: 646-857-8000

The Parties hereto may from time to time change their respective addresses for purposes of notice hereunder by giving a notice in accordance with the provisions of this Section 37.02.

ARTICLE 38 CONFIDENTIALITY/PROPRIETARY INFORMATION

38.01 Confidentiality. Certain information related to this Lease may be proprietary or confidential information, including financial reports, audits, key cost and revenue assumptions, including staff costs, non-staff costs, capital costs, interfaces with Airport systems, aeronautical and non-aeronautical revenue streams, any applicable taxes and charges and any other information that would have a material impact on the South Terminal's financial performance (collectively "Confidential Information"). Each Party agrees to label or mark its Confidential Information as confidential or proprietary. Tenant further acknowledges that Owner is a political subdivision of the State of Texas, and as such is subject to the Texas Public Information Act. To the extent permitted by Applicable Law, each Party agrees it shall not distribute or disclose any Confidential Information supplied to it by the other Party without the prior written consent of the other Party. However, the foregoing sentence shall not preclude a Party from disclosing Confidential Information to its officials, officers, employees and representatives who have a need to know such information. If a Party is requested or required (by oral question, interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process) to disclose any Confidential Information, it shall promptly notify the other Party in writing of such request or requirement so that the other Party may seek an appropriate protective order, opinion of the Attorney General of the State of Texas or other applicable authority, or waive compliance with provisions of this Agreement. The Party seeking to assert the confidentiality of information shall, at its sole expense, prepare and submit all necessary information, briefs and/or legal memoranda to support its position with the appropriate authority.

38.02 Sensitive Security Information. Owner and Tenant also acknowledge that the Parties may be provided from time to time with “Sensitive Security Information” (“SSI”), as defined under 49 CFR Parts 15 and 1520, and Owner and Tenant agree to use and maintain such SSI as required by Applicable Law.

ARTICLE 39 BOND ORDINANCES

39.01 Bond Ordinance Provisions. If and to the extent that the lien and other provisions of any Bond Ordinance are applicable to this Lease, this Lease and all rights granted to Tenant hereunder are expressly subject to the lien and provisions of the pledges, transfer, hypothecation or assignment made by Owner in any Bond Ordinance executed by Owner to issue Bonds. Owner expressly reserves the right to make such pledges and grant such liens and enter into covenants as it may deem necessary or desirable to secure and provide for the payment of Bonds, including the creation of reserves therefor, provided that Owner shall not take any actions that would be inconsistent with the terms and conditions of this Lease, including the grant by Owner of any mortgage or other lien on the Premises that is superior to or on a parity with the leasehold granted to Tenant by this Lease. Tenant understands that Owner is and will be the issuer of Bonds. With respect to Bonds on which the interest is intended to be excludable from gross income for federal income tax purposes under the Internal Revenue Code of 1986 as amended or superseded, Tenant shall:

(a) not use, without the prior written consent of Owner, any portion of the Premises for any purpose other than as an airport facility serving common passenger or freight carriers or charter carriers that serve members of the general public, and facilities functionally related and subordinate to such airport facility that are of a character and size commensurate with the character and size of such airport facility, including facilities that are directly related and essential to servicing aircraft or enabling aircraft to take off and land, or transferring passengers or cargo to or from aircraft, restaurants, retail stores and ground transportation and parking areas located on the Premises, but excluding any lodging facility or any retail business (including food and beverage facilities) in excess of a size necessary to serve passengers and employees at the South Terminal in accordance with Tenant’s projections, any office building (excluding office space in the South Terminal for use by Tenant or its subtenants), any industrial park or manufacturing facility, any health club facility; any facility primarily used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises (excluding a “duty free” airport concession); and

(b) immediately cease and desist from any action, other than as permitted in Section 39.01(a) above, with respect to the use of the Airport, to the extent such action is described in a written notice delivered by Owner as an action that, pursuant to the written advice of Owner’s bond counsel or the Internal Revenue Service, may adversely affect the treatment of interest on any Bond as excludable from gross income for federal income tax purposes.

39.02 Certificate in Connection with Issuance of Bonds. Tenant agrees that in connection with any issuance of Bonds by Owner, upon not less than twenty (20) days’ prior written request by Owner, Tenant will deliver to Owner a statement in writing certifying:

(a) that this Lease is unmodified and in full force and effect (or if there have been modifications, a description of such modifications and that the Agreement as modified is in full force and effect);

(b) to Tenant's knowledge, that Owner is not in default under any provision of this Lease, or if in default, the nature thereof in reasonable detail; and

(c) such further matters as may be reasonably requested by Owner.

In each case, subject to Tenant's receipt of evidence reasonably satisfactory to it in respect of the truth and accuracy of such statements.

39.03 Tenant Tax Elections. Tenant hereby elects and makes an irrevocable election not to claim depreciation or investment tax credit for purposes of federal income taxation with respect to property financed in whole or in part with proceeds of Bonds (which such election binds Tenant and all successors in interest under any lease). Tenant represents, covenants and agrees that it will not sublease, assign or otherwise transfer the leasehold interest in the Premises unless as a condition to the effectiveness of the subletting, transfer or assignment in question the sublessee or assignee shall agree, in writing, with Tenant (which agreement shall be binding upon the sublessee or assignee and shall be for the joint benefit of Tenant and the issuer) that the sublessee or assignee, as applicable, shall not claim depreciation or an investment tax credit with such property for purposes of federal income taxation.

ARTICLE 40 ALTERNATIVE DISPUTE RESOLUTION

40.01 General. Should any dispute arise between the Parties to this Lease, (other than any dispute referred to in Section 35.02), then Owner and Tenant agree to negotiate prior to prosecuting a suit for damages. However, this Article 40 does not prohibit the filing of a lawsuit to toll the running of a statute of limitations or to seek injunctive relief. Either Party may make a written request for a meeting between representatives of each Party within ten (10) days after receipt of the request or such later period as agreed by the Parties. Each Party shall include, at a minimum, one (1) senior level individual with decision-making authority regarding the dispute. The purpose of such a meeting and any subsequent meeting with respect to such a dispute shall be to attempt in good faith to negotiate a resolution of the dispute. If, within twenty (20) days after such meeting, the Parties have not succeeded in negotiating a resolution of the dispute, the Parties will, upon written notice of one Party to the other Party, given within ten (10) days following the expiration of such twenty (20) day period (a "Request for Mediation"), proceed directly to non-binding mediation as described below.

40.02 Mediation. If the efforts to resolve such dispute through negotiation fail within the period set forth in Section 40.01, or Owner and Tenant each waive the negotiation process, the Parties may select, within twenty (20) days after the date of the Request for Mediation or mutual waiver of negotiation, as applicable, a mediator trained in mediation skills to assist with resolution of the dispute. The Parties agree to act in good

faith in the selection of the mediator and to give consideration to qualified individuals nominated to act as mediator. Nothing in this Lease prevents the Parties from relying on the skills of a person who is trained in the subject matter of the dispute or a contract interpretation expert. If the Parties fail to agree on a mediator within twenty (20) days of initiation of the mediation process, the mediator shall be selected by the Travis County Dispute Resolution Center. The mediation shall take place in Austin, Texas. The Parties agree to participate in mediation in good faith for up to thirty (30) days from the date of the first mediation session. The Parties shall share the costs of the mediator equally. In the absence of a separate written agreement of the Parties to the contrary, the results of this mediation shall not be binding on either of the Parties.

ARTICLE 41 MISCELLANEOUS

41.01 Gratuities. The offering or giving of gratuities in the form of entertainment, gifts or otherwise by Tenant or any agent or representative of Tenant to any official or employee of Owner with a view toward securing favorable treatment with respect to the performance of this Lease is a material breach of this Lease, for which Owner may immediately terminate this Lease upon written notice, in the absence of remedial action reasonably satisfactory to Owner, in its sole discretion.

41.02 Modification and Non-Waiver. No variations, modifications or changes to this Lease shall be binding unless in writing and executed by both Parties. No waiver by either Party of any breach or default of any term, condition or provision hereof, including the acceptance by Owner of any Rent or Tenant of Rental Car Revenue Share, at any time or in any manner other than as herein provided, shall be deemed a waiver of any other or subsequent breaches or defaults of any kind under any circumstance. No waiver of any breach or default of any term, condition or provision hereof shall be implied from any action of any Party, and any such waiver, to be effective, shall be set out in a written instrument signed by the waiving Party.

41.03 Governing Law. This Lease shall be construed and enforced in accordance with the laws of the State of Texas, without regard to any conflicts-of-law principle that would apply the law of another jurisdiction. Venue for any action arising out of or concerning this Lease shall be proper and lie exclusively in the Austin Division of the United States District Court for the Western District of Texas.

41.04 Severability. If any provision of this Lease or the application thereof to any or entity or circumstance shall, at any time or to any extent, be invalid or unenforceable, and the basis of the bargain between the Parties hereto is not destroyed or rendered ineffective thereby, the remainder of this Lease, or the application of such provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby.

41.05 Relation of Parties. It is the intention of Owner and Tenant to hereby create the relationship of landlord and tenant and no other relationship is created. Nothing

in this Lease is intended or shall be construed to make Owner and Tenant partners or joint venturers or to render either Party hereto liable for any obligation of the other.

41.06 Recordation. Owner and Tenant will, at the request of the other, promptly execute a memorandum of lease in recordable form, which may be filed for record in the Office of the County Clerk of Travis County, Texas. This Lease itself shall not be filed of record unless required by Applicable Law.

41.07 Successors and Assigns. This Lease shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns. Whenever a reference is made herein to either Party, such reference shall include the Party's successors and permitted assigns.

41.08 Survival. Any terms and provisions of this Lease pertaining to rights, duties or liabilities extending beyond the expiration or termination of this Lease shall survive the end of the Term.

41.09 No Commissions. Owner and Tenant represent and warrant to one another that there are no broker's, finder's or similar fees payable in connection with this Lease transaction.

41.10 Time of the Essence. Time is of the essence in this Lease and in each and all of the provisions hereof.

41.11 Reservation of Immunities. To the extent permitted by Applicable Law, Owner waives its rights to assert sovereign or governmental immunity from suit or liability for contract claims asserted by Tenant seeking only the remedies set forth in Section 29.02 of this Lease. Except as provided in the preceding sentence, Owner does not waive, and expressly reserves, all immunities existing under Applicable Law available to Owner as a Texas home-rule municipal corporation. It is expressly agreed and understood that the foregoing waiver is a limited and not a general waiver, and that its effect is limited to specific contract claims under this Lease.

41.12 Special Damages. Each Party hereby waives all rights to recover consequential, incidental, exemplary or punitive damages from the other Party, including under Article 23 hereof.

41.13 Avoidance of Obligations. Each Party covenants and agrees that it shall not take any action or omit to take any action the primary purpose of which is to avoid honoring any of its commitments and obligations under this Lease.

41.14 No Exclusive Rights. Except for the specific rights provided for in Article 15, no provision of this Lease is intended or shall be construed as the grant of an exclusive right by Owner for the design, construction, or operation of a terminal at the Airport, other than the South Terminal.

41.15 Capacity of Owner. Owner is executing this Lease solely in its capacity as the owner of the Premises and not in its capacity as a regulatory body, and Owner does not

waive any obligation of Tenant to comply with any law or regulation of Owner, provided that this Section 41.15 does not modify, in any respect, Owner's obligations and Tenant's rights under Section 41.13.

41.16 Counterparts. This Lease may be executed in any number of counterparts and by different Parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same instrument. The Parties shall accept executed counterparts delivered by facsimile transmission or electronic mail as of equal effect as original signatures. Each Party shall deliver its signed original counterpart to the other Party within three (3) business days.

41.17 Entire Agreement.

(a) This Lease, together with its exhibits and attachments, contains the entire understanding and agreement between the Parties hereto with respect to the subject matter of this Lease. It is the intent of the both Parties that all provisions be construed in a manner that is fair to both Parties; interpreting no provision more strictly against one Party than the other. It is further understood and agreed that neither Party has made any representations or promises with respect to this Lease, except as expressly set forth herein, and that no claim or liability or cause for termination shall be asserted by either Party against the other Party, and a Party shall not be liable to the other Party by reason of the breach of any representations or promises not expressly stated in this Lease. Owner and Tenant are the only parties to this Lease and as such are the only parties to enforce its terms. Nothing in this Lease gives, or shall be construed to give or provide, any benefit, direct or indirect, to third parties unless a third party is expressly described as an intended beneficiary of its terms. The Parties hereto acknowledge that they have thoroughly read this Lease, including any exhibits hereto, and have sought and received whatever advice needed for them to form a full and complete understanding of all rights and obligations herein. If any provision of an exhibit conflicts with a provision of the Lease, the provision in the Lease shall control.

(b) The exhibits to this Lease are as follows:

- Exhibit A** Premises
- Exhibit B** Tenant's Rehabilitation Responsibilities
- Exhibit C** Design Review Procedures
- Exhibit D** Airport Shared Telephone System Terms of Usage
- Exhibit E** Insurance Requirements
- Exhibit F** MWBE Goals
- Exhibit G** Airport's Operator's Wireless Policy
- Exhibit H** Owner's Tenant Radio Installation Guidelines

Exhibit I Environmental Questionnaire

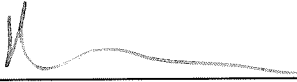
Exhibit J Baseline Site Assessment

Exhibit K Airport Layout Plan

IN WITNESS WHEREOF, Owner and Tenant have executed this Lease through their duly authorized representatives to be effective as of March 24, 2016.

OWNER:

CITY OF AUSTIN



By: _____

Approved as to form

Name: _____

Assistant City Attorney

Title: Executive Director of Aviation

TENANT:

HIGHSTAR CAPITAL IV, L.P.

By: _____

Name: _____

Title: Authorized Signatory

By: _____

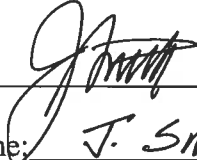
Name: _____

Title: Authorized Signatory

IN WITNESS WHEREOF, Owner and Tenant have executed this Lease through their duly authorized representatives to be effective as of March 24, 2016.

OWNER:

CITY OF AUSTIN

By:  _____

Approved as to form

Name: J. SMITH

Assistant City Attorney

Title: Executive Director of Aviation

TENANT:

HIGHSTAR CAPITAL IV, L.P.

By: _____

Name: _____

Title: Authorized Signatory

By: _____

Name: _____

Title: Authorized Signatory

IN WITNESS WHEREOF, Owner and Tenant have executed this Lease through their duly authorized representatives to be effective as of March 24, 2016.

OWNER:

CITY OF AUSTIN

By: _____

Approved as to form

Name: _____

Assistant City Attorney

Title: Executive Director of Aviation

TENANT:

HIGHSTAR CAPITAL IV, L.P.

By:  _____

Name: BRANT TAGGART

Title: Authorized Signatory

By:  _____

Name: EMMETT MCCLANN

Title: Authorized Signatory

EXHIBIT A
Premises

EXHIBIT B

Tenant's Rehabilitation Responsibilities

EXHIBIT C
Design Review Procedures

EXHIBIT D

Airport Shared Telephone System Terms of Usage

EXHIBIT E

Lease – Insurance Requirements

EXHIBIT F
MWBE Goals

EXHIBIT G

Airport's Operator's Wireless Policy

EXHIBIT H

Owner's Tenant Radio Installation Guidelines

EXHIBIT I
Environmental Questionnaire

EXHIBIT J
Baseline Site Assessment

EXHIBIT K
Airport Layout Plan

ASSIGNMENT AND ASSUMPTION AGREEMENT

This Assignment and Assumption Agreement (this “Agreement”) is made by and between Highstar Capital IV LP, a Delaware limited partnership (“Assignor”) and Lonestar Airport Holdings, LLC, a Delaware limited liability company (“Assignee”) on this 24th day of March, 2016.

RECITALS

- A. Reference is made to that certain South Terminal Lease and Concession Agreement dated as of March 24, 2016 (the “Lease”), by and between Assignor and City of Austin, a Texas home rule city and municipal corporation (“Owner”). Except as otherwise set forth herein, capitalized terms shall have the same meaning set forth in the Lease.
- B. Pursuant to Section 35.01 of the Lease, prior to the issuance of the Notice to Proceed, Assignor may assign the Lease to an Affiliate and be relieved of all obligations of Tenant included under the Lease, and transferee shall thereafter become the Tenant, provided that such Affiliate agrees in writing to be bound by the provisions of the Lease.
- C. Assignee is an Affiliate of Assignor.
- D. Effective immediately following the execution and delivery of the Lease by Assignor and Owner, Assignor desires to assign, and Assignee desires to accept the assignment of, the Lease to Assignee and to effect the substitution of Assignee as “Tenant” for all purposes under the Lease.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor and Assignee hereby agree as follows:


- 1. Assignor’s Assignment of Rights and Obligations as Tenant.** Assignor does hereby grant, transfer, convey, assign and deliver over to Assignee all of Assignor’s rights, title, obligations, liabilities and interest in, to and under the Lease.
- 2. Assignee’s Assumption of Rights and Obligations as Tenant.** Assignee does hereby accept and assume all of Assignor’s rights, title, obligations, liabilities and interest in, to and under the Lease, and acknowledges that, from and after the date hereof, it shall be deemed “Tenant” for all purposes of the Lease.
- 3. Release.** Assignor is hereby released from all rights, title, obligations, liabilities and interest in, to and under the Lease.


- 4. Indemnification.** Assignee shall, without limitation as to time, indemnify and hold harmless Assignor, its officers, employees, representatives and partners, from any action, suit or proceeding that may be brought or instituted on account of the Lease.
- 5. Successors and Assigns.** The terms, covenants and conditions contained herein shall inure to the benefit of, and bind, the parties hereto and their successors and assigns.
- 6. Counterparts.** This Assignment may be executed in any number of counterparts and by different parties in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of such counterparts taken together shall constitute but one and the same instrument.
- 7. Governing Law.** This Agreement shall be governed in all respects, including validity, interpretation and effect, by the internal Laws of the Texas without giving effect to any choice or conflict of law provision or rule (whether of the State of Texas or any other jurisdiction) that would cause the application of the Laws of any jurisdiction other than the State of Texas.

[Signatures begin on the following page]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement on the date first written above.

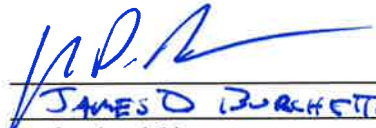
HIGHSTAR CAPITAL IV LP

By: 
Name: BRENT TASUGI
Title: Authorized Signatory

By: 
Name: EMMETT MCCANN
Title: Authorized Signatory

**LONESTAR AIRPORT HOLDINGS,
LLC**

By: 
Name: BRENT TASUGI
Title: Authorized Signatory

By: 
Name: JAMES D BURCHETTA
Title: Authorized Signatory

CONSENT:

The City of Austin, a home-rule municipal corporation located in Hays, Travis, and Williamson Counties, Texas, acting by and through its duly authorized agent, the City Manager or designee, who for purposes of this consent is the Director, Aviation Department, City of Austin, joins in the execution of this Assignment and Assumption Agreement for the sole purpose of expressing its consent to the assignment of the Lease to Assignee and assumption of the Lease by Assignee.

CITY OF AUSTIN


By: 
Name: J. SMITH
Title: EXECUTIVE DIRECTOR

EXHIBIT B



City of Austin

Aviation Department

Austin-Bergstrom International Airport

3600 Presidential Blvd., Ste. 411, Austin, Texas 78719

512/530-2242 Fax: 512/530-7686

November 7, 2019

Mr. James Burchetta

(*email/*JBurchetta@oaktreecapital.com)

Highstar Capital IV, L.P.

277 Park Avenue, 45th Floor

New York, New York 10172

Re: South Terminal Lease and Concession Agreement at Austin-Bergstrom
International Airport (South Terminal Lease)

Dear Mr. Burchetta:

Please accept this letter as written notice from the City of Austin (City) of its desire to acquire the South Terminal leasehold interest. In acquiring the leasehold interest for aviation purposes, the City, acting through its Departments of Aviation and Real Estate Services, disclose by this letter the initial procedure for appraising the leasehold interest and for handling personal negotiations with Highstar Capital IV, L.P. (Highstar) and Lonestar Airport Holdings, LLC (Lonestar).

We believe at this stage of the purchase process it is mutually beneficial to confirm that based on the valuation determined pursuant to Article 25 of the South Terminal Lease and costs the City will incur to repair the South Terminal facility, \$10 million dollars is appropriate compensation to purchase said interest. In the event the condition of the property changes for any reason, the City shall have the right to withdraw this valuation.

At this time, the City is not inclined to approve any expansion of the South Terminal facility. Accordingly, the City wishes to acquire the leasehold interest of the South Terminal facility to regain local control of the facility and maximize the use of it throughout the development of the 2040 Airport Master Plan as well as improve customer service for all passengers traveling through the South Terminal and Barbara Jordan Terminal.

If you wish to accept this bona fide valuation, please contact Susana Carbajal at susana.carbajal@austintexas.gov as soon as possible so the next steps may be started in the purchasing process. If no response is received by Wednesday, November 13, the City will take alternative action as necessary. The City reserves all of its rights under the South Terminal Lease, all applicable law, and equity.

Sincerely,



Jacqueline Yaft
Executive Director
Department of Aviation
City of Austin

Cc: Jeff Pearse (jpearse@austinsouthterminal.com)
Chief Executive Officer
Lonestar Airport Holdings, LLC

EXHIBIT C



City of Austin

Aviation Department

Austin-Bergstrom International Airport

3600 Presidential Blvd., Ste. 411, Austin, Texas 78719

512/530-2242 Fax: 512/530-7686

January 27, 2020

Mr. James Burchetta
Highstar Capital IV, L.P.
277 Park Avenue, 45th Floor
New York, New York 10172
Via email at JBurchetta@oaktreecapital.com

Re: South Terminal Lease and Concession Agreement at Austin-Bergstrom International Airport (South Terminal Lease)

Dear Mr. Burchetta,


I am following up on our discussion from our December 2, 2019 meeting regarding the City of Austin's continued desire to acquire the South Terminal leasehold interest for aviation purposes. Your stated focus and commitment to continuing a dialogue on this matter is appreciated.

Since we last spoke, the City, acting through its Department of Aviation and Real Estate Services, has further reviewed your written responses dated November 13, 2019 and December 20, 2019, as well as your stated concerns at the December 2, 2019 meeting, and the City maintains its interest in acquiring the South Terminal leasehold interest in order to regain local control of the facility and implement the 2040 Airport Master Plan.

With that said, I propose another meeting to discuss potential modifications to the South Terminal Lease. Further dialogue, resulting in amendments to the South Terminal Lease, may allow the City to proceed, unencumbered, with the 2040 Airport Master Plan, while still allowing Highstar Capital to retain much of its interest in the South Terminal Lease.

I look forward to our meeting scheduled on February 11, 2020 at 9:00 am to further discuss.

Sincerely,


Jacqueline Yaft
Executive Director

Cc: Jeff Pearce, Chief Executive Officer
Lonestar Airport Holdings, LLC
Via email at JPearce@austinsouthterminal.com

EXHIBIT D



City of Austin

Aviation Department
Austin-Bergstrom International Airport
3600 Presidential Blvd., Ste. 411, Austin, Texas 78719
512/530-2242 Fax: 512/530-7686

February 14, 2020

Mr. James Burchetta
Highstar Capital IV, L.P.
277 Park Avenue, 45th Floor
New York, New York 10172

(Via email/jburchetta@oaktreecapital.com)

Re: South Terminal Lease and Concession Agreement at Austin-Bergstrom
International Airport (Airport)

Dear Mr. Burchetta,

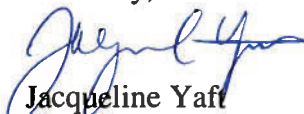
Our meeting and continued dialogue on February 11, 2020 were very productive and much appreciated. I was encouraged by your acknowledgement that Article 15 of the lease is limited to a "right to negotiate" future expansion of the South Terminal for Low Cost Carriers. It is based on this acknowledgement that I am agreeing to hold a follow-up meeting to further review and discuss your South Terminal 2.0 expansion proposal.

As I believe we all agreed, a follow-up meeting will be scheduled for the week of February 24th. The purpose of said meeting will be to allow Highstar Capital to provide details of the business case for the South Terminal 2.0 expansion. The business case should include revenue and expense projections based on enplanements and capital expenditures.

Ultimately, the business case should outline all of the benefits and proposed obligations, to both the Airport and the City of Austin (City), should we agree to your proposal. It would be helpful to additionally include a comparison to the existing structure, costs, revenues and obligations. As I stated at the meeting, please present your best proposal clearly articulating why a South Terminal 2.0 is in the best interest of the City and the Airport.

I look forward to our next meeting and our continued discussions.

Sincerely,


Jacqueline Yaff
Executive Director

Cc: Jeff Pearce
Chief Executive Officer
Lonestar Airport Holdings, LLC

(via email/jpearce@austinsouthterminal.com)

EXHIBIT E

Highstar Capital IV, L.P.
1301 Avenue of the Americas, 34th Floor
New York, New York 10019

February 14, 2020

Jacqueline Yaft
Executive Director
City of Austin
Aviation Department
3601 Presidential Boulevard
Austin, Texas 78719

Re: South Terminal Lease and Concession Agreement (the "Lease")

Dear Ms. Yaft,

Thank you for your letter of today, February 14, 2020. We also appreciated the constructive dialogue in our meeting on Tuesday, February 11, 2020 (the "Meeting") about the potential future development of the South Terminal 2.0 project and Highstar's and LoneStar's rights as set forth in Article 15 of the Lease.

We feel it is imperative to make a clarification about the Meeting and the rights set forth in Article 15 of the Lease in response to your letter. At no time in the Meeting did Highstar or LoneStar make any admission or agreement about the current scope of Article 15. Thus, your statement that Highstar and LoneStar gave an "acknowledgement that Article 15 of the lease is limited to a 'right to negotiate' further expansion of the South Terminal for Low Cost carriers" is inaccurate and does not capture what we said at the Meeting.

What we said at the Meeting – and hereby reiterate – is as follows: if LoneStar and the City of Austin are able to reach agreement in the near term regarding further development of the South Terminal 2.0 and sign binding documentation to that effect, we are willing to consider including in such binding documentation an amended Article 15 that includes such changes or limitations to the scope of Highstar's and LoneStar's rights as we mutually agree at that time, including with respect to expansion outside of the South Terminal.

To that end, you agreed in the meeting that you will be sending a proposal regarding a potential revised Article 15, and that we will be sending, as you note, a proposal for the business case for the South Terminal 2.0 expansion.

Accordingly, we continue to reserve all rights and remedies under the current lease and make no concessions that may limit these rights in the absence of binding documentation amending the current Lease.

Best Regards,



James D. Burchetta

Cc: Jeffrey Pearse, CEO, LoneStar Airport Holdings, LLC

EXHIBIT F



City of Austin

Aviation Department
Austin-Bergstrom International Airport
3600 Presidential Blvd., Ste. 411, Austin, Texas 78719
512/530-2242 Fax: 512/530-7686

March 3, 2020

Mr. James D. Burchetta
Highstar Capital IV, L.P.
1301 Avenue of the Americas, 34th Floor
New York, New York 10019
Via email at JBurchetta@oaktreecapital.com

Re: South Terminal Lease and Concession Agreement at Austin-Bergstrom International Airport (South Terminal Lease)

Dear Mr. Burchetta,

As a follow-up to our meeting on February 27, 2020, I would like to reiterate Austin-Bergstrom International Airport's (AUS) position relative to its future airport expansion plans and the impacts of those plans on the existing South Terminal.

As we discussed, it has been determined that the most operationally efficient and cost effective alignment of the future midfield taxiways will require the removal of the South Terminal within approximately the next 24 months. The taxiway alignment was shown to you at our last meeting and your entire team recognized that this alignment is in the best interest of the public and the most prudent course of action for AUS.

The new alignment of the taxiways reinforces the advantages of constructing a new cost-efficient facility for all AUS carriers on the existing airfield in the very near future. Locating this new facility on the existing airfield will provide additional gate capacity for all AUS carriers, including those currently operating at the South Terminal, during the airport expansion plan implementation, including construction of the new concourse to the Barbara Jordan Terminal. Accordingly, AUS believes it is in the best interest of the City of Austin (City), the airport, the public, and the airlines to pursue a more operationally and cost-efficient facility for all AUS carriers to operate.

Due to the critical timing for construction of the new midfield taxiways, the South Terminal will need to be removed within 24 months. Ideally, Lonestar Airport Holdings, LLC (Lonestar) would continue to operate the existing South Terminal facility under the terms of the South Terminal Lease until such time as operations can be relocated to the new cost-efficient facility. Additionally, AUS is willing to consider Lonestar's interest, if any, to construct and/or operate that new cost-efficient facility.

As we discussed, timing is of the essence. As we have stressed in our meetings with Lonestar, the South Terminal Lease gives Lonestar the right to negotiate with the City concerning the South Terminal, but does not confer any right of first refusal on Lonestar in any manner at AUS. We are offering Lonestar the opportunity to negotiate with us. Accordingly, AUS expects a response from Lonestar within 7 days from the date of this letter indicating whether Lonestar is interested in pursuing this opportunity. If Lonestar indicates that it is interested in pursuing the development of a new cost-efficient facility at AUS and if in the best interest of AUS and the City, given the extremely tight timeline on which AUS is operating, Lonestar and the City will have another 60 days to negotiate the terms under which Lonestar would construct and/or operate the new cost-efficient facility.

The foregoing notwithstanding, the City reserves all of its rights under law and the South Terminal Lease to ensure AUS is able to timely pursue its strategic airport expansion plans.

We look forward to receiving your response and continuing our dialogue.

Sincerely,



Jacqueline Yaft
Executive Director

Cc: Jeffrey Pearse
Chief Executive Officer
LoneStar Airport Holdings, LLC
Via email at JPearse@austinsouthterminal.com

EXHIBIT G

Highstar Capital IV, L.P.
1301 Avenue of the Americas, 34th Floor
New York, New York 10019

March 6, 2020

Jacqueline Yaft
Executive Director
City of Austin
Aviation Department
Austin-Bergstrom International Airport
3600 Presidential Blvd, Ste. 411
Austin, Texas 78719
Via email at Jacqueline.Yaft@austintexas.gov

Re: South Terminal Lease and Concession Agreement at Austin-Bergstrom International Airport (the "Airport") dated March 24, 2016 between the City of Austin (the "City") and Highstar Capital IV, L.P. ("Highstar") (the "Lease")

Dear Ms. Yaft:

As we discussed on February 27, 2020, LoneStar Airport Holdings, LLC remains committed to assisting the City of Austin and the Department of Aviation in creating the necessary airport infrastructure and terminal capacity that the community and region so desperately need now and in the future. We are encouraged by both the sense of partnership and urgency you expressed in your letter of March 3, and at our last meeting on February 27, 2020.

As you know, we have been collaborating with the City's Aviation Department for more than 18 months and have been prepared to move quickly to develop a new cost-efficient facility at no cost and no risk to the City of Austin. Such a facility would deliver much needed terminal capacity at ABIA without degrading the level of safety, service, or security at the Barbara Jordan Terminal. A purpose-built and cost-efficient facility would also allow those airlines that provide Austin's residents and visitors with low cost airfare to flourish in the Austin market and position the City of Austin to reduce the amount of time and the substantial cost of expanding the Barbara Jordan Terminal.

To answer your specific request, we are absolutely interested in pursuing the opportunity to provide additional terminal capacity in the form of a new cost-efficient facility at ABIA. I am confident we can collectively create and deliver a new cost-efficient terminal that will bring substantial benefits to the air carriers and passengers that rely on ABIA.

We are anxious to begin working with you and your team. That said, please understand that LoneStar does not at this time accept the premise that the South Terminal can and should be "removed" within 24 months (by condemnation or otherwise), and LoneStar has not at this time formed any view on your premise that the taxiway alignment shown at the last meeting is in the best interest of the public. We also want to reiterate our disagreement with your statement that negotiation is the only right afforded us under our current Lease. Nonetheless, we remain committed to working with you and the City of Austin on all these issues in good faith and with respect.

There remains much for us to do to better understand the new cost-efficient facility proposal your team presented last week, as well as the options around the development of a new facility. Given the timeline you have proposed in your letter for negotiating the terms of the development of the new cost-efficient facility- which we are prepared and able to meet - may I propose a day-long planning and coordination summit, no later than next week, so that the subject matter experts from both teams can review and discuss all operational and financial elements associated with the prospective development.

We continue to reserve all rights and remedies under the current Lease and make no concessions that may limit these rights in the absence of binding documentation amending the current Lease.

Sincerely,

A handwritten signature in black ink, appearing to read 'JB', with a long horizontal flourish extending to the right.

James D. Burchetta

Cc: Jeffrey Pearse, CEO, LoneStar Airport Holdings, LLC

EXHIBIT H



City of Austin

Aviation Department

Austin-Bergstrom International Airport

3600 Presidential Blvd., Ste. 411, Austin, Texas 78719
512/530-2242 Fax: 512/530-7686

July 13, 2021

Via UPS No. IZ 814 EY9 NP 3364 4406

Highstar Capital IV, L.P.

Attention: Scott D. Litman, General Counsel

277 Park Avenue, 45th Floor

New York, New York 10172

Oaktree Capital Management, L.P.

Attention: Todd E. Molz, General Counsel

277 Park Avenue, 45th Floor

New York, New York 10172

Re: South Terminal Lease and Concession Agreement at Austin-Bergstrom International Airport ("AUS") dated March 24, 2016 between the City of Austin (the "City") and LoneStar Airport Holdings, LLC ("LoneStar") (the "Lease")

Dear Messrs. Litman and Molz:

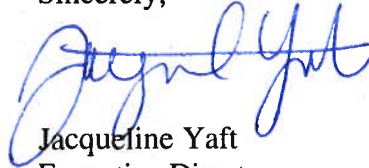
I am writing on behalf of the City and AUS regarding the Airport Expansion Development Program (the "AEDP"), the South Terminal and the Lease. In 2019 and 2020, prior to the COVID-19 health crisis, I notified you under Article 15 of the Lease that AUS was interested in purchasing LoneStar's leasehold interests under the Lease and that the South Terminal would need to be removed within a two-year time period. Consistent with and after further consideration of our discussions last year, AUS has confirmed, based on the advice of independent consultants, that the growth of operations of existing and/or future air carriers at AUS requires New Facilities, as that term is defined in the Lease, including the expansion of the Barbara Jordan Terminal and a New Midfield Concourse B. Additionally, AUS has confirmed that these New Facilities will necessitate the construction of New Midfield Taxiways H and J and the related Airfield Improvements, which in turn will require the removal of the South Terminal within approximately the next two years.

As we have previously discussed, the City and AUS maintain their interest in acquiring the South Terminal leasehold interest in order to implement the AEDP. Therefore, we invite LoneStar to negotiate an appropriate purchase price for that interest. The parties should also discuss a reasonable process that addresses the winding down of the South Terminal and the transition of the air carriers, vendors, and concessionaires at the South Terminal, including their employees, to the New Facilities. Time is of the essence. So, please contact me within the next ten (10) days to discuss the scheduling of a meeting to begin to negotiate a mutually agreeable purchase price. If

LoneStar fails to respond timely, we will assume LoneStar has no intention to sell its South Terminal leasehold interest voluntarily to the City. In that event, the City will pursue all other available legal remedies, including condemnation proceedings as contemplated by Article 34 of the Lease.

The City reserves all of its rights under the Lease and as otherwise provided by law or equity to ensure AUS is able to timely pursue and implement the AEDP. We look forward to receiving your response and continuing our dialogue.

Sincerely,



Jacqueline Yaft
Executive Director

cc: Jeff Pearse
Chief Executive Officer
LoneStar Airport Holdings, LLC

Via Email: jpearse@austinsouthterminal.com

James Burchetta
Managing Director
Transportation Infrastructure Investing
Oaktree Capital Management, L.P.

Via Email: JBurchetta@oaktrecapital.com

EXHIBIT I



July 28, 2021

VIA OVERNIGHT COURIER AND EMAIL

Jacqueline Yaft
Executive Director
Department of Aviation
Austin-Bergstrom International Airport
3600 Presidential Boulevard, Suite 411
Austin, Texas 78719

Re: South Terminal Lease and Concession Agreement by and between the City of Austin and Highstar Capital IV, L.P. dated as of March 24, 2016, as amended by the Assignment and Assumption Agreement between Highstar Capital IV LP and Lonestar Airport Holdings, LLC (“Lonestar”)¹ and consented to by the City of Austin dated as of March 24, 2016 (the “Concession”)

Dear Ms. Yaft:

Thank you for your letter dated July 13, 2021 regarding the City’s current planning and intentions regarding growth and expansion at Austin-Bergstrom International Airport (“AUS”). Your letter notifies us that the City and the Department of Aviation have determined that the growth of operations at AUS requires New Facilities, as that term is defined in the Concession.

As we have discussed with you on several occasions over the last two years in connection with various options the City has considered regarding future operations at AUS, Lonestar is committed to assisting the City of Austin and Department of Aviation in meeting the needs of the Austin community. In light of your official notification regarding the City’s determination under Article 15 regarding a New Facility, we write to confirm again that Lonestar is interested in investing in and exercising its rights under Article 15 of the Concession to develop, construct, and/or operate any such New Facility. We are prepared to make a significant financial investment in exercising these rights and have reserved significant capital to make this investment. Lonestar looks forward to continuing to work in good faith with the City to enter into an agreement regarding such New Facility on mutually agreeable terms.

We note that your letter references the removal of the South Terminal as part of the construction of New Facilities. We believe that work remains to be done to evaluate the potential options around a New Facility and/or Expansion to determine the best interest of the public moving forward, so

¹ Pursuant to Section 37.02 of the Concession, we request that official notices regarding the Concession going forward be directed to Lonestar Airport Holdings, LLC, Attention: Jeff Pearse, The South Terminal at Lonestar Airport Holdings, LLC, 10000 Logistics Lane, Austin, Texas 78719, telephone 917-574-8475.



our notification of Lonestar's interest in investing in such New Facility pursuant to Article 15 does not obviate our position that there are several alternatives that can fully address the growth of operations at AUS. While it is imperative for a New Facility to deliver the much-needed terminal capacity at AUS, it is equally important to allow the airlines that provide Austin's residents and visitors with low-cost airfare to continue to flourish. We are prepared and well-positioned to aid the City of Austin in meeting these goals while reducing the amount of time and the substantial cost associated with a New Facility.

Finally, with respect to your statement that the City is interested in acquiring Lonestar's South Terminal leasehold interest and your reference to condemnation proceedings, we disagree that anything in Article 15, Article 34, or elsewhere provides the City the right or ability to compel a purchase of Lonestar's rights under the Concession. We also disagree that acquiring Lonestar's rights under the Concession would be an appropriate or permissible exercise of eminent domain under Texas law. Please note that Lonestar continues to reserve all rights and remedies under the Concession and at law with respect to these issues.

We look forward to continuing the fruitful dialogue we started at the July 22 meeting with you and your team.

Sincerely,

A handwritten signature in cursive script that reads "Jeffrey Pearse". The signature is written in dark ink and is positioned above the typed name.

Jeff Pearse
Chief Executive Officer
Lonestar Airport Holdings, LLC

cc: James Burchetta

EXHIBIT J



Austin Charlotte Dallas Fort Worth Houston New York San Antonio The Woodlands

600 Travis Street
Suite 5200
Houston, TX 77002
713.650.8400 OFFICE
713.650.2400 FAX
winstead.com

Thomas J. Forestier
(713) 650-2749
forestier@winstead.com

March 29, 2022

Certified Mail/RRR 9314 7699 0430 0093 5119 47 and US Mail

Lonestar Airport Holdings, LLC
Attention: Jeff Pearse, Chief Executive Officer
10000 Logistics Lane
Austin, Texas 78719

Re: **INITIAL OFFER**
Project: AUS South Terminal

Dear Mr. Pearse:

I am writing on behalf of my client, the City of Austin ("City"), regarding its interest in acquiring the leasehold interest of LoneStar Airport Holdings, LLC in the South Terminal at AUS. Jacqueline Yaft, the AUS Executive Director, had previously corresponded with you about this topic by letter dated July 13, 2021. As referenced in Ms. Yaft's letter, the City, in connection with the Airport Expansion and Development Program at AUS, needs to acquire the "Tenant's Interest" as that term is defined in the South Terminal Lease and Concession Agreement ("Lease") between the City of Austin and Highstar Capital IV, L.P., a limited partnership formed and existing under the laws of the State of Delaware ("Initial Tenant"), on or about March 24, 2016 ("Lease"). The Initial Tenant assigned the Lease to LoneStar Airport Holdings, LLC, a Delaware Limited Liability Company, ("Tenant") by the Assignment and Assumption Agreement by and between Highstar Capital IV LP and LoneStar Airport Holdings, LLC dated March 24, 2016. The parties amended the Lease by Amendment No. One to the South Terminal Lease and Concession Agreement by and between the City of Austin and LoneStar Airport Holdings, LLC, effective July 1, 2019. A legal description and sketch of the "Premises", as that term is defined in the Lease, as amended, is enclosed as **Exhibit A**.

An independent appraisal firm, Allen, Williford & Seale, Inc. ("AWS"), has determined the Fair Market Value of Tenant's Interest. The value or total just compensation shown in the AWS appraisal report is \$1,954,000. A copy of that report is enclosed as Exhibit B.

This letter is a formal offer to purchase the entirety of Tenant's Interest for the total amount of \$1,954,000.00. This compensation does not include any value for damages to any remainder property, as there is no remainder property. The amount offered is considered to be the Fair Market Value of Tenant's Interest based

LoneStar Airport Holdings, LLC
March 29, 2022
Page 2

on AWS' valuation analysis as of the date of valuation set forth in AWS's appraisal report.

A Lease Termination Agreement offering the full-appraised value of the Tenant's Interest and a Right of Entry and Possession are also enclosed as **Exhibits C and D**, respectively, for your consideration. If the terms of the Lease Termination Agreement are acceptable, please sign the Lease Termination Agreement where indicated and return it to my attention within **30 days** from the date of your receipt of this letter. If the Tenant is willing to sign the Right of Entry and Possession, please return a signed copy of that document to me at your earliest convenience. Please understand that the City Council of the City of Austin must approve all contracts, and the amount of this offer can only be recommended for their approval.

You are hereby advised that the property being sought by the City is under the imminence of condemnation, as that term is used in the United States Internal Revenue Code. This statement is being included to retain certain tax benefits that you should discuss with your attorney or accountant.

You have the right to discuss with others any offer or agreement regarding the City's acquisition of the Tenant's Interest, or you may, but are not required to, keep the offer or agreement confidential from others, subject to the provisions of Chapter 552 of the Texas Government Code (the Public Records Act) as it applies to the City of Austin.

Enclosed as **Exhibit E** is a Notice of 10-Year Appraisal Search, which includes a flash drive with copies of all appraisal reports relating to the property interest being acquired, which were prepared in the ten years preceding the date of this offer and produced or acquired by the City, including the appraisal report on which this Initial Offer is based. **Exhibit F** is a copy of the Landowner's Bill of Rights, which contains additional information concerning eminent domain proceedings and was prepared by the Office of the Attorney General of the State of Texas.

As you are aware, the City and the Initial Tenant contemplated the City might eventually need to condemn Tenant's Interest by including a provision to this effect in the Lease. Specifically, Section 34.03 of the Lease states: "If the condemning authority is the City, Tenant shall be entitled to compensation for the Fair Market Value of Tenant's Interest so taken." This Initial Offer, which provides Tenant with the fair market value of Tenant's Interest as established by the AWS appraisal report, satisfies this provision in the Lease.

Finally, the City understands there are subtenants and other occupants at the South Terminal and considers them valuable partners of the City and AUS. The City will make every effort to relocate them at AUS. As you know, the City has retained an independent third-party relocation agent to assist the Tenant, subtenants and other occupants with their rights under the Uniform Relocation Act. You will receive more information about URA advisory services and benefits by separate correspondence.

Again, please inform me of your decision within **30 days** from the date of your receipt of this letter. Your cooperation in this matter is greatly appreciated. If you have any questions, please contact me at (713) 650-2749 or tforestier@winstead.com.

LoneStar Airport Holdings, LLC
March 29, 2022
Page 3

Sincerely,



Thomas J. Forestier
Counsel for the City of Austin

ENCLOSURES:

Exhibit A: Legal Description, Plat and Sketch of the Premises
Exhibit B: Appraisal Report of the Leasehold Property Interest to be Acquired in Connection with the City of Austin's Department of Aviation's Airport Expansion and Development Program (AEDP) at AUS dated March 16, 2022
Exhibit C: Lease Termination Agreement
Exhibit D: Right of Entry and Possession
Exhibit E: Notice of 10-Year Appraisal Search (including a flash drive with appraisal reports bates-labeled AUS ST 000001 – AUS ST 000506
Exhibit F: Landowner's Bill of Rights

cc: Lawrence A. Slovinsky (via Certified Mail/Return Receipt Requested)
King & Spalding LLP
1180 Peachtree Street, N.E.
Atlanta, GA 30309-3521

Christopher M. Clough (via Certified Mail/Return Receipt Requested)
Barron Adler Clough & Oddo, LLP
808 Nueces Street
Austin, TX 78701

EXHIBIT B

**APPRAISAL REPORT
OF THE LEASEHOLD PROPERTY INTEREST
TO BE ACQUIRED IN CONNECTION WITH THE
CITY OF AUSTIN'S DEPARTMENT OF AVIATION'S
AIRPORT EXPANSION AND DEVELOPMENT PROGRAM (AEDP)
AT
AUSTIN-BERGSTROM INTERNATIONAL AIRPORT (AUS)**

PREPARED FOR:

Thomas J. Forestier
Winstead PC
600 Travis Street, Suite 5200
Houston, Texas 77002

PREPARED BY:

Randy L. Seale, MAI
Allen, Williford & Seale, Inc.
11999 Katy Freeway, No. 400
Houston, Texas 77079

PROJECT NAME: AUS South Terminal
TENANT: LoneStar Airport Holdings, LLC

DATE OF VALUATION: March 1, 2022
DATE OF REPORT: March 16, 2022



AUS ST 000313



Allen, Williford & Seale, Inc.
Right of Way Valuations

March 16, 2022

Thomas J. Forestier
Winstead PC
600 Travis Street, Suite 5200
Houston, Texas 77002

Re: Appraisal of the Leasehold Interest in the South Terminal Property at ABIA as described in the Lease and Concession Agreement by and between City of Austin (Owner) and LoneStar Airport Holdings, LLC. (Tenant) out of 25.14 acres (1,095,149.31 SF) being situated in the Santiago Del Valle Ten League Grant Survey, Abstract No. 24, Travis County, Texas.

Address: The South Terminal at ABIA 10000 Logistics Lane, Austin, TX 78719

Mr. Forestier:

As requested, we have prepared the following Appraisal Report of the above referenced property interest. The purpose of this appraisal is to provide an opinion of the fair market value for the acquisition of the real property interest of the South Terminal Leasehold and the "unamortized cost" of the Trade Fixtures. The date of our most recent inspection of the subject property is November 11, 2021.

This is a letter of transmittal of our appraisal. The analyses and opinions set forth in this appraisal were performed in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (42 U.S.C. 4601 et seq.) (Uniform Act), FAA's Land Acquisition and Relocation Assistance for Airport Improvement Program (AIP) Assisted Projects (FAA Appraisal Requirements) and supplemental standards defined by the City of Austin Supplemental Appraisal Standards. The use of this report is restricted to that of our client. The appraisers are not responsible for unauthorized use of this report.

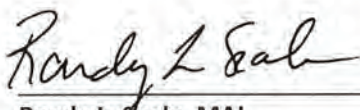
Based upon the data and analyses presented in the attached appraisal report, it is our opinion the just compensation for acquisition of the South Terminal Leasehold Acquisition, is as follows:

Leasehold	\$1,307,000
Trade Fixtures	<u>\$647,000</u>
Total Just Compensation:	\$ 1,954,000


Your attention is invited to the attached definitions, data, discussion, analysis, certification, and limiting conditions which are an integral part of this report.

Respectfully submitted,

ALLEN, WILLIFORD & SEALE, INC.



 Randy L. Seale, MAI
 Certified General Real Estate Appraiser
 Certificate No. TX-1320302-G



 Stephen D. Kovar, MAI
 Certified General Real Estate Appraiser
 Certificate No. TX-1338762-G

TABLE OF CONTENTS

Cover Page.....1
Letter of Transmittal.....2
Table of Contents3
Executive Summary of Salient Facts and Conclusions.....4
Scope of the Appraisal.....5
Aerials and Subject Photographs.....11
Area Analysis and Neighborhood Analysis17
Statement of Ownership, Property History, and Property Tax Information20
Leasehold Site Data21
Leasehold Improvement Data23
Highest and Best Use.....26
Valuation Discussion.....27
Income Approach28
Cost Approach43
Reconciliation of Value44
Summary of Just Compensation.....44
Certification45
Assumptions and Limiting Conditions47

Addenda

- South Terminal Initial and Amendment Leases
- Tax Records
- Present Value Tables for Income Approach
- Comparable Land Sales and Map
- Comparable Rentals and Map
- Qualifications

Allen, Williford & Seale, Inc.

EXECUTIVE SUMMARY OF SALIENT FACTS AND CONCLUSIONS	
Property Address	10000 Logistics Lane, Austin, TX 78719
Property Location	The South Terminal at ABIA
Current Property Use	Aviation Terminal and Parking
Building Characteristics	Airport Passenger Terminal
Highest and Best Use - Before	International Airport
Highest and Best Use - After	International Airport
Property Rights Appraised	Leasehold Interest
Land Area	Total: 25.14 Acres (1,095,149 SF) Initial Lease: 22.66 Acres (987,129 SF) Amendment: 2.48 Acres (108,020 SF)
Effective Date of Value	March 1, 2022
Date of Report	March 16, 2022
Leasehold Values	Total: \$1,307,000-Rounded Initial Lease: \$1,142,212 Amendment: \$164,317
Trade Fixture Value	\$647,000
Just Compensation for Acquisition of the South Terminal Leasehold	
Total Just Compensation	\$1,954,000

SCOPE OF THE APPRAISAL

The scope of this assignment is to form an opinion of total compensation as a result of the South Terminal Leasehold Acquisition by the City of Austin. The appropriate scope of work was applied to the appraisal problem with adherence to the FAA Appraisal Requirements. The problem to be solved is identified in the following pages of this appraisal report. The following steps were implemented to determine and perform the Scope of Work necessary to develop a credible assignment result:

1. The purpose and or function of the appraisal are to estimate the compensation for the Fair Market Value of the Tenant's Interest to be acquired subject to the South Terminal Lease and Concession Agreement and Amendment (Lease). The Lease is an integral part of the Scope of the Appraisal. The articles, definitions and lease term help to form the basis of the opinion of value. The License Agreement between the City of Austin and LoneStar Airport Holdings, LLC is not in the scope of this appraisal.
2. The size and shape of the subject property are based on the Lease (22.66 acres or 987,129.31 SF) and Amendment No. 1 of the Lease (Amendment) (additional 108,020 SF). The size of the land under the leasehold is 1,095,149 Square Feet or 25.14 acres (1,095,149.31 SF = 987,129.31 SF + 108,020 SF). The leasehold property has various structures and site improvements. Additional information regarding the subject property was also obtained from other sources, including aerial photographs, surveys, "As Built" plans and documents. Excerpts from this report can be found in the Addenda. The subject property is legally defined in the Site Data Section of this report. Accordingly, this appraisal is based on the assumption that the information provided by the client and obtained by the appraiser regarding the subject property is correct. We reserve the right to amend our analyses and conclusions if additional or updated information is provided at a later date.
3. The appraiser provided an opportunity for the tenant to accompany the inspection of the property. The subject property was physically inspected by the appraiser along with the tenant's representative and tenant's counsel. Photographs of the subject property were taken at the time of inspection. Aerial photographs were utilized in the inspection of the subject property.
4. We have researched comparable lease data through aviation real estate related lessors. All information has been verified with sources deemed reliable.
5. There are three approaches by which the value of real estate may be estimated: the Sales Comparison, Cost, and Income Capitalization Approaches. Appendix A, 49 CFR § 24.103(a) (2)(ii) states "All relevant and reliable approaches to value consistent with established Federal and federally-assisted program appraisal practices. If the appraiser uses more than one approach, there shall be an analysis and reconciliation of approaches to value used that is sufficient to support the appraiser's opinion of value." The acquisition in this appraisal consists of a leasehold estate. This is only a partial interest in the property as the City of Austin already owns the fee interest. The value of the leasehold is based on the difference in the contract rent paid by the tenant and economic rent or market rent of the remaining lease term. Market rent was determined from comparable rentals and a capitalization approach to the land value. The rental amounts will be determined annually on a per square foot basis, payable in monthly installments. The differences will be calculated to a present value. The measure of rent or income would dictate that the Income Approach to value would be the most credible approach. The Sales Comparison Approach and Cost Approach are not capable of measuring the different income levels over the lease term. However, the Sales Comparison Approach was utilized to formulate the market value rental amount for the ground rent via a capitalization rate. In addition to the rental income analysis, the leasehold interest also is entitled to the "unamortized cost" of "Trade Fixtures". A modified Cost Approach was utilized for the trade fixtures associated with the Lease. Given the nature

Allen, Williford & Seale, Inc.

of the take and appraisal assignment, this modified valuation technique is appropriate and provides an accurate and credible compensation for the property and trade fixtures to be acquired.

6. The compensation encompasses the value of the ownership interest in the real property as this appraisal assignment pertains to the entire acquisition of the tenant's leasehold property interest. The condition of this appraisal assignment encompasses any applicable laws and public policy regarding valuation and compensation in an eminent domain proceeding.
7. This appraisal was performed during the novel Coronavirus (Covid-19) global pandemic. As a result of this pandemic, there are short-term effects occurring in the market that include fluctuating interest rates, increased volatility in financial markets, disruptions in global supply chains, higher unemployment figures, and higher financial risk levels. New requirements have been put in place by lenders, both nationally and locally. As of the date of this report, the long term effects of this pandemic on the real estate market are unknown and may affect assignment results that would include overall valuation conclusions, extended marketing time, and stringent mortgage loan requirements.
8. Engineering studies, ADA determinations, surveys, and title reports are beyond the scope of this appraisal.

Report Format. In accordance with the real property appraisal reporting requirements as set forth by Standard Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice (USPAP), this is an Appraisal Report.

This appraisal has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by the Appraisal Foundation, the Standards of Professional Practice, the Code of Professional Ethics of the Appraisal Institute and the Uniform Act, except as they may conflict with State and Federal regulations regarding the appraisal of properties involved with the power of eminent domain for property acquisitions as well as the FAA Appraisal Requirements. The report also follows the City of Austin Supplemental Appraisal Standards. This opinion of value is subject to the Assumptions and Limiting Conditions that are included in the report. There is additional supporting documentation contained within the appraisal files.

When valuing the subject property, the influence of the project cannot be considered according to 49 CFR 24.103(b) which states:

"To the extent permitted by applicable law, the appraiser shall disregard any decrease or increase in the fair market value of the real property caused by the project for which the property is to be acquired, or by the likelihood that the property would be acquired for the project, other than that due to physical deterioration within the reasonable control of the owner."

The proposed acquisition in this instance would include all of the tenant's leasehold interest. There is no remaining property interest and no "Before and After Value" is required. The lease which created the tenant's leasehold has a "condemnation clause" (Article 34 of the Lease) which forms the basis for this valuation. The lease clause states that in the case of the condemning authority being the City, the tenant shall be entitled to compensation for the Fair Market Value of the Tenant's interest so taken.

PROPERTY RIGHTS APPRAISED

Tenants Interest is defined in the Lease as being:

“All Tenant’s right, title and interest in, to, under or derived from this Lease, including the rights of Tenant under Article 2 and Article 15, and the Trade Fixtures.”

I have been informed that there are no enforceable rights pertaining to Article 15. Therefore, Article 15 was not part of my scope of the appraisal.

Improvements and their ownership were also defined and addressed in the lease under Article 9.12. This article states:

“Ownership. All improvements or modifications Premises resulting from any Covered Improvements, excluding Trade Fixtures related thereto, shall become the property of Owner at the end of the Term, whether by expiration, termination or otherwise, free from any liens or claims whatsoever created by Tenant, without any compensation from Owner to Tenant or to any other person or entity (except as otherwise expressly provided herein).”

No compensation for improvements has been included for the tenant’s interest.

Trade fixtures are defined in the Lease as being:

“All furniture, equipment, fixtures, and furnishings installed or constructed by Tenant, at its expense, on the Premises, including baggage handling systems, ticket and check-in counters, signs, seating, display cabinets, communications equipment, special lighting fixtures and all other equipment, furniture, furnishings and supplies that can be removed from the Premises without material damage to the Premises, specifically excluding Owner’s Shared Use Passenger Processing System equipment, hardware, software, and supplies.”

The property rights being appraised in this report consist of the leasehold interest. Leasehold Interest is defined by *The Dictionary of Real Estate Appraisal*, Seventh Edition, copyright 2022, page 105, by the Appraisal Institute as being:

"The right held by the lessee to use and occupy real estate for a stated term and under the conditions specified in the lease"

Leasehold value for the purposes of this assignment is further defined by *State v. Parkey*, 295 S.W. 2d 457, 460 (Tex. Civ. App.-Waco 1958) as being:

“where a complete leasehold is taken, as in this case, the measure of damages is the value of the use and occupancy of the leasehold for the remainder of the tenant’s term, plus the value of the right to renew the lease, less the agreed rent which the tenant would pay for the use and occupancy, such values to be determined by the well established willing seller-buyer rule.”

MARKET VALUE DEFINED

Fair Market Value is defined in the Lease as being:

“The amount that a willing and able buyer would offer, and a willing and able seller would accept, for the purchase and sale of Tenant’s Interest, in an arm’s length transaction, assuming: (a) neither Party is under economic compulsion or has special bargaining power; (b) the buyer possesses all information in the possession of Tenant relating to the Premises, the condition of the Premises and the revenues and expenses of Tenant; and (c) that the event giving rise to such determination (e.g., a Taking or a termination of this Lease) had not occurred.”

This definition is similar to accepted Texas court’s definition of market value is defined by *City of Austin v. Cannizzo*, 267 S.W. 2d 808 (Tex. 1954) as being:

“The price which the property would bring when it is offered for sale by one who desires, but is not obliged to sell, and is bought by one who is under no necessity of buying it, taking into consideration all of the uses to which it is reasonably adaptable and for which it either is or in all reasonable probability will become available within the reasonable future.”

INTENDED USE AND USERS OF THE APPRAISAL

This report is intended for use only by Winstead PC and the City of Austin for the acquisition of the leasehold interest in the South Terminal at Austin-Bergstrom International Airport for a Federally assisted airport project.

IDENTITY OF CLIENT

Winstead PC is the client.

DATE OF REPORT

The date of the report is March 16, 2022

EFFECTIVE DATE OF THE APPRAISAL

The effective date of the appraisal is March 1, 2022.

INSPECTION INFORMATION

The appraiser afforded the tenant an opportunity to accompany the appraiser during the inspection of the property. A site inspection of the subject property was performed by Randy L. Seale, MAI on November 11, 2021, and the appraiser was accompanied by the Client, the tenant’s representative and the tenant’s counsel. A brief walk through of the improvements was performed. The appraiser, Randy L. Seale, MAI, also made a limited site visit on January 28, 2022 without the tenant.

COMPETENCY PROVISION

I am competent to accept this appraisal assignment based on my education and experience in appraising properties involving acquisitions for right of way purposes as well as my knowledge of the aviation real

estate market. Significant time has been spent in the collection and analysis of rents and capitalization rates in order to obtain the necessary understanding of the local market.

ENVIRONMENTAL STATEMENT

A limited Phase 1 Environmental Site Assessment report dated December 28, 2021 was completed by Weston Solutions, Inc. The conclusions of this report are listed as follows:

This assessment has revealed no evidence of recognized environmental conditions (RECs) except the following:

- The ongoing ABIA/AUS operations on the subject property and other areas of the airport.
- The presence of an on-site oil/water separator (OWS).
- The presence of arsenic and lead reported in site soil and groundwater above TCEQ Protective Concentration Levels (PCLs).

No controlled RECs (CRECs) were identified in connection with the subject property from 2017 to present. The following HREC in connection with the property was identified:

- Closure of the Bergstrom AFB leaking petroleum storage tanks (LPST) site.

The following non-scope consideration was identified:

- The presence of per-and polyfluoroalkyl substances (PFAS) in subject property soil.

The report was limited from 2017 to present as a result of the Phase I ESA of the subject property conducted. A baseline Phase 2 Environmental Site Assessment was conducted on January 27, 2016 by TRC. The dates reflect the occupancy of the leasehold.

In the 2016 TRC report, it was concluded that the existing concentrations of constituents of concern within the Lease Site Area of the South Terminal are below applicable human health exposure pathways. There findings are summarized below:

- The soil sample analytical results that exceed the PCLs for arsenic and lead are specifically for the *Soil-to-Groundwater* human-health ingestion pathway. The current and projected future land use for the Lease Site Area is not likely to rely on the use of onsite water wells as a supply for potable water at the South Terminal; these services are provided by City of Austin Water Utilities.
- Arsenic and lead concentrations detected in the groundwater sample collected at the southeast corner of the Terminal Building exceeded the Tier 1 Residential PCLs for groundwater for the human health ingestion exposure pathway. The detected arsenic and lead concentrations may be naturally occurring, may represent the fringe of a geochemical footprint from a groundwater contaminant plume upgradient of temporary monitoring well TMW-2 and downgradient of TMW-C-2 and TMW-BULK, or may be due to the residual geochemical footprint of a historic release.
- The extent of the current metals impacts detected in the soil and groundwater media at the site are not likely to trigger a regulatory action requirement from the TCEQ. The site was part of multiple regulatory closures that were obtained with "No Further Action" letters from the Texas Natural Resources Conservation Commission during the 1990s, prior to the property deed transfer to the City of Austin. The regulatory records indicate that there are no outstanding site conditions under any of the Agency's remediation programs.

- In the event that a new spill or release were to occur at the site in the future, confirmation soil samples and, if required, confirmation groundwater samples may be required after any emergency response cleanup or hazardous materials response team were to complete cleanup operations. If such releases in the future are the cause for the comingling of an area of impacted soil or groundwater with the historical/current constituent concentrations at the site, the data contained in this Baseline Phase II ESA may serve as evidence that the metals concentrations in soil and groundwater were an existing condition prior to assuming occupancy of the site. Such an event is not likely to trigger an environmental liability for remediation of soil and/or groundwater due to the currently known pre-existing site conditions. In the event that a response action would be required by the TCEQ to address metals concentrations that exceed the Tier 1 PCLs for groundwater ingestion, an institutional control may be used to restrict the use of shallow groundwater for human ingestion, consistent with the land use as commercial/industrial.

Based on these reports, the property use and the location within an operating airport, the environmental findings would not alter the opinions or affect the use of the property interest valued in this appraisal report.

EXTRAORDINARY ASSUMPTIONS & HYPOTHETICAL CONDITIONS

Hypothetical Condition is defined by USPAP as “a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis.”

This valuation involves a hypothetical condition. When appraising the property leasehold interest, the impact of the project is ignored. This hypothetical condition is accepted appraisal procedures when valuing eminent domain situations.

Extraordinary assumption is defined by USPAP as “an assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser’s opinions or conclusions.”

There are no extraordinary assumptions used in this report.

The use of extraordinary assumptions and hypothetical conditions might have affected the assignment results.

The maps and pictures on the following pages depict the property at the time of inspection.

AERIALS AND SUBJECT PHOTOGRAPHS



Subject Leasehold Property is outlined in Yellow and Green

Aerial Photograph obtained from Google Earth
Randy L. Seale, MAI

Photo Number 1

Photo Date:	November 11, 2021
Taken By:	Randy L. Seale, MAI
Location Photo Taken	South Terminal at ABIA Parking Area
Direction of Camera	Northwest at South Terminal Exterior
Lens	



Photo Number 2

Photo Date:	November 11, 2021
Taken By:	Randy L. Seale, MAI
Location Photo Taken	Interior of South Terminal at ABIA
Direction of Camera	Terminal Ticketing and Check In Area
Lens	



Allen, Williford & Seale, Inc.

Photo Number 3

Photo Date:	November 11, 2021
Taken By:	Randy L. Seale, MAI
Location Photo Taken	Interior of South Terminal at ABIA
Direction of Camera	Departure/Waiting Area
Lens	



Photo Number 4

Photo Date:	November 11, 2021
Taken By:	Randy L. Seale, MAI
Location Photo Taken	Exterior of South Terminal at ABIA
Direction of Camera	Aircraft Apron Loading Area
Lens	



Photo Number 5

Photo Date:	November 11, 2021
Taken By:	Randy L. Seale, MAI
Location Photo Taken	Interior of South Terminal at ABIA
Direction of Camera	Baggage Claim Area
Lens	

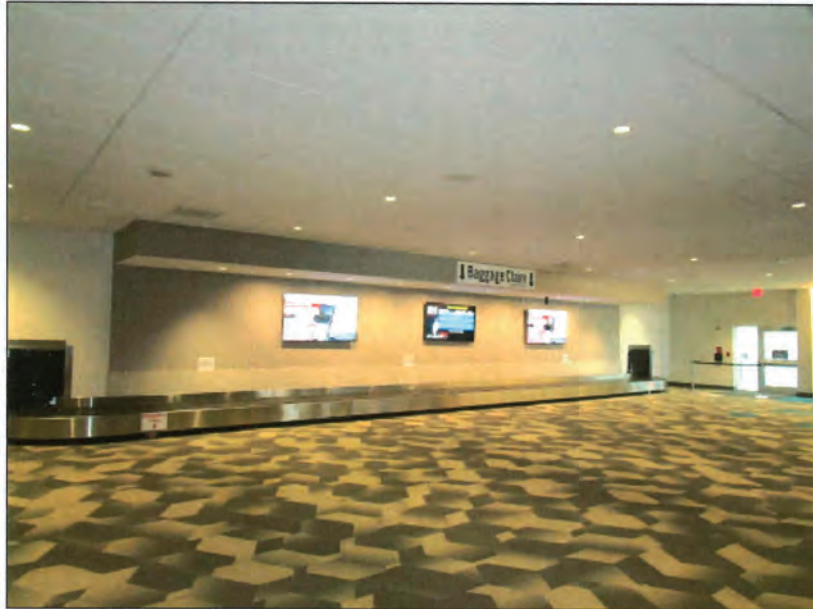


Photo Number 6

Photo Date:	November 11, 2021
Taken By:	Randy L. Seale, MAI
Location Photo Taken	Exterior of South Terminal at ABIA
Direction of Camera	South Terminal Pick-Up and Drop Off Area
Lens	



Allen, Williford & Seale, Inc.

Photo Number 7

Photo Date:	November 11, 2021
Taken By:	Randy L. Seale, MAI
Location Photo Taken	Initial Lease Area Parking Area
Direction of Camera	East at Parking Exit Area
Lens	



Photo Number 8

Photo Date:	November 11, 2021
Taken By:	Randy L. Seale, MAI
Location Photo Taken	Initial Lease Area Parking Area
Direction of Camera	West at Parking Area
Lens	



Allen, Williford & Seale, Inc.

Photo Number 9

Photo Date:	November 11, 2021
Taken By:	Randy L. Seale, MAI
Location Photo Taken	Amendment Tract C from Outlaw Country Drive
Direction of Camera	East at Parking Area
Lens	



Photo Number 10

Photo Date:	November 11, 2021
Taken By:	Randy L. Seale, MAI
Location Photo Taken	Amendment Tract D from Fighter Drive
Direction of Camera	North at Parking Area
Lens	



AREA ANALYSIS

The subject property is located in Travis County in Central Texas. Travis County is part of the Austin-Round Rock MSA and also referred to as (Greater Austin). The Austin-Round Rock MSA includes Bastrop County, Caldwell County, Hays County, Travis County, and Williamson County. The total area of the Austin-Round Rock MSA area is 4,279 square miles and the estimated 2020 population was approximately 2,228,371 persons.

The total area of Travis County is approximately 1,023 square miles. The 2020 population for Travis County was 1,290,188 residents, a 26% increase from the 2010 population of 1,024,444 residents. There were 545,693 housing units in Travis County in 2019 with an average household size of approximately 2.54 people. The 2019 median household income in Travis County was \$75,887, which is approximately 23% higher than the state's median household income of \$61,874. The per capita income of Travis County was \$43,658 as of 2019. The county seat of Travis County is Austin with a 2020 population of 961,855 and a total size of 271.8 square miles. Other cities and communities in Travis County include Bee Cave, Jonestown, Lago Vista, Lakeway, Manor and West Lake Hills.

Total nonfarm employment in the Austin-Round Rock MSA was approximately 1,169,400 in October 2021, which is a 15 percent increase from October 2020. Total employment for Travis County in 2019 was 638,903, which is a 2.5 percent increase from 2017. As of October 2021, the total unemployment rate in the Austin-Round Rock MSA was 3.4 percent, 3.3 percent in Travis County, and 4.2 percent nationally. The top employers in Austin include Dell Inc., H.E.B, Seton Healthcare Network, Wal-Mart Stores and St. Davis's Healthcare Partnership.

The major highways in Travis County include the following: Interstate Highway 35, U.S. Highway 290, U.S. Highway 183, State Highway 1 (MoPac), State Highway 71, and State Highway 130. The major arterial of the area is Interstate Highway 35. This highway runs through the central portion of Austin in a generally north/south direction and connects three of Texas' four most heavily populated metropolitan areas, Dallas/Fort Worth, Austin, and San Antonio. Interstate Highway 35 also provides access to Laredo and the U.S./Mexico border. U.S. Highway 290 traverses the county in a generally east/west direction and connects Austin to Houston to the east and Johnson City/Fredericksburg to the west. U.S. Highway 183 traverses the county in a generally north/south direction and connects Austin to Cedar Park, Leander, and Liberty Hill to the north and Lockhart to the south. State Highway 130, which is located east of Austin, traverses the county in a generally north/south direction. Lastly, numerous FM roads, city roads, and county roads provide interior access throughout the county.

NEIGHBORHOOD ANALYSIS

Overall, the City of Austin encompasses approximately 305.1 square miles and had a 2019 population of 950,807 persons, which is an increase of approximately 22.1 percent above the 2010 population of 790,390 persons. The civilian labor force (population age 16+) in 2019 represented 73.8 percent of the population. There were 380,392 households in Austin as of 2019. The 2019 median household income for Austin was \$71,576. The per capita income was reported to be \$43,043 for 2019.

Major employers in Austin include the following: Apple, Austin Independent School District, City of Austin, Dell Technologies, the federal government, IBM Corporation, Samsung Austin Semiconductor, Seton Healthcare Family, St. David's Healthcare Partnership, the State of Texas, and the University of Texas at Austin.

The primary roadways in the Austin area include Interstate Highway 35, U.S. Highway 290, U.S. Highway 183, State Highway 1 (MoPac), State Highway 71, and State Highway 130. The major arterial of the area is Interstate Highway 35. This highway runs through the central portion of Austin in a generally north/south direction and connects three of Texas' four most heavily populated metropolitan areas, Dallas/Fort Worth, Austin, and San Antonio. Interstate Highway 35 also provides access to Laredo and the U.S./Mexico border. U.S. Highway 290 traverses the city in a generally east/west direction and connects Austin to Houston to the east and Johnson City/Fredericksburg to the west. U.S. Highway 183 traverses the city in a generally north/south direction and connects Austin to Cedar Park, Leander, and Liberty Hill to the north and Lockhart to the south. State Highway 130, which is located east of Austin, traverses the county in a generally north/south direction. Lastly, numerous FM roads, city roads, and county roads provide interior access throughout the city.

Education in Austin is served by the Austin Independent School District. Police protection and fire protection is provided through the City of Austin. The Police and Fire protection is considered adequate for the area. The Austin area has water and wastewater services provided by multiple MUDs and water service companies. Electricity and natural gas are provided by Atmos Energy, Pedernales Electric Cooperative, Austin Energy, Bluebonnet Electric, and One Gas – Texas Gas Services. Media services including telephone, cable, and internet are provided by multiple providers.

Recreational uses are significant in the area due to the location near the Colorado River, Lady Bird Lake and Lake Travis. Lake Travis is approximately 30 square miles in size with approximately 270 miles of shoreline. Marinas and boating activity facilities along Lake Travis in the Austin area include the Marshall Ford Marina, the Anderson Mill Marina, and the Cypress Creek Marina. Additionally, multiple resorts and golf courses are located in the Austin area.

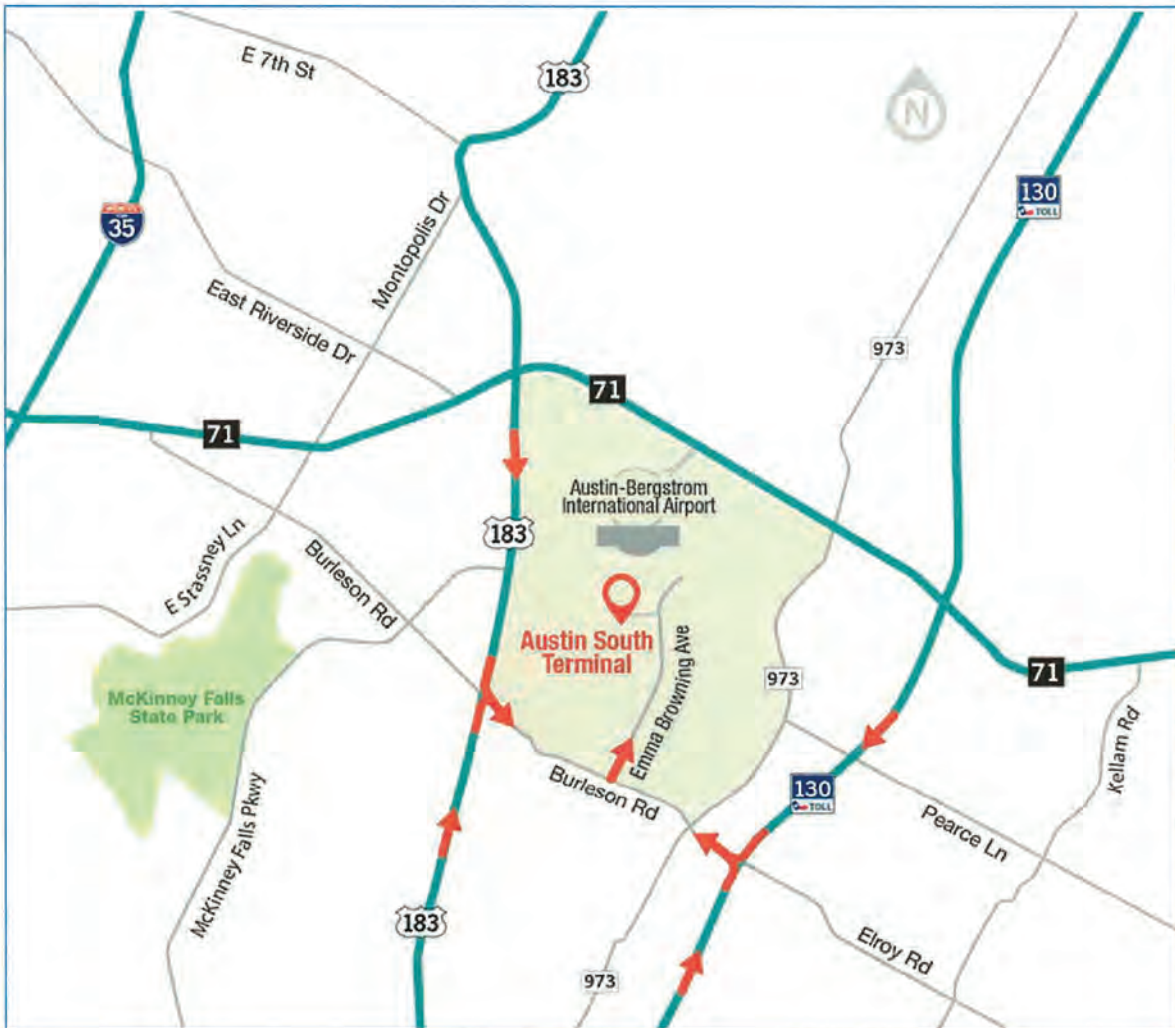
The immediate vicinity of the subject neighborhood is considered to be the area of the City of Austin southeast of downtown Austin. A large land use in this area is the Austin-Bergstrom International Airport (AUS). AUS opened in 1999 at the site of the former Bergstrom Air Force Base, replacing Robert Mueller Municipal Airport. AUS occupies 4,240 acres approximately eight miles southeast of downtown. Airport access is provided by SH 71 and US 183. AUS has two parallel north-south runways, 9,000 and 12,250 feet in length and 150 feet wide, each. The main passenger terminal, the Barbara Jordan Terminal, is 736,000 square feet and spread out on four levels. In 2016, the City entered into an agreement with LoneStar Airport Holdings, LLC to operate the South Terminal at ABIA. According to FAA data, AUS had 3,141,505 Enplanements in 2020, down 63 percent from the 2019 Enplanements of 8,507,410. AUS ranked 32nd in the U.S. for enplanements in 2020 and in 2019. On a cargo basis, AUS ranks 46th in the U.S. for cargo weight.

A recent large project near the neighborhood is the Tesla Gigafactory. The manufacturing site and Tesla corporate headquarters will sit on over 1,600 acres along SH 130 and the Colorado River. When

finished, the facility will manufacture the Cybertruck Model 2.

The subject neighborhood is considered to be in the growth stage of the life cycle. Commercial/retail development is located along major roadways in many portions of the neighborhood including Interstate Highway 35. Portions of the subject's area are in a redevelopment stage where older or low density improvements are being demolished for newer, higher density developments. Many of the older and low density improvements in the area represent interim uses and their overall contributory value to the property is considered minimal. Overall, the subject's neighborhood is expected to show continued growth with real estate values moderately increasing.

Subject Location Map



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Statement of Ownership. The subject's land is owned by the City of Austin. The tenant or leasehold interest is owned by LoneStar Airport Holdings, LLC. We have not been provided any title work for the subject and we have relied upon the Lease and Assignment for the tenant information.

Property History. The City of Austin (City) executed the Lease for 22.66 acres (987,129 square feet) and improvements with Highstar Capital IV, LP on March 24, 2016 (Initial Lease). This Initial Lease had a contract rental amount of \$300,000 or \$0.30 per square foot, annually for 30 years with two 5 year options. The Initial Lease was assigned to LoneStar Airport Holdings, LLC (LoneStar) by Highstar Capital IV, LP on March 24, 2016. LoneStar and the City signed an Amendment to the Initial Lease on June 17, 2019 (Amendment) for an additional 2.48 acres (108,020 square feet) listed as Parking Lots D and C. This Amendment is to run with the Initial lease and the rental amount is \$0.30 per square foot annually. We requested but were not provided with any listing agreements or marketing plans for the leasehold interest. According to separate research¹, the tenant was soliciting interest from prospective suitors². The City made an offer to purchase the leasehold interest in November 7, 2019 for the amount of \$10,000,000 according to a Memorandum. There are no known arms-length transactions involving the subject property in the past five years. To the best of our knowledge the subject property is not currently listed for sale or lease. The City and LoneStar entered into a license agreement on August 1, 2021 for a nearby property. The license agreement is not part of this leasehold valuation analysis.

Property Tax Information. The underlying land is owned by the City of Austin and is not subject to property taxes. LoneStar is assessed by the county as personal property. The property is under the taxing authorities of the City of Austin, Del Valle ISD, Travis County, Travis County Healthcare District and the Austin Community College District. The subject property is listed under Travis County Appraisal District Property ID Number 903359. The 2021 assessed value for the subject property is \$581,117. The description from the appraisal district lists the property as furniture, fixtures and equipment, vehicles, along with merchandise and supplies. Below is a summary of the appraisal district's valuation since 2018.

Type	2018			2019			2020			2021		
	Cost	Appraised	Market	Cost	Appraised	Market	Cost	Appraised	Market	Cost	Appraised	Market
FF&E	\$913,382	\$817,040	\$782,615	\$913,382	\$827,040	\$712,644	\$913,382	\$827,040	\$648,281	\$913,382	\$827,040	\$575,149
M/S	\$0	\$1,500	\$1,500	\$0	\$1,500	\$1,500	\$0	\$1,500	\$1,500	\$0	\$1,500	\$1,500
Vehicles	\$0	\$0	\$0	\$0	\$0	\$0	\$6,982	\$0	\$5,586	\$6,982	\$0	\$4,468
Total	\$913,382	\$818,540	\$784,115	\$913,382	\$828,540	\$714,144	\$920,364	\$828,540	\$655,367	\$920,364	\$828,540	\$581,117

FF&E Furniture, Fixtures & Equipment
M/S Merchandise & Supplies

¹ <https://www.airport-technology.com/news/oaktree-austin-bergstrom-airports/>

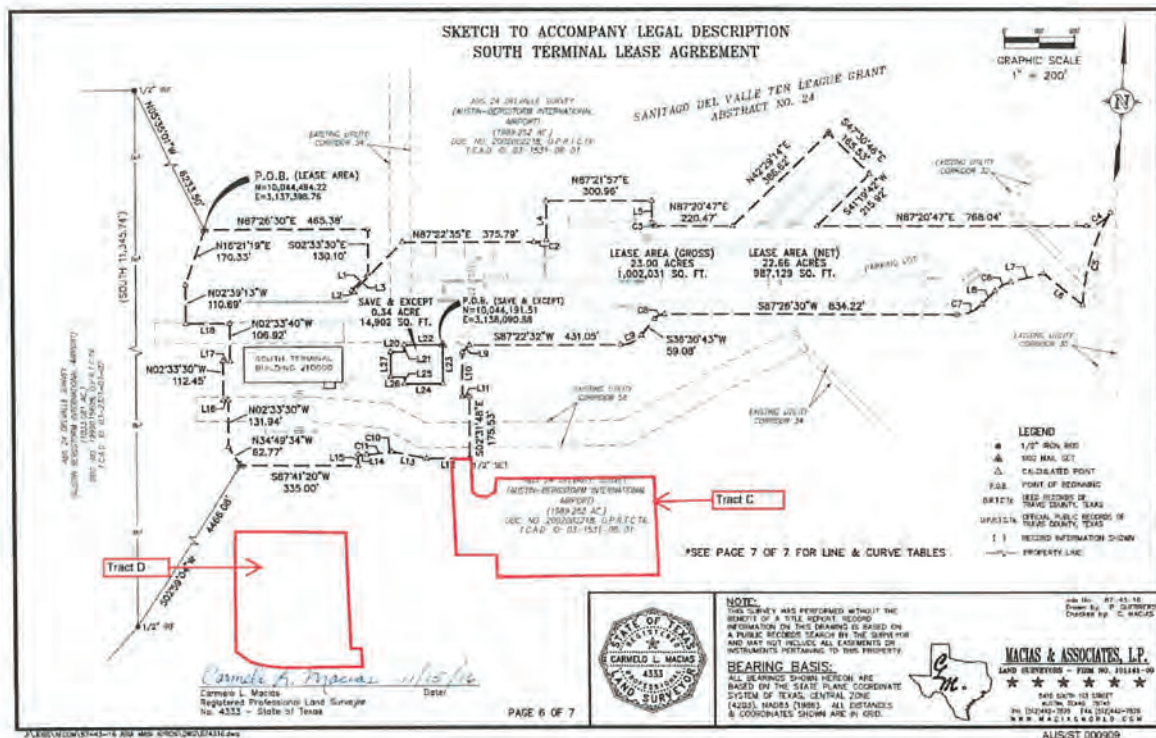
² <https://www.bloomberquint.com/business/oaktree-is-said-to-explore-options-for-texas-airport-terminal>

LEASEHOLD SITE DATA

A survey plat was attached to the Initial Lease and an aerial plat was provided for the Amendment. Information regarding the subject property was also obtained from other sources, including public records and a physical inspection of the site. The Leasehold property is made up of 2 non-contiguous tracts of land with one tract being in the Initial Lease 22.66 acres and two more tracts in the Amendment (0.98-D-Tract acres and 1.50 acres-C-Tract) or a total of 2.48 acres.

Legal Description. The subject property may be legally described as a total of 25.14 acres out of Santiago Del Valle Ten League Grant Survey, Abstract 24, Travis County, Texas.

Location. The subject tracts are located on the southern end of AUS with the Initial Lease tract being at the southwestern corner of Emma Browning Avenue and Logistics Lane having an address of 10000 Logistics Lane. Tract C is located contiguous to the south of the Initial Lease tract along the east line of Outlaw Country Drive. Tract D is located south of the Initial Lease tract on the north side of Fighter Drive, west of Outlaw Country Drive. Below is a sketch map showing the locations of the tracts along with the outparcel's location. All tracts are within the boundaries of AUS.



Access. The Initial Lease tract has access from Emma Browning Avenue. Tract C has access from Outlaw Country Drive while Tract D has access from Fighter Drive.

Physical Characteristics. The Initial Lease tract contains approximately 22.66 acres (987,129 square feet) of land. Within the boundaries of the tract is a 0.34 acre outparcel. The tract has approximately 280 linear feet of frontage along Emma Browning Avenue. Tract C contains 1.5 acres (65,190 square feet) of land. The tract has frontage on Outlaw Country Drive. Tract D contains 0.98 acres (42,830 square feet) of land. The tract has frontage on Fighter Drive.

Off-Site Improvements. Within the boundaries of the Initial Lease tract includes the street right of ways of Logistics Lane, Outlaw Country Drive and Fighter Drive. All are 2-lane, asphalt paved roadways with curbs and gutter drainage.

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Adjacent Land Use. Land use adjacent to the subject property consists of vacant land, parking areas and buildings that were used in conjunction with the Air Force base in the past as well as the current use for AUS.

Restrictions. The subject property is located within AUS which is listed as a controlled compatible land use area. The property falls under height limits, overlay zones and airport hazard zones. The zoning district from the City is AV or Aviation Services. This zoning district designation allows for an airport related use that requires direct access to airport facilities or that is compatible with or supports airport operations and services. Also, the property falls under AUS Guidelines, other applicable Airport rules and regulations, Federal Aviation Regulations governing the height and location of structures affecting airspace at the Airport as set forth in 14 CFR Part 77, Chapter 25-13 of the Austin City Code (Airport Hazard and Compatible Land Use Regulations). Additionally, any use or future use of the property would have to consider and adhere to the overall airport "Master Plan". The master plan that the lease is subject to is defined as the Owner's Master Plan, dated as of December 2003, as amended.

Flood Plain. According to Map No. 48453C0610L issued by the Federal Emergency Management Agency, as of January 22, 2020, the subject property is located in Zone X, an area outside of the 500-year flood plain.

Easements. We were not provided with a title report and the existences of easements are not known. The site sketch indicates that utility corridors cross the site. The utility corridors are restricted by AUS for use for utility connections across the airport property. Additionally, within the description of the subject site are various public rights of ways.

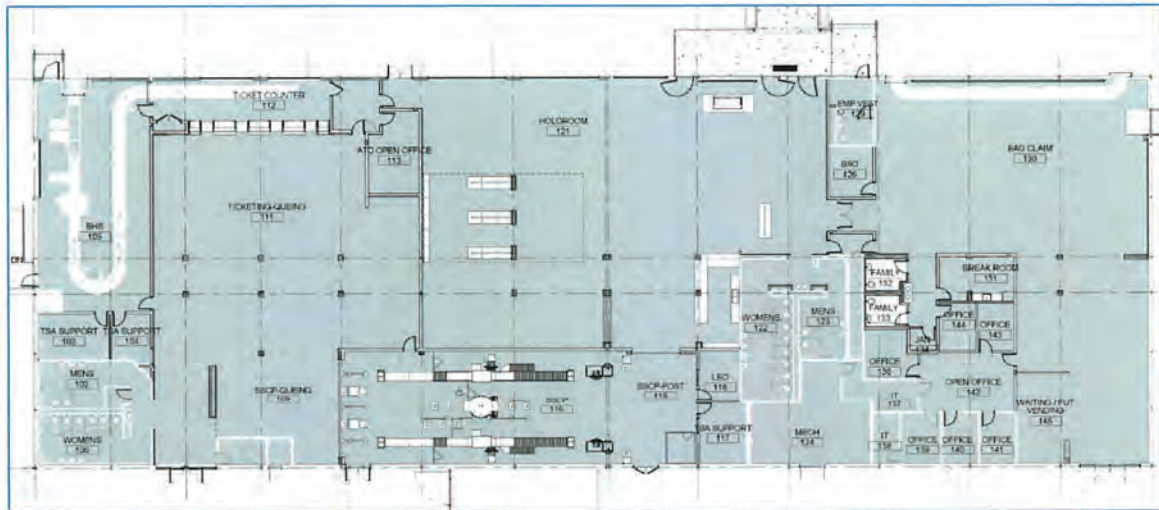
Utilities. The subject property has access to public water, public sewer, electricity service, natural gas, and telecommunication services.

LEASEHOLD IMPROVEMENT DATA

The leasehold land area is improved with a freestanding metal building used as the South Terminal being 27,872 gross square feet in size. The terminal building has an apron area with ramps for 3 (737-size) passenger sized planes, a loading and unloading area along with several parking lots.

South Terminal Building. According to the Phase 1 Environment Study, the building was constructed in 1984. The building was originally constructed and used by the U.S. Air Force as the Weapons and Release Systems Shop. After the Air Force left in 1993, the building was used by the Texas Army National Guard for aircraft avionics maintenance from 1998 until 2007. From August 2008 until May 2009, the building was operated as a passenger terminal. The building was unoccupied until 2016 when the current tenant (LoneStar) began renovations and started passenger terminal operations in Mid-2017. The terminal currently serves Frontier and Allegiant airlines.

The building is a single-story, metal walled structure approximately 24 feet in height. The subfloors throughout the building are concrete with certain areas covered with tiles or carpeting. The ceiling in the majority of the building is covered with ceiling tiles while backroom areas have open ceilings with exposed airducts and overhead piping. LED lights and some fluorescent lights are used throughout the building. The building currently has areas for restrooms, baggage handling, ticketing, security, office/employee areas, storage, mechanical, waiting and baggage claim. The exterior has curb-side pick-up covered fabric canopies, and an outdoor bar/food truck area. Below is an image of the floor plan for the terminal area from the "As-Built" plans.

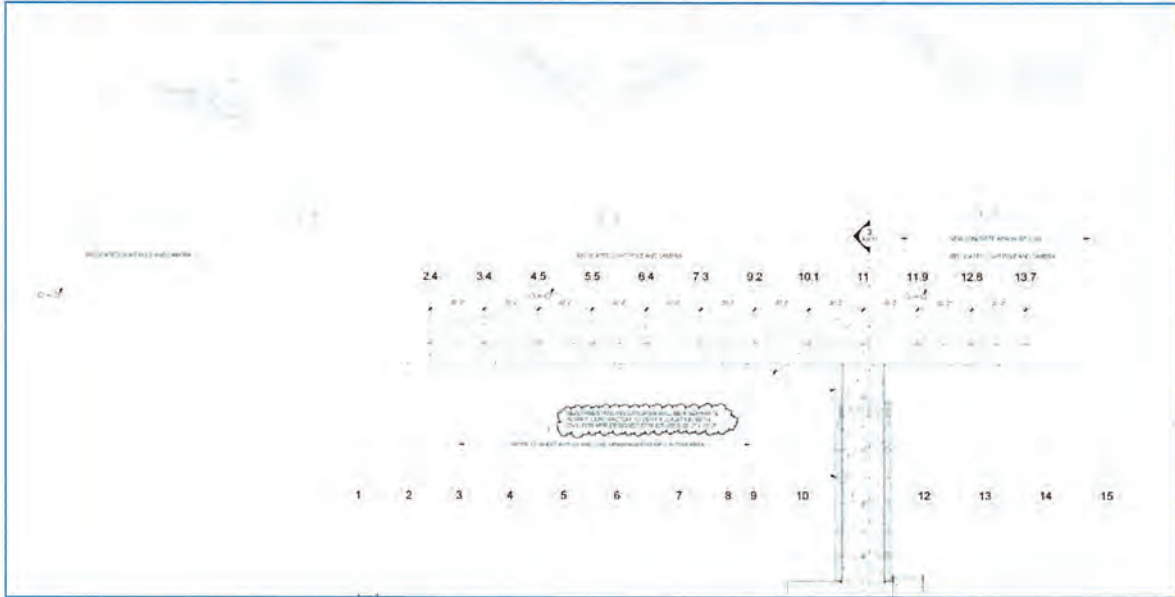


Below are some interior pictures of the terminal ticketing and waiting areas.



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Aircraft Apron and Ramps. The apron area is connected to the terminal building by a covered walkway to the plane loading areas. The apron area is concrete paved while the ramp areas are asphalt and concreted paved. Below, is an image of the apron area from the “As-built” plans.



Below are some exterior pictures of the apron and ramp areas.



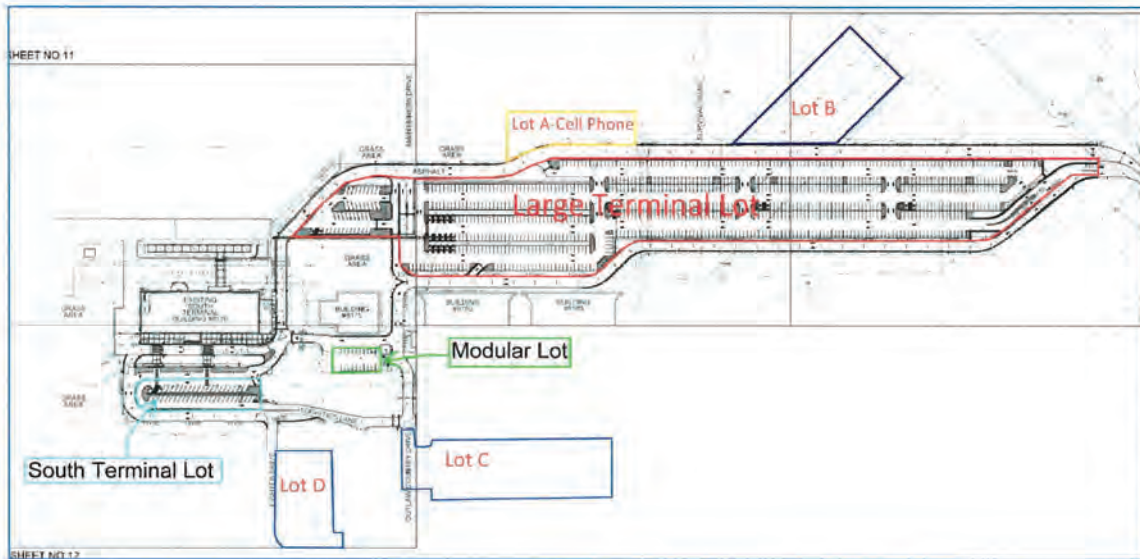
Parking. The lease includes several parking areas. The parking areas include active and inactive lots. The inactive lots are for overflow traffic when necessary. Below is summary of the different parking areas.

Parking Summary			
Name	Type	Parking Spaces	
		#	H/C
South Terminal	Short -Term	43	2
Large Lot	Long-Term	835	22
Lot A	Cell Phone	41	1
Lot B	Overflow	129	2
Lot C	Overflow	150	0
Lot D	Employee	85	5
Modular Lot	Employee	20	0
Total		1,303	32

H/C - Handicapped

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The South Terminal and “Larger” Terminal Lots are the only monitored pay parking. These lots have credit card machines and gated entries. The cell phone modular and employee lots are not gated. The two overflow lots are fenced and access is only when necessary. The Modular lot is currently occupied by the airport manager’s modular office. The lots are paved with concrete or asphalt with markings. Below is an image of the parking areas from the “Civil Set” plans, modified to include the Amendment areas.



The main terminal building was constructed in 1984 for a different use and the building has been renovated for the current use. While we observed no significant items of deferred maintenance, the property has experienced other forms of depreciation being external or economic obsolescence due to the structure not being a “typical” modern passenger terminal. In the lease, the terminal is defined as a “Limited Services Terminal” for supporting a lower cost operational structure with fewer operational amenities. The building and site improvements were originally constructed 38 years ago for another use. While, the renovation of the building for its current passenger terminal use is functional for an interim period, the overall economic life of the building for this use would be limited due to overall changes in the aviation industry. While the building is a large metal building that can be adaptable, the overall property is considered to be a special purpose property due to its location within AUS. Any use or future use of the property would have to consider the overall airport “Master Plan”. The 2003 Master Plan maps depict that the building used for the existing south terminal will be removed in order for a “new” south terminal complex. This factor would support the opinion that the existing improvements’ remaining economic life is interim in nature .

Again, as stated earlier and under Article 9.12 in the lease, no compensation for improvements has been included for the tenant’s interest.

HIGHEST AND BEST USE

A property must be appraised in terms of its highest and best use. According to *The Dictionary of Real Estate Appraisal*, Sixth Edition, copyright 2022, page 88, by the Appraisal Institute, highest and best use is defined as:

"The reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity."

The procedure used in this report to determine the highest and best use of the subject. The valuation in this instance is limited to the Leasehold Estate. The analysis in scope of work was to consider, in sequence, the property's legal use, its possible use, its feasible use and, finally, the optimum or highest and best use.

Legal Use. Private (deed) restrictions, zoning regulations, building codes, historic district controls, and environmental regulations can often preclude many possible highest and best uses.

The subject property is located in the City of Austin and is zoned for Aviation Services. This use would conform to its location within AUS. Additionally, there are environmental regulations, height restrictions, building codes, noise codes as well as other restrictions, which would affect the use of the subject property. The property is under lease for 35± years for aviation uses. Therefore, legal use would be for aviation related uses.

Possible Use. The subject leasehold property contains 25.14 acres of land which is of sufficient size to accommodate a variety of possible legal uses.

The property is located within AUS, has adequate utilities, topography and access to accommodate many possible legal uses for aviation related services.

Feasible Use. The subject property is located within AUS and has access to runways and taxi ways. The legal uses only allow for aviation services. Based on the above-mentioned factors, we believe the most feasible use of the subject whole property, as vacant, is for aviation services uses.

Highest and Best Use of Land Only. After consideration of the legal, possible, and feasible uses, it is my opinion that the highest and best use of the subject whole property, as vacant, is for aviation services uses.

VALUATION DISCUSSION

The purpose of this appraisal is to estimate the fair market value of the subject leasehold interest as of the effective date of the appraisal. Typically, the three accepted approaches used to estimate the market value of real estate are the Cost Approach, the Sales Comparison Approach and the Income Approach. This section of the report provides a brief summary of the three approaches along with a description of their relevance to appraisal of the subject property.

Cost Approach. The Cost Approach is typically used to value improved properties. The subject is only a leasehold interest in the property being utilized for aviation purposes as a passenger terminal and parking. The property interest is only a leasehold interest and this approach is not a credible or reliable method of valuation. The tenant is entitled to the unamortized cost of the Trade Fixtures and the Cost Approach was used to value this portion of the tenant's interest.

Sales Comparison Approach. The Sales Comparison Approach leans heavily upon the principle of substitution. In essence, this principle states that a prudent purchaser will pay no more for any particular property than it would cost him to acquire an equally desirable alternate property. The Sales Comparison Approach utilizes the sales of properties similar to the subject as the basis for an indication of market value. Direct comparison is made between each sale and the subject on an item-by-item basis. Adjustments are then made to the sales price of the comparable property in order to arrive at an indication of what it would have sold for had it been essentially the same property.

The subject is a special purpose property and the property interest is a leasehold estate. Sales of special purpose leasehold interests are limited to non-existent. Therefore, this approach is not considered to be credible to value the subject property consisting of a leasehold interest.

However, the Sales Comparison Approach was utilized to value the land in order to determine market value and market rent via a land capitalization valuation method within the Income Approach.

Income Approach. The Income Approach to Value is typically utilized to value income producing properties. A leasehold interest property is dependent on the rental income stream associated with the contract rental amounts and market rent. The Income Approach accurately measures these income streams to produce credible results. The approach also sets out the criteria to determine the appropriate capitalization rates to determine the market value as a result the income to the leasehold estate. The subject is a leasehold estate and rental income streams are the basis of the value. Based on the property interest being various rental income streams over the remaining lease term, the Income Approach would be the most reliable and credible method to measure market value. Accordingly, we have only utilized the Income Approach to Value in this instance.

INCOME APPROACH

The Income Approach presumes that no prudent buyer will pay more for the right to receive the future income stream for the subject property than the amount for which they can obtain the rights to a substitute income stream, assuming the similar quality, quantity, and durability of the income stream. The property interest that is the subject of this appraisal is the Leasehold Interest only that is to be wholly or entirely acquired by the City of Austin. As a result the valuation methodology is limited to the leasehold interest alone. The proper valuation methodology has been laid out from the Texas courts.

A leasehold interest value is calculated as the present market value of the use and occupancy of the leasehold for the remainder of the lease, plus the market value of the right to renew, less the agreed rent the tenant must pay for the use and occupancy of the property. A leasehold interest may have a positive or negative value depending on whether the contract lease amount is under market rent or over the market rent.

In the valuation of the leasehold interest, the following are steps to be performed in the valuation:

1. Determine Market Rent
2. Determine Contract Rent
3. Subtract the Contract Rent from the Market Rent
4. Combine the Leasehold Monthly Bonus by the Number of remaining monthly installments
5. Apply a Rate to the Monthly Cash Flows
6. Calculate the Present Value of the Cash Flows to Determine the Leasehold Value

The discussion on the following pages will demonstrate this procedure as it applied to the subject property interest. First we used the following definitions in the analysis.

Market rent, as used in this report, is defined in The Dictionary of Real Estate Appraisal, Seventh Edition, copyright 2022, page 116, as follows:

"The most probable rent that a property should bring in a competitive and open market under all conditions requisite to a fair lease transaction, the lessee and lessor each acting prudently and knowledgeably, and assuming the rent is not affected by undue stimulus. Implicit in this definition is the execution of a lease as of a specified date under conditions whereby

- Lessee and lessor are typically motivated;
- Both parties are well informed or well advised, and acting in what they consider their best interests;
- Payment is made in terms of cash or in terms of financial arrangements comparable thereto; and
- The rent reflects specified terms and conditions typically found in that market, such as permitted uses, use restrictions, expense obligations, duration, concessions, rental adjustments and revaluations, renewal and purchase options, frequency of payments (annual, monthly, etc.), and tenant improvements (Tis)."

Contract rent, as used in this report, is defined in The Dictionary of Real Estate Appraisal, Seventh Edition, copyright 2022, page 40, as follows.

"The actual rental income specified in a lease."

Excess rent (Surplus), as used in this report, is defined in The Dictionary of Real Estate Appraisal, Seventh Edition, copyright 2022, page 66, as follows.

“The amount by which contract rent exceeds market rent at the time of the appraisal; created by a lease favorable to the landlord (lessor) and may reflect unusual management, unknowledgeable or unusually motivated parties, a lease execution in an earlier, stronger rental market, or an agreement of the parties.

The subject property consists of a leasehold property interest consisting of a property used for aviation related uses for a passenger terminal, parking, apron and supporting land. The Initial Lease and Amendment were based on a ground rental amount of \$0.30 per square foot. The leasehold is made up of two separate leases consisting of the Initial Lease and the Amendment. The areas under each lease are as follows:

Leasehold Areas		
Lease	Acres	Square Feet
Initial Lease	22.66	987,129
Amendment	2.48	108,020
Total	25.14	1,095,149

The valuation of the leasehold follows the steps laid out earlier.

Market Rent Analysis. Determination of the Market Rent on a per square foot basis was performed via two methods. The first method is a land capitalization analysis. In this analysis, market rent is determined based on multiplying a market capitalization rent to the market value of the land. This methodology results in an annual market land rental rate. Additionally, a comparable rent analysis was performed. This analysis entails using actual rental rates from comparable properties in order to determine a market rental rate for the subject property. The following analysis explains the two methods in determining market rent to apply the leasehold valuation analysis.

Sales Comparison Approach for Land Capitalization. The method of market rent estimation, which has the highest degree of acceptance in the leasing of land for aviation use, is based on a rate of return on the land value. This method is popular in all types of land leasing situations, is market derived, and accounts for geographic location. It can be applied to any particular property, and reflects an adequate return to the value of the investment. The major component to this method is determining the market value for the land. In this case, we have utilized the Sales Comparison Approach. The Sales Comparison Approach utilizes the sales of properties similar to the subject as the basis for an indication of market value. Direct comparison is made between each sale and the subject on an item-by-item basis. Adjustments are then made to the sales price of the comparable property in order to arrive at an indication of what it would have sold for had it been essentially the same property. These adjusted prices are then reconciled into an indication of value for the subject.

We have researched land sales in the area in order to estimate a value for the subject to apply in this analysis for market rent for the land. The summary on the following page are the comparable sales land utilized to value the subject property. Full descriptions of these sales are included with this report. The land sales summary and map are on the following page.

LAND SALES SUMMARY				
Sale No.	Sale Date	Size (Acres)	Price/SF	Location
1	7/26/16	12.864	\$2.92	SW/L of Burleson Rd., SE of Smith School Rd.
2	9/9/16	93.789	\$1.17	SWC U.S. Hwy. 183 & Burleson Rd.
3	4/24/17	150.155	\$1.53	SWC U.S. Hwy 183 & McKinney Falls Pkwy.
4	5/21/18	50.365	\$4.11	SE/L of FM 973, SW of SH 71
5	11/6/19	14.145	\$2.00	NE/L of Burleson Rd., NW of Norwood Ln.
6	4/7/21	60.050	\$2.30	N/C of Old Bastrop Hwy. & Dalton Ln.
7	9/14/21	27.610	\$2.30	NW/L of Dalton Ln., NE of Old Bastrop Hwy.



Land Sales Analysis. The land sales summarized above are considered comparable to the subject. When comparing these sales to the subject, the factors considered the most critical were: conditions of sale, time, location, size, utilities, and physical characteristics. Each sale was compared to the subject and adjusted based on these factors. The following is a discussion of the comparisons used in our analysis.

Conditions of Sale. This adjustment takes into consideration unusual features of the transaction, such as financing or whether or not the sale took place under open market conditions. All of the comparable sales were cash sales or financed at terms equivalent to cash. As such, no adjustments for conditions of sale were required.

Time. Generally, prices rise over time due to inflation and the decreasing supply of land. However, land

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values in the subject area have increased over the past several years. The comparable land sales used in this report occurred between July 2016 and September 2021. Based on the review of market reports by CoStar for the different property types, land values have been increasing. We have applied an annual rate of 6 percent per year during this time period for appreciation.

Location. This, in our opinion, is an important factor affecting property values. Those properties having frontage along major or primary roadways, or a corner location are often superior to those properties located on secondary roadways or without corner locations. Proximity to major commercial areas, such as a business district, is also important in many instances.

The subject property is located within the AUS boundaries and a portion of the site has access to the taxiway. The tract's location in the southern area of the airport and the main access to this portion of the airport is Burleson Road. The area is made up of mixed aviation and support type uses.

The sales in proximity to the airport, including the subject are believed to be similar. Sale Nos. 1 and 4 are located in locations that are superior. These two sales were adjusted downward 20 percent as compared to the subject with respect to location.

Size. Larger tracts typically bring lesser unit prices than otherwise equally desirable smaller tracts. The primary reason for this is that the purchase of large acreage entails a much greater capital outlay, a factor which restricts the number of possible buyers as compared to the relatively larger market for smaller tracts.

The subject contains 25.14 acres of land, while the comparable sales range in size from 12.864 acres to 150.155 acres. Sale No. 7 (27.61 acres) is considered comparable with respect to size. Sale Nos. 2, 3, 4, and 6 range in size from 50.365 acres to 150.155 acres and are considered inferior with respect to size. These sales were adjusted upward on a range from 20 to 50 percent for size. Sale No. 1 (12.864 acres) and Sale No. 5 (14.145 acres) and are considered superior to the subject with respect to size. These sales have been adjusted downward 10 percent accordingly for this factor.

Frontage. Properties located on corners are typically considered superior to non-corner properties due to their increased visibility and accessibility. In order for corner influence to be significant, typically, the corner must be formed by the intersection of two primary roadways.

The subject location does not exhibit a corner influence. Sale Nos. 2 and 3 are located on corners fronting U.S. Highway 183 and are superior to the subject with respect to corner influence. These sales were adjusted downward 10 percent for this factor. Sale No. 5 has a low frontage to depth ratio and is believed to be inferior for this frontage factor as compared to the subject. This sale was adjusted upward 10 percent for this factor.

All of the remaining sales do not have corner influence and have similar frontage. As a result, no adjustment is necessary for this factor.

Zoning/Restrictions. Zoning ordinances can regulate land use and the density of development. It can be used to limit the types of development, the density of development, or the architectural character of the developments. In some instances, zoning can limit the development of a property from its highest and best use.

The subject property is zoned for Aviation Services which can be used for aviation related uses and also has height and noise restrictions (Airport Overlay). Sale Nos. 2, 3, 6 and 7 are subject to similar restrictions. None of the sales are located within the airport nor do they have the same zoning. For the purposes of this valuation, the subject is assumed to have zoning compatible with mixed use development. As a result these sales are considered similar for this factor.

Sale Nos. 1, 4 and 5 are not subject to similar restrictions, are considered superior, and have been adjusted downward 10 percent for this factor.

Physical Characteristics. Other factors which can have an effect on values include drainage, shape in respect to development, hindering easements, location in respect to flood hazards, size, shape, frontage, and topography. All of the sales were analyzed and adjusted for these factors.

Floodplain. The subject is not located within flood plain. Sale Nos. 3, 6, and 7 have portions in the flood plain. The sales were adjusted from 15 to 40 percent for the flood plain. Sale No. 2 has portions in the flood plain, but a drainage easement overlaps the flood plain. This sale will be adjusted for the drainage easement. The remaining sales do not have flood plain areas and did not require adjustment.

Easements/Other. The subject has various corridors/easements that cross the tract as well as public rights of way for streets. The three utility corridors make up approximately 10 percent of the site. The utility corridors affect the subsurface and no adjustment was made for these existing encumbrances. Several of the sales have easements, Sale No. 2 has a 50 acre drainage easement, Sale No. 3 has HVTL easement, Sale No. 4 has a 9.6 acre drainage easement, and Sale No. 6 has an aviation easement. The sales were all adjusted accordingly.

Utilities. The availability of utilities is a major factor in the development of any property. If a site has no access to public utility service and cannot acquire access, it is virtually impossible to develop. Therefore, the price paid for such a site would be affected due to the lack of or availability of utilities.

The subject tract has public water and sewer available. All of the sales have public water and sewer available and are considered comparable to the subject with respect to this factor.

Please refer to the Land Sales Adjustment Grid below which displays the adjustments used to compare the sales to the subject tract.

Land Sales Adjustment Grid				Adjustments									
Sale #	Sale Date	Price Per (Sq. Ft.)	Time & Conditions	T & C Adjusted Price/SF	Location	Size	Frontage	Zoning/Restrict.	Flood Plain	Utilities	Other	Overall Adjustment	Adjusted Price/SF
1	7/16/16	\$2.92	34%	\$3.91	-20%	-10%	0%	-10%	0%	0%	0%	-40%	\$2.35
2	9/9/16	\$1.17	33%	\$1.56	0%	40%	-10%	0%	0%	0%	50%	80%	\$2.81
3	4/24/17	\$1.53	29%	\$1.97	0%	50%	-10%	0%	20%	0%	10%	70%	\$3.35
4	5/21/18	\$4.11	23%	\$5.06	-20%	20%	0%	-10%	0%	0%	20%	10%	\$5.57
5	11/6/19	\$2.00	14%	\$2.28	0%	-10%	10%	-10%	0%	0%	0%	-10%	\$2.05
6	4/7/21	\$2.30	5%	\$2.42	0%	25%	0%	0%	15%	0%	10%	50%	\$3.63
7	9/14/21	\$2.30	3%	\$2.37	0%	0%	0%	0%	40%	0%	0%	40%	\$3.32

The comparable sales analyzed in the preceding chart reflect an adjusted sales price range of \$2.05 to \$5.57 per square foot with an average of the adjusted prices being \$3.47 per square foot. Sale No. 4 represents the highest adjusted price while the remaining sales fall well below. Based on this information, other sales and offerings, it is our opinion that the subject property, land only, has a market value, of \$3.60 per square foot. As such, our estimate of the per unit market value, land only, is listed as follows:

\$3.60 Per Square Foot

Improvements. The subject property is improved with the South Terminal Building and supporting parking, aprons, etc. Again, as stated earlier and under Article 9.12 in the lease, no compensation or

consideration for improvements has been included for the tenant's interest.

Market Rent Analysis from Land Capitalization. The purpose of this appraisal is to estimate the current market rent of the property described earlier. As stated earlier in the highest and best use, the subject property is subject to a ground lease for aviation uses. Therefore, the market rent rate of the land is valued in this report.

The methodology employed for estimating land lease rates is based on two sources. One method is to compare land lease rates from other airports to the subject. The second method is to determine the value of the land at the subject airport and then apply a rate of return to this land. The rate of return is determined from comparison of lease rate returns from other airports as well as a rate of return from the real estate market. This methodology is believed to be reasonable and is reflective of the market in determining land lease rates for airport properties.

Current Leasing Status. The subject is under lease with a base ground rate of \$0.30 per square foot annually. The current contract rent for Initial Lease is \$0.33 per square foot based on the CPI adjustments.

Unit of Comparison. The comparable rents were analyzed using the rental rate per square foot of land area. This unit of comparison is calculated by dividing the total annual rent by the total square footage.

Lease Rates. The scope of our appraisal included the estimation of a market lease rate for the subject property. The lease rate is applied as a rate of return to the value of the land determined earlier. In determining the rate of return, we have utilized a market survey of airport properties along with a market study of all real estate properties for ground leases.

Airport Market Survey. One of the steps in the process we used to estimate the lease rate for the subject was based on airports across the country. Airports determine the rental amounts of their property via different methods. One of these methods is based on a rate of return to the market value of the property. We have performed an historic survey of airport lease terms. That study found that lease terms ranged from 3 to 60 years, with the majority ranging from 20 to 30 years. The rate of return on the land values ranged from 8 to 11 percent.

Real Estate Market Summary. In this analysis, the rate of return is estimated from the overall real estate market. In this scenario, the rate of return is determined by the forces of market supply and demand for investment funds. The rate of return must be sufficient to compensate the investor or landowner for: 1) time; 2) liquidity; 3) management; and 4) risk. The rate of return must be offered or paid to meet the competition of alternative investment returns or opportunity cost of funds.

We have referenced the chart on the following page, compiled by Realtyrates.com, details survey respondents' capitalization rates for land leased properties. This chart is from the most recent 3rd Quarter of 2021.

RealtyRates.com INVESTOR SURVEY - 3rd Quarter 2021*						
LAND LEASES						
Property Type	Capitalization Rates			Discount Rates		
	Min.	Max.	Avg.	Min.	Max.	Avg.
Apartments	2.30%	9.58%	6.11%	4.90%	10.08%	7.11%
Golf	2.34%	14.94%	8.57%	4.94%	15.44%	9.57%
Health Care/Senior Housing	2.34%	10.12%	6.71%	4.94%	10.62%	7.71%
Industrial	2.34%	9.48%	6.46%	4.94%	9.98%	7.46%
Lodging	2.34%	14.22%	7.00%	4.94%	14.72%	8.00%
Mobile Home/RV Park	2.11%	12.02%	7.27%	4.71%	12.52%	8.27%
Office	2.32%	9.34%	6.13%	4.92%	9.84%	7.13%
Restaurant	3.25%	14.62%	8.15%	5.85%	15.12%	9.15%
Retail	2.34%	10.54%	6.64%	4.94%	11.04%	7.64%
Self-Storage	2.32%	9.79%	7.53%	4.92%	10.29%	8.53%
Special Purpose	3.04%	16.26%	8.57%	6.10%	17.64%	8.81%
All Properties	2.11%	16.26%	7.19%	4.71%	15.44%	8.06%

*2nd Quarter 2021 Data Copyright 2021 RealtyRates.com™

As can be seen, capitalization rates for land leases—"Special Purpose" properties ranged from 3.04% to 16.26% with an average of 8.57%. Overall, "All Property" types had a capitalization rate for land leases ranging from 2.11% to 16.26% with an average of 7.19%. The special purpose properties show a higher average capitalization rate than more typical property types. Overall, this publication indicates a capitalization rate for special purpose properties being slightly higher than 8.5 percent annually.

Therefore, based on market rates of return and the rates of returns from other airports, we believe the appropriate rate of return to the land value for the subject property is 8.5 percent. This rate is in the range of the airport survey from 8 to 11 percent as well.

The estimation of annual lease rental rate is as follows:

Market Value per Unit X Rate of Return = Annual Lease Rental Rate

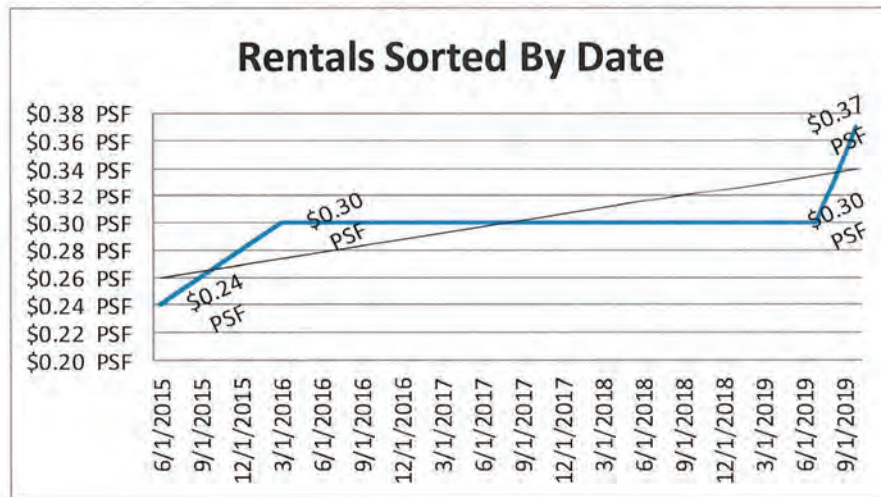
\$3.60 per Sq. Ft. X 8.5% = \$0.31 per Sq. Ft.

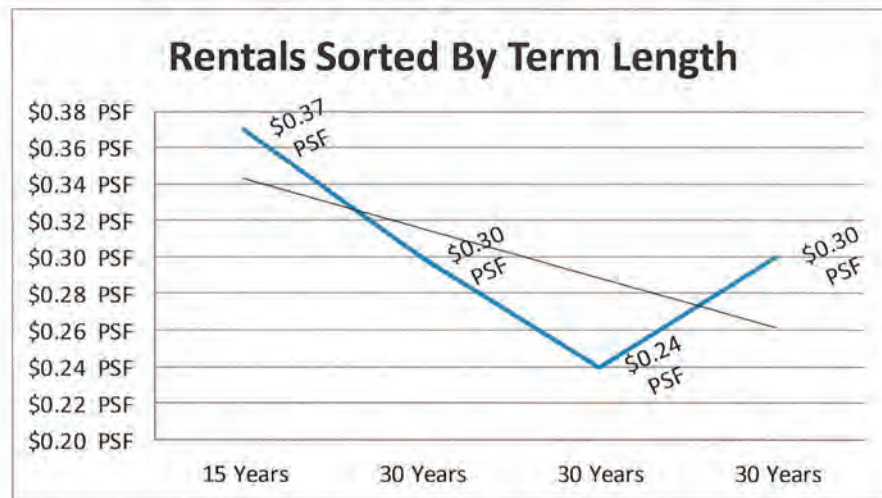
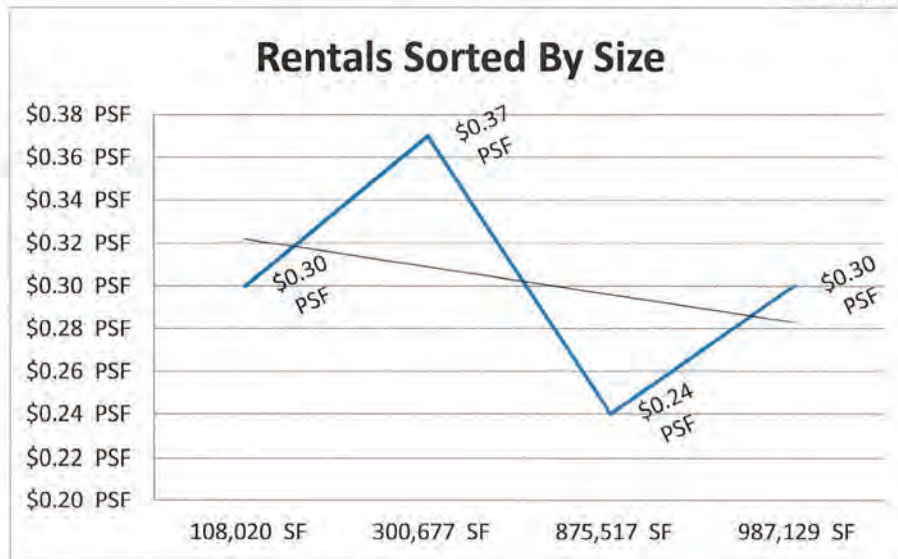
Comparable Rent Analysis. The second method of determining market rent is based on comparable leases for the property within the AUS airport. The rentals included in this report are believed to accurately reflect the ground lease rental market within the market area of the subject property. This survey is also believed to reflect the competition with which the subject must compete. A summary and map of these rent comparables are also provided below and on the following page.

AUS Ground Rental Comparables						
Name	Location	Date	Term	Size	Rate	Escalation
AUS Fuel Co., LLC	3324 Spirit of Texas	10/1/2019	15 Years	300,677 SF	\$0.37 PSF	5 Yr-Fixed, CPI/Yr
Austin FBO, LLC	4800 Emma Browning	6/1/2015	30 Years	875,517 SF	\$0.24 PSF	CPI Annually
LoneStar	10000 Logistics	3/24/2016	30 Years	987,129 SF	\$0.30 PSF	CPI Annually
LoneStar	10000 Logistics	7/1/2019	30 Years	108,020 SF	\$0.30 PSF	CPI- 5 Year



The rentals included in the previous summary are considered comparable to the subject. All the market rental comparables are long term ground leases located within AUS. Rental comparables are limited due to the special purpose type property. The comparables are made up of four ground leases signed between 2015 and 2019, two of which, make up the subject leasehold. These comparables are believed to be the most similar to market rent when comparing to other ground lease type transactions. In this analysis, the rentals were compared based on date of the lease, size of the area and length of the term. The data was sorted and graphically compared. These factors are illustrated graphically below:





Below is a discussion of the important factors for the rental market as compared to the subject.

Rent No. 1-AUS Fuel. This lease transaction occurred in 2019 and was the most recent lease at AUS. Rental rates are believed to increase since that time and this sale is considered inferior to the date of value with respect to market conditions. The land size 300,677 square feet (6.903 acres) of land and is considered superior to the subject with respect to land size. The term of the lease is 15 years. This is considered superior to the subject's 30 year term. Overall, this rent comparable at \$0.37 per square foot annually and is considered similar to the subject property.

Rent No. 2-Austin FBO. This lease transaction occurred in 2015 and is the oldest lease from the rental data at AUS. Rental rates are believed to increase since that time and this sale is considered inferior to the date of value with respect to market conditions. The land size 875,517 square feet (20.1 acres) of land and is considered similar to the subject with respect to land size. The term of the lease is 30 years. This is considered similar to the subject's 30 year term. Overall, this rent comparable at \$0.24 per square foot annually and is considered inferior to the subject property.

Rent No. 3-LoneStar. This lease transaction occurred in 2016 and is the Initial Lease of the subject. Rental rates are believed to increase since that time and this sale is considered inferior to the date of value with respect to market conditions. The comparable is similar for all other factors. Overall, this rent comparable at \$0.30 per square foot annually and is considered inferior to the subject property.

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Rent No. 4-LoneStar. This lease transaction occurred in 2019 and is the amendment lease of the subject. Rental rates are believed to increase since that time and this sale is considered inferior to the date of value with respect to market conditions. The comparable is similar for all other factors. Overall, this rent comparable at \$0.30 per square foot annually and is considered inferior to the subject property.

The rental rates above range from \$0.24 to \$0.37 per square foot, annually. The most recent lease occurred in 2019 and the rental rates have been increasing over time due to market conditions. Based on this factor, the market rent for the subject is estimated to be slightly over the range of the comparable rental data. Based on our analysis of the in-place and comparable rents, we have estimated market rent for the subject property to be \$0.40 per square foot annually.

1. Determine Market Rent.

The market rent findings from the land valuation and capitalization analysis and the comparable rental analysis ranged from \$0.31 per square foot to \$0.40 per square foot annually. The range differential between the two methods is small and we have determined the market rental rate to be \$0.40 per square foot annually.

2. Determine Contract Rent.

Rent under the Initial Lease includes Fixed Rent and Variable rent as defined in Section 5.02, and Additional Rent. Additional Rent is defined as all fees, charges, and amounts payable by Tenant to Owner under this Lease other than Fixed Rent and Variable Rent.

Fixed rent is the Initial Lease original contract rent of \$300,000 or \$0.30 per square foot annually. The Initial Lease is adjusted effective as of the first day of each lease year beginning with the second lease year commencing after the beginning of operations, based on any percentage increase in the averaged CPI of the prior 12-month period running from July 1st through June 30th over the immediately preceding July 1st through June 30th. The first day of the lease year is October. The rental increases for the last three escalations were 3.3 percent, 1.2 percent and 0.5 percent, respectively based on the historical records. The current contract rent is \$0.33 per square foot annually.

Variable Rent is based on a percentage of annual Lease Year Gross Revenues, pro-rated for any partial Lease Year, based on the actual Enplaned Passengers for the applicable Lease Year in accordance with the following schedule.

- 0 to 399,999 Enplaned Passengers, 0% of Gross Revenue;
- 400,000 to 699,999 Enplaned Passengers, 5% of Gross Revenue;
- 700,000 to 999,999 Enplaned Passengers, 10% of Gross Revenue;
- 1,000,000 to 1,299,999 Enplaned Passengers, 15% of Gross Revenue; and
- more than 1,299,999 Enplaned Passengers, 20% of Gross Revenue.

For the purposes of the lease, Gross Revenue is defined in Section 5.01 as, the total amount actually charged to all customers by Tenant arising from its operation of the Premises, including Owner's cash payments to Tenant under Section 18.06 (Rental Car Revenue Sharing), whether for cash, credit or exchange, regardless of when collected. It shall include all transactions, regardless of place or time of actual payment. For the avoidance of doubt, Gross Revenues will not be deemed to have been earned by Tenant until such time that Tenant is entitled to collect such revenues from the applicable counterparty under an installment sales contract.

Based on historic records, the variable rent was only paid in the Lease Year 3 from October 1, 2018 to September 30, 2019. For the purposes of calculating contract and surplus rent, any contract variable rent will be offset with the market variable rent as required in the lease, as the amount would be same.

In other words, there would not be any surplus income from the variable rent component that would contribute to the leasehold.

The Amendment lease original contract rent is \$0.30 per square foot annually. This amount is described as “Additional Rent” in Paragraph 1.c. of the Amendment. The Amendment lease rates will be adjusted every 5 years based on the CPI with the revised rate going into effect starting in the month of July of each fifth anniversary year of the commencement date. No escalation has occurred as yet. The escalation for the Amendment is not outside its first 5-year period. The first escalation will occur in July 2024. No variable rent is associated with the Amendment.

Changes in the CPI are the determinant factor in estimating contract rent in the future. Therefore, we are required to analyze CPI in order to forecast the rent increases.

Below is a chart from the Bureau of Labor Statistics that reports the CPI levels since 2011.

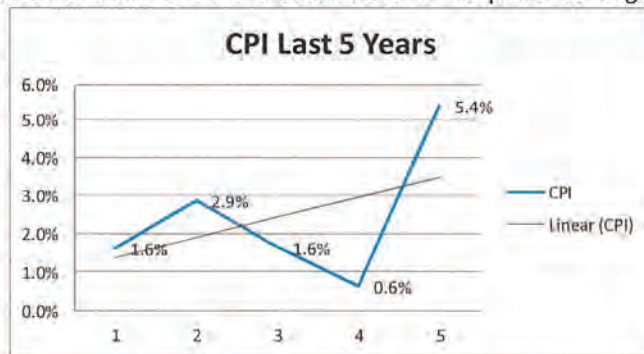
CPI for All Urban Consumers (CPI-U)

Series Title: All items in U.S. city average, all urban consumers,
 Area: U.S. city average
 Years: 2011 to 2021

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	% Change July to June	Annual % Change
2011	220.223	221.309	223.467	224.906	225.964	225.722	225.922	226.545	226.889	226.421	226.230	225.672		
2012	226.665	227.663	229.392	230.085	229.815	229.478	229.104	230.379	231.407	231.317	230.221	229.601	1.7%	1.7%
2013	230.280	232.166	232.773	232.531	232.945	233.504	233.596	233.877	234.149	233.546	233.069	233.049	1.8%	1.5%
2014	233.916	234.781	236.293	237.072	237.900	238.343	238.250	237.852	238.031	237.433	236.151	234.812	2.1%	0.8%
2015	233.707	234.722	236.119	236.599	237.805	238.638	238.654	238.316	237.945	237.838	237.336	236.525	0.1%	0.7%
2016	236.916	237.111	238.132	239.261	240.229	241.018	240.828	240.849	241.428	241.729	241.353	241.432	1.0%	2.1%
2017	242.839	243.603	243.801	244.524	244.733	244.955	244.786	245.519	246.819	246.663	246.669	246.524	1.6%	2.1%
2018	247.867	248.991	249.554	250.546	251.588	251.989	252.006	252.146	252.439	252.885	252.038	251.233	2.9%	1.9%
2019	251.712	252.776	254.202	255.548	256.092	256.143	256.571	256.598	256.759	257.346	257.208	256.974	1.6%	2.3%
2020	257.971	258.678	258.115	256.389	256.394	257.797	259.101	259.918	260.280	260.388	260.229	260.474	0.6%	1.4%
2021	261.582	263.014	264.877	267.054	269.195	271.696	273.003	273.567	274.310	276.589	277.948	278.802	5.4%	7.0%
Average 10 -Year													1.9%	2.2%
Average 5 -Year													2.4%	2.9%

Source: Bureau of Labor Statistics

The average CPI for the last 5 years for the lease period is 2.4 percent. This average is well below the last year’s CPI of 5.4 percent. Based on the current CPI levels the escalations will experience larger increases in the near future. The graph to the right depicts trend line analysis of over 3.5 percent in the near future while historically the rate is been much less. Based on the historic CPI, rent escalations applied in the discount flow analysis are applied at 3.5 percent annually for the term of the remaining leasehold analysis as it applies to contract rent and market rent.



3. Subtract the Contract Rent from the Market Rent.

The subtraction of the market rent from the contract rent will be applied in the discounted cash flow analysis later in the report. The monthly cash flows will be increased based on the escalation rate determined earlier and according to the lease terms. Based on the determination discussed earlier, there is a bonus to the leasehold. Again, no surplus was calculated for the variable rent component.

4. Combine the Leasehold Monthly Bonus by the Number of remaining monthly installments.

The bonus rent attributed to the leasehold will be applied in the discounted cash flow analysis later in

the report. Based on the initial term and the option periods (2-5 year terms), a total of 409 months of remaining installments/payments were calculated.

5. Apply a Rate to the Monthly Cash Flows.

This procedure involves converting an income into a determination of value via use of an appropriate rate or factor. There are numerous capitalization techniques, and any number of income estimates may be capitalized. For example, appraisers estimate and capitalize Gross Annual Rental Income, Effective Annual Income, Net Annual Income, Cash Flow, and After Tax Cash Flow. There are generally one or two techniques which are most appropriate for the problem at hand which can be derived from the market. Income capitalization techniques include direct capitalization and yield capitalization. In direct capitalization, changes in future property value are implicit in the rates exhibited by actual market transactions. Yield capitalization anticipates changes in property income and value over a holding period. Changes in the property's income stream or future value are reflected by specific inputs.³

Direct Capitalization. This technique utilizes a procedure whereby the net annual income is divided by an overall rate. Leasehold capitalization rates are difficult to derive and can be affected by the various provisions and nuances in the lease. In this particular instance, the Direct Capitalization technique is not believed to be a credible method for the valuation of the leasehold due to the varying income streams.

In this scenario, the income to the leasehold tenant increases over the duration of the lease. As such, the Yield Capitalization technique is the most credible and reliable method to value the leasehold estate.

Yield Capitalization. This technique is used to convert future benefits into present value by discounting each future benefit at an appropriate yield/discount rate. Below is a description of the valuation process.

Rental Income. For the Yield Capitalization process, the first period rental income and the income of the remaining periods must be forecasted (also known as Cash Flows). The forecasted monthly rental bonus or net rental incomes for the current month and the remaining months were calculated on the Present Value (PV) table as provided in the Addenda. These estimated income streams are believed to be appropriate to use in our discounted cash flow analysis.

Discount Rate. The discount rate, as known as the yield rate, is a rate of return on capital, usually expressed as a compound annual percent rate. A discount rate considers all expected property benefits. The discount rate will be used to convert the remaining monthly payments of the initial and option terms into a present value. Most discount rates are based on a safe rate and adjusted for the risk of the income stream or reversion associated with the type of property. A safe rate, also called riskless rate or relatively riskless rate, represents the minimum rate of return on invested capital. Theoretically, the difference between the total rate of return and the safe rate is considered a premium to compensate the investor for risk, the burden of management, and the illiquidity of the capital invested. To support our opinion of an appropriate discount rate, we researched current market interest rates as published by the Research Division of the Federal Reserve Bank of St. Louis. The chart on the following page relates to weekly corporate bond interest rates based on their risk since 2017.

³ The Appraisal of Real Estate, 15th Edition, 2020, Page 416



The previous chart depicts the interest rate spreads of corporate bonds with the risk associated with the rated bond instrument. The average risk associated with income streams in this instance ranges from 1.6 percent spread between BBB and 2.47 percent spread between AAA bonds as opposed to unrated bonds.

The initial term of the lease is 40 years and there are currently over 34 years left on lease. The 10-year treasury rate and 30-year treasury rate will be used as an appropriate benchmark for a “safe rate” of return for comparison purposes. The chart below summarized the annual treasury rates as report by the Federal Reserve. The 10-Year Treasury Rate has been ranging from 0.89% to 2.91% since 2015. The 20-Year Treasury Rate has been ranging from 1.35% to 3.02% since 2015. The 30-Year Treasury Rate has been ranging from 1.56% to 3.11% since 2015. Planned rate hikes and the Covid impact have affected the recent levels of rates for forecasting purposes. Based on these rates, an appropriate safe discount rate component is 3.00%.

Long Term Treasury Rates			
Year	% Yield U.S. Treasury 10-year	% Yield on U.S. Treasury 20-year	% Yield U.S. Treasury 30-year
2015	2.14	2.55	2.84
2016	1.84	2.22	2.59
2017	2.33	2.65	2.89
2018	2.91	3.02	3.11
2019	2.14	2.4	2.58
2020	0.89	1.35	1.56
2021	1.45	1.98	2.06

The chart on the following page is a survey of historic spread of yield rates from Real Estate Research Corp (RERC) Real Estate Report. The yield spread depicts the difference in real estate yield rates and more rates with perceived safe returns. The basis point spread measures the difference between the yield and an alternative investment with a comparable life (10-year treasuries, Moody’s Baa, or Moody’s Aaa). The report analyzes the economic and structural changes driving the U.S. real estate space and capital markets, and discusses how these changes are affecting market dynamics, capital flows, and risk and return. Below is a survey of historic yield rates from Real Estate Research Corp (RERC) Real Estate Report. The report analyzes the economic and structural changes driving the U.S. real estate space and capital markets, and discusses how these changes are affecting market dynamics, capital flows, and risk and return.

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Following is a summary of the findings of RERC's Real Estate Research Report for the third quarter of 2021.

Required Real Estate Yields Vis-À-Vis Capital Market Returns						
	3Q 2021	2Q 2021	3Q 2020	3Q 2019	3Q 2018	3Q 2017
Real Estate Yield (%)	7.6	7.6	7.8	7.8	7.8	7.8
Moody's Baa Corporate (%)	3.2	3.6	3.3	4.0	4.8	4.3
Moody's Aaa Corporate (%)	2.5	2.9	2.2	3.1	3.9	3.7
10-Year Treasuries (%)	1.3	1.6	0.7	1.8	2.9	2.2
Yield Spread (Percentage Points)						
Moody's Baa Corporate (%)	4.4	4.0	4.5	3.8	3.0	3.5
Moody's Aaa Corporate (%)	5.1	4.7	5.6	4.7	3.9	4.1
10-Year Treasuries (%)	6.3	6.0	7.2	6.0	4.9	5.6

Sources: RERC, Federal Reserve, Moody's, 3Q 2021

The basis point spread for real estate yields ranges from 4.9% to 7.2% as compared to 10-year treasuries. The yield spread for the Moody's Baa and Moody's Aaa is less with a range of 3.0% to 5.6% over the same period. The basis point spread measures the difference between the yield and an alternative investment with a comparable life (10-year treasuries, Moody's Baa, or Moody's Aaa). We have applied a 6.00 basis point premium to the 3.00 percent yield rate determined earlier. The resulting discount rate is 9.0% (3.0% + 6.0%).

We have also referenced the following chart, compiled by Realtyrates.com, details survey respondents' discount rates for land leased properties. This chart is from the most recent 3rd Quarter of 2021.

RealtyRates.com INVESTOR SURVEY - 3rd Quarter 2021*						
LAND LEASES						
Property Type	Capitalization Rates			Discount Rates		
	Min.	Max.	Avg.	Min.	Max.	Avg.
Apartments	2.30%	9.58%	6.11%	4.90%	10.08%	7.11%
Golf	2.34%	14.94%	8.57%	4.94%	15.44%	9.57%
Health Care/Senior Housing	2.34%	10.12%	6.71%	4.94%	10.62%	7.71%
Industrial	2.34%	9.48%	6.46%	4.94%	9.98%	7.46%
Lodging	2.34%	14.22%	7.00%	4.94%	14.72%	8.00%
Mobile Home/RV Park	2.11%	12.02%	7.27%	4.71%	12.52%	8.27%
Office	2.32%	9.34%	6.13%	4.92%	9.84%	7.13%
Restaurant	3.25%	14.62%	8.15%	5.85%	15.12%	9.15%
Retail	2.34%	10.54%	6.64%	4.94%	11.04%	7.64%
Self-Storage	2.32%	9.79%	7.53%	4.92%	10.29%	8.53%
Special Purpose	3.04%	16.26%	8.57%	6.10%	17.64%	8.81%
All Properties	2.11%	16.26%	7.19%	4.71%	15.44%	8.06%

*2nd Quarter 2021 Data Copyright 2021 RealtyRates.com™

As can be seen, discount rates for land leases—"Special Purpose" properties ranged from 6.10% to 17.64% with an average of 8.81%. Overall, "All Property" types had a discount rate for land leases ranging from 4.71% to 15.44% with an average of 8.06%. The special purpose properties show a higher average discount than more typical property types. Overall, this publication indicates a discount rate slightly over 8.00 percent with special purpose properties being higher than 8.8 percent annually.

Finally, we have provided the investor survey prepared by RERC's Real Estate Research Report for the third quarter of 2021 for First Tier Investment Properties in the Austin Market Area. First tier properties

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are defined as the best quality assets in prime to good locations. The following chart depicts rates for the First Tier Properties in the Austin Market.

	Pre-Tax Yield (IRR) (%)			Going-In Cap Rate (%)			Terminal Cap Rate (%)			Anticipated 1-Year Growth Rate			
	RERC Estimate ¹	South Region	U.S.	RERC Estimate ¹	South Region	U.S.	RERC Estimate ¹	South Region	U.S.	National Value	South Value	National Rent	South Rent
ICBD	8.2	8.3	8.6	6.6	6.9	7.1	7.0	7.4	7.6	-0.8	0.5	-1.0	-0.4
Suburban	8.6	8.7	8.8	7.0	7.2	7.3	7.6	7.6	7.8	-0.2	0.3	-0.2	0.0
Warehouse	7.9	7.7	7.7	6.2	6.3	6.2	6.8	6.8	6.7	4.1	3.6	3.5	3.1
R&D	8.7	8.3	8.3	6.6	7.0	7.0	7.2	7.6	7.6	2.2	1.8	2.1	1.7
Flex	8.1	8.3	8.4	6.7	6.9	7.0	7.1	7.5	7.6	2.8	2.6	2.6	3.3
Regional Mall	8.9	9.6	9.8	6.9	8.3	8.2	7.5	8.7	8.8	-3.6	-3.9	-3.2	-3.4
Power Center	8.6	8.6	8.8	7.4	7.4	7.6	7.5	7.8	8.1	-0.9	-0.6	-1.0	-0.4
Neigh/Comm	8.2	8.4	8.7	6.8	7.0	7.2	7.2	7.5	7.7	0.9	1.4	0.6	1.4
Apartment	6.6	7.1	7.2	4.8	5.2	5.3	5.3	5.8	6.0	3.5	4.1	3.1	3.5
Hotel	10.2	9.6	9.9	8.3	8.3	8.4	8.8	9.0	9.0	0.1	-1.6	0.8	-0.5
Average	8.4	8.5	8.6	6.7	7.1	7.1	7.2	7.6	7.7	0.8	0.8	0.7	0.8

First-Tier investment properties are defined as the best quality assets in prime to good locations. ¹Apartment RERC estimate data revised back to 1Q 2021. Source: RERC, 1Q 2021.

The RERC show IRR/discount rates that average 8.4 percent for all property types, with apartments being 6.6 percent and skewing the overall property average. The subject's leasehold income stream would be higher than this average.

The analysis of discount rates as shown above range from 9 percent for the built-up method to over 8.5 percent from the investor surveys. Based on this analysis, the indicated discount rate to apply the leasehold income streams over the remaining term is 8.5 percent.

Reversion. There is no reversion in the leasehold analysis.

6. Calculate the Present Value of the Cash Flows to Determine the Leasehold Value.

PV tables were prepared for the calculations of surplus rent, rent escalations and discounted monthly payments over the remaining rental term of the Initial Lease and the Amendment. The PV tables are located in the Addenda. The values reported from these tables are as follows:

Initial Lease	\$1,142,212
Amendment	<u>\$164,317</u>
Total	\$1,306,529

Final Value of the Leasehold Estate Via the Income Approach. Based on the projected cash flows and discount rate, we have determined the value of the subject property using the Yield Capitalization Method (Discounted Cash Flow Analysis). The calculations for determining the value of the subject property are located in the Addenda of this report (PV Tables for the Initial Lease and Amendment). It is our opinion that the market value of the leasehold property interest via the Income Approach to Value is as follows:

<u>Leasehold Interest Value</u>	
Initial Lease	\$1,142,212
Amendment	<u>\$164,317</u>
Total	\$1,306,529

Final Value Via the Income Approach. Based on the previous discussion, it is my opinion that the market value of the leasehold property via the Income Approach to Value is \$1,306,529 or \$1,307,000 rounded.

Cost Approach.

Trade Fixtures. As stated earlier, the tenant's interest includes the consideration of "Trade Fixtures". Under Section 29.02(d), in the event of the owner defaulting, tenant may cause the owner to purchase all Trade Fixtures at a cost equal to the greater of (i) Tenant's unamortized cost of such Trade Fixtures or (ii) the appraised value of such Trade Fixtures. Tenant shall provide notice of its election on or before the date the Lease will terminate. In such notice, Tenant shall provide Owner with its calculation of the purchase price of the Trade Fixtures, determined in accordance with this subsection. If the Parties are unable to agree upon such purchase price for the Trade Fixtures the Parties shall attempt to determine such purchase price pursuant to the process set forth in Article 40. If the process set forth in Article 40 is unsuccessful, and the Parties cannot agree on a subsequent process to resolve their differences, the remedies set forth in this Section 29.02(d) shall not be available to Tenant.

The tenant has provided the appraiser with the trade fixture items and the annual depreciation. From this information, we can calculate the Tenant's unamortized cost of the trade fixtures. The scope of this analysis only involves the Cost Approach for the trade fixtures as shown in Item (i) above. We did not appraise the value of the trade fixtures as describe in Item (ii) above. The analysis undertaken is summarized as follows.

Cost. The tenant provided an itemized list of the trade fixtures. The tenant has broken down the trade fixtures between two categories, Machinery & Equipment (M&E) and Furniture and Fixtures (F&F). The cost schedule below shows the cost for each item and date placed in service.

Depreciation. The tenant depreciates the M&E and F&F on a straight line of age-life basis. The life of the M&E items are based on 15 years while the life of F&F items are based on 7 years. The calculated depreciation is based on the percentage of the age in relation to the life for each item.

The Cost Schedule for the Trade Fixtures is shown as follows:

Trade Fixture Cost Schedule and Summary								
Machinery & Equipment								
Date	Name	Description	Amount	Age	Life	% Dep	\$ Dep	Value
9/22/2016	JPT Aero Tech	GSE	\$ 424,623.00	5.44 Years	15 Years	36%	\$ 152,864.00	\$ 271,759.00
2/27/2017	Echo Globe	Misc GSE-29721056-1	\$ 2,975.00	5.01 Years	15 Years	33%	\$ 982.00	\$ 1,993.00
2/28/2017	Echo Globe	Misc GSE-29721049-1	\$ 2,975.00	5.01 Years	15 Years	33%	\$ 982.00	\$ 1,993.00
3/9/2017	KCI GSE	Boarding Ramps	\$ 96,350.00	4.98 Years	15 Years	33%	\$ 31,796.00	\$ 64,554.00
3/9/2017	KCI GSE	N/D	\$ 96,350.00	4.98 Years	15 Years	33%	\$ 31,796.00	\$ 64,554.00
3/27/2017	JPT Aero Tech	N/D	\$ 9,888.00	4.93 Years	15 Years	33%	\$ 3,263.00	\$ 6,625.00
7/26/2017	Tampa Vacuum	N/D	\$ 6,102.70	4.60 Years	15 Years	31%	\$ 1,892.00	\$ 4,211.00
7/4/2018	N/D	2 Damaged Ramps	\$(128,466.66)					
11/1/2018	N/D	Ramps	\$ 142,500.00	3.33 Years	15 Years	22%	\$ 31,350.00	\$ 111,150.00
6/28/2019	N/D	Golf Cart	\$ 6,982.13	2.68 Years	15 Years	18%	\$ 1,257.00	\$ 5,725.00
11/14/2019	Meta Link	Passenger Ram Refurbish	\$ 38,970.00	2.30 Years	15 Years	15%	\$ 5,846.00	\$ 33,124.00
Total			\$ 699,249.17				\$ 262,028.00	\$ 565,688.00
Furniture and Fixtures								
Date	Name	Description	Amount	Age	Life	% Dep	\$ Dep	Value
10/4/2016	Henricksen	Office Furniture	\$ 8,000.00	5.41 Years	7 Years	77%	\$ 6,160.00	\$ 1,840.00
12/6/2016	Henricksen	Office Furniture	\$ 9,029.89	5.24 Years	7 Years	75%	\$ 6,772.00	\$ 2,258.00
12/6/2016	Henricksen	Terminal Furniture	\$ 88,500.00	5.24 Years	7 Years	75%	\$ 66,375.00	\$ 22,125.00
1/7/2017	Henricksen	Furniture	\$ 2,101.13	5.15 Years	7 Years	74%	\$ 1,555.00	\$ 546.00
1/30/2017	Henricksen	5th Desk Setup	\$ 3,740.04	5.08 Years	7 Years	73%	\$ 2,730.00	\$ 1,010.00
2/13/2017	Henricksen	Terminal Furniture	\$ 22,500.00	5.05 Years	7 Years	72%	\$ 16,200.00	\$ 6,300.00
2/28/2017	Division Weigh & Go	8 Scales & SH	\$ 19,157.00	5.01 Years	7 Years	72%	\$ 13,793.00	\$ 5,364.00
3/20/2017	Henricksen	Terminal Furniture	\$ 90,142.54	4.95 Years	7 Years	71%	\$ 64,001.00	\$ 26,142.00
3/20/2017	Henricksen	2 Benches	\$ 10,300.00	4.95 Years	7 Years	71%	\$ 7,313.00	\$ 2,987.00
3/30/2017	Jeff Pearse	Outdoor	\$ 17,606.00	4.92 Years	7 Years	70%	\$ 12,324.00	\$ 5,282.00
4/16/2017	Henricksen	Net of \$10.3K Backorder	\$ 12,898.82	4.88 Years	7 Years	70%	\$ 9,029.00	\$ 3,870.00
4/18/2017	Henricksen	Door panels	\$ 6,069.31	4.87 Years	7 Years	70%	\$ 4,249.00	\$ 1,820.00
7/4/2017	Outside in Style	Patio Shades	\$ 3,290.99	4.66 Years	7 Years	67%	\$ 2,205.00	\$ 1,086.00
7/21/2017	Outside in Style	Patio Shades	\$ 3,079.71	4.61 Years	7 Years	66%	\$ 2,033.00	\$ 1,047.00
Total			\$ 296,415.43				\$ 214,739.00	\$ 81,677.00
Total Trade Fixtures								\$ 647,365.00
								Rounded \$ 647,000.00

The value of the trade fixtures has been calculated to be \$647,000.

Reconciliation of Value: The Income Approach was utilized to establish the value of the Leasehold Estate. The Cost Approach was utilized for the Trade Fixtures. The Sales Comparison Approach was not utilized as this approach is not credible for the valuation of a Leasehold Interest. The values were previously developed and are reported as follows:

Leasehold	\$1,307,000
Trade Fixtures	<u>\$647,000</u>
Total	\$ 1,954,000

Opinion of Just Compensation. The acquisition in this instance is a “whole” taking of the leasehold interest in the South Terminal Property. This involves appraising the whole property consisting of a leasehold interest only. The compensation includes the value of the entire tenant/leasehold ownership interest, as result there are no damages to the remainder. The general steps of the compensation methodology are as follows:

1. Valuation of the property interest to be acquired shall disregard any decrease or increase in the fair market value of the real property caused by the project for which the property is to be acquired, or by the likelihood that the property would be acquired for the project, other than the physical deterioration with the reasonable control of the owner/tenant.

To summarize, the total compensation due the tenant is the value of the acquisition of the entire leasehold ownership interest and the unamortized cost of such Trade Fixtures. Total compensation is computed as follows:

Summary of Just Compensation		
Whole Property-Leasehold (To Be Acquired)	\$1,307,000	
Trade Fixtures	\$647,000	
Total Compensation		\$1,954,000

CERTIFICATION

Property: Leasehold Interest in the South Terminal Property at ABIA

Tenant: LoneStar Airport Holdings, LLC.

Address: South Terminal at ABIA 10000 Logistics Lane, Austin, TX 78719

I certify that, to the best of my knowledge and belief:

- the statements of the fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- we have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- the reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice, as promulgated by the Appraisal Foundation, and the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
- I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three year period immediately preceding acceptance of this assignment.
- I, Randy L. Seale, MAI on November 11, 2021 personally made a field inspection of the property herein appraised and that I have afforded the tenant the opportunity to accompany me at the time of inspection. I have also personally made a field inspection of the comparable rentals relied upon in making said appraisal on January 28, 2022. Stephen D. Kovar, Jr., MAI did not make a field inspection of the subject property.
- I understand this market value appraisal is to be used in connection with the acquisition of land for an airport project by with the assistance of FAA funds or other Federal funds. That such appraisal has been made in conformity with the appropriate State laws, regulations, policies, and procedures applicable to appraisal of land for such purposes, and that to the best of my knowledge no portion of the value assigned to such property consists of items which are noncompensable under the established law of said State.

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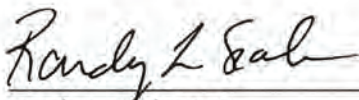
- That any decrease or increase in the fair market value of real property prior to the date of valuation caused by the public improvement for which such property is acquired, or by the likelihood that the property would be acquired for such improvement, other than that due to physical deterioration within reasonable control of the tenant has been disregarded in determining the compensation for the property.
- No others have provided significant real property appraisal assistance to the persons signing this certification by conducting research regarding the subject property and market data.
- the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- as of the date of this report Randy L. Seale, MAI and Stephen D. Kovar, Jr., MAI have completed the continuing education program for Designated Members of the Appraisal Institute.
- Randy L. Seale, MAI and Stephen D. Kovar, Jr., MAI are state certified by the State of Texas as General Real Estate Appraisers.

I have not revealed the findings and results of such appraisal to anyone other than the proper officials of the acquiring agency of said Airport or officials of the Federal Aviation Administration and I will not do so until so authorized by said officials, or until I am required to do so by due process of law, or until I am released from this obligation by having publicly testified as to such findings.


That the conclusion set forth in this appraisal is my independent opinion of the value of the property as of the March 1, 2022 and that such conclusion was reached without collaboration or direction as to value. It is my opinion that the fair market value of the above captioned real property is as follows:

Total Just Compensation:	\$ 1,954,000
---------------------------------	---------------------

ALLEN, WILLIFORD & SEALE, INC.



 Randy L. Seale, MAI
 Certified General Real Estate Appraiser
 Certificate No. TX-1320302-G



 Stephen D. Kovar, Jr., MAI
 Certified General Real Estate Appraiser
 Certificate No. TX-1338762-G

ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal is subject to the following assumptions and limiting conditions:

The subject is considered a special purpose property and the data researched for the valuation was similar in location and use.

That the date of value to which the opinions expressed in this report apply is set forth in the Letter of Transmittal. The appraiser assumes no responsibility for economic or physical factors occurring at some later date which may affect the opinions herein stated.

That no opinions are intended to be expressed for legal matters or that would require specialized investigation or knowledge beyond that ordinarily employed by real estate appraisers, although such matters may be discussed in this report.

That no opinion as to title is rendered. Name of tenant and the legal description were obtained from sources generally considered reliable. Title is assumed to be marketable and free and clear of all liens, encumbrances, easements, and restrictions except those specifically discussed in this report. The property is appraised assuming it to be under responsible ownership and/or competent management and available for its highest and best use.

That no engineering survey has been made by the appraiser. Except as specifically stated, data relative to size and area were taken from sources considered reliable and no encroachment of real property improvement is assumed to exist.

That maps, plats, and exhibits included herein are for illustration only, as an aid in visualizing matters discussed within this report. They should not be considered as surveys or relied upon for any other purpose.

That no detailed soil studies covering the subject property were available to the appraiser. Therefore, premises as to soil qualities employed in this report are not conclusive, but have been considered consistent with information available to the appraiser.

The property is appraised as though free and clear, under responsible ownership and/or competent management. All existing liens have been disregarded.

Unless otherwise stated herein, all of the improvements previously described were considered operational and in good condition.

The valuation is made subject to the environmental factors stated in the report. Any contamination of the leasehold property is documented and reflective in the market data utilized.

Any information furnished to us by others is believed to be reliable, but I assume no responsibility for its accuracy.

Possession of this report, or a copy thereof, does not carry with it the right to publication, nor may it be used for any purpose, by any but the intended user, without the previous written consent of the appraiser or the intended user and, in any event, only in its entirety.

This appraisal does not require us to give testimony in court or attend on its behalf unless arrangements have been previously made therefore.

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The value is reported in dollars on the basis of the currency prevailing at the date of this appraisal.

I have no present or contemplated interest in the property appraised.

My compensation for making this appraisal is in no manner contingent upon the value reported.

That my analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice, as promulgated by the Appraisal Foundation and the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute.

The appraisal of the leasehold interest considered all factors willing, knowledgeable buyers and sellers would consider in negotiating the purchase price of the property except the influence of the proposed project. The exclusion of the project influence is a Departure from USPAP and is allowed through Jurisdictional Exception. This exception was made under the Jurisdictional Exception provision of the Uniform Standards of Professional Appraisal Practice.

A site plan, survey and various "As Built" plans were provided for the subject property by the client. This information is believed to be reliable.

Information received from the client pertaining to the size and description of the subject property are assumed to be correct. Additional information, which assisted me in the production of this appraisal, has been retained in my files.

The valuation considered trade fixtures. Various items within the trade fixtures are considered personal property or they are movable. This valuation only includes those trade fixture items that are part of the realty and placed on the property and designated by the tenant.

The valuation of the property is in "As Is" condition and no corrective actions have been determined.

There are no other limiting conditions contained in this report other than the ones listed above.

Allen, Williford & Seale, Inc.

SOUTH TERMINAL INITIAL AND AMENDMENT LEASES

Execution Version



SOUTH TERMINAL LEASE AND CONCESSION AGREEMENT

by and between

CITY OF AUSTIN

(Owner)

and

HIGHSTAR CAPITAL IV, L.P.

(Tenant)

South Terminal Lease and Concession Agreement

US 3680839v.43

TABLE OF CONTENTS

ARTICLE 1 DEFINITIONS AND INTERPRETATION1

 1.01 Definitions.....1

 1.02 Interpretations10

ARTICLE 2 GRANT OF LEASE11

 2.01 Premises11

 2.02 Existing Condition11

 2.03 Quiet Enjoyment11

ARTICLE 3 TERM12

 3.01 Term12

 3.02 Early Termination12

 3.03 Transfer of Rights13

ARTICLE 4 USE OF PREMISES13

 4.01 Authorized Use13

 4.02 Prohibited Uses13

 4.03 Permits and Licenses.....13

ARTICLE 5 RENT, REPORTS, AND AUDIT13

 5.01 Gross Revenue13

 5.02 Rent14

 5.03 Payment of Pre-Commencement of Operations Date Rent15

 5.04 Payment of Post-Commencement of Operations Date Rent.....15

 5.05 Rent Payment Delivery15

 5.06 Late Payment Penalty15

 5.07 Security Deposit.....15

 5.08 Disputes.....16

 5.09 No Abatement16

 5.10 Tenant Monthly Reports17

 5.11 Tenant Annual Report.....17

 5.12 Tenant Audit Report17

 5.13 Late Report Penalty.....17

 5.14 Internal Control Structure17

 5.15 Records Retention.....18

 5.16 Audit18

5.17 Confidentiality18

5.18 Certain Notices.....18

ARTICLE 6 TAXES AND LIENS.....19

6.01 Payment of Taxes and Assessments19

6.02 Liens.....19

ARTICLE 7 NET LEASE19

7.01 Net Lease19

ARTICLE 8 UTILITIES.....19

8.01 Utilities.....19

ARTICLE 9 CONSTRUCTION.....20

9.01 Conditions to Commencement of the Rehabilitation Project20

9.02 Demolition20

9.03 Improvements21

9.04 Design and Construction Review.....21

9.05 Construction Plans22

9.06 Limitation of Owner Responsibility23

9.07 Construction Standards23

9.08 Owner’s Right of Inspection23

9.09 Tenant’s Representative.....24

9.10 Construction Contract Close-Out.....24

9.11 Amendment of Lease24

9.12 Ownership.....24

9.13 No Liens.....24

9.14 Initial Capital Investment.....25

ARTICLE 10 TENANT OPERATIONS, MAINTENANCE, AND REPAIRS25

10.01 Conditions to Commencement of Operations.....25

10.02 Operations27

10.03 Maintenance Capital Investment.....27

10.04 Maintenance and Repair27

10.05 Tenant Apron28

10.06 Trash/Recycling28

10.07 Owner’s Right to Maintain28

ARTICLE 11 PARKING FACILITIES28

 11.01 South Terminal Parking28

 11.02 Additional Parking Development29

ARTICLE 12 AIRLINE LEASING PROGRAM.....29

 12.01 General29

 12.02 Airline Fees29

ARTICLE 13 MARKETING SUPPORT AND INCENTIVES TO AIR CARRIERS30

 13.01 General30

 13.02 South Terminal Marketing Program30

 13.03 Implementation30

 13.04 Cooperation.....30

ARTICLE 14 CONCESSION PROGRAM.....30

 14.01 General30

 14.02 Owner Review31

 14.03 ACDBE Goals.....31

 14.04 Local Concessionaires31

ARTICLE 15 EXPANSION OR NEW FACILITY31

 15.01 Expansion or New Facility.....31

ARTICLE 16 FINANCING.....32

 16.01 Tenant’s Right to Finance32

 16.02 Tenant’s Lender Rights and Obligations32

 16.03 Owner’s Right to Finance32

ARTICLE 17 OTHER TENANT OBLIGATIONS33

 17.01 Premises Security33

 17.02 Compliance with Airport Rules33

 17.03 Signs.....33

 17.04 Customer Claims, Comments, and Complaints33

 17.05 Maintenance of Legal Existence34

 17.06 Personnel.....34

 17.07 Meetings.....34

 17.08 Addition of Certain Amenities.....34

ARTICLE 18 OTHER OWNER’S OBLIGATIONS34

 18.01 Operation as a Public Airport34

18.02 Maintenance of Public Runways, Taxilanes, Taxiways, Ramps, and Aprons.....34

18.03 Use of Public Runways, Taxilanes, Taxiways, Ramps, and Aprons34

18.04 Signage.....34

18.05 Shuttle Bus Service35

18.06 Rental Car Revenue Sharing.....35

18.07 Federal Compliance37

18.08 Passenger Facility Charge; Airport Improvement Program.....37

18.09 Security37

18.10 Lighting.....37

18.11 De-Icing37

18.12 Access to South Terminal37

ARTICLE 19 SHARED USE AND COMMUNICATIONS SERVICES37

19.01 Shared Use37

19.02 Wireless Service.....38

19.03 Radio38

19.04 Communications Services.....38

19.05 Shared Telephone Service.....39

19.06 Television Service.....39

19.07 Computer Networks39

ARTICLE 20 ENVIRONMENTAL CONDITION OF PREMISES40

20.01 Environmental Assessments40

20.02 Acknowledgement of Hazardous Materials.....40

20.03 Tenant’s Inspection Rights40

ARTICLE 21 ENVIRONMENTAL COMPLIANCE.....40

21.01 Definitions.....40

21.02 Compliance41

21.03 Responsibility41

21.04 Indemnity42

21.05 Stormwater Requirements.....42

21.06 Sustainability.....42

21.07 Survival42

21.08 Hazardous Materials42

21.09 Storm Water Pollution Prevention Plan.....43

21.10 Spill Prevention, Control and Countermeasure Plan43

21.11 Violation of Environmental Laws.....43

21.12 Inspection; Test Results44

21.13 Removal of Hazardous Materials.....44

21.14 Remedies Not Exclusive44

21.15 Environmental Indemnity45

21.16 Tenant Environmental Parties.....45

21.17 Survival.....45

ARTICLE 22 INSURANCE.....45

22.01 General45

22.02 Waiver.....45

22.03 Limits46

22.04 Modification.....46

22.05 Amendment Required46

22.06 Owner’s Right to Maintain46

ARTICLE 23 INDEMNITY47

23.01 General47

23.02 Defense of Claims.....47

23.03 Maintenance of Insurance47

23.04 Subcontractors.....48

ARTICLE 24 DISADVANTAGED BUSINESS ENTERPRISES,
M/WBE PROCUREMENT PROGRAM AND WAGE RATES48

24.01 Disadvantaged Business Enterprise (DBE) Procurement Program48

24.02 Minority and Women Business Enterprises.....48

24.03 Worker Safety49

24.04 Wage Rates/Prevailing Wage49

24.05 Living Wage.....49

ARTICLE 25 CAPITAL RECOVERY PAYMENT.....49

25.01 Capital Recovery Payment.....49

25.02 Capital Recovery Event50

ARTICLE 26 LAWS AND GRANT CONDITIONS50

26.01 Grant Assurances50

26.02 National Emergencies50

26.03 Non-Discrimination and Affirmative Action.....50

South Terminal Lease and Concession Agreement

26.04 Public Accommodation Laws51

26.05 Compliance with Laws51

26.06 Lighting, Electrical and Radio Interference.....51

26.07 Amendment.....51

26.08 Airport Development52

26.09 Economic Nondiscrimination52

ARTICLE 27 AVIGATION RIGHTS.....52

27.01 General52

27.02 Owner’s Reservation of Rights.....52

27.03 Waiver.....52

ARTICLE 28 TENANT DEFAULT AND REMEDIES.....53

28.01 Default by Tenant53

28.02 Remedies of Owner.....54

28.03 Additional Rights of Owner.....55

ARTICLE 29 OWNER DEFAULT AND REMEDIES55

29.01 Default by Owner.....55

29.02 Tenant’s Remedies.....56

ARTICLE 30 SURRENDER OF PREMISES57

30.01 Condition of Premises.....57

30.02 Repossession and Holding Over57

30.03 Tenant’s Personal Property58

ARTICLE 31 FORCE MAJEURE58

31.01 General.....58

31.02 Impairment of Use58

ARTICLE 32 INSPECTION59

32.01 Owner’s Right to Inspect59

ARTICLE 33 CASUALTY LOSS59

33.01 Restoration Upon Casualty Loss.....59

33.02 No Restoration Following Casualty Loss59

33.03 Abatement.....60

ARTICLE 34 CONDEMNATION AND BUSINESS INTERRUPTION60

34.01 Taking in Entirety60

34.02 Partial Taking.....60

34.03 Damage Award60

34.04 Definition of Taken; Taking61

34.05 Contingent Business Interruption61

ARTICLE 35 ASSIGNMENT AND SUBLEASING61

35.01 By Tenant.....61

35.02 Transfer of Owner’s Interest.....62

ARTICLE 36 APPROVALS AND AUTHORITY62

36.01 Owner.....62

36.02 Tenant63

ARTICLE 37 NOTICES AND CONTRACT ADMINISTRATION.....63

37.01 Contract Administrator63

37.02 Notices63

ARTICLE 38 CONFIDENTIALITY/PROPRIETARY INFORMATION64

38.01 Confidentiality64

38.02 Sensitive Security Information65

ARTICLE 39 BOND ORDINANCES65

39.01 Bond Ordinance Provisions65

39.02 Certificate in Connection with Issuance of Bonds.....65

39.03 Tenant Tax Elections66

ARTICLE 40 ALTERNATIVE DISPUTE RESOLUTION66

40.01 General.....66

40.02 Mediation66

ARTICLE 41 MISCELLANEOUS67

41.01 Gratuities.....67

41.02 Modification and Non-Waiver.....67

41.03 Governing Law67

41.04 Severability67

41.05 Relation of Parties.....67

41.06 Recordation68

41.07 Successors and Assigns.....68

41.08 Survival.....68

41.09 No Commissions.....68

41.10 Time of the Essence68

41.11	Reservation of Immunities.....	68
41.12	Special Damages.....	68
41.13	Avoidance of Obligations	68
41.14	No Exclusive Rights	68
41.15	Capacity of Owner	68
41.16	Counterparts.....	69
41.17	Entire Agreement.....	69

SOUTH TERMINAL LEASE AND CONCESSION AGREEMENT

THIS SOUTH TERMINAL LEASE AND CONCESSION AGREEMENT (this “Lease”) is entered into by and between CITY OF AUSTIN, a Texas home rule city and municipal corporation (“Owner”) acting by and through the Executive Director of the Department of Aviation, and HIGHSTAR CAPITAL IV LP, a limited partnership formed and existing under the laws of the State of Delaware (“Tenant”). Owner and Tenant, collectively, shall be referred to in this Lease as the “Parties” and each as a “Party”.

WHEREAS:

- A. Owner owns and operates Austin-Bergstrom International Airport, located in the City of Austin, Travis County, Texas (the “Airport”); and
- B. Owner desires to reopen the South Terminal at the Airport as a Limited Services Terminal to expand the air carrier service options available in the City of Austin; and
- C. Owner desires to outsource the rehabilitation, development and operation of the South Terminal in order to expedite the availability of a Limited Services Terminal to the City of Austin; and
- D. Tenant has engaged in the business of operating airport facilities and desires to provide such services; and
- E. Owner desires to lease to Tenant, and Tenant desires to lease from Owner, certain premises, and to provide and obtain from each other certain rights, services and privileges, in order to reactivate the South Terminal, and appurtenant parking and other related facilities, to serve air carriers that serve the Airport and passengers served by such air carriers, all on a financially self-sustaining basis.

Now, therefore, for and in consideration of mutual promises and covenants hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Owner and Tenant enter into this Lease and agree as follows:

**ARTICLE 1
DEFINITIONS AND INTERPRETATION**

1.01 Definitions. As used in this Lease, the following terms shall be defined as follows:

ACDBE – has the meaning set forth in Section 14.03.

ADA – has the meaning set forth in Section 26.04.

Additional Rent – means all fees, charges, and amounts payable by Tenant to Owner under this Lease other than Fixed Rent and Variable Rent.

Affiliate – means an entity that directly or indirectly through one (1) or more intermediaries, controls, or is controlled by, or is under common control with, another entity. An entity “controls” any other entity in which it has the power to vote, directly or indirectly, five (5)% or more of the voting interests in such entity or, in the case of a partnership, if it is a

general partner. An entity may be a person, corporation, association, partnership or limited liability company of any type or kind.

Airfield Use Agreement – means an agreement between an Airline and Owner for use of the airfield at the Airport.

Airline Leasing Program – has the meaning set forth in Section 12.01.

Airlines – means commercial airlines providing Air Transportation at the Airport and/or the South Terminal.

Airport – has the meaning set forth in the Recitals.

Airport Enplaned Passengers – means all originating passengers departing from the Airport.

Airport Layout Plan – means Owner’s Airport Layout Plan, approved by the FAA, attached hereto as Exhibit K, as the same may be modified, amended, and/or restated from time to time.

Airport Master Plan – means Owner’s Airport Master Plan, dated as of December 2003, as the same may be updated, modified, amended, and/or restated, and as accepted by the FAA in conjunction with the approved Airport Layout Plan, from time to time, which, as of the Effective Date, may be found at <http://www.austintexas.gov/page/airport-master-plan>.

Air Transportation – means the carriage of persons, property, cargo and/or mail by aircraft.

Applicable Law – means all applicable federal, state and local laws, codes, ordinances, rules, regulations, judgments, decrees or directives of any Governmental Authority (but with respect to any of the foregoing of the City, only to the extent (i) generally applicable to the regulated community, (ii) not disproportionately affecting Tenant, and (iii) not enacted or issued in violation of Section 41.13 hereof) having jurisdiction over the Airport or the Premises, including all Environmental Laws as defined herein and FAA rules, regulations, and policies.

As Built Plans – has the meaning set forth in Section 9.10.

Assessment Report – has the meaning set forth in Section 20.03.

Authorized Use – has the meaning set forth in Section 4.01.

Building Permit Documents - means the documents consisting of structural drawings and specifications, required City permits, and plans including information technology infrastructure, security, ingress/egress, life safety systems, architectural, mechanical, electrical, and plumbing to be prepared or assembled by the Tenant as part of the design review process contemplated by Article 9 of this Lease.

Capital Recovery Event – has the meaning set forth in Section 25.02.

Capital Recovery Factor – means the following percentage of capital invested by Tenant in the Premises and the South Terminal that Tenant may recover upon termination of this Agreement under Section 25.01, based on the date of the Capital Recovery Notice: 100% in the first three years after the Effective Date; 75% in the fourth year after the Effective Date; 50% in the fifth year after the Effective Date; and 25% in the sixth year after the Effective Date.

Capital Recovery Notice – has the meaning assigned to such term in Section 25.01.

Capital Recovery Payment – means an amount equal to the product of (a) the Capital Recovery Factor, multiplied by (b) the total of (i) the Initial Capital Investment, plus (ii) any remaining obligations under capital leases related to the South Terminal (unless assumed by Owner), less (iii) any cash distributions of South Terminal revenues made by Tenant to its investors from and after the Effective Date, but in no event to exceed ELEVEN MILLION AND NO/100 DOLLARS (\$11,000,000.00). Notwithstanding the foregoing, no amount from the Initial Capital Investment shall be included in the Capital Recovery Payment unless such amount has been approved by Owner in accordance with Section 9.14.

Casualty – has the meaning set forth in Section 33.01.

Certificate of Occupancy Date – means the date on which a certificate of occupancy for the Covered Improvements is issued by the applicable Governmental Authority in order for the Premises and Covered Improvements to be open for business to the public.

CFC – has the meaning set forth in Section 18.06(a).

City - City of Austin, Travis County, Texas.

Claims – has the meaning set forth in Section 23.01.

Commencement of Operations Date – means the first date after the Effective Date on which a commercial airline flight arrives at or departs from the South Terminal, provided the conditions in Section 10.01 have then been met or have been waived by Tenant.

Concession Program – has the meaning set forth in Section 14.01.

Confidential Information – has the meaning set forth in Section 38.01.

CONRAC – means the Consolidated Rental Car Center at the Airport.

Construction Contract Close-Out – shall have occurred when: (i) Tenant and Owner have performed a final walkthrough and inspection and shall have reasonably determined that the Rehabilitation Project (inclusive of all punch list items) has, in all material respects, been completed in accordance with construction contract documents and (ii) Tenant and Owner have each received the following: (a) An affidavit from contractor stating that all subcontractors and material suppliers have been paid in full, subject to collection of final payment; (b) A complete waiver and release of any lien from each contractor, subcontractors or suppliers which has furnished material, goods or services in connection with the Rehabilitation Project or a conditional waiver and releases for any contractor, subcontractors or material suppliers entitled

to receive any portion of the final payment; (c) Copies of all guarantees and warranties from the contractor, from subcontractors, and from suppliers; (d) Copies of all operating and maintenance data for equipment installed as part of the Rehabilitation Project; and (e) All other submittals required by the construction contract documents, including the SMBR's Compliance Plan Program final closeout.

Contract Rate – means the lesser of the rate of interest specified in Texas Government Code Section 2251.025, or the highest non-usurious rate permitted by law.

Covered Improvements – has the meaning set forth in Section 9.03.

CPI – means the Consumer Price Index for Urban Consumers published by the U.S. Department of Labor, Bureau of Labor Statistics. In the event that the CPI should cease to be published, the Parties shall use good faith efforts to agree upon a substitute index that most closely approximates the CPI in gauging changes in the cost of living for urban consumers. If the Parties are unable to agree upon a substitute index, Owner may select a reasonable substitute index published by the Bureau of Labor Statistics, or successor agency.

Deplaned Passengers – means all deplaning passengers arriving at the South Terminal.

Design Review Procedures – has the meaning set forth in Section 9.03.

DHS – has the meaning set forth in Section 17.01.

Director – means the Executive Director of the City of Austin Department of Aviation or his or her duly authorized designee.

DOT – has the meaning set forth in Section 17.01.

Effective Date – means the date stated on the signature page of this Lease.

Enplaned Passengers – means all originating passengers departing from the South Terminal.

Environmental Assessment – shall refer to and include any environmentally related study, report, analysis, investigation, site assessment, intrusive sampling or any results of the foregoing relating to the Environmental Condition of the Premises.

Environmental Claims – shall refer to, and include, without limitation, all claims, demands, suits, actions, judgments, and liability for: (a) removal, remediation, assessment, transportation, testing and disposal of Hazardous Materials as directed by any government agency, court order, or Environmental Law; (b) bodily injury or death; (c) damage to or loss of use of property of any person; (d) injury to natural resources; (e) fines, costs, fees, assessments, taxes, demands orders, directives or any other requirements imposed in any manner by any governmental agency under Environmental Laws; and (f) costs and expenses of cleanup, remediation, assessment testing, investigation, transportation and disposal of a Hazardous Material spill, release or discharge.

Environmental Condition – shall mean any condition with respect to the soil, surface waters, groundwaters, surface or subsurface strata, ambient air or other environmental medium on or off the Premises, whether or not yet discovered, which could or does result in any Environmental Claim to or against Tenant or Owner by any third party (including any Governmental Authority), including any condition resulting from the activities, operation or business of any other property lessee, tenant, licensee, owner or operator on, off or in the vicinity of the Premises.

Environmental Laws – shall refer to and include, without limitation, all federal, state, and local statutes, laws, ordinances, rules and regulations, now or hereafter in effect, and as amended from time to time, that are intended for the protection of the environment, or that govern, control, restrict or regulate the use, handling, treatment, storage, discharge, disposal or transportation of Hazardous Materials. Environmental Laws specifically include but are not limited to, the National Environmental Policy Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act, the Hazardous Materials Act, the Toxic Substances Control Act, the Clean Water Act, the Clean Air Act, the Superfund Authorization and Recovery Act, the Occupational Safety and Health Administration Hazard Communication Standards, the Texas Water Code, the Texas Hazardous Materials Act and the Texas Water Quality Control Act.

Expansion – means any expansion of the South Terminal for the Authorized Use, including the development of any additional parking facilities serving the South Terminal, to accommodate the growth of operations of Airlines (or other air carriers) at the Airport.

Extension Notice – has the meaning assigned to such term in Section 3.01(b).

Extension Term – has the meaning assigned to such term in Section 3.01(b).

FAA – means the Federal Aviation Administration or successor agency that regulates civil aviation, airports and airport operations.

Fair Market Value – the amount that a willing and able buyer would offer, and a willing and able seller would accept, for the purchase and sale of Tenant's Interest, in an arm's length transaction, assuming: (a) neither Party is under economic compulsion or has special bargaining power; (b) the buyer possesses all information in the possession of Tenant relating to the Premises, the condition of the Premises and the revenues and expenses of Tenant; and (c) that the event giving rise to such determination (e.g., a Taking or a termination of this Lease) had not occurred.

FIDS Monitors – means flight information display monitors for the display of information on all departing and arriving flights at the South Terminal and the North Terminal.

Fixed Rent – has the meaning assigned to such in Section 5.02(b).

GAAP – means generally accepted accounting principles in the United States of America.

GASB – means the Government Accounting Standards Board.

Governmental Approval – means any federal, state or local government agency approval, authorization, certification, consent, decision, exemption, filing, lease, license, permit, agreement, concession, grant, franchise, registration or ruling, required to be filed with, issued by or entered into with any Governmental Authority for the Premises.

Governmental Authority – means any governmental, judicial or administrative entity, body or authority

Gross Revenue – has the meaning assigned to such term in Section 5.01.

Hazardous Materials – shall refer to, and include, without limitation, all substances whose use, handling, treatment, storage, disposal, discharge or transportation is governed, controlled, restricted or regulated by Environmental Laws, that have been defined, designated or listed by any responsible regulatory agency as being hazardous, toxic, radioactive or that may present an actual or potential hazard to human health or the environment if improperly used, handled, treated, stored, disposed, discharged, generated or released. Hazardous Materials specifically include, without limitation, asbestos and asbestos-containing-materials, petroleum products, solvents and pesticides.

Indemnified Parties – has the meaning set forth in Section 23.01.

Initial Capital Investment – means the amount invested by Tenant for the rehabilitation, reactivation and initial working capital requirements of the South Terminal, which are estimated as of the Effective Date to be approximately \$11.2 million. Notwithstanding the foregoing, no amount from the Initial Capital Investment shall be included in the Capital Recovery Payment unless such amount has been approved by Owner in accordance with Section 9.14.

Initial Term – means the period commencing on the Effective Date and expiring at 11:59 p.m., Austin, Texas time, on the last day of the three hundred sixtieth (360) full calendar month ending after the Effective Date.

Lease – has the meaning set forth in the Preamble.

Lease Year – means a period of twelve (12) calendar months commencing on October 1 of each calendar year during the Term, but (a) for the first Lease Year, the period from the Effective Date through the following September 30 and (b) for the final Lease Year, the period from October 1 of such Lease Year through the last day of the Term.

Limited Services Terminal – means an airport passenger terminal that is constructed and operated with fewer operational amenities than the North Terminal, such as a terminal without passenger loading bridges, which supports a lower cost structure.

MWBE – has the meaning set forth in Section 24.02.

MWBE Program – has the meaning set forth in Section 24.02.

New Facility – means the construction of any new passenger terminal or concourse, including without limitation any new Limited Services Terminal, or other facilities at the

Airport, including any new or expanded parking facilities, to accommodate the growth of operations of Airlines (or other air carriers) at the Airport.

North Terminal – means and refers to the Barbara Jordan Terminal at the Airport.

Notice to Proceed – has the meaning set forth in Section 9.04.

NPDES – has the meaning set forth in Section 21.05.

Outside Date – has the meaning set forth in Section 10.01(c).

Owner – has the meaning set forth in the Preamble.

Owner Annual Report – has the meaning set forth in Section 18.06(e).

Owner Default – has the meaning set forth in Section 29.01.

Owner Environmental Parties – shall include Owner and its elected and non-elected officials, officers, agents, employees and contractors and any other person or entity that is not a Tenant Environmental Party.

Owner Monthly Report – has the meaning set forth in Section 18.06(b).

PDS – has the meaning set forth in Section 19.04.

Permitted Liens – means any liens (a) related to current period Taxes or assessments imposed upon Seller that are not yet due and payable, (b) related to any financing of Tenant as permitted under Section 16.01, or (c) otherwise agreed to, in writing, by Owner.

PFCs – has the meaning set forth in Section 18.08.

Pre-Existing Environmental Claim – has the meaning set forth in Section 21.03.

Premises – means the South Terminal, the land described on Exhibit A attached hereto, and all improvements and other buildings therein and thereon leased to Tenant by Owner.

Public Owner – has the meaning set forth in Section 35.02(a).

Qualified Entity – means with respect to any of Tenant’s rights and obligations hereunder any entity proposed by Tenant as assignee, sublessee, subcontractor, manager or transferee under Section 11.01 or a transferee under Section 35.01 which has (or with its contractors collectively have), in the reasonable determination of Owner, (a) the financial strength and integrity, (b) experience of the day-to-day team managing airports or other comparable or relevant businesses and (c) background and reputation to perform such obligations.

Qualifying Terminal Use Agreement – has the meaning set forth in Section 10.01(a).

Radio Communications Facilities – has the meaning set forth in Section 19.03.

Rehabilitation Project – has the meaning set forth in Section 9.01(a).

Rent – has the meaning set forth in Section 5.02. Rent includes Fixed Rent and Variable Rent, as defined in Section 5.01, and Additional Rent.

Rental Car Revenue Share – has the meaning set forth in Section 18.06(a).

Request for Mediation – has the meaning set forth in Section 40.01.

Revenue Sharing Rate – has the meaning set forth in Section 18.06(a).

Security Deposit – has the meaning set forth in Section 5.07(a).

Shuttle Bus Service – means the rental car shuttle bus service providing transportation between the South Terminal and the North Terminal/CONRAC facility.

Site Development Correction Documents – shall mean the overall site plan with all proposed changes to improvements made on the Premises to be prepared or assembled by the Tenant.

SMBR – has the meaning set forth in Section 14.03.

South Terminal – means the South Terminal of the Airport, including all existing fixtures and equipment therein; facilities for ground transportation staging; motor vehicle parking;; in-terminal food and beverages, retail, news and gift concessions; advertising; passenger services; storage; ground handling; and office, passenger, air carrier, user or ground handling accommodations.

South Terminal Marketing Program – has the meaning set forth in Section 13.02.

SPCC Plan – has the meaning set forth in Section 21.10.

Specified Event – shall mean (a) any transfer of Owner’s rights and obligations under this Lease to any person or entity other than to a Public Owner in accordance with Section 35.02; (b) construction by any person or entity other than Tenant of a stand-alone Limited Services Terminal at the Airport; and (c) in the case of each of sub-clause (a) and (b) above), any action by the City Council of Austin, or any letter of intent, memorandum of understanding, solicitation for proposals or other written commitment by Owner to negotiate, implement or authorize any such transfer or construction.

SSI – has the meaning set forth in Section 38.02.

STS – has the meaning set forth in Section 19.05.

Substantial Completion – shall mean the stage in the progress of the construction of the Rehabilitation Project when the work is sufficiently complete so that Tenant can occupy or use the South Terminal and its Premises for its Authorized Use. Substantial Completion shall include, without limitation, all required permit sign-offs, regulatory inspections and structural

components completed, equipment and systems installed and functional and all interior and exterior wall, ceiling and floor finish materials installed excluding only the completion of the Punch-List Items. In no event shall Substantial Completion be later than two hundred seventy (270) days after the Airport's Notice to Proceed.

Survey – has the meaning set forth in Section 9.10.

SWPPP – has the meaning set forth in Section 21.02.

Taxes – has the meaning set forth in Section 6.01.

Tenant – has the meaning set forth in the Preamble.

Tenant Annual Report – has the meaning set forth in Section 5.11.

Tenant Apron – means the aircraft parking and maneuvering areas adjacent to the South Terminal included in Tenant's Premises as designated in Exhibit A.

Tenant Default – has the meaning set forth in Section 28.01.

Tenant Environmental Parties – shall mean Tenant and Tenant's directors, officers, agents, employees, contractors, subtenants, customers, invitees, , its and their Affiliates, and its and their successors and assigns, but shall specifically exclude any Owner Environmental Party.

Tenant's Airport Operational Manual – has the meaning set forth in Section 10.02.

Tenant's Interest – means all Tenant's right, title and interest in, to, under or derived from this Lease, including the rights of Tenant under Article 2 and Article 15, and the Trade Fixtures.

Tenant Monthly Reports – has the meaning set forth in Section 5.10(b).

Term – has the meaning set forth in Section 3.01(b).

Terminal Use Agreements – means the Terminal Use and Lease Agreements between Tenant and Airlines for the use of, or use of space in, the South Terminal.

TPDES – has the meaning set forth in Section 21.05.

Trade Fixtures – All furniture, equipment, fixtures, and furnishings installed or constructed by Tenant, at its expense, on the Premises, including baggage handling systems, ticket and check-in counters, signs, seating, display cabinets, communications equipment, special lighting fixtures and all other equipment, furniture, furnishings and supplies that can be removed from the Premises without material damage to the Premises, specifically excluding Owner's Shared Use Passenger Processing System equipment, hardware, software, and supplies.

TSA – the United States Transportation Security Administration or successor agency that regulates airport or aviation security.

Variable Rent – has the meaning assigned to such term in Section 5.02(b).

1.02 Interpretations. In this Lease and any certificate or other document delivered pursuant hereto, unless otherwise expressly provided herein or therein or unless the context requires another meaning, the following rules of interpretation shall apply:

(a) Headings and underlinings are for convenience only and do not affect the interpretation of an agreement.

(b) Words importing the singular include the plural and vice versa and the masculine, feminine or neuter gender shall include all genders. The word “or” is not exclusive.

(c) The words “hereof,” “herein,” and “hereunder” and words of similar import when used in any agreement shall refer to such agreement as a whole and not to any particular provision of such agreement.

(d) Any reference to an agreement shall include a reference to each exhibit, annex, schedule and other attachment thereto.

(e) Any reference in an agreement to a Section, Clause, subsection, sub-clause, paragraph, Party, Exhibit, Annex or Schedule is a reference to that Section, Clause, subsection, sub-clause or paragraph of, or that Party, Exhibit, Annex or Schedule to, such agreement unless otherwise specified.

(f) Any reference to an agreement or document is to such agreement or document as amended, varied, supplemented, replaced, novated or modified from time to time in accordance with the terms of such agreement or document.

(g) Any reference to any Applicable Law shall be construed so as to include such Applicable Laws as amended, modified, extended, reenacted, redesignated or replaced from time to time.

(h) A reference to a person or entity includes that person’s or entity’s successors and permitted assigns.

(i) The term “including” shall mean “including without limitation” and any list of examples following such term shall in no way restrict or limit the generality of the word or provision in respect of which such examples are provided.

(j) Accounting terms shall have the respective meanings given to them under GAAP, or if specific to Owner, under GASB.

(k) References to “days” shall mean calendar days and to “business days” shall mean any day except a Saturday, Sunday or other day on which commercial banks in New York, New York or Austin, Texas are authorized or required by law to close. Any action required to be taken on or by a day that is not a business day may be taken on or by the next succeeding business day. References to a time of day or business day shall mean such time in Austin, Texas.

(l) This Lease is the result of negotiations among, and has been reviewed by each Party and its respective counsel. Accordingly, this Lease shall be deemed to be the product of both Parties, and no ambiguity shall be construed in favor of or against either Party.

(m) References to any condition or any representation by any Party being to the (i) best knowledge of such Party shall be deemed to be to the best knowledge of such Party after due inquiry, and (ii) knowledge of such Party shall be deemed to be to the actual knowledge of such Party.

ARTICLE 2 GRANT OF LEASE

2.01 Premises. Owner hereby leases and demises to Tenant, and Tenant hereby leases and takes from Owner, the Premises; TO HAVE AND TO HOLD the Premises, together with all and singular the rights, privileges, and appurtenances thereto attaching or in anywise belonging, unto Tenant, its successors and permitted assigns, for the Term, and subject to and in accordance with (a) the covenants, agreements, terms, provisions and limitations of this Lease; (b) all rights, restrictions, encumbrances and matters of record; and (c) the present or future right of Owner to construct, install, establish, maintain, use, operate, renew, and connect with any existing public utility facilities, franchised public utilities, roadways, sidewalks, streets, or other public improvements on, under, above, or adjacent to the Premises. For avoidance of doubt, this Lease shall include and cover all existing fixtures and equipment at the South Terminal and its adjacent airside and landside facilities on the Premises, including, but not limited to holdroom seating currently in storage in the South Terminal, baggage belt systems, baggage handling systems, mechanical, HVAC and plumbing, fire alarm and protection, security equipment, and spill containment controls, located at the South Terminal as of the Effective Date.

2.02 Existing Condition. Except as provided in Article 20 or Article 21 or as otherwise expressly provided herein, Tenant shall take the Premises **AS IS, WITH ALL FAULTS**, and Tenant acknowledges that Owner has not made any representations, warranties, covenants or agreements, express or implied, regarding (a) the value, nature, quality or condition of the Premises, (b) the income to be derived from the Premises, (c) the suitability of the Premises for any activity or use which Tenant may conduct thereon, (d) the compliance of the Premises with any Applicable Laws, or (e) the habitability, marketability or fitness for a particular purpose of the Premises. Tenant further acknowledges and agrees that any information which Owner procures from a third party and provides to Tenant with respect to the Premises may be delivered without any independent investigation or verification of such information by Owner, and Owner makes no representations as to the accuracy or completeness of such information.

2.03 Quiet Enjoyment. Owner covenants that Tenant, upon paying the Rent and performing and observing the covenants and agreements herein required to be paid, performed or observed by it, may peaceably and quietly have, hold, occupy, use and enjoy the Premises during the Term, and may exercise all of its rights hereunder, without ejection or interference by Owner or any person or entity claiming by, through or under Owner, subject to the provisions of this Lease and Applicable Law. Notwithstanding the foregoing,

Tenant hereby grants to Owner the non-exclusive right of vehicular and pedestrian access across any roadways constructed on the Premises, which access shall not, at any time, materially and adversely impair or interfere with Tenant's use and enjoyment of the Premises.

ARTICLE 3 TERM

3.01 Term.

(a) This Lease shall be and remain in effect for the Initial Term, subject to the Parties' rights of termination as specified in this Lease and extension under Section 3.01(b) below.

(b) Tenant shall have the option to extend the Term for up to two (2) additional terms of five (5) years each (each, an "Extension Term", and the Initial Term, together with any Extension Term, being herein called the "Term") commencing at the expiration of the Initial Term or the first Extension Term, as applicable, upon the reasonable consent of Owner, provided (i) no Tenant Default has occurred and is then continuing under this Lease, (ii) Tenant provides Owner with notice (an "Extension Notice") of such extension on or before one hundred eighty (180) days prior to the expiration of the Initial Term or the first Extension Term, as applicable; (iii) more than 400,000 Enplaned Passengers (or such increased number of Enplaned Passengers as mutually agreed to by the Parties if Tenant operates additional gates as a result of Expansion) have passed through the South Terminal in the twelve (12) month period immediately preceding the delivery of the applicable Extension Notice; (iv) Tenant has operated as a Qualified Entity for the five (5) year period immediately preceding the delivery of the applicable Extension Notice; and (v) Tenant has received satisfactory scores under applicable customer service surveys, with such surveys to be reasonably mutually agreed to by the Parties, for the three (3) year period immediately preceding the delivery of the applicable Extension Notice. Notwithstanding the foregoing, in the event that an Owner Default has not been cured at the time required for delivery of an Extension Notice, Tenant may provide notice of such to Owner and the Term shall automatically be extended until such time as such Owner Default is cured. In such event, Tenant shall have an additional thirty (30) days after the cure of the Owner Default to provide an Extension Notice; provided that, any extension will not cause the overall Term of this Lease to exceed forty (40) years.

3.02 Early Termination. Owner shall submit this Lease to the FAA for review within ten (10) business days after the Effective Date. Owner shall promptly deliver to Tenant written notice of any written response by the FAA resulting from its review of this Lease. Within thirty (30) days after the date Tenant receives notice of FAA's response to Owner's submission of this Lease to the FAA, either Owner or Tenant may elect in its sole discretion to terminate this Lease pursuant to a written notice delivered to the other Party in the event that, as a result of the review of this Lease by the FAA, such Party will be materially and adversely affected by any amendments to this Lease that are required pursuant to Section 26.01 or Section 26.07 hereof.

3.03 Transfer of Rights. Upon termination or expiration of this Lease, Tenant shall transfer all right, title and interest in and to the Premises, to Owner without additional payment or cost; provided, however, that at all times during the Term, Tenant will retain all right, title and interest in and to any Trade Fixtures and Tenant shall be entitled (but not required) to remove and dispose of such Trade Fixtures, subject to Owner's rights under Section 28.02(f). If Tenant has failed to remove such Trade Fixtures from the Premises within sixty (60) days after termination or expiration of this Lease, such Trade Fixtures shall be conclusively presumed to have been abandoned by Tenant.

ARTICLE 4 USE OF PREMISES

4.01 Authorized Use. The Premises shall be used for the rehabilitation, operation, and maintenance of the South Terminal as a stand-alone Limited Services Terminal to accommodate Air Transportation (an "Authorized Use"). It is the intent of both Owner and Tenant that the South Terminal be rehabilitated, operated, and maintained as a Limited Services Terminal. Tenant may not change the character of the South Terminal as a Limited Services Terminal without the prior written consent of Owner.

4.02 Prohibited Uses. Tenant shall not use or occupy, permit the Premises to be used or occupied, or do or permit anything to be done in or on the Premises in a manner which (a) is not an Authorized Use, (b) would constitute a public or private nuisance, (c) would violate Airport rules or regulations or (d) would violate any Applicable Laws.

4.03 Permits and Licenses. Tenant, at Tenant's expense, shall obtain and maintain in force and effect all Governmental Approvals, to the extent required for the reactivation and operation of the South Terminal. Owner will make commercially reasonable efforts to assist and support Tenant in securing the necessary Governmental Approvals for such reactivation and operation, but nothing herein shall be construed to require Owner to waive, release or modify any of its site development ordinances, rules or regulations, or requirements in connection with the granting of any such Governmental Approvals.

ARTICLE 5 RENT, REPORTS, AND AUDIT

5.01 Gross Revenue.

(a) "Gross Revenue" shall mean the total amount actually charged to all customers by Tenant arising from its operation of the Premises, including Owner's cash payments to Tenant under Section 18.06 (Rental Car Revenue Sharing), whether for cash, credit or exchange, regardless of when collected. It shall include all transactions, regardless of place or time of actual payment. For the avoidance of doubt, Gross Revenues will not be deemed to have been earned by Tenant until such time that Tenant is entitled to collect such revenues from the applicable counterparty under an installment sales contract.

(b) There shall be no reduction allowed from Gross Revenue for bad debts, personal property, or other ad valorem taxes, loss from theft, or any deduction except as expressly stated below. The following, to the extent properly documented and recorded, are the

only amounts that Tenant may exclude or deduct, as the case may be, from the computation of Gross Revenue:

(i) Federal, state, and local excise, sales and use taxes that are remitted to the taxing authorities by Tenant that have been either (A) passed through to and directly collected from the customer, or (B) remitted by the customer to, and collected by Tenant from, any of the Airlines, concessionaires or other users of the Premises;

(ii) the amount of any refunds or adjustments (either cash or credit) granted by Tenant to any such Airlines, concessionaires, or users of the Premises because of returned or defective goods or dissatisfactory service; and

(iii) incentives permitted under the South Terminal Marketing Program.

(c) Tenant shall keep and maintain full and adequate documentation to support all claimed exclusions and deductions from Gross Revenue. Failure to adequately document any exclusion or deduction to the reasonable satisfaction of Owner shall result in denial of the exclusion or deduction.

(d) Tenant may conduct all or part of its business on a credit basis, provided that the risk of collection shall be borne solely by Tenant. Tenant shall pay Variable Rent on such credit transactions, and report all sales, charges and receipts, both cash and credit, in its monthly statement to City.

5.02 Rent. Tenant shall pay Owner rent ("Rent") for the Premises and the South Terminal, which will be calculated on an annual basis, as follows:

(a) From the Effective Date through the date immediately preceding the Commencement of Operations Date, the amount of EIGHTY THOUSAND AND NO/100 Dollars (\$80,000.00) per Lease Year, pro-rated for any partial Lease Years; and

(b) From and after the Commencement of Operations Date through the early termination or expiration of the Term, the greater of (i) THREE HUNDRED THOUSAND AND NO/100 DOLLARS (\$300,000.00) per Lease Year, pro-rated for any partial Lease Years, and adjusted effective as of the first day of each Lease Year beginning with the second Lease Year commencing after the Commencement of Operations Date, based on any percentage increase in the averaged CPI of the prior 12-month period running from July 1st through June 30th over the immediately preceding July 1st through June 30th (the "Fixed Rent"), or (ii) a percentage of annual Lease Year Gross Revenues, pro-rated for any partial Lease Year, based on the actual Enplaned Passengers for the applicable Lease Year in accordance with the following schedule (the "Variable Rent"):

- i. 0 to 399,999 Enplaned Passengers, 0% of Gross Revenue;
- ii. 400,000 to 699,999 Enplaned Passengers, 5% of Gross Revenue;
- iii. 700,000 to 999,999 Enplaned Passengers, 10% of Gross Revenue;

- iv. 1,000,000 to 1,299,999 Enplaned Passengers, 15% of Gross Revenue; and
- v. more than 1,299,999 Enplaned Passengers, 20% of Gross Revenue.

For the avoidance of doubt, for purposes of calculating Rent for the Lease Year in which the Commencement of Operations Date occurs, there will be deemed to be two partial Lease Years for which the Rent, as determined pursuant to Section 5.02(a) and Section 5.02(b), will be prorated. In the event Tenant operates additional gates as a result of an Expansion or a New Facility, both Parties shall work together in good faith to modify the Rent calculation on mutually agreeable terms.

5.03 Payment of Pre-Commencement of Operations Date Rent. Commencing on the Effective Date, and prior to the Commencement of Operations Date, Tenant shall pay to Owner on the first of each month, without notice, and free from any and all claims, deductions or set-offs against Owner except as expressly provided for in Section 29.02 with adequate documentation to support any claim, deduction, or set-off, an amount equal to the Rent payable under Section 5.02(a) multiplied by one-twelfth (pro-rated for any partial month).

5.04 Payment of Post-Commencement of Operations Date Rent.

(a) Commencing on the Commencement of Operations Date and throughout the remaining Term, Tenant shall pay to Owner on the first of each month, without notice and free from any and all claims, deductions or set-offs against Owner except as expressly provided for in Section 29.02 with adequate documentation to support any claim, deduction, or set-off, an amount equal to the Fixed Rent multiplied by one-twelfth (pro-rated for any partial month).

(b) If the Variable Rent reflected in the Tenant Annual Report provided in accordance with Section 5.11 exceeds the total amount of Fixed Rent paid by Tenant with respect to the applicable Lease Year, Tenant shall pay Owner the amount by which such Variable Rent exceeds the Fixed Rent previously paid by Tenant for such Lease Year, within thirty (30) days after the delivery of the Tenant Annual Report, free from any and all claims, deductions or set-offs against Owner except as expressly provided for in Section 29.02 with adequate documentation to support any claim, deduction, or set-off.

5.05 Rent Payment Delivery. Unless otherwise directed, in writing, by Owner, Tenant shall remit any payment of Rent and any other payment obligations of Tenant to Owner, through an Automated Clearing House (ACH) electronic transfer of funds.

5.06 Late Payment Penalty. If any payment required hereunder by Tenant under this Article 5 is not made within thirty (30) days after such payment is due, Tenant shall pay interest at the Contract Rate on the amount outstanding from the payment due date until paid in full.

5.07 Security Deposit.

(a) Upon execution of this lease, Tenant shall deposit with Owner the sum of TWENTY THOUSAND DOLLARS (\$20,000.00), being three months total Pre-Commencement rent due and payable by Tenant. Prior to Post-Commencement, Tenant shall deposit with Owner

an incremental FIFTY-FIVE THOUSAND DOLLARS (\$55,000.00) for a total security deposit amount of \$75,000.00, being three months of total Post-Commencement rent due and payable by Tenant for under this Agreement, to be held by Owner as security for Tenant's full, faithful, and timely performance of its obligations under this Lease (the "Security Deposit"). The Security Deposit shall be in the form of cash, certified check, or letter of credit. The letter of credit must be in a form, and drawn on a bank, reasonably acceptable to City, and must remain in effect throughout the term of this Lease and for a period of ninety (90) days thereafter. If a letter of credit expires in accordance with its terms prior to such time, Tenant must provide a replacement letter of credit to Owner at least thirty (30) days before its expiration date. The Security Deposit shall not be considered an advance payment of Rent or a measure of damages in the event of default by Tenant. Owner shall not be required to pay interest to Tenant on the Security Deposit, or to keep the Security Deposit in a separate fund apart from other Owner funds.

(b) As the Rent adjusts during the Term, Owner shall periodically review the adequacy of the Security Deposit, and may, by written notice to Tenant, reasonably adjust the required amount of the Security Deposit. Such notice shall include a calculation of the revised Security Deposit, which shall not exceed three times the average monthly Rent for the immediately preceding completed Lease Year. Tenant shall within twenty (20) business days of receipt of such written notice from Owner increasing the Security Deposit, deposit the additional amount with Owner by cash, certified check or supplemental letter of credit.

(c) Owner shall have the right, but not the obligation, to apply all or any part of the Security Deposit to cure any Tenant Default, including, but not limited to, (i) any arrearages of Rent, fees or charges, or (ii) any other amounts due to Owner from Tenant under this Lease. In such event, Tenant must deposit with Owner an amount equal to the amount so applied by Owner within twenty (20) business days of written notice from Owner of the nature and amount of the application.

(d) Owner shall return the Security Deposit to Tenant, less any amounts applied by Owner under clause (c) above, within sixty (60) days after the later of the end of the Term or the date on which Tenant surrenders possession of the Premises to Owner.

5.08 Disputes. If either Party disputes the amount or calculation of any payment obligation of such Party under this Lease, including under this Article 5 and under Section 18.06, such Party shall pay the other Party the undisputed amount, together with a written notice of protest. Such notice of protest shall state the amount in dispute and describe in detail the basis of the dispute. If the Parties are unable to resolve the dispute at a staff level, the matter shall be resolved pursuant to Article 40. The Party found to owe an amount to the other Party shall promptly pay such other Party the amount determined to be owed.

5.09 No Abatement. Except as may otherwise be expressly provided in this Lease, no event or situation during the Term, whether foreseen or unforeseen, and however extraordinary, shall relieve a Party from its obligations hereunder or entitle a Party to an abatement or offset, and each Party waives any rights now or hereafter available at law or in equity to any abatement, diminution, reduction, offset or suspension for any reason.

5.10 Tenant Monthly Reports.

(a) Commencing with the month in which the Commencement of Operations Date occurs, no later than twenty (20) days after the end of each month during the Term, Tenant shall submit to Owner a reasonably detailed statement reflecting (i) the number of Enplaned Passengers and (ii) the number of Deplaned Passengers, for the applicable month and for the Lease Year to date; and

(b) Commencing with the month in which the Commencement of Operations Date occurs, no later than thirty (30) days after the end of each month during the Term, Tenant shall submit to Owner a reasonably detailed statement reflecting the Gross Revenues for the applicable month and for the Lease Year to date (collectively, the "Tenant Monthly Reports"). The Tenant Monthly Reports shall be prepared on a consistent basis and shall be certified by a responsible financial officer of Tenant. The Parties acknowledge that the Tenant Monthly Reports and Gross Revenue calculations are subject to year-end adjustments and true-ups based on annual reports provided to Tenant (i) by Owner with respect to Rental Car Revenue Share and (ii) Airlines regarding Enplaned Passengers and Deplaned Passengers.

5.11 Tenant Annual Report. Within one hundred fifty (150) days after the close of each Lease Year, Tenant shall furnish Owner a reasonably detailed statement (the "Tenant Annual Report") reflecting (a) the Gross Revenues, (b) the number of Enplaned Passengers, (c) the number of Deplaned Passengers and (d) Variable Rent due for the Lease Year. The Tenant Annual Report shall be prepared in accordance with GAAP and certified by a responsible financial officer of Tenant.

5.12 Tenant Audit Report. Within one hundred twenty (120) days after the close of each Lease Year, Tenant shall furnish to Owner an audited annual accounting statement of Gross Revenues and the calculation of Variable Rent due for the Lease Year, prepared by an independent Certified Public Accountant, in accordance with GAAP. The audit will express an opinion as to whether the reported Gross Revenues and Variable Rent due for the applicable Lease Year have been accurately calculated in accordance with the terms of this Lease.

5.13 Late Report Penalty. If Tenant fails to timely submit any report or audit required under Sections 5.10, 5.11, or 5.12, Tenant shall pay Owner the following as liquidated damages. For purposes of assessing damages under Sections 5.10, 5.11, or 5.12, a report shall be deemed late if it is not received by Owner within ten (10) days after the due date specified above.

- (a) Each late Tenant Monthly Report: \$100
- (b) Each late Tenant Annual Report: \$500
- (c) Each late Tenant Audit Report: \$500

5.14 Internal Control Structure. Tenant shall maintain an internal control structure designed to provide reasonable assurance that South Terminal assets are safeguarded from loss or unauthorized use, transactions are executed in accordance with Tenant's authority, and financial records are reliable for the purposes of preparing the reports required under this Article 5. The internal control structure shall be supported by the selection, training and

development of qualified personnel, by an appropriate segregation of duties, and by the dissemination of written policies and procedures.

5.15 Records Retention. Tenant shall maintain full and accurate records, accounts, books, and data with respect to business done by it hereunder which shall show all of the Gross Revenue, in sufficient detail to readily permit verification of Gross Revenues by Owner. Such records shall include all books, records and documents generated or maintained by Tenant concerning or relating to Tenant's operations under this Lease, the collection of and calculation of Gross Revenue and the Rent or other rents, fees or charges payable under this Lease, such as general ledgers, sales journals, daily sales reports, detailed daily reports, cash register tapes, trial balances, sales tax reports, subsidiary ledgers, daily journals, original and closed rental agreements, corporate chart of accounts, and lists of all rental locations on the Airport, as applicable. Tenant shall retain all such records, accounts, books, ledgers, journals, business reports, rental agreements, and all other pertinent data and supporting documentation ("books and records") for the longer of three (3) years after the end of the Lease Year to which they pertain or until completion of all pending audits or litigation between the Parties.

5.16 Audit. Upon written notice at any time or times during the Term within three (3) years after the end of any Lease Year, Owner may inspect, reproduce and audit the books and records of Tenant relating to its operations at the Airport. If, as a result of such inspection and audit, it is established that additional Rent is due to Owner, Tenant shall, upon written notice by Owner, pay such additional Rent, plus interest, calculated at the Contract Rate, within ten (10) days of written notice. If, on the other hand, such audit determines that Tenant has overpaid Rent due Owner, Owner shall refund to Tenant the amount of such overpayment. If the results of such audit reveal an underpayment of more than five percent (5%) of Gross Revenue as reported by Tenant, the cost of the audit shall be paid by Tenant to Owner as Additional Rent within thirty (30) days from invoice date. Tenant shall cooperate fully with any audit or examination initiated by Owner, and shall produce all books and records requested for audit to a designated location at the Airport, or in Austin, Texas, within thirty (30) days of the date of written request. To facilitate the inspection of Tenant's books and records, documents provided for audit shall be made available in an electronically downloadable format acceptable to Owner whenever possible. When electronic files do not exist, legible printed copies of books and records must be provided. Owner's rights and Tenant's obligations under this Section shall survive the expiration or earlier termination of this Lease.

5.17 Confidentiality. Owner's obligations with respect to information provided by Tenant under this Article 5 include the confidentiality covenants under Article 38.

5.18 Certain Notices. Notice is hereby given Tenant of Article VIII, Section 1 of the Austin City Charter which prohibits the payment of any money to any person, firm or corporation who is in arrears to the City for taxes, and of §2-8-3 of the Austin City Code of 1992, as amended, concerning the right of the City to offset indebtedness owed the City.

**ARTICLE 6
TAXES AND LIENS**

6.01 Payment of Taxes and Assessments. Tenant shall pay, or in good faith contest, on or before their respective due dates, to the appropriate collecting authority, all federal, state and local taxes, charges and fees (“Taxes”), which are now or may hereafter be levied upon the Premises, personal property of Tenant, or upon the business activities of Tenant on the Premises, except to the extent payable by any subtenant under Applicable Law. Tenant shall give notice to Owner if it plans to contest such Taxes and provide to Owner all related documentation and information reasonably requested by Owner. If the nonpayment of any such Taxes may result in a lien on the Premises, the Airport or personal property of Owner, Tenant shall timely pay or take such action as provided under Applicable Law to avoid or release any lien that may otherwise attach due to contesting the same. If Tenant contests such Taxes, Owner may require Tenant to establish and sufficiently fund an escrow account or bond to cover payment of such Taxes, if determined to be due and owing, and Tenant shall diligently pursue any such contest to conclusion. For the avoidance of doubt, any payment of any Taxes assessed by Owner, that Tenant is contesting, shall not be deemed a waiver of any right of contest with respect to such Taxes or any waiver of an Owner Default related to such Taxes.

6.02 Liens. Tenant agrees not to directly or indirectly create, permit or suffer any lien to be imposed upon the Premises or any part thereof as a result of Tenant’s activities and operations on the Premises other than a Permitted Lien. In the event any lien is created by or permitted by Tenant in violation of this Section 6.02, Tenant shall immediately: (a) give notice to Owner of such lien and provide to Owner all related documentation and information reasonably requested by Owner; (b) discharge such lien of record, by payment, bond or as otherwise allowed by Applicable Law; and (c) provide to Owner a copy of the recorded release or discharge of such lien and all related documentation and information reasonably requested by Owner. TENANT SHALL ALSO DEFEND (WITH COUNSEL APPROVED (CONSENT NOT TO BE UNREASONABLY WITHHELD) BY OWNER), FULLY INDEMNIFY AND HOLD ENTIRELY FREE AND HARMLESS OWNER FROM ANY ACTION, SUIT OR PROCEEDING THAT MAY BE BROUGHT ON OR FOR THE ENFORCEMENT OF ANY SUCH LIEN.

**ARTICLE 7
NET LEASE**

7.01 Net Lease. Except as expressly set forth in this Lease, Owner shall not be required hereunder to make any expenditure, incur any obligation, cost, expense or liability of any kind in connection with this Lease or the financing, ownership, construction, maintenance, operation or repair of the Premises, it being intended that this Lease be a completely net lease which assures Owner the Rent herein reserved on an absolute net basis.

**ARTICLE 8
UTILITIES**

8.01 Utilities. Tenant shall pay or cause to be paid all fees and charges for all utility services to the Premises, including, gas, electricity, light, heat, water, wastewater (other

than fees and charges for collection and disposal of de-icing run-off), cable television, telephone and other communication services, and drainage and transportation fees. Owner, at Owner's expense, shall maintain all utility lines (e.g., water, wastewater, electricity, communications and natural gas) within the utility corridors on Airport property. Tenant, at Tenant's expense, shall extend utility lines, as applicable, (e.g., water, wastewater, electricity, communications and natural gas) from the Airport's utility corridors as necessary to support the Premises. Tenant shall establish separate utility accounts for the Premises and the South Terminal in Tenant's name. Utilities for portions of the Premises subleased to an authorized subtenant may be separately metered and established in the names of the respective subtenant, if and to the extent permitted by Applicable Laws and utility regulations.

ARTICLE 9 CONSTRUCTION

9.01 Conditions to Commencement of the Rehabilitation Project.

(a) Promptly after the Effective Date, Tenant will commence the rehabilitation of the South Terminal as described in Exhibit B attached hereto (the "Rehabilitation Project"), provided that (A) the obligations of Tenant to commence and complete the Rehabilitation Project and to reactivate the South Terminal are subject to the following terms and conditions:

- (i) no Specified Event having occurred;
- (ii) any necessary plan for remediation of Hazardous Materials or other Environmental Conditions having been agreed upon in accordance with Article 20; and
- (iii) Tenant having received Airport's Notice to Proceed as contemplated under Section 9.04;

and (B) the right of Tenant to commence and complete the Rehabilitation Project and to reactivate the South Terminal are subject to Tenant's compliance with Sections 9.01 through 9.04 with respect to the Rehabilitation Project.

(b) If on or prior to May 15, 2016, any of such conditions described in (i) Section 9.01(a)(A) have not been satisfied, or waived by Tenant, Tenant shall have the right, or (ii) Section 9.01(a)(B) have not been satisfied, or waived by Owner, Owner shall have the right, to terminate this Lease, without penalty, by notice to the non-terminating Party (such termination to take effect on the date specified by the terminating Party in such notice, which date shall be not earlier than thirty (30) days after the date of such notice and not later than ninety (90) days after the date of such notice), unless the terminating Party has taken any willful act or omission to cause such condition to not be satisfied, in which case such Party shall have no such right of termination under this Section 9.01(b), and provided that nothing herein shall relieve any Party hereto from liability for willful acts or omissions, the purpose of which is to avoid honoring any of its commitments and obligations under this Lease.

9.02 Demolition. All demolition of existing improvements within the South Terminal required for the Rehabilitation Project and reactivation of the South Terminal,

excluding demolition of any non-structural improvements, shall be subject to the prior approval of Owner in accordance with this Article 9 and shall be undertaken by Tenant at Tenant's sole cost and expense; provided, however, that notwithstanding the foregoing, if any preexisting Hazardous Materials must be investigated, excluding building components containing Hazardous Materials, remediated, disposed of and/or otherwise addressed as a result of any such demolition, such investigation, remediation, disposal or other activity shall be the responsibility of Owner, in accordance with Article 20 and Article 21 hereof, and all of such activities shall be undertaken pursuant to a separate agreement between Owner and Tenant.

9.03 Improvements. Any improvement, construction, alteration, import of material, export of material or any other alteration or addition to the Premises as described in this Lease shall be completed in accordance with the provisions of: (a) this Lease, (b) Applicable Law, (c) Design Review Procedures (as defined below), (d) the City codes and standards and (e) City building permit requirements. Tenant may not construct or install any new improvements or infrastructure on the Premises, or materially modify or demolish any improvements or infrastructure on the Premises, without the prior written consent of the Director and, to the extent required, in accordance with the applicable provisions of the Airport Policies and Procedures for Design Review attached hereto as Exhibit C, as such policies and procedures may be amended from time to time (the "Design Review Procedures"), to the extent such policies and procedures are not in conflict with the express provisions of this Lease, any such improvements being referenced to herein as "Covered Improvements"; provided, however, that the Rehabilitation Project shall be completed in accordance with the Airport Policies and Procedures for Design Review in effect as of the date hereof and attached hereto as Exhibit C.

9.04 Design and Construction Review. To obtain the consent of the Director to proceed with construction, modification or demolition of any Covered Improvements, including the Rehabilitation Project ("Notice to Proceed"), Tenant shall submit to Owner the following:

(a) one (1) complete copy of all work product for the design and construction of the South Terminal in electronic file formats (9CD-R) and prepared with computer-aided design and drawing technology utilizing the Airport's current CADD standards;

(b) at least three (3) sets of full-size printed drawings, plans and specifications (in hard copies and electronic format specified by Owner), which may be submitted in stages depending on the stages or phases of construction and which provide, in sufficient detail for Owner to evaluate the Covered Improvement and its scope, including, as applicable;

(c) a site plan showing, with horizontal dimensions and elevations, proposed work to be performed and improvements to be constructed on the Premises, including the location of all proposed utility lines and connections, drainage, vehicle parking, landscaping, paths, drainage, roads and easements;

(d) architectural drawings sufficiently complete for construction, showing front and side elevation views, floor plans for each floor, if applicable, and dimensions of any proposed structure and the materials, including colors and exterior finishes, to be used, finished floor elevation data for each level and maximum elevation (height) of the South Terminal;

(e) a survey of the Premises, incorporating any boundary changes previously approved by Owner;

(f) a copy of the schedule for the completion of the construction of the Premises and a schedule of values composing the fixed price for the construction;

(g) documentation showing that the plans and specifications for the scope of work to be undertaken have received any approvals required by Governmental Authorities having jurisdiction over the proposed Covered Improvement, including but not limited to the City, TSA and FAA;

(h) certificates of insurance, in a form and for coverage amounts and with deductibles or self-insured retention amounts reasonably satisfactory to Owner, evidencing Tenant's construction contractor's "all risk" type Builder's Risk insurance coverage, Commercial General Liability Insurance coverage, Business Automobile Liability Insurance Coverage, and Workers' Compensation Insurance Coverage, as specified on Exhibit E. Tenant's contractor's insurance policies must be endorsed to name Owner as an additional insured, waive subrogation against Owner and provide Owner not less than thirty (30) days' prior written notice of cancellation;

(i) valid performance bonds and payment bonds without expense to Owner. Such bonds shall be maintained and kept in full force and effect until all work required to construct, install, modify or demolish (as applicable) the Covered Improvement is complete. The bonds shall be in a form, and issued by a surety licensed to transact business in the State of Texas, reasonably acceptable to Owner. The bonds shall be in a penal amount equal to the full amount of all contract(s) required for the construction, installation, modification or demolition relating to the Covered Improvement. The performance bond shall be for the protection of Owner, and ensure the full faithful and timely performance by Tenant or its contractors of the obligations to construct, install, modify or demolish the Covered Improvement in accordance with the plans, specifications and contract documents. The payment bond shall guarantee the prompt payment by Tenant or its contractors to all persons supplying labor, materials, provisions, supplies and equipment, used directly or indirectly by any contractor, subcontractor(s) and suppliers in the construction, installation, modification or demolition of the Covered Improvement, and shall protect Owner from any liability, losses, or damages arising therefrom; and

(j) any additional data or documents reasonably requested by City.

The Director will provide the Notice to Proceed within ten (10) business days of receiving the foregoing in form acceptable to Owner.

9.05 Construction Plans. Tenant shall provide interim construction plans for the Rehabilitation Project at (a) one hundred percent (100%) Building Permit Documents and (b) one hundred percent (100%) Site Development Correction Documents, respectively, to allow for comments by Owner before City issues any applicable permits to Tenant, and thereafter for approval of any proposed significant change. The Building Permit Documents and the Site Development Correction Documents may be submitted in stages in advance of the construction

of various elements of the Rehabilitation Project. Owner agrees to review all plans and specifications and comment within fourteen (14) days of the delivery so long as Tenant provides at least three (3) days advance written notice to Owner prior to delivery for review.

9.06 Limitation of Owner Responsibility. The approval by Owner of any construction design or any other provision does not waive Tenant's legal responsibility or liability to comply with all Environmental Laws, Applicable Law and City codes and standards in accordance with this Agreement, including those concerning the construction and design of the South Terminal, all of which shall be Tenant's sole responsibility. In addition, such review or approval shall not constitute a waiver by Owner of the right thereafter to require Tenant to correct any failure by Tenant to comply with any Environmental Laws, Applicable Law, or City codes and standards. It is agreed and understood that the review of plans and specifications by Owner is only for compliance with this Lease, and not for architectural or engineering design; and that Owner assumes no liability or responsibility for the design or for any defect in the design or in any work performed pursuant to such plans and specifications.

9.07 Construction Standards. Construction or modification of any Covered Improvements shall comply with the following requirements.

(a) Improvements and modifications shall be constructed in a good and workmanlike manner, utilizing good industry practice for the type of work in question, and in compliance in all material respects with all Applicable Laws, including applicable building codes.

(b) Improvements and modifications shall be designed and constructed in accordance with the applicable provisions of Austin-Bergstrom International Airport Design Guidelines, other applicable Airport rules and regulations, Federal Aviation Regulations governing the height and location of structures affecting airspace at the Airport as set forth in 14 CFR Part 77, Chapter 25-13 of the Austin City Code (Airport Hazard and Compatible Use Zoning Ordinance), and other Applicable Laws.

(c) All plans, drawings and specifications, preliminary and final, shall be prepared by registered architects or engineers licensed to practice in the State of Texas.

(d) After commencement, Tenant shall prosecute the authorized work with due diligence to meet Substantial Completion.

(e) Owner shall designate a haul route and Tenant shall designate a staging area for Tenant's construction project for any Covered Improvements on Tenant's Premises. Tenant shall not use, or permit its contractors to use, any area for staging or parking on Airport property, other than on Tenant's Premises, without the prior written consent by Owner.

9.08 Owner's Right of Inspection. During the course of the modification, construction or demolition necessitated by any Covered Improvements, Owner and its architects, engineers, agents and employees may enter upon and inspect the Premises for the purpose of inspecting the work for conformity with the requirements of this Lease and the plans and specifications approved by Owner, upon not less than two (2) business days prior notice to Tenant, except in the case of an emergency to public health or safety.

9.09 Tenant's Representative. Tenant shall designate an on-site representative who shall be available through final completion of any Covered Improvements to coordinate all design and construction activities, and to meet with Owner's representatives as necessary. Tenant shall submit written progress reports to the Director at least monthly. The reports shall describe significant achievements and problems that could affect the construction schedule or cost. The reports shall be sufficiently detailed to demonstrate compliance with approved plans and specifications, and this Lease. Tenant shall also furnish (or cause its contractors to furnish) at Tenant's expense, qualified safety personnel to be present during any construction activity.

9.10 Construction Contract Close-Out. Within ninety (90) days following Construction Contract Close-Out of any Covered Improvements, Tenant shall furnish Owner with (a) a certificate from Tenant's architect or engineer certifying that the work has been completed in accordance with the approved plans and specifications; (b) a complete set of electronic as-built drawings in Owner's current CADD standards of any Covered Improvements ("As Built Plans"); (c) to the extent not already provided to Owner by Tenant in accordance with Section 9.14 , a reasonably detailed itemization ask for the schedule of values of project costs including copies of invoices (addressed to, received by and directly paid by Tenant) and proof of payment to establish the verified cost of any Covered Improvements; (d) electronic PDF copies of all construction agreements, operation and maintenance manuals, and warranties on any Covered Improvements, including the Rehabilitation Project, and any component part thereof; (e) a list of all maintenance contractors and contracts for any Covered Improvements, or any part thereof; (f) a survey and metes and bounds description of the Premises by a professional land surveyor registered in the State of Texas using the then current professional survey standards as established by the Texas Society of Professional Surveyors ("Survey"); and (g) a copy of the certificate of occupancy for the Covered Improvements issued by the applicable Governmental Authority. If Tenant does not provide any applicable As-Built Plans and Survey within the designated period, Tenant shall pay Owner liquidated damages in the amount of Fifty Thousand Dollars (\$50,000.00) to cover Owner's cost of obtaining the same. Tenant covenants that Owner may use all plans and specifications submitted by Tenant pursuant to this Lease without payment to Tenant or any other person, for purposes relevant to and consistent with this Lease.

9.11 Amendment of Lease. After Owner's approval of the final as-built survey plat and metes and bounds description delivered to City in accordance with Section 9.10, Tenant and Owner shall execute an amendment to this Lease to identify the Premises.

9.12 Ownership. All improvements or modifications Premises resulting from any Covered Improvements, excluding Trade Fixtures related thereto, shall become the property of Owner at the end of the Term, whether by expiration, termination or otherwise, free from any liens or claims whatsoever created by Tenant, without any compensation from Owner to Tenant or to any other person or entity (except as otherwise expressly provided herein).

9.13 No Liens. Tenant shall be solely responsible for payment to all contractors and workers for all elements of construction, modification or demolition of any Covered Improvements, and shall keep the Premises and the South Terminal free and clear of all liens, other than Permitted Liens, resulting from any such work thereon, or the furnishing of labor or materials, by or on behalf of Tenant. Tenant shall obtain and deliver to Landlord, promptly upon the completion of any work performed at the Premises, written and unconditional

waivers of mechanic's liens upon the Premises and Covered Improvements for all work, labor, and services performed and materials furnished in connection with such work, signed by all contractors, subcontractors, material men, and laborers involved in such work. Notwithstanding the foregoing, any mechanic's lien filed against the Premises or the Covered Improvements for work claimed to have been done for or materials claimed to have been furnished to Tenant will be discharged by Tenant at its expense within thirty (30) calendar days after such filing, by payment or filing of the bond required by law. Tenant may contest the correctness or validity of any such lien, but shall indemnify, defend and hold harmless Owner from any and all such lien claims.

9.14 Initial Capital Investment. Within ninety (90) days after the Construction Contract Close-Out of the Rehabilitation Project, Tenant will provide Owner with a calculation of the actual Initial Capital Investment, together with invoices and cleared checks for payments made directly by Tenant to contractors, vendors and other third parties related to the Rehabilitation Project. Within ninety (90) days after Tenant's submission of its calculation of the actual Initial Capital Investment and such supporting documentation to Owner, Owner shall approve such calculation, in writing, such approval not to be unreasonably withheld, or else provide a notice to Tenant with any objections to Tenant's calculation of the Initial Capital Investment. Within thirty (30) days after any notice of objection by Owner, Owner and Tenant shall meet to negotiate in good faith and agree on the calculation of the amount of the Initial Capital Investment. If Owner fails to timely deliver a notice of objection to Tenant's calculation of the Initial Capital Investment, Owner shall be deemed to have approved Tenant's calculation of the Initial Capital Investment. The approved Initial Capital Investment shall be deemed final for purposes of any subsequent Capital Recovery Payment calculation.

ARTICLE 10 TENANT OPERATIONS, MAINTENANCE, AND REPAIRS

10.01 Conditions to Commencement of Operations.

(a) The Commencement of Operations Date shall not occur until the following conditions have been fulfilled or waived:

(i) no Specified Event shall have occurred upon the fulfillment or waiver of the items set forth in subsections (ii), (iii), (iv), (v), (vii), (viii), (ix), (x), (xi), (xii), (xiii), and (xiv) hereof;

(ii) Owner shall have installed roadway lighting along Emma Browning Drive, the South Terminal entrance and its roadways and the surface parking lots surrounding the South Terminal (fulfilled as of December 1, 2015);

(iii) the law enforcement and security activities contemplated under Section 18.09 shall commence;

(iv) the signage contemplated under Section 18.04 shall have been installed;

(v) Terminal Use Agreements between Tenant and air carriers that have an aggregate projected minimum of 200,000 Enplaned Passengers at the South Terminal for the twelve (12)-month period immediately following the Certificate of Occupancy Date satisfactory

to each of the parties thereto, shall have been fully executed and be in full force and effect and no default shall have occurred or be continuing thereunder (“Qualifying Terminal Use Agreement”);

(vi) no material changes to this Lease or the form of Terminal Use Agreement have been required or recommended by the FAA upon the fulfillment or waiver of the items set forth in subsections (ii), (iii), (iv), (v), (vii), (viii), (ix), (x), (xi), (xii), (xiii), and (xiv) hereof;

(vii) TSA screening activities at the South Terminal shall be ready and able to commence;

(viii) installation of a passenger processing system in the South Terminal by Tenant;

(ix) Substantial Completion has occurred;

(x) Tenant has satisfied the requirements under Section 10.02 and Articles 12, 13 and 14;

(xi) Tenant is ready to commence parking operations at the South Terminal as contemplated under Section 11.01;

(xii) FIDS Monitors shall have been installed in in the South Terminal in accordance with Section 19.01, which show departing and arriving flights for the South Terminal and the North Terminal;

(xiii) Certificate of Occupancy Date has occurred; and

(xiv) Airfield Use Agreements between Owner and air carriers that have an aggregate projected minimum of 200,000 Enplaned Passengers at the South Terminal for the twelve (12)-month period immediately following the Certificate of Occupancy Date, satisfactory to each of the parties thereto, shall have been fully executed and be in full force and effect and no default shall have occurred or be continuing thereunder.

(b) Notwithstanding anything to the contrary herein, Owner shall be deemed to have waived satisfaction of the conditions set forth in Section 10.01(a), and the Commencement of Operations Date shall be deemed to have occurred, solely for purposes of Section 25 hereof, thirty (30) days after receipt by Owner of written notice outlining Tenant’s compliance with its obligations under this Lease related to such conditions, including, where applicable, reasonable back-up information such as copies of filings with Governmental Authorities, *provided* that Tenant has also diligently and in good faith pursued fulfillment of all of the requirements set forth in Section 10.01(a) that are not fulfilled for purposes of the limited waiver under this Section 10.01(b).

(c) Notwithstanding anything to the contrary herein, if on or prior to March 31, 2017 (the “Outside Date”), (i) any of such conditions described in Section 10.01(a)(i) through (iv), or (xii) have not been fulfilled, waived, or firmly committed, then Tenant shall have the right, or (ii) any of such conditions described in Section 10.01(a), (viii), (ix), (x), (xi), or (xiii) have not been fulfilled, waived, or firmly committed, then Owner shall have the right, to terminate this Lease, without penalty, by notice to the other Party (such termination to take

effect on the date specified in such notice, which date shall be not earlier than thirty (30) days after the date of such notice and not later than ninety (90) days after the date of such notice), provided that (x) the Party terminating the Lease under this Section 10.01(c) has not taken any willful action or omitted or failed to take any action required or contemplated hereunder for the purpose of causing a condition hereunder to not be fulfilled or firmly committed, (y) nothing herein shall relieve any Party hereto from liability for willful acts or omissions or failures to act, the purpose of which is to avoid honoring any of its commitments and obligations under this Lease and (z) the Outside Date shall be extended by a number of days equal to the sum of the number of days from the receipt by Owner of any proper written notice under Section 10.01(b) until the effectiveness of the deemed waiver under Section 10.01(b), plus five (5) business days.

10.02 Operations. Tenant shall develop (and periodically update) a comprehensive South Terminal operational manual detailing the standards and processes for operating and managing all facilities, passengers, concessions, parking, and aircraft operations on the Premises (“Tenant’s Airport Operational Manual”). The draft Tenant’s Airport Operational Manual shall be submitted to Owner for approval by Tenant within one hundred eighty (180) days after the Effective Date. In accordance with Tenant’s Airport Operational Manual and in compliance with the Owner’s Airport Standards Manual, which shall be provided to Tenant within sixty (60) days after the Effective Date, Tenant shall be solely responsible for operating and managing the Premises including the South Terminal, South Terminal airside operations (e.g., including Tenant Apron and operations within the security identification display area (SIDA) of the South Terminal, but excluding dry weather glycol recovery in conjunction with the three gates located on the maintenance ramp at the South Terminal) and South Terminal landside operations (e.g., including South Terminal parking, food and beverage, retail, news and gift concessions, ground transportation, advertising and other passenger services).

10.03 Maintenance Capital Investment. Tenant has budgeted approximately \$3.9 million for maintenance capital for the ten (10) year period following the Commencement of Operations Date. For each five (5) year period thereafter, during the Term, Owner and Tenant shall work in good faith to agree on the level of maintenance capital investment for each such five (5) year period, based upon (a) the maintenance capital investments made in the immediately preceding five years, (b) any reasonably anticipated necessary maintenance expenditures, (c) any industry standards for maintenance and repair of the terminal facilities comparable to the Premises, (d) maintaining the South Terminal in the condition required for surrender of the Premises at the expiration or earlier termination of this Lease under Section 30.01, and (e) any other agreement between Owner and Tenant. Owner and Tenant shall meet annually to discuss the next Lease Year’s maintenance capital budget. Failure to agree on such investment for any period shall not constitute a default under this Lease by either Owner or Tenant.

10.04 Maintenance and Repair. Except as otherwise expressly provided for in this Lease, Tenant shall be solely responsible for the maintenance of the Premises, including the Tenant Apron and South Terminal, and shall, at Tenant’s sole expense, (a) maintain and take good care of the Premises, including the buildings, storm water structural controls, fixtures, lighting, and vehicle parking lots, and (b) make or cause to be made all repairs thereto and replacements thereof which are necessary to maintain and keep the Premises in good order, repair and condition at all times, subject to normal wear and tear. Tenant, shall maintain and

repair all mechanical, electrical, plumbing, heating and cooling, communication lines, and security and fire-protection systems as well as the trench drainage system and spill containment system that are part of the storm water structural controls on the Premises. Subject to normal wear and tear, Tenant will not cause or permit any waste, damage, disfigurement or injury to or upon the Premises, or any part thereof. Tenant shall mow and maintain the grass and landscaping within the Premises. Tenant shall maintain and repair all utility lines, fixtures and equipment on the Premises, except to the extent maintenance and repair is the obligation of the utility serving the Premises. In the event de-icing drainage infrastructure is developed and constructed for the South Terminal, both Parties shall work together in good faith to determine the maintenance and repair of such de-icing drainage infrastructure on mutually agreeable terms.

10.05 Tenant Apron. Tenant shall have the exclusive right to designate or allocate use of the Tenant Apron and gate areas of the South Terminal at all times. Tenant, at its sole cost and expense, shall at all times provide and maintain the Tenant Apron with aircraft parking stands on the Premises. Owner shall provide and maintain, at its cost and expense, the taxiways, taxiways, ramps, aprons, and runways not included in Tenant's Premises necessary for aircraft maneuvering to and from the South Terminal.

10.06 Trash/Recycling. Tenant shall provide, at its sole expense, all waste collection, handling and disposal services necessary or appropriate for the Premises, to keep the Premises free from trash, garbage and other refuse, and no such trash, garbage or other refuse shall be disposed of elsewhere on the Airport. In a manner consistent with other Airport terminal's then current operating standards, Tenant will provide recycling receptacles adjacent to each trash receptacle. Tenant will comply with the City's Universal Recycling Ordinance as defined in Title 15 of The Code of the City, as amended from time to time. Tenant shall provide, or cause to be provided, proper receptacles for trash, recycling, composting, garbage and other refuse generated on or from business operations on the Premises in a manner consistent with other Airport terminal's then current operating standards.

10.07 Owner's Right to Maintain. If Tenant fails to comply with its obligations to maintain or repair the Premises under this Article 10, and such failure is not cured within thirty (30) days of written notice from Owner, then in addition to any other rights or remedies Owner may have as a result of such failure, Owner shall have the right, but not the obligation, to perform such maintenance or repairs or other obligations at Tenant's expense provided that, if such failure is curable, but not capable of being cured within such thirty (30)-day period, Owner shall not be entitled to exercise such right unless Tenant fails to commence the cure of such failure during such thirty (30)-day period and thereafter fails to diligently and continuously pursue such cure to completion. The fully loaded cost, including a 20% administrative fee incurred by Owner to perform such maintenance or repair work or other obligations of Tenant shall be payable by Tenant to Owner within thirty (30) days from invoice date.

ARTICLE 11 PARKING FACILITIES

11.01 South Terminal Parking. Tenant shall operate and maintain the motor vehicle parking facilities to directly support the South Terminal. Tenant may not assign, subcontract, sublease or enter into a management agreement with respect to its rights and obligations under

this Lease related to the operation and management of motor vehicle parking to a third party without Owner's prior written consent, which may not be withheld by Owner if Tenant demonstrates to the reasonable satisfaction of Owner that the third party is a Qualified Entity. For purposes of this Section 11.01, to be a Qualified Entity, the third party (a) must have not less than five years' experience in operating car parking facilities with a minimum of not less than 500 spaces, (b) may not operate an Off-Airport Parking Business (as described in City Code Chapter 13-1) in Austin, Texas, and (c) must not be de-barred from contracting with the United States, the State of Texas or the City. The prior written consent of Owner will be required for construction of any multi-level parking facilities, in accordance with Article 15.

11.02 Additional Parking Development. Owner shall have the ability to develop any new parking facilities south of the mid-field taxiway that either (a) is exclusively Airport employee parking or (b) subject to Owner's full compliance with Article 15 hereof, supports operations of an Expansion or any New Facility developed south of the mid-field taxiway.

ARTICLE 12 AIRLINE LEASING PROGRAM

12.01 General. Tenant will maintain an airline leasing program for the South Terminal (the "Airline Leasing Program"), which shall include, but not be limited to, a Terminal Use Agreement containing rates and charges for terminal facilities that is in compliance with all applicable federal regulations. In structuring such an Airline Leasing Program, Tenant will comply with applicable FAA rules and regulations, including the FAA's Policy on Rates and Charges. Tenant shall submit to Owner for its review the Airline Leasing Program, including any modifications or amendments, and Owner shall review such Airline Leasing Program to verify that it (i) is FAA compliant, (ii) is fair and reasonable, (iii) is not unreasonably discriminatory, and (iv) does not violate any airport grant assurances or other regulations to which Owner is subject. Tenant and Owner acknowledge that nothing herein shall restrict any air carrier operating at the Airport from seeking to operate at the South Terminal under the terms and conditions established herein. Owner shall complete its review of the initial draft Airline Leasing Program for FAA compliance within thirty (30) days after submittal by Tenant. The draft Airline Leasing Program shall be submitted to Owner for review by Tenant within sixty (60) days after the Effective Date. For the avoidance of doubt, Owner has the sole right to charge the Airlines landing fees and other aircraft parking fees outside of Tenant's Premises.

12.02 Airline Fees. Tenant may charge various usual and customary fees to air carriers using the Premises and the South Terminal (including, without limitation, administrative and staff costs; check-in facilities; common use equipment charges; installation and maintenance of FIDS Monitors; baggage handling facility charges, including the usage of the centralized baggage conveyor installation (if any) and a system for outbound and inbound baggage, including oversized baggage; baggage and passenger screening; common use boarding areas; baggage claim areas; utilities such as electricity, water, gas, heating and cooling, waste disposal, wastewater, light, cable television, telephone and other communication services; employee parking; exclusive use space charges; and any ground handling services provided by Tenant. For the avoidance of doubt, Tenant has the right to charge the Airlines aircraft parking fees within the Tenant's Premises.

ARTICLE 13
MARKETING SUPPORT AND INCENTIVES TO AIR CARRIERS

13.01 General. Tenant and/or Owner may provide incentives to attract air carriers to the Airport including the South Terminal. Such incentives may, to the extent permitted by Applicable Law, include waived or discounted airfield and terminal rates and charges to carriers meeting qualifying service commitments. Only Owner may offer airfield incentives and only Tenant may offer Premises and South Terminal rate incentives.

13.02 South Terminal Marketing Program. Tenant may, to the extent permitted by Applicable Law, provide marketing incentives to air carriers meeting qualifying service commitments to offset the documented marketing costs incurred by air carriers in accordance with a marketing program relating to the South Terminal developed by Tenant and approved by Owner (the "South Terminal Marketing Program"); provided, however, that Owner's review and approval of financial incentives in the South Terminal Marketing Program shall be limited to a determination, in accordance with Applicable Law, that such financial incentives are fair and reasonable, not unreasonably discriminatory, and do not otherwise violate any airport grant assurances or other regulations to which Owner is subject. Notwithstanding the above, and to the extent permitted by Applicable Law, Tenant agrees that it will not initiate discussions with, or actively solicit, any air carrier operating at the Airport to relocate its operations to the South Terminal, provided that the foregoing prohibition will not preclude contacts (a) in the ordinary course of business of Tenant or any of its Affiliates or (b) permitted under the South Terminal Marketing Program guidelines not reasonably objected to by Owner. Owner may participate in the South Terminal Marketing Program as the Parties may agree in writing. Tenant shall submit a draft South Terminal Marketing Program to Owner for review (as contemplated above) within sixty (60) days after the Effective Date.

13.03 Implementation. It is the intent of the Parties that funds expended in the South Terminal Marketing Program be recouped through incremental revenue (excluding passenger facility charges from the South Terminal benefitting Owner) generated from an increased volume of aircraft and passenger traffic at the South Terminal. Tenant and Owner may, to the extent permitted by Applicable Law, enter into one or more agreements to adopt and implement marketing programs. Such marketing agreements may address, among other things, the respective financial participation of Tenant and Owner in the marketing incentives, and the manner and order of priority in which various sources of incremental revenue shall be applied to reimburse each Party for its share of funds expended on marketing incentives.

13.04 Cooperation. Tenant and Owner will use commercially reasonable efforts to maximize the marketing incentives from other Austin, Texas and regional stakeholders, including tourism, economic development, employment and business associations, to attract air carriers to operate services from the South Terminal.

ARTICLE 14
CONCESSION PROGRAM

14.01 General. Tenant shall develop (and periodically update) a comprehensive terminal concession program (the "Concession Program") outlining desired concessionaires for

all concessions related to the food and beverage, news and gifts and specialty retail operations, and advertising in the South Terminal and on the Premises. The draft Concession Program shall be submitted to Owner within sixty (60) days after the Effective Date and promptly finalized in good faith by Owner and Tenant.

14.02 Owner Review. Tenant shall submit the Concession Program, and any subsequent modifications or revisions to the Concession Program, to Owner for its review and approval and will consult with Owner regarding its content.

14.03 ACDBE Goals. Tenant shall take all necessary and reasonable steps to achieve the established goals under Owner's program under the U.S. Airport Concession Disadvantage Business Enterprise ("ACDBE") Rules (49 CFR Part 23). Tenant shall, promptly after the Effective Date, provide the City's Department of Small and Minority Business Resources Department ("SMBR") a copy of its ACDBE Compliance Plan concerning the ACDBE firms that will participate in the South Terminal concessions. Tenant shall provide Owner and SMBR each Lease Year with a copy of Tenant's ACDBE goals and results achieved, and with a copy of all ACDBE reports required to be submitted under Applicable Law to the DOT and other applicable Governmental Authorities. Such report will include the name and address of each firm, the annual estimated gross receipts to be earned by each named firm, a description of the legal arrangements utilized, and the total overall estimated annual gross receipts to be earned by such concessionaires.

14.04 Local Concessionaires. Tenant shall identify qualified local concessionaires and notify them of potential concession opportunities. However, in accordance with 49 CFR §23.79, nothing in this Section shall be construed to require Tenant to give preference to local concessionaires.

ARTICLE 15 EXPANSION OR NEW FACILITY

15.01 Expansion or New Facility. If Tenant determines that the growth of operations of existing or new air carriers requires an Expansion or if Tenant or Owner determines that the growth of operations of existing or new air carriers requires a New Facility, either Tenant or Owner, as applicable, shall provide a written notice to the other Party of such determination. If Tenant provides a written notice to Owner that it is interested in investing in such Expansion or New Facility, then, subject to Owner's agreement and in accordance with the Airport Master Plan, (a) in the event of an Expansion that does not require additional land or other material changes to this Lease, Owner and Tenant will amend this Lease to reflect such Expansion, and (b) in the event of an Expansion that requires additional land or the construction of a New Facility, Owner will provide Tenant with the exclusive first right to, as applicable, develop, construct and operate such Expansion or New Facility, and both Parties shall work together in good faith to enter into an agreement regarding such Expansion or New Facility on mutually agreeable terms. Owner will coordinate with Tenant to seek FAA approval to update the Airport Layout Plan accordingly to identify the Tenant's Expansion or New Facility on the Airport Layout Plan. In the event an update to the Airport Layout Plan is necessary due to Tenant's Expansion or New Facility as approved by Owner, Tenant shall be responsible for the cost of any environmental studies in connection with FAA and state approvals.

ARTICLE 16 FINANCING

16.01 Tenant's Right to Finance. To secure financing, subject to compliance with the provisions of this Article 16, Tenant may encumber its leasehold interest in the Premises, including any improvements thereto, under this Lease with one or more deeds of trust or mortgages, and may collaterally assign to such lender Tenant's rights in Owner-authorized subleases, including Terminal Use Agreements and concessionaire agreements, entered into during the Term. Tenant shall provide to Owner the name and notice address of the lender together with true copies of the loan documents, including, as applicable, deeds of trust, mortgages, security agreements and promissory notes, within ten (10) business days after execution by Tenant. No lien upon, or assignment of, Tenant's leasehold estate or this Lease hereunder shall encumber, subordinate or affect in any way the interest of Owner under this Lease or in the Premises, including any improvements thereto, except as expressly provided herein. The loan documents shall be consistent with this Lease. Upon written request from Tenant, Owner agrees to reasonably subordinate its statutory and contractual landlord's liens on Tenant's personal property and Trade Fixtures, to the lien of a lender providing financing to Tenant consistent with the terms of this Lease.

16.02 Tenant's Lender Rights and Obligations. Tenant's lender may, in case of default by Tenant, assume the rights and obligations of Tenant under this Lease, and become a substituted Tenant, with the further right to assign Tenant's interest to a Qualified Entity, subject to the approval of the Director, which shall not be unreasonably denied or delayed. Tenant's lender's obligations under this Lease as substituted Tenant shall cease upon assignment to an Owner-approved third party. Owner agrees to execute such non-disturbance and attornment agreements as Tenant's lender may reasonably request consistent with this Lease. If Tenant has provided the name of any third party lender and a notice address for such lender, Owner agrees to give Tenant's lender a duplicate copy of any notice of a breach of this Lease or any Tenant Default that Owner gives Tenant. The lender may then cure such breach or Tenant Default, for the account of Tenant or the lender (as the lender may elect), in the same manner and in the same period of time as allowed Tenant. Tenant shall promptly provide to Owner a copy of any notice delivered by Tenant's lender of Tenant's default or the lender's intent to exercise a remedy in response to Tenant's default with respect to its loan documents. Tenant's lender shall agree to provide copies of such notices directly to Owner, and to notify Owner if payments on such loans become delinquent for more than thirty (30) days. In the event of any conflict between the rights granted Tenant's lender under its loan documents and the terms of this Lease, the terms of this Lease shall control.

16.03 Owner's Right to Finance. Owner may, from time to time, without the consent or joinder of Tenant, encumber its interest in the Premises with one or more deeds of trust, mortgages or other lien instruments. Tenant shall execute and deliver to Owner such subordination and attornment agreements as Owner or its lender shall reasonably require, provided that such lender shall execute and deliver to Tenant a nondisturbance agreement reasonably satisfactory to Tenant, which shall include, without limitation, an express acknowledgement of Tenant's right to quiet enjoyment set forth in Section 2.03.

ARTICLE 17
OTHER TENANT OBLIGATIONS

17.01 Premises Security. Tenant recognizes that Owner is required to comply with the security directives and other mandates of the United States Department of Transportation (the “DOT”), the FAA, the TSA and the United States Department of Homeland Security (the “DHS”), and with other governmental and administrative rules and regulations relating to airports. Accordingly, Tenant shall operate and manage the Premises and the South Terminal in accordance with such security directives and other mandates of the DOT, the FAA, the TSA and the DHS, and other governmental and administrative rules and regulations relating to airports. In addition to the security provided by Owner under Section 18.09, Tenant shall hire additional security as necessary and at its own cost to perform day-to-day security functions, including but not limited to, alarm response, exit lane monitoring, calls for assistance, and incident documentation. Tenant shall purchase and install, at its expense, security equipment for the Premises, as mutually agreed to by Owner and Tenant and sufficient to ensure compliance with applicable security regulations. Tenant shall ensure that the Premises’ security system is connected to Owner’s existing security system for the Airport and Tenant will pay for such connection and service. The Premises’ security system shall be monitored by Owner at no charge to Tenant.

17.02 Compliance with Airport Rules. Owner may adopt and enforce reasonable rules, regulations and minimum standards, which Tenant agrees to observe and obey, with respect to the operation of the South Terminal and the use of the Airport and its appurtenances, together with all facilities, improvements, equipment and services of the Airport, for the purpose of providing for safety, good order, good conduct, sanitation and preservation of the Airport and its facilities, provided that such rules and regulations shall be consistent with Applicable Law and applied on a not unjustly discriminatory basis to any and all similarly situated ground lease tenants at the Airport.

17.03 Signs. All signs displayed on exterior of the South Terminal or other improvements and all free standing signs on the Premises are subject to the prior written approval of the Director. Approved signs shall be installed by Tenant at Tenant’s expense. Owner reserves the right to remove, without notice to Tenant, all unapproved signs. Tenant shall not erect, maintain or display any advertising signs on the exterior of the South Terminal or other improvements on the Premises, except as authorized under this subsection.

17.04 Customer Claims, Comments, and Complaints. Tenant shall maintain policies and procedures to address, and shall use good faith and commercially reasonable efforts to address, any claim, comment or complaint in respect of operations at the South Terminal made by Airlines, passengers or other users of the South Terminal. Nothing herein shall require Tenant to pay any claim that Tenant, in its sole discretion, does not believe is valid or justified. Without limiting the generality of the foregoing provision, if a claim, demand, suit, or other action is made or brought by any person against Tenant arising out of or concerning this Lease, Tenant shall give written notice thereof, to Owner within two (2) business days after being notified of such claim, demand, suit, or action. Such notice shall enclose a true copy of all written claims. If the claim is not written, or the information is not discernible from the written claim, Tenant shall state the date of notification of any such claim, demand, suit, or other action,

the names and addresses of the person asserting such claim or that instituted or threatened to institute any type of action or proceeding, the basis of such claim, action, or proceeding, and the name of any person against whom such claim is being made. The notice shall be given to the Director as provided herein, and to the Austin City Attorney, City Hall, 301 West 2nd Street, Austin, Texas 78701.

17.05 Maintenance of Legal Existence. During the Term, Tenant shall at all times maintain its legal existence and good standing, and its legal authority to perform its obligations under this Lease.

17.06 Personnel. Tenant shall employ or contract with experienced and qualified personnel and consultants to oversee the rehabilitation, reactivation, operation and maintenance of the Premises and the South Terminal, and any improvements thereon.

17.07 Meetings. Owner and Tenant shall meet regularly, but no less often than quarterly, to discuss (a) the operation of the Airport, (b) capital projects necessary for the Airport and ongoing maintenance and repair expenses, (c) matters relevant to the operation of the South Terminal, (d) air service development and marketing plans for the Airport, (e) opportunities to enhance operations at the Airport, and (f) any other matters pertaining to this Lease or operations on the Premises and at the South Terminal.

17.08 Addition of Certain Amenities. Tenant must obtain Owner's written consent prior to initial installation at the South Terminal of any passenger boarding bridges and other operational amenities similarly offered at the North Terminal.

ARTICLE 18 OTHER OWNER'S OBLIGATIONS

18.01 Operation as a Public Airport. Owner shall operate and maintain the Airport as a public airport in accordance with the requirements of the Federal Aviation Act and all other Applicable Laws.

18.02 Maintenance of Public Runways, Taxilanes, Taxiways, Ramps, and Aprons. In accordance with Applicable Law, Owner shall keep, maintain, repair and replace all public access runways, taxilanes, taxiways, ramps and aprons not included in Tenant's Premises and specifically excluding the Tenant Apron and aircraft parking stands within the Premises.

18.03 Use of Public Runways, Taxilanes, Taxiways, Ramps, and Aprons. Owner shall provide Tenant and the Airlines such taxilanes, taxiways, ramps and apron space, as identified on Exhibit A hereto, reasonably necessary to provide for aircraft maneuvering and ingress and egress between the Airport airfield and the Premises.

18.04 Signage. Owner, at no cost or expense to Tenant, will (a) use reasonable good faith efforts to facilitate the provision and maintenance of adequate advance signage by applicable authorities, including the Texas Department of Transportation, on major national and local approach roads to direct passengers to the South Terminal, and (b) provide and maintain similar air carrier and terminal identifying signage on applicable Airport roadways and properties.

18.05 Shuttle Bus Service. Owner shall provide, at no cost to Tenant, Shuttle Bus Service for passengers and employees between the South Terminal and the North Terminal/CONRAC facility. Operation of the Shuttle Bus Service shall be sufficiently coordinated with the arrival and departure of commercial airline flights at the South Terminal in accordance with Tenant's Airport Operational Manual as approved by Owner to accommodate actual passenger traffic levels and projected passenger traffic levels provided by Tenant to Owner.

18.06 Rental Car Revenue Sharing.

(a) In lieu of allowing rental car companies to enter into specific agreements with Tenant for rental car operations at the South Terminal, Owner shall make payments to Tenant, on a monthly basis, based on Tenant's verified reported Enplaned Passengers for the given month multiplied by the revenue sharing rate (the "Revenue Sharing Rate") calculated for the same given month (such amount, the "Rental Car Revenue Share"). The Revenue Sharing Rate shall be determined by dividing the actual gross rental car revenues (excluding any customer facility charge ("CFC") revenues) received by Owner in a given month from all rental car companies providing service to the Airport (on-airport and off-airport companies) by the total number of Airport Enplaned Passengers for the same month. Tenant and Owner agree that this Section 18.06 and Owner's obligations with respect to payments of the Rental Car Revenue Share shall become null and void upon the commencement of rental car operations, by Tenant, at (i) the South Terminal, (ii) an Expansion or (iii) a New Facility.

(b) Commencing with the month in which the Commencement of Operations Date occurs, no later than thirty (30) days after the end of each month during a Lease Year, Owner shall submit to Tenant a detailed statement (the "Owner Monthly Report") reflecting (i) actual gross rental car revenues (excluding any CFC revenues) received by Owner from all rental car companies providing service to the Airport (on-airport and off-airport), (ii) the total number of Airport Enplaned Passengers, and (iii) the Rental Car Revenue Share, for the applicable month. The Owner Monthly Report shall be prepared on a consistent basis and be certified by a responsible financial officer of Owner.

(c) Not later than the fifteenth (15th) day after delivery of an Owner Monthly Report pursuant to Section 18.06(b), Owner shall pay to Tenant an amount equal to the Rental Car Revenue Share for such calendar month (pro-rated for any partial month), as reflected in such Owner Monthly Report.

(d) If the Rental Car Revenue Share reflected in the Owner Annual Report provided in accordance with Section 18.06(e) exceeds the total amount of Rental Car Revenue Share paid by Owner with respect to the applicable Lease Year, Owner shall pay Tenant the amount by which such Rental Car Revenue Share for the Lease Year exceeds the total Rental Car Revenue Share payments previously paid by Owner to Tenant for such Lease Year, within thirty (30) days after the delivery to Tenant, of the Owner Annual Report. If the Owner Annual Report reflects an overpayment by Owner of Rental Car Revenue Share for such Lease Year, Tenant shall pay Owner the amount of Owner's overpayment within thirty (30) days after the delivery of the Owner Annual Report.

(e) Within ninety (90) days after the close of each Lease Year, Owner shall furnish Tenant with a detailed statement (the "Owner Annual Report") reflecting (i) actual gross rental car revenues (excluding any CFC revenues) received by Owner from all rental car companies providing service to the Airport (on-airport and off-airport), (ii) the total number of Airport Enplaned Passengers, and (iii) the Rental Car Revenue Share, for the Lease Year. The Owner Annual Report shall be prepared in accordance with GAAP and be certified by a responsible financial officer of Owner.

(f) Within one hundred twenty (120) days after the close of each Lease Year, Owner shall furnish to Tenant an audited annual accounting statement of (i) actual gross rental car revenues (excluding any CFC revenues) received by Owner from all rental car companies providing service to the Airport (on-airport and off-airport) and (ii) the Rental Car Revenue Share, for the Lease Year, prepared by an independent Certified Public Accountant, in accordance with GAAP. The audit will express an opinion as to whether the reported gross rental car revenues and Rental Car Revenue Share, for the applicable Lease Year, have been accurately calculated in accordance with the terms of this Lease.

(g) Unless otherwise directed, in writing, by Tenant, Owner shall remit payment of any payment obligations of Owner to Tenant, through an Automated Clearing House (ACH) electronic transfer of funds.

(h) If any payment required hereunder by Owner under this Section 18.06 is not made within thirty (30) days after such payment is due, Owner shall pay interest at the Contract Rate on the amount outstanding from the payment due date until paid in full.

(i) Upon written notice at any time or times during the Term within three (3) years after the end of the any Lease Year, Tenant may inspect, reproduce and audit the books and records of Owner relating to the Rental Car Revenue Share. If, as a result of such inspection and audit, it is established that additional Rental Car Revenue Share is due Tenant, Owner shall, upon written notice by Tenant, pay such additional fees, plus interest, calculated at the Contract Rate, within thirty (30) days of written notice. If, on the other hand, such audit determines that Owner has overpaid the Rental Car Revenue Share due Tenant, Tenant shall refund to Owner the amount of such overpayment in cash. If the results of such audit reveal an underpayment of more than five percent (5%) of Rental Car Revenue Shares as reported by Owner, the cost of the audit shall be paid by Owner to Tenant as additional Rental Car Revenue Share, but such additional Rental Car Revenue Share shall not be included in Gross Revenues for purposes of this Lease.

(j) Tenant's obligations with respect to information provided by Owner under this Section 18.06 include the confidentiality covenants under Article 38.

(k) Owner shall maintain all material books and records related to Rental Car Revenue Share in accordance with its record retention policy as required by Applicable Law. Owner shall cooperate fully with any audit or examination initiated by Tenant, and shall produce all books and records requested for audit to a designated location at the Airport, or in Austin, Texas, within thirty (30) days of the date of written request. To facilitate the inspection of Owner's books and records, documents provided for audit shall be made available in an

electronically downloadable format acceptable to Tenant whenever possible. When electronic files do not exist, legible printed copies of books and records must be provided.

18.07 Federal Compliance. Owner will maintain Part 139 Certification and all compliance responsibilities vis-à-vis the FAA and the TSA.

18.08 Passenger Facility Charge; Airport Improvement Program. Owner shall be responsible during the Term for its Passenger Facility Charges (“PFCs”) collection authority and its Airport Improvement Program sponsor status.

18.09 Security. Owner shall provide uniformed law enforcement officers as required to meet and comply with the Airport Security Plan approved by TSA and other applicable regulatory requirements, at no cost to Tenant, as well as one (1) security manager to oversee the security program developed and implemented at the Premises. Owner’s security manager shall act as the liaison among Owner, Tenant, law enforcement and the TSA.

18.10 Lighting. As of the Effective Date, Owner has installed roadway lighting along the current Emma Browning Drive, the initial South Terminal entrance, exit roadways, and South Terminal parking. Throughout the Term, Owner shall maintain the lighting at all Airport locations, except for the Premises. Unless otherwise agreed to by Owner in writing, Owner is not responsible for the installation of any additional lighting upon Expansion or construction of a New Facility, additional parking facilities or other improvements by Tenant.

18.11 De-Icing. Owner will, at no cost to Tenant, provide the dry weather de-icing recovery for three aircraft positions located on the maintenance ramp at the South Terminal gates. Wet weather de-icing operations shall be performed within the area in proximity to the North Terminal and cargo ramp. The Airlines will be responsible for the cost of the de-icing fluid used and its application.

18.12 Access to South Terminal. Owner will maintain all access roadways to the South Terminal and at any time construction impairs such access for an extended period will provide alternative access routes, at Owner’s cost, to the South Terminal, which do not result in any delays for, or congestion of, traffic to or from the South Terminal.

ARTICLE 19
SHARED USE AND COMMUNICATIONS SERVICES

19.01 Shared Use.

(a) Tenant may elect to utilize Owner’s Shared Use Passenger Processing System (SUPPS). Tenant shall not make any modifications or improvements to the SUPPS nor allow any Airline to make any modifications or improvements to the SUPPS without the prior written approval of the Director. As of the Effective Date, Tenant has elected to utilize Owner’s SUPPS. To the extent that Tenant elects to discontinue its use of SUPPS, Tenant shall provide Owner not less than one hundred eighty (180) days’ prior written notice of such election and shall provide Owner access to the Premises for removal of any SUPPS equipment located at the Premises.

(b) If Tenant elects to participate in Owner's SUPPS, Owner shall provide FIDS Monitors in the South Terminal, which shall display departures and arrivals for the South Terminal and the North Terminal. Tenant shall pay Owner for Owner's actual and documented costs of initially installed equipment, the initial installation costs, and the annual support and maintenance costs of the equipment and service, which include replacements as necessary, within thirty (30) days from invoice date.

(c) If Tenant does not elect to participate in Owner's SUPPS, Owner shall provide the feed to display on the South Terminal monitors for the departing and arriving flights at the South Terminal and North Terminal, provided that Tenant shall pay an annual cost to supply the feed to the South Terminal monitors within thirty (30) days from invoice date.

(d) Tenant shall not install any proprietary terminal equipment in the South Terminal without the prior written approval of the Director. Tenant shall not allow any Airline to install any proprietary terminal equipment in the South Terminal without the prior written approval of the Director.

19.02 Wireless Service. In order for Tenant to receive approval from Owner's Manager of Information Technology for the installation of any wireless networks, including unlicensed and licensed networks and services, at the South Terminal, Tenant's use of a wireless service and equipment shall be in compliance with the Airport's Operator's Wireless Policy attached hereto as Exhibit G. Owner shall, at Tenant's request, extend Owner's existing public wireless service to the South Terminal, at no cost to Tenant, provided that Owner retains all rights to revenues generated from the extension of Owner's wireless service to the South Terminal. In no event shall Tenant enter into direct agreements with cellular carriers, their representatives or a third party provider to install a distributed antenna system, or any other system, for the purposes of augmenting cellular licensed frequency signal within the Premises. Furthermore, Tenant shall not cause or allow any installations that cause interference with Owner's frequency, wireless service or FAA infrastructure on the airfield.

19.03 Radio. Tenant shall have the right to install, maintain and operate radio communications and meteorological and aerial navigation equipment and facilities ("Radio Communications Facilities") as may be necessary for operations at the South Terminal in accordance with the Owner's Tenant Radio Installation Guidelines attached hereto as Exhibit H. Tenant shall notify and coordinate installations or modifications of equipment with Owner's Manager of Information Systems prior to installation or modification. Radio communications shall not interfere with other radio communications systems and facilities at the Airport, other air carriers or commercial licensed telecommunications providers. If the Radio Communications Facilities are causing radio interference, Tenant shall modify or cease its use of such Radio Communications Facilities to eliminate the interference.

19.04 Communications Services. Owner has installed a Premises Distribution System ("PDS"), consisting of copper and fiber optic cables, that spans the Airport. All external telecommunications providers will terminate at the demarcation point located in the Owner's Communications Center. Tenant shall use Owner's fiber optic and copper PDS to connect to the demarcation point. Tenant, at Tenant's expense, must provide all equipment necessary to connect to the PDS. All data transmission and switching equipment used shall comply with Owner's

PDS specifications. Tenant shall pay the fees established by Owner for the use of the PDS for data transmission within thirty (30) days from invoice date. Tenant may participate in Owner's shared tenant service telephone system ("STS") (as described in Section 19.05 below) that includes data transmission lines (Frame Relay, ISDN and T1) or choose to use the PDS to connect to an alternate provider at the demarcation point. All data communication service charges, including installation, maintenance, moves, additions and changes for the Premises shall be at the sole cost of Tenant and paid within thirty (30) days from invoice date. Tenant shall, at its sole expense, procure and install all equipment, conduit and other hardware necessary to connect the Premises to the PDS. Wiring installed by Owner shall be at Tenant's expense and paid within thirty (30) days from invoice date. Tenant and all persons occupying the Premises shall use the PDS and pay applicable fees for the PDS connections within thirty (30) days from invoice date. Fees for communication services are subject to change at any time. Owner shall give Tenant at least thirty (30) days advance written notice prior to the effective date of any estimated fee change.

19.05 Shared Telephone Service. Owner has installed an STS to serve the Airport. Tenant may either use the STS or select another telephone service provider. If Tenant chooses to participate in the STS, Tenant and subtenants occupying the Premises shall agree, subject to the express provisions of this Lease, to the Airport's STS Terms of Usage attached hereto as Exhibit D, and pay for its STS charges, as applicable. Payment and the required security deposit for PDS and STS charges are not included in the Rent or Security Deposit for the Premises under this Lease and must be paid as provided in the STS Terms of Usage. Non-payment by Tenant of telephone service charges shall be grounds for discontinuance of service and an event of default under this Lease. If Tenant and subtenants elect to install their own telephone services, Tenant shall provide its own telephone switches, instruments and other equipment necessary to interface via the PDS to the Airport telecommunications demarcation point. A monthly fee for use of the PDS shall be charged by Owner and paid by Tenant within thirty (30) days from invoice date. Furthermore, all telephone service charges, including installation, maintenance, moves, additions, changes, long distance and local provider service for the Premises shall be Tenant's sole responsibility. Tenant shall not enter into any telephone agreement that conflicts with the Owner's Minimum Point of Entry (MPOE), the telephone demarcation point or, if a party thereto, the STS Terms of Usage.

19.06 Television Service. Cable access television services are contracted through third party providers. A monthly fee for use of the PDS shall be charged by Owner and paid by Tenant and subtenants as applicable to connect cable television services from the demarcation point to the South Terminal. Alternatively, Tenant may install satellite dishes, antennae or similar receiving devices on the Premises upon Owner's prior written approval and subject to the service not interfering with other radio communications systems and frequencies at the Airport. All television service charges, including installation, maintenance, moves, additions and changes, and cable channel charges, shall be at Tenant's sole cost.

19.07 Computer Networks. Tenant shall, at its sole expense, procure, install and maintain all necessary or desired computer networks on the Premises.

ARTICLE 20
ENVIRONMENTAL CONDITION OF PREMISES

20.01 Environmental Assessments. The Airport is a former United States Air Force base that Owner acquired from the United States and has converted to a civilian airport. Owner may provide, upon request, Tenant with any available copies of Environmental Assessments it has in its possession, as of the Effective Date, relating to the Premises.

20.02 Acknowledgement of Hazardous Materials. A portion of the South Terminal was previously leased to the Texas National Guard and the South Terminal has been used by Owner as a storage facility. As such, the Premises may contain Hazardous Materials.

20.03 Tenant's Inspection Rights. Tenant shall have the right to inspect and conduct one or more Environmental Assessments of the Premises, including subsurface investigation of soil and groundwater conditions, subject to reasonable conditions established by Owner (an "Assessment Report"). Tenant shall provide Owner with a copy of the proposed location and scope of work for the Assessment Report, and Owner will provide Tenant with such information within its possession regarding the potential presence of underground utilities or structures or any other information regarding Environmental Conditions not otherwise conveyed in any Environmental Assessment. Tenant is responsible for coordinating with all utility providers to confirm the presence or absence of buried utilities. Tenant shall promptly provide Owner a copy of the Assessment Report upon its completion. If the Assessment Report determines the presence or threatened release of Hazardous Materials or other Environmental Conditions that require remediation under Applicable Law, Tenant, at its option, may (a) submit a written plan for remediation of the Premises, as applicable, which may include an allocation proposal to Owner regarding the cost of remediation and the responsibility for remediation of such Hazardous Materials or Environmental Conditions to the extent required under Applicable Law, or (b) if the cost to remediate Hazardous Materials or Environmental Conditions is unacceptable to Tenant in its sole discretion and the Parties are unable to agree upon a sharing of remediation costs, (i) terminate this Lease in whole or (ii) with the written consent of the Director, amend this Lease to delete the contaminated areas from the Premises, and adjust the Rent proportionately. Owner agrees to reasonably consider a proposal for sharing remediation costs and shall respond to a proposal from Tenant within forty-five (45) days from receipt, but nothing herein shall require Owner to agree to a remediation cost sharing. Owner's failure to respond within forty-five (45) days shall be deemed to be a rejection of Tenant's remediation cost allocation proposal. If Owner and Tenant are unable to agree upon a sharing of the costs of such remediation, Tenant shall retain its remaining options under this Section 20.03. Tenant may elect to place monitoring wells and stations on the Premises to detect or monitor any existing or potential Hazardous Materials or Environmental Conditions identified in any Assessment Report.

ARTICLE 21
ENVIRONMENTAL COMPLIANCE

21.01 Definitions. For the purpose of this Article 21, "Tenant" shall include Tenant Environmental Parties.

21.02 Compliance. In its operations on the Premises and at the Airport, Tenant shall strictly comply with all applicable Environmental Laws, the Airport Environmental Policies and Procedures (including without limitation, the Storm Water Pollution Prevention Plan (“SWPPP”) and Spill Response Plan), which are incorporated by reference, and as of the Effective Date of this Lease are located on the Airport’s website at: http://content.abia.org/environmental/storm_water.html. Without limiting the generality of the foregoing provision, Tenant shall not use or store Hazardous Materials on or at the Premises or Airport except as reasonably necessary in the ordinary course of its permitted activities at the Premises and Airport, and then only if such Hazardous Materials are properly labeled and contained as required pursuant to Applicable Laws, and notice of and a copy of the current material safety data sheet is provided to Owner for each such Hazardous Material. Prior to commencing operations at the Premises or Airport, Tenant will complete an Airport baseline environmental questionnaire form attached as Exhibit I. The Parties agree that certain Baseline Phase II Environmental Site Assessment, dated as of January 27, 2016, prepared for Tenant by TRC Environmental Corporation, attached hereto as Exhibit J, shall establish the baseline environmental condition of the Premises as of the Effective Date. Tenant shall not discharge, release or dispose of any Hazardous Materials on the Premises or Airport or surrounding air, lands or waters in violation of Applicable Laws. Tenant shall promptly notify Owner of any Hazardous Material spills, releases or other discharges by Tenant at the Airport in accordance with Owner’s Spill Response Plan and promptly abate, remediate and remove any the same to the extent required under Applicable Laws. Tenant shall provide Owner with copies of all written reports, complaints, claims, citations, demands, inquiries or notices relating to the environmental condition of the Airport, or any alleged material noncompliance with Environmental Laws by Tenant or, if known by Tenant, any Airline, within ten (10) days after such documents are generated by or received by Tenant. If Tenant uses, handles, treats or stores Hazardous Materials at the Premises or Airport, and it is necessary for Tenant to arrange for the disposal of the Hazardous Materials, Tenant shall comply with any applicable requirement under Applicable Laws to have a contract in place with an EPA or TCEQ approved waste transport or disposal company, and to identify and retain spill response contractors to assist with spill response and facilitate waste characterization, transport and disposal. Complete records of all disposal manifests, receipts and other documentation required by Applicable Laws shall be retained by Tenant and made available to Owner for review upon request. Owner shall have the right at any time to enter the Premises to inspect, take samples for testing and otherwise investigate the Premises for the presence of Hazardous Materials. In exercising its right of access, Owner shall use reasonable efforts to minimize disruption of or interfere with Tenant’s operations or use of the Premises and shall give Tenant reasonable notice with respect to Owner’s intention to take samples for testing to allow Tenant to split samples of such testing with the Owner as mutually agreed upon by Owner and Tenant.

21.03 Responsibility. Tenant’s Hazardous Materials shall be the responsibility of Tenant. Tenant shall be liable for and responsible to pay all Environmental Claims that arise out of or are caused in whole or in part from Tenant’s use, handling, treatment, storage, disposal, discharge or transportation of Hazardous Materials that Tenant brought on to or at the Premises or Airport, the violation of any Environmental Law by Tenant or the failure of Tenant to comply with the terms, conditions and covenants of this Article 21.

If Owner incurs any costs or expenses (including reasonable attorney, consultant and expert witness fees) arising from Tenant's use, handling, treatment, storage, discharge, disposal or transportation of Hazardous Materials that the Tenant brought on to the Premises or at the Airport, Tenant shall promptly reimburse Owner for such costs upon demand. All reporting requirements under Environmental Laws with respect to spills, releases or discharges of Hazardous Materials by Tenant at the Premises or Airport shall be the responsibility of Tenant. Tenant is not responsible for any Environmental Claims that arise out of or were caused in whole or in part from the use, handling, treatment, storage, disposal, discharge, or transportation of Hazardous Materials on or at the Premises or Airport, or the violation of any Environmental Law, prior to the Effective Date ("Pre-Existing Environmental Claim") to the extent Tenant did not cause in whole or in part the disturbance or aggravation of such Pre-Existing Environmental Claim.

21.04 Indemnity. IN ADDITION TO ANY OTHER INDEMNITIES IN THIS LEASE, TENANT SHALL DEFEND, INDEMNIFY AND HOLD HARMLESS OWNER FROM ANY AND ALL ENVIRONMENTAL CLAIMS (INCLUDING REASONABLE ATTORNEY'S FEES, LITIGATION AND INVESTIGATION EXPENSES, AND COURT COSTS) ARISING OUT OF OR RESULTING IN WHOLE OR IN PART FROM TENANT'S USE, HANDLING, TREATMENT, STORAGE, DISPOSAL, DISCHARGE OR TRANSPORTATION OF HAZARDOUS MATERIALS ON OR AT THE PREMISES OR AIRPORT, THE VIOLATION OF ANY ENVIRONMENTAL LAW BY TENANT OR THE FAILURE OF TENANT TO COMPLY WITH THE TERMS, CONDITIONS AND COVENANTS OF THIS ARTICLE 21 OR THIS LEASE.

21.05 Stormwater Requirements. Tenant acknowledges that the Airport is subject to the National Pollution Discharge Elimination System Program ("NPDES"), federal Stormwater Regulations (40 C.F.R. Part 122) and the Texas Pollution Discharge Elimination System Program ("TPDES"). In its operations at the Premises and Airport, Tenant shall comply with Applicable Law, including NPDES, TPDES, federal and state Stormwater Regulations, including any permits thereunder, and the applicable SWPPP.

21.06 Sustainability. Tenant shall comply with Applicable Laws pertaining to recycling, energy and natural resource conservation and management. Owner's Universal Recycling Ordinance (Ordinance No. 20130425-007), as it will be implemented, and all City ordinances and rules that pertain to recycling, energy and natural resource conservation, as such ordinances and rules are currently established, or as may be amended or developed and implemented, shall apply to the Premises and Tenant shall comply with such ordinances and rules. Tenant shall comply with all Airport rules, regulations, policies and operating procedures, as approved by the Director, that pertain to recycling, energy and natural resource conservation, and management at the Airport, as currently established, or as may be amended or developed and implemented.

21.07 Survival. The covenants, conditions and indemnities in this Article 21 shall survive the expiration or earlier termination of this Lease.

21.08 Hazardous Materials. Tenant shall not allow the release, spill, discharge, leak, emission, injection, escape, migration or dumping in, on, about, from or adjacent to

the Premises (including storm drains, sanitary sewer system, surface waters, soils, underground waters or air) of any Hazardous Material or other deleterious substance in any manner by any Tenant Environmental Party in violation of the Pollution Prevention Plan, the SPCC Plan, any City codes and standards, any City environmental permit or any of the Environmental Laws. Tenant shall make available to Owner upon request copies of all material safety data sheets for all Hazardous Materials used or stored on the Premises by any Tenant Environmental Party and Tenant's U.S. Environmental Protection Agency waste generator number and generator annual hazardous waste reports. Tenant shall provide Owner with copies of any environmentally related regulatory permits or approvals (including revisions or renewals) and any material written report or notice Tenant receives from, or provides to, any Governmental Authority in connection with the handling of Hazardous Materials on the Premises by any Tenant Environmental Party or the presence, or possible presence, of any Hazardous Material in, on, about, from or adjacent to the Premises. Tenant is responsible to report to Owner any spills or emissions of Hazardous Materials resulting from the acts or omissions of any Tenant Environmental Party in accordance with City's Spill Response Plan and to report to the appropriate governmental authorities any spills or emissions of Hazardous Materials by any Tenant Environmental Party that are above reportable quantities as defined by applicable Environmental Laws.

21.09 Storm Water Pollution Prevention Plan. Tenant shall either join the Airport's Storm Water Pollution Prevention Plan, or prepare and implement a SWPPP that addresses measures in effect by Tenant to prevent pollution (specifically including storm water) through appropriate pollution prevention and good housekeeping practices and to control and perform immediate removal, investigation, remediation and restoration action in the event of a release of a Hazardous Material or other deleterious material in connection with the operation of the Premises during the Lease. Owner reserves the right to approve or deny the Tenant prepared SWPPP. If applicable, Tenant's SWPPP shall be (a) provided to Owner not more than thirty (30) days after the Effective Date, and (b) updated to address future changes in its activities upon the Premises. Such SWPPP shall be updated as needed to address the operations and practices of Tenant. Tenant is responsible for ensuring Airline compliance with storm water regulations at the South Terminal.

21.10 Spill Prevention, Control and Countermeasure Plan. Tenant shall determine whether Section 112.7 of Title 40 of the Code of Federal Regulations is applicable to the Premises and its operations, and whether Tenant is required to prepare a Spill Prevention, Control and Countermeasure Plan ("SPCC Plan"). This determination must be submitted to Owner for approval. Preparation of an SPCC Plan shall be the responsibility of Tenant. Any SPCC Plan must be certified by a licensed professional engineer in accordance with all Applicable Laws (specifically including any applicable Environmental Laws).

21.11 Violation of Environmental Laws. If Tenant, or the Premises as a result of an act or omission of a Tenant Environmental Party, is in violation of any Environmental Law concerning the presence or use of Hazardous Materials or the handling or storing of hazardous wastes, Tenant shall promptly take such action as is necessary to mitigate and correct the violation. If Tenant does not act in such a manner, Owner reserves the right, but not the obligation, to come onto the Premises, to act in place of Tenant (and Tenant hereby

appoints Owner as its agent for such purposes) and to take such action as Owner deems necessary to ensure compliance or to mitigate the violation. If Owner has a reasonable belief that a Tenant Environmental Party is in violation of any of the Environmental Laws, or that a Tenant Environmental Party's acts or omissions present a threat of violation or a threat of damage to the Premises, Owner reserves the right to enter onto the Premises and take such corrective or mitigating action as it deems necessary. Interest shall accrue on all unpaid sums at the Contract Rate.

21.12 Inspection; Test Results. Owner shall have access to the Premises to conduct (but shall have no obligation to conduct) environmental inspections, including an Environmental Audit, and Tenant shall permit Owner access to the Premises for the purpose of conducting environmental testing; provided, however, except in the event of any real or threatened emergency, (a) such environmental testing by Owner shall occur only during normal business hours, or at such other times as Tenant shall reasonably approve; (b) Owner must provide notice to Tenant of its intention to conduct such tests at least five (5) Business Days prior to such date of testing; (c) such testing shall not unreasonably interfere with Tenant's normal business operations; and (d) any damages to the Premises caused by the environmental testing conducted by Owner shall be repaired by Owner at its sole cost and expense. Unless required by Applicable Law, Tenant shall not conduct or permit others to conduct environmental media testing on the Premises without first obtaining City's prior consent. Tenant shall promptly inform Owner of the existence of any environmental study, evaluation, investigation or results of any environmental testing conducted on the Premises whenever the same becomes known to Tenant, and Tenant shall provide copies thereof to City.

21.13 Removal of Hazardous Materials. Prior to its vacation of the Premises, and in addition to all other requirements under this Lease, Tenant shall remove and remediate any Hazardous Materials stored, released, spilled, discharged, leaked, emitted, injected, escaped or dumped in, on or about or adjacent to, or that has migrated from, the Premises by a Tenant Environmental Party during the Term or Tenant's possession of the Premises as a result of any act or omission of any Tenant Environmental Party if such Hazardous Material creates an Environmental Condition and shall demonstrate such removal to the reasonable satisfaction of Owner. Owner shall specifically have the right to insist on appropriate subsurface environmental investigations as part of any such demonstration. With respect to the removal and remediation of any Hazardous Materials on the Premises, Owner agrees that it will reasonably approve remediation criteria and investigation, monitoring and remediation activities which comply with Environmental Laws. To the extent that any remediation activities approved by Owner will occur after the expiration or termination of this Lease, Owner will grant to Tenant a non-exclusive, revocable license to access the Premises solely for the purpose of performing any such removals or investigations required by this Section 21.13.

21.14 Remedies Not Exclusive. No remedy provided herein shall be deemed exclusive. In addition to any remedy provided above, Owner shall be entitled to full reimbursement from Tenant whenever Owner incurs any costs resulting from the use or management of Hazardous Materials on the Premises by a Tenant Environmental Party, including costs of remedial activities, fines or penalties assessed directly against Owner,

injuries to third persons or other properties, and loss of revenues resulting from an inability to re-lease or market property due to its environmental condition, even if such loss of revenue occurs after the expiration or earlier termination of the Term.

21.15 Environmental Indemnity. IN ADDITION TO ALL OTHER INDEMNITIES PROVIDED IN THIS LEASE, TENANT AGREES TO DEFEND, INDEMNIFY AND HOLD OWNER AND ITS ELECTED AND NON-ELECTED OFFICIALS, MEMBERS, MANAGERS, OFFICERS, AGENTS AND EMPLOYEES, FREE AND HARMLESS FROM ANY AND ALL CLAIMS, CAUSES OF ACTION, REGULATORY DEMANDS, LIABILITIES, FINES, PENALTIES, LOSSES, AND EXPENSES, INCLUDING REMEDIAL COSTS (AND INCLUDING REASONABLE ATTORNEYS' FEES, COSTS AND ALL OTHER REASONABLE LITIGATION EXPENSES WHEN INCURRED AND WHETHER INCURRED IN DEFENSE OF ACTUAL LITIGATION OR IN REASONABLE ANTICIPATION OF LITIGATION), ARISING FROM THE EXISTENCE OR DISCOVERY OF ANY HAZARDOUS MATERIAL ON THE PREMISES, OR THE MIGRATION OF ANY HAZARDOUS MATERIAL FROM THE PREMISES TO OTHER PROPERTIES OR INTO THE SURROUNDING ENVIRONMENT, TO THE EXTENT ARISING OR RESULTING FROM ANY ACT OR OMISSION OF A TENANT PARTY, WHETHER (A) MADE, COMMENCED OR INCURRED DURING THE TERM, OR (B) MADE, COMMENCED OR INCURRED AFTER THE EXPIRATION OR TERMINATION OF THE TERM IF ARISING OUT OF EVENTS OCCURRING DURING THE TERM. TENANT'S OBLIGATIONS UNDER THIS SECTION SHALL SURVIVE THE TERM.

21.16 Tenant Environmental Parties. Tenant shall include obligations corresponding to those in this Article 21 in any written agreements with any Tenant Environmental Party and expressly include Owner as a third party beneficiary of such provisions, but nothing provided herein shall be deemed to make Tenant the principal, employer or operator of any such party for purposes of any Applicable Law. Notwithstanding the foregoing, Tenant is responsible for compliance with all applicable Environmental Laws on the Premises.

21.17 Survival. The covenants, conditions and indemnities in this Article 21 shall survive termination of this Lease.

ARTICLE 22 INSURANCE

22.01 General. Tenant will, at its cost and expense, throughout the Term obtain and maintain in full force and effect the policies of insurance applicable to Tenant's use of the Premises as described on Exhibit E, attached hereto. Insurance provided by Tenant shall be primary coverage for all covered losses.

22.02 Waiver. Notwithstanding the provisions of Section 22.01, if Tenant has used diligent efforts to procure, or cause to be procured, the insurance policies that are required hereunder and if, despite such diligent efforts and through no fault of Tenant or its principal subcontractor, coverage under any of the insurance policies or any of the required

terms of such policies, including policy limits, are or become unavailable, or are available, but not on commercially reasonable terms, Tenant shall give Owner written notice as soon as possible. Owner shall grant Tenant an interim written variance from such requirements under which Tenant shall procure and maintain alternative insurance packages and programs that provide risk coverage as comparable to that which would have been provided under such insurance policies as is available under then-existing insurance market conditions and on commercially reasonable terms. Any reference herein to insurance policies shall include a reference to any interim written variance therefrom granted to Tenant hereunder. To establish that the insurance policies, or any of the required terms of such policies, including policy limits, are not available on commercially reasonable terms, Tenant shall bear the burden of proving to Owner's reasonable satisfaction either that

- (a) the same is unavailable in the global insurance and reinsurance markets; or
- (b) the premiums for the same have so materially increased over those previously paid for the same coverage that such increased premiums are not justified by the risk protection afforded.

22.03 Limits. The limits of insurance coverage specified in Exhibit E are stated in 2015 dollars. No more often than once in any five (5) year period, Owner may, by written notice to Tenant, increase the policy limits to offset the impact of inflation based upon percentage changes in the CPI in order to maintain substantially the same level of coverage as existed on the Effective Date of this Lease. Upon receipt of such written notice from Owner under this Article 22, Tenant shall, subject to this Article 22, obtain the increased insurance coverage within sixty (60) days, and provide Owner updated insurance certificates.

22.04 Modification. Owner may at any time when it deems it to be reasonably necessary and prudent, upon written request to Tenant, propose to delete or revise or modify particular policy terms, coverages, conditions, limitations or exclusions, except where policy terms, coverages, conditions, limitations or exclusions are established by Applicable Law binding upon either of the Parties hereto or the underwriter of any such policies. If Owner proposes such changes to the insurance requirements of this Lease, the Parties agree to meet and negotiate in good faith mutually acceptable modifications to the insurance requirements. Failure to agree on such changes shall not be deemed to be an Owner Default or Tenant Default under this Lease.

22.05 Amendment Required. No changes to the insurance requirements of this Article 22 shall be effective unless made in a duly authorized and executed amendment to this Lease, except for (a) any interim variance referred to in Section 22.02, and (b) the increased coverage limits referred to in Section 22.03.

22.06 Owner's Right to Maintain. In the event that Tenant fails to obtain or cause to be obtained or to maintain or cause to be maintained the insurance coverage required by this Article 22, Owner, upon thirty (30) days prior notice to Tenant may (but shall not be obligated to) obtain or maintain or cause to be obtained or maintained the required insurance policies and pay or caused to be paid the premiums on the same. All

amounts so advanced by Owner on Tenant's behalf shall be reimbursed to Owner by Tenant.

**ARTICLE 23
INDEMNITY**

23.01 General. TENANT SHALL INDEMNIFY AND HOLD HARMLESS OWNER, ITS OFFICERS AND EMPLOYEES, AND REPRESENTATIVES, SUCCESSORS AND ASSIGNS (THE "INDEMNIFIED PARTIES"), FROM ALL LIABILITY, LOSS, CLAIMS, SUITS, ACTIONS AND PROCEEDINGS WHATSOEVER ("CLAIMS") THAT MAY BE BROUGHT OR INSTITUTED ON ACCOUNT OF OR GROWING OUT OF ANY AND ALL INJURIES OR DAMAGES, INCLUDING DEATH, TO PERSONS OR PROPERTY RELATING TO THE USE OR OCCUPANCY OF THE PREMISES DURING THE TERM INCLUDING CLAIMS THAT ARISE OUT OF OR RESULT FROM THE ACTIVE OR PASSIVE NEGLIGENCE, OR SOLE, JOINT, CONCURRENT OR COMPARATIVE NEGLIGENCE OF ANY OF THE INDEMNIFIED PARTIES AND REGARDLESS OF WHETHER LIABILITY WITHOUT FAULT OR STRICT LIABILITY IS IMPOSED OR ALLEGED AGAINST SUCH INDEMNIFIED PARTIES, AND ALL LOSSES, LIABILITIES, JUDGMENTS, SETTLEMENTS, COSTS, PENALTIES, DAMAGES, AND EXPENSES RELATING THERETO, INCLUDING, BUT NOT LIMITED TO, ATTORNEYS' FEES AND OTHER ACTUAL OUT OF POCKET COSTS OF DEFENDING AGAINST, INVESTIGATING, AND SETTLING THE CLAIMS. NOTWITHSTANDING THE FOREGOING, TENANT'S OBLIGATIONS UNDER THIS SECTION SHALL BE LIMITED TO THE PROPORTIONATE EXTENT ATTRIBUTABLE TO TENANT, AND EXCLUDE CLAIMS TO THE PROPORTIONATE EXTENT CAUSED BY THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF INDEMNIFIED PARTIES, TO THE EXTENT THAT THE CLAIMS ARE FINALLY JUDICIALLY DETERMINED TO BE AT LEAST 51% ATTRIBUTABLE TO THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE INDEMNIFIED PARTIES.

23.02 Defense of Claims. TENANT SHALL ASSUME ON BEHALF OF THE INDEMNIFIED PARTIES AND CONDUCT WITH DUE DILIGENCE AND IN GOOD FAITH THE DEFENSE OF ALL CLAIMS AGAINST ANY OF THE INDEMNIFIED PARTIES. THE INDEMNIFIED PARTIES SHALL HAVE THE RIGHT (BUT NOT THE OBLIGATION) TO PARTICIPATE, AT THEIR OWN EXPENSE, IN THE DEFENSE OF ANY CLAIM OR LITIGATION WITH ATTORNEYS OF THEIR OWN SELECTION WITHOUT RELIEVING TENANT OF ANY OBLIGATIONS IN THIS Article 23 OR COMPROMISING TENANT'S RIGHT CONDUCT SUCH DEFENSE. IN NO EVENT MAY TENANT ADMIT LIABILITY ON THE PART OF AN INDEMNIFIED PARTY WITHOUT THE WRITTEN CONSENT OF THE CITY ATTORNEY.

23.03 Maintenance of Insurance. MAINTENANCE OF THE INSURANCE REFERRED TO IN THIS LEASE DOES NOT AFFECT TENANT'S OBLIGATIONS UNDER THIS Article 23.

23.04 Subcontractors. TENANT SHALL REQUIRE ITS SUBCONTRACTORS TO INDEMNIFY OWNER, AS PROVIDED IN THIS SECTION AND AS PERMITTED UNDER APPLICABLE LAW.

ARTICLE 24
DISADVANTAGED BUSINESS ENTERPRISES,
M/WBE PROCUREMENT PROGRAM AND WAGE RATES

24.01 Disadvantaged Business Enterprise (DBE) Procurement Program. Tenant shall develop and implement a disadvantaged enterprise program for any Covered Improvements including the Rehabilitation Project. In connection therewith, Tenant and its prime contractor(s) will work with the SMBR to identify qualified DBE subcontractors and notify such subcontractors of potential contracting opportunities, and to track and report DBE participation in such contracts to SMBR. Tenant shall provide Owner with a copy of Tenant's DBE program. Tenant shall provide Owner with a simultaneous copy of all DBE reports submitted by Tenant to the SMBR and other applicable Governmental Authorities.

24.02 Minority and Women Business Enterprises. Tenant shall substantially comply with the requirements of the City Code Chapters 2-9(A), 2-9(B), 2-9(C), and 2-9(D) (Minority-Owned and Female-Owned Business Enterprise Procurement Program). It is Owner's policy to ensure that Minority-owned and Women-owned Business Enterprises ("MWBE") have the full opportunity to compete for and participate in Owner contracts. The policies and objectives of City Code Chapters 2-9(A), 2-9(B), 2-9(C), and 2-9(D) are incorporated into this Lease. Tenant shall develop and implement a MWBE Procurement Program ("MWBE Program"), which shall substantially comply with City Code Chapters 2-9(A) and 2-9(B) in the design and construction of the South Terminal. The current annual gender, ethnic-specific design and construction goals contained in City Code Chapters 2-9(A) and 2-9(B) are set forth on Exhibit F attached hereto and made a part hereof. The MWBE Program shall be incorporated into and made a part of this Lease for all purposes. If Tenant receives a notice of any violation of the MWBE Program, Tenant shall diligently work to cure such violation as is required and cooperate with Owner to correct such violations.

(a) MWBE Reporting. Within forty-five (45) days from the Effective Date of this Lease, Tenant shall provide Owner with a copy of Tenant's MWBE Program, and thereafter, Tenant shall provide monthly reports on progress toward meeting the MWBE participation goals on forms to be provided by Owner. Tenant may also be required to provide periodic reports to SMBR Citizen Advisory Committee regarding MWBE participation. Tenant shall maintain records showing (a) construction contracts and agreements with MWBEs, and (b) specific efforts to identify and award construction contracts and agreements to MWBEs.

(b) Outreach. In an effort to meet the gender and ethnic-specific MWBE utilization goals, Tenant shall implement an outreach program designed to solicit participation of MWBEs. These outreach efforts should also target small businesses generally. Tenant may seek the assistance of SMBR in these outreach efforts.

(c) Supplier Diversity Policy. Within ninety (90) days after the Effective Date, Tenant shall submit to Owner a reasonable supplier diversity policy which will not conflict with the MWBE Program regarding Tenant's procurement of materials and services to be used exclusively at the Premises which may be reasonably modified from time to time by the Tenant, provided the policy and all modifications are approved by SMBR.

24.03 Worker Safety. Tenant shall also comply with, and require its contractors and subcontractors to comply with, "Third Party Resolution" Worker Safety requirements pursuant to City Ordinance No. 20110728-106 throughout the construction, improvement, renovation, restoration, replacement and/or alteration of the South Terminal.

24.04 Wage Rates/Prevailing Wage. Tenant shall comply with, and require its contractors supplying construction labor or materials to the South Terminal to comply with, the City's prevailing wage requirements throughout solicitation of any construction contract or procurement of services for the construction of the South Terminal as described in this Lease. Owner has adopted the general prevailing rate of per diem wages established by the U.S. Department of Labor for work of similar character in the locality in which the work is performed as the minimum per diem wages to be paid in connection with a city public improvement project for the construction of public buildings. The rates Owner pays are the rates in effect for Travis County at the time Owner advertises these projects for bid. Resolution No. 20080605-047 adopts these same wage rates for public-private projects, such as the project contemplated by this Lease in which Owner is a participant.

24.05 Living Wage. Tenant shall ensure all personnel are paid the City's Living Wage in accordance with the policy set forth in City Council Resolution No. 20141016-035, or as may subsequently be amended. Tenant shall pay the City's current living wage rate for all of its workers at the South Terminal and such living wage rate shall be adjusted annually to reflect the City's new living wage rate that results from applying the cost of living index in accordance with City Council Resolution No. 20141016-035 or as may subsequently be amended.

ARTICLE 25 CAPITAL RECOVERY PAYMENT

25.01 Capital Recovery Payment. If at any time within the first six (6) years after the Effective Date, a Capital Recovery Event (as hereinafter defined) occurs, Tenant will notify Owner within six (6) months of the date any such Capital Recovery Event occurs (any such notice, a "Capital Recovery Notice"). If following delivery of any such Capital Recovery Notice, Owner and Tenant are unable to cure the Capital Recovery Event within six (6) months after receipt by Owner of such Capital Recovery Notice, Tenant may terminate this Lease upon one hundred twenty (120) days advance written notice to Owner, after which Owner will commence making the Capital Recovery Payment to Tenant in the following manner: the Capital Recovery Payment, which shall not in any event exceed ELEVEN MILLION AND NO/100 DOLLARS (\$11,000,000.00), shall be paid in four equal installments at each quarter-end of Owner's fiscal year following the termination of this Lease, commencing on the March 31, June 30, September 30 or December 31 immediately following the date this Lease is terminated, and such amounts,

to the extent of available funds, shall be paid out of lawfully available City of Austin Department of Aviation revenues, provided, that available Department of Aviation revenues shall not include funds raised or to be raised by taxation. For the avoidance of doubt, the payment of the Capital Recovery Payment is subject to the prior payment of any obligations then due and payable under any Bonds now or hereafter outstanding which are the subject of Article 39. For the avoidance of doubt, the four installment payments may straddle more than one fiscal year. Upon termination of this Lease, Owner will either assume operations of the South Terminal or Owner will close the South Terminal and the Airlines operating out of the South Terminal will be allowed to operate at the North Terminal. This Article 25 and Tenant's right to demand or make a claim against Owner based on this Article 25 for the Capital Recovery Payment shall expire on the sixth anniversary of the Effective Date. The City Council of Owner approved the potential Capital Recovery Payment set forth in this Section at its August 27, 2015 meeting.

25.02 Capital Recovery Event. A "Capital Recovery Event" shall occur if the Enplaned Passenger level at the South Terminal falls below, for any preceding twelve (12)-month period, with the first such period ending on the first anniversary of the Commencement of Operations Date, or is projected to fall below for a succeeding twelve (12)-month period, 200,000 Enplaned Passengers because any or all of the Airlines: (a) have failed to achieve such service levels; (b) have reduced service or provided notification of a reduction in service at the South Terminal; (c) have failed to have a fully executed Terminal Use Agreement(s) with Tenant, in full force and effect, and without default; or (d) have failed to have a fully executed Airfield Use Agreement with Owner, in full force and effect, and without default.

ARTICLE 26 LAWS AND GRANT CONDITIONS

26.01 Grant Assurances. This Lease is subject to the provisions of any agreement made between Owner and the United States Government relative to the operation or maintenance of the Airport, the execution of which has been required as a condition precedent to the transfer of federal rights or property to Owner for Airport purposes, or the expenditure of federal funds for the development of the Airport, including the expenditure of federal funds for the development of the Airport in accordance with the provisions of the FAA's Airport Improvement Program, or in order to impose and use passenger facilities charges under 49 U.S.C. Section 40117 or any successor thereto.

26.02 National Emergencies. This Lease shall be subject to whatever right the United States Government now has or in the future may have or acquire, affecting the control, operation, regulation and taking over of said Airport or the exclusive or nonexclusive use of the Airport by the United States during a time of war or national emergency.

26.03 Non-Discrimination and Affirmative Action. Tenant, for itself, its successors and assigns, as a part of the consideration of this Lease, does hereby covenant and agree that: (a) no person on the grounds of race, color, religion, sex, national origin or ancestry, or age, shall be excluded from participation in, denied the benefits of, or

otherwise be subjected to discrimination in the use of the Premises; (b) in the construction of any improvements on, over or under such land and the furnishing of services thereon, no person on the grounds of race, color, religion, sex, national origin or ancestry or age, shall be excluded from participation in, denied the benefits of, or otherwise be subjected to unlawful discrimination; (c) Tenant shall use the Airport facilities in compliance with all other requirements imposed by, or pursuant to, 49 CFR Part 21 (Non-discrimination in Federally Assisted Programs of the Department of Transportation), as said regulations may be amended; and (d) Tenant assures that it will undertake an affirmative action program as required by 14 CFR Part 152, Subpart E (Non-discrimination Airport in Aid Program), to ensure that no person shall on the grounds of race, color, religion, national origin or ancestry, sex, age or physical or mental handicap be excluded from participating in any employment activities covered in 14 CFR Part 152, Subpart E, or such employment activities covered in Chapter 5-3 of the Austin City Code. Tenant assures that no person shall be excluded on these grounds from participating in or receiving the services or benefits of any program or activity covered by this Section 26.03. Tenant assures that it will require that any covered subtenant similarly will undertake affirmative action programs and that the subtenant will require assurance from the subtenant's sub-subtenants, as required by 14 CFR Part 152, Subpart E, to the same effect. Tenant agrees to post, in conspicuous places available to employees and applicants for employment notices to be provided setting forth the provisions of this nondiscrimination clause.

26.04 Public Accommodation Laws. Tenant covenants that it shall comply with Applicable Laws governing non-discrimination in public accommodations and commercial facilities, including the requirements of the Americans with Disabilities Act of 1990, as amended (the "ADA") and all regulations thereunder, and that the Premises shall remain in compliance with such Applicable Laws throughout the Term.

26.05 Compliance with Laws. In its use and occupancy of the Premises, Tenant shall comply with all Applicable Laws and all Airport rules and regulations. Tenant shall not do or permit anything to be done in, on or at the Premises that would constitute a public or private nuisance.

26.06 Lighting, Electrical and Radio Interference. Tenant shall not permit or create any electrical or other interference with radio communications between the Airport and aircraft. Tenant may not install any lighting on the Premises that would make it difficult for pilots to distinguish between Airport lights and those of Tenant, impair visibility in the vicinity of the Airport or otherwise endanger landing, taking off or maneuvering of aircraft. Tenant shall coordinate the use of radio frequencies by Tenant, or any Airline, ground handler or other person occupying the South Terminal, with Owner prior to implementation to avoid interference with existing radio communications at the Airport.

26.07 Amendment. In the event that the FAA, the TSA or any other Governmental Authority of competent jurisdiction other than Owner shall require any modifications or changes in this Lease as a condition precedent to the granting of funds for the improvement of the Airport to use or impose PFCs, or if it is necessary to modify this Lease to comply with the requirements of Applicable Law, including regulations, orders

and decisions of the FAA, the TSA or such other Governmental Authority, Owner shall notify Tenant in writing. If the Parties are unable to agree upon and execute a suitable amendment within the time frame required by the Governmental Authority, Tenant agrees that Owner may unilaterally modify this Lease, upon advice of its legal counsel, as may reasonably be required to obtain such funds, to use or impose PFCs or comply with Applicable Law. Nothing herein shall preclude Tenant from contesting such orders or decisions, but Tenant shall abide by the unilateral modification by Owner until such time, if any, as such Governmental Authority's requirement is stayed, rescinded or invalidated as long as such stay, rescission or invalidation remains in effect. In no event will Tenant be required, pursuant to this Section 26.07, to pay Rent greater than specified herein.

26.08 Airport Development. Owner reserves the right to develop and improve the Airport and all roadways, terminal facilities, land areas and taxiways and any other facilities at the Airport for aviation or aeronautical purposes as it deems necessary or appropriate in its absolute discretion, subject only to Applicable Law and the express provisions of this Lease, including in Section 2.03 and Article 15.

26.09 Economic Nondiscrimination. Tenant shall make the South Terminal available to all users thereof on reasonable, and not unjustly discriminatory basis, and shall charge reasonable, and not unjustly discriminatory, rates and charges for the use of the South Terminal, provided that Tenant may make available reasonable and nondiscriminatory discounts, rebates or similar types of price reductions or modifications for volume users.

ARTICLE 27 AVIGATION RIGHTS

27.01 General. Tenant understands and acknowledges that the Premises are located between two active airport runways, that the Premises are subject to overflights of aircraft taking off or landing at the Airport, and that the Premises are currently, and will in the future, be subject to aircraft noise levels of DNL 65dB or greater, as well as vibration, air pollution and other effects from the flight of aircraft near or over the Premises.

27.02 Owner's Reservation of Rights. Owner reserves the right of flight for the passage of aircraft above the surface of the Premises, and such right of flight shall include the right to cause in such airspace such noises as may be inherent to the operation of aircraft now known or hereafter used for navigation of or flight in the air; and Owner reserves the right to use said airspace for landing at, taking off from or operating aircraft on or over said Airport.

27.03 Waiver. Tenant agrees that Owner shall not be liable for any damage to the Premises arising out of the operation of aircraft in air space above the Premises or other property in the vicinity of the Premises.

ARTICLE 28
TENANT DEFAULT AND REMEDIES

28.01 Default by Tenant. Each of the following shall be deemed a default by Tenant ("Tenant Default") hereunder and a material breach of this Lease:

(a) Tenant shall fail to pay the amount of any installment of Rent or other sum payable by Tenant under this Lease when due, in accordance with the terms of this Lease, and such failure shall continue for twenty (20) days after delivery by Owner to Tenant of written notice specifying such failure;

(b) Tenant shall fail to commence or complete the Rehabilitation Project and the reactivation of the South Terminal in accordance with, and subject to the conditions set forth in, Article 10, and Tenant shall fail to cure such failure within thirty (30) days after delivery by Owner to Tenant of written notice specifying the failure; provided, however, if the failure is curable, but not capable of being cured within such thirty (30)-day period, Tenant Default shall not occur under this subsection unless Tenant fails to commence such cure of during such thirty (30)-day period and thereafter fails to diligently and continuously pursue the cure to its completion;

(c) Tenant shall abandon, desert or vacate the Premises, after the commencement of the Rehabilitation Project, for a period of thirty (30) days, for any reason excluding, for the avoidance of any doubt, an event of Force Majeure or Owner Default or authorized construction, repairs or maintenance, and the Premises remain abandoned, deserted or vacant for a period of thirty (30) days after delivery by Owner to Tenant of written notice thereof;

(d) Tenant shall fail to keep, perform or observe any other non-monetary material covenant, agreement, term or provision contained in this Lease to be kept or performed by Tenant hereunder or thereunder, and Tenant shall fail to cure such failure within thirty (30) days after delivery by Owner to Tenant of written notice specifying the failure; provided, however, if the failure is curable, but not capable of being cured within such thirty (30)-day period, Tenant Default shall not occur under this subsection unless Tenant fails to commence such cure of during such thirty (30)-day period and thereafter fails to diligently and continuously pursue the cure to its completion;

(e) An involuntary petition shall be filed against Tenant under applicable bankruptcy law, or a receiver of Tenant, or of all or substantially all of the property of Tenant, shall be appointed without acquiescence, and such petition or appointment shall not be discharged or stayed within sixty (60) days after the happening of such event;

(f) Tenant shall make an assignment of its interest in the Premises for the benefit of creditors or shall file a voluntary petition under applicable bankruptcy law, or seek relief under any other law for the benefit of debtors; or

(g) Any representation or warranty made by Tenant in Section 36.02 of this Lease shall be materially false, misleading or inaccurate when made, except where such incorrect representation or warranty is capable of being cured and is in fact remedied within thirty (30)

days after notice thereof is given by Owner to Tenant; provided, however, if the failure is curable, but not capable of being cured within such thirty (30)-day period, Tenant Default shall not occur under this subsection (g) unless Tenant fails to commence such cure during such thirty (30)-day period and thereafter fails to diligently and continuously pursue the cure to its completion.

28.02 Remedies of Owner. If a Tenant Default occurs, Owner may at any time thereafter and without waiving any other rights hereunder or available to Owner at law or in equity (Owner's rights being cumulative), do any one or more of the following, subject to all defenses, counterclaims, and set offs available to Tenant under Applicable Law:

(a) Owner may terminate this Lease by giving Tenant written notice thereof, in which event this Lease and the leasehold estate hereby created and all interest of Tenant and all parties claiming by, through or under Tenant shall automatically terminate upon the effective date of such notice; and Owner, its agents or its representatives may, without further demand or notice, reenter and take possession of the Premises and remove all persons and property therefrom with or without process of law, without being deemed guilty of any manner of trespass and without prejudice to any remedies for arrears of Rent or existing breaches hereof.

(b) Owner may terminate Tenant's right to possession of the Premises and enjoyment of the rents, issues and profits therefrom without terminating this Lease or the estate created hereby, reenter and take possession of the Premises, change the locks, and remove all persons and property therefrom (except for subtenants or users permitted by the terms of this Lease, including Airlines operating under Terminal Use Agreements), with or without process of law, without being deemed guilty of any manner of trespass and without prejudice to any remedies for arrears of Rent or existing breaches hereof. If Owner retakes possession of the Premises as provided herein, Owner shall have no obligation to tender to Tenant new keys or other entry devices to any new locks installed in the Premises, and Owner may lease, manage and operate the Premises and collect the rents, issues and profits therefrom for the account of Tenant, and credit to the satisfaction of Tenant's obligations hereunder such amounts thus received, after deducting therefrom all reasonable actual out of pocket third party costs and expenses of repossessing, leasing, managing and operating the Premises. If such net amounts so received by Owner exceed the amounts necessary to satisfy all of Tenant's obligations under this Lease, Owner shall nevertheless retain such excess. In no event shall Owner be liable for failure to so lease, manage or operate the Premises or collect the rentals due under any subleases, and any such failure shall not reduce Tenant's liability hereunder. If Owner elects to proceed under this Section 28.02, it may at any time thereafter elect to terminate this Lease.

(c) Owner shall have the right, but not the obligation, without judicial process and without incurring any liability therefor, to enter upon the Premises and perform any obligation under this Lease that Tenant has failed to perform. Performance by Owner shall not cure a Tenant Default, and all costs and expenses incurred by Owner in performing such obligations of Tenant shall be payable by Tenant to Owner as Additional Rent within thirty (30) days from invoice date, provided that such costs and expenses shall not exceed the actual out-of-pocket costs to complete such obligation, plus a twenty (20)% administrative fee.

(d) Owner may exercise any other right or remedy available to Owner under this Lease or at law or in equity.

(e) All Rent and other sums not paid on or before the date due shall bear interest at the Contract Rate from and after the date due; provided, however, that nothing herein shall operate or be construed to obligate Tenant to pay sums which are subject to applicable usury law which, taken together, exceed the maximum non-usurious amount or rate.

(f) Owner may, at Owner's election, either (i) purchase all Trade Fixtures at a cost equal to Tenant's unamortized cost of such Trade Fixtures, depreciated on a straight line basis over the lesser of the original Term or the useful life of such Trade Fixtures, or (ii) lease such Trade Fixtures at a fair market rental for such Trade Fixtures for a period of up to a maximum of three (3) years. Owner shall provide notice of its election to either purchase or lease such Trade Fixtures on or before the date the Lease will terminate. Within twenty (20) days after receipt of Owner's notice of intent to purchase or lease the Trade Fixtures, Tenant shall respond in writing with, as applicable, its calculation of the purchase price of the Trade Fixtures determined in accordance with this subsection, or its calculation of the fair market rental value of the Trade Fixtures. Tenant may not include any rent for the land or for any Trade Fixtures owned, installed or otherwise paid for or provided by Owner. If the Parties are unable to agree upon such purchase price or fair market rental for the Trade Fixtures, the Parties shall attempt to determine such purchase price or fair market rental pursuant to the process set forth in Article 40. If the process set forth in Article 40 is unsuccessful, and the Parties cannot agree on a subsequent process to resolve their differences, the remedies set forth in this Section 28.02(f) shall not be available to Owner.

28.03 Additional Rights of Owner. To the extent that Tenant fails to keep, perform or observe any covenant, agreement, term or provision of this Lease, whether or not such failure is excused by any applicable cure periods, and such failure continues for a period of thirty (30) days after delivery by Owner to Tenant of written notice specifying such failure, or upon repeated failure of Tenant to keep, perform or observe any covenant, term or provision of this Lease, Tenant shall, upon written request by Owner, cause a senior representative (Senior Vice President or higher) of Tenant to meet and confer with Owner, either in person or via teleconference, within ten (10) business days after receipt of such written request, to address such failure and, where necessary, formulate an action plan to ensure future compliance under the Lease.

ARTICLE 29 OWNER DEFAULT AND REMEDIES

29.01 Default by Owner. The following shall be deemed a default by Owner ("Owner Default") and a material breach of this Lease:

(a) Owner shall fail to pay the amount of any sum payable by Owner under this Lease, including under Section 18.06, when due in accordance with the terms of this Lease, and such failure shall continue for twenty (20) days after delivery by Tenant to Owner of written notice specifying such failure;

(b) Owner shall fail to keep, perform or observe any other non-monetary material covenant, agreement, term or provision contained in this Lease to be kept or performed by Owner hereunder or thereunder, and Owner shall fail to cure such failure within thirty (30) days after delivery by Tenant to Owner of written notice specifying the failure; provided, however, if the failure is curable, but not curable within such thirty (30)-day period, an Owner Default shall not occur unless Owner fails to commence the cure of the failure during such thirty (30)-day period and thereafter fails to diligently and continuously pursue the cure to its completion; or

(c) Any representation or warranty made by Owner in Section 36.01 of this Lease shall be false or materially misleading or inaccurate when made in any material respect, except where such incorrect representation or warranty is capable of being cured and is in fact cured within thirty (30) days after notice thereof is given by Tenant to Owner; provided, however, if the failure is curable, but not curable within such thirty (30)-day period, an Owner Default shall not occur unless Owner fails to commence the cure of the failure during such thirty (30)-day period and thereafter fails to diligently and continuously pursue the cure to its completion.

29.02 Tenant's Remedies. If an Owner Default occurs, Tenant may at any time thereafter and without waiving any other rights hereunder or available to Tenant at law or in equity (Tenant's rights being cumulative), do any one or more of the following, subject to all defenses, counterclaims, and set offs available to Owner under Applicable Law:

(a) Tenant may terminate this Lease by giving Owner written notice thereof, in which event this Lease and the leasehold estate hereby created and all interest of Tenant and all parties claiming by, through or under Tenant shall automatically terminate upon the effective date of such notice; and Tenant shall thereafter be released of all other duties, obligations and responsibilities with respect to this Lease.

(b) If Tenant exercises its right to termination under clause (a) above, Tenant may pursue a cause of action against Owner for its actual damages, which will be deemed to be equal the Fair Market Value of its Tenant's Interest.

(c) Tenant shall have the right, but not the obligation, without judicial process and without incurring any liability therefor, to perform any obligation under this Lease that Owner has failed to perform, upon ten (10) business days advance written notice, or prompt notice after incurrence in the case of any action necessary to protect public health or safety, to Owner. Performance by Tenant shall not cure the Owner Default, and all actual and verifiable costs and expenses incurred by Tenant in performing such obligations of Owner shall be payable by Owner to Tenant.

(d) Tenant may, at Tenant's election, cause Owner to purchase all Trade Fixtures at a cost equal to the greater of (i) Tenant's unamortized cost of such Trade Fixtures or (ii) the appraised value of such Trade Fixtures. Tenant shall provide notice of its election on or before the date the Lease will terminate. In such notice, Tenant shall provide Owner with its calculation of the purchase price of the Trade Fixtures, determined in accordance with this subsection. If the Parties are unable to agree upon such purchase price for the Trade Fixtures,

the Parties shall attempt to determine such purchase price pursuant to the process set forth in Article 40. If the process set forth in Article 40 is unsuccessful, and the Parties cannot agree on a subsequent process to resolve their differences, the remedies set forth in this Section 29.02(d) shall not be available to Tenant.

(e) Tenant may exercise any other right or remedy available to Tenant under this Lease or at law or in equity.

(f) Tenant may deduct and set off against the Rent owed by Tenant under this Lease the amount of any damages for any Owner Default.

(g) Tenant may seek specific performance and injunctive relief from a court of competent jurisdiction as a remedy for any Owner Default.

ARTICLE 30 SURRENDER OF PREMISES

30.01 Condition of Premises.

(a) Upon the expiration or earlier termination of this Lease, or of any renewal or extension hereof, Tenant shall peaceably quit, deliver up and surrender the Premises, in good order, repair and condition, subject to the provisions of Article 32 and Article 33 below. Tenant shall restore the Premises (including all improvements to the Premises) and make such repairs as may be necessary to restore the Premises to (i) at least substantially the same condition as the Premises were in on the Commencement of Operations Date, (ii) the condition of the Premises maintained by Tenant under Section 10.04 above and (iii) minimum standards adopted by Owner under Section 17.02 above, reasonable wear and tear and Owner-authorized improvements excepted. At Owner's written request, Tenant shall remove all goods, equipment or personal property owned by Tenant on the Premises; subject, however, to any valid lien that Owner may have thereon for unpaid Rent, fees or charges.

(b) Upon termination or expiration of this Lease, Tenant shall transfer all right, title and interest in and to the Premises, including all improvements, to Owner without additional payment or cost; provided, however, that Tenant will retain all right, title and interest in and to any Trade Fixtures and Tenant shall be entitled to remove and dispose of such Trade Fixtures, subject to Owner's rights under Section 28.02(f). In the event of a termination of this Lease by Tenant as the result of an Owner Default, Tenant shall retain Tenant's Interest until all amounts, if any, agreed or adjudicated to be payable by Owner on such termination are paid in full, or Owner has posted a bond sufficient to pay such amounts; provided, however Tenant may not conduct any business on the Premises after termination. For the avoidance of doubt, Tenant shall not be required to conduct any investigation, remediation, corrective action or other activities in connection with any Environmental Conditions on the Premises, except to the extent required under Article 20 or Article 21 above.

30.02 Repossession and Holding Over. Upon such expiration or termination, Owner may, without further notice, enter upon, reenter, possess and repossess itself of the Premises by summary proceedings, ejection or otherwise, and may have, hold, and enjoy the Premises and all rental and other income therefrom, free of any claim by Tenant with

respect thereto. If Tenant does not surrender possession of the Premises at the end of the Term, such action shall not extend the Term, Tenant shall be a tenant at sufferance, and during such time of occupancy Tenant shall pay to Owner, as damages, an amount equal to one hundred fifty percent (150%) of the then current Rent. Owner shall not be deemed to have extended the Term, other than by execution of a written agreement specifically so stating.

30.03 Tenant's Personal Property. Except as otherwise expressly provided in this Lease, Tenant's Trade Fixtures, furnishings, signs, temporary buildings and equipment located on, in or at the Premises, shall remain Tenant's property for all purposes and, subject to Section 28.02(f), shall be removed by Tenant upon expiration or earlier termination of the Term. Tenant shall repair, at its sole expense, all damage to the Premises caused by such removal.

ARTICLE 31 FORCE MAJEURE

31.01 General. The failure of Tenant or Owner to perform its obligations hereunder shall be excused, to the extent, and for the period of time, such failure is caused by the occurrence of an event of Force Majeure. Force Majeure shall mean acts and events not within the control of the Party claiming suspension, and which that Party has been unable to avoid or prevent by the exercise of due diligence. Events of Force Majeure include: Acts of God; strikes, lockouts or other industrial disputes; inability to obtain material, equipment or labor; epidemics, civil disturbances, acts of domestic or foreign terrorism, wars, riots or insurrections; landslides, lightning, earthquakes, fires, storms, floods or washouts; arrests and restraint of rulers and people; interruptions by government or court orders; present or future orders of any Governmental Authority having proper jurisdiction and authority (unless arising out of a breach of Applicable Law by the Party asserting Force Majeure); failure to obtain or delay in obtaining any Governmental Approval from any Governmental Authority; explosions; breakage or accident to machinery; and the exercise of any rights of the United States Government affecting the control, operation, regulation and taking over of the Airport or the exclusive or nonexclusive use of the Airport by the United States during a time of war or national emergency as set forth in Section 26.02. Force Majeure does not include economic or market conditions which affect a Party's cost, but not its ability, to perform. The Party invoking Force Majeure shall give prompt, timely and adequate notice to the other Party, by electronic mail or telephone confirmed promptly thereafter in writing, and shall use due diligence to remedy the event of Force Majeure, as soon as reasonably possible. Nothing contained herein shall be construed to require a Party to settle a strike or other labor dispute against its will.

31.02 Impairment of Use. To the extent a Force Majeure impairs Tenant's use of the Premises, in whole or in part, Tenant's and Owner's obligations to make payments to each other in accordance with this Lease shall be proportionately reduced, in whole or in part, respectively, during the term of such Force Majeure. In addition, to the extent a Force Majeure's duration is in excess of ninety (90) days, the Term will be extended by the length of such Force Majeure in excess of ninety (90) days. Any right of either Party to terminate

this Lease shall be suspended for so long as the act, omission or other event or circumstance giving rise to such right is excused by an event of Force Majeure, provided that such Force Majeure does not continue for more than six (6) months. To the extent that any Force Majeure's duration is in excess of six (6) months, Tenant may elect to terminate this Lease.

ARTICLE 32 INSPECTION

32.01 Owner's Right to Inspect. When no state of emergency exists, after two (2) business days' notice to Tenant, Owner may enter upon the non-public areas of the Premises during normal operating hours in order to inspect same. Owner may enter upon all public areas of the Premises at any time without notice during normal business hours. In an emergency, Owner may enter upon the Premises at any time and without notice to Tenant. Owner will use reasonable efforts to minimize the disruption to Tenant resulting from any such inspections.

ARTICLE 33 CASUALTY LOSS

33.01 Restoration Upon Casualty Loss. If the South Terminal, or any buildings, terminals or leasehold improvements are wholly or partially destroyed or damaged by fire or any other casualty ("Casualty"), Tenant shall cause the same to be restored and reconstructed to the extent of available insurance proceeds (and such other proceeds, if any, as are made available to Tenant by or through Owner), unless otherwise agreed by Owner, in writing, and the following provisions shall apply:

(a) The design of all portions of the South Terminal to be restored and reconstructed shall meet the requirements of this Lease (including those set forth in Article 9 hereof) and Owner shall have the same rights of review, comment and approval with respect to such design as it has hereunder for Covered Improvements;

(b) Restoration and reconstruction shall commence as soon as reasonably feasible, but no later than six (6) months after the receipt of insurance proceeds available therefor, and shall be pursued thereafter with all due diligence to completion;

(c) Tenant shall use all available proceeds of Tenant's casualty insurance for the restoration and reconstruction of the South Terminal; and

(d) All proceeds from Tenant's rental insurance or business interruption insurance policies shall be the property of Tenant.

33.02 No Restoration Following Casualty Loss. If Tenant and Owner agree not to restore and reconstruct the South Terminal, then either Party may elect to terminate this Lease as to the portion of the Premises affected by the Casualty (as reasonably determined by the Parties) upon thirty (30) days' written notice to the other Party, and the following provisions shall apply:

(a) with available insurance proceeds, Tenant shall establish reasonable security for the Premises and, as soon as practicable, remove all debris resulting from the Casualty and bring the Premises to a clean and safe condition;

(b) the insurance proceeds received under Tenant's property insurance policies as a result of the Casualty shall be applied, first in accordance with sub-clause (a) above, and then to Tenant, to the extent of any remaining proceeds;

(c) all proceeds from Tenant's business interruption insurance policies shall be paid to Tenant;

(d) Tenant shall reasonably cooperate with Owner to cause Tenant's insurance company to apply the insurance proceeds as provided in this Section 33.02;

(e) If this Lease is terminated as to a portion of the Premises, Rent shall be reduced proportionately; and

(f) Notwithstanding anything to the contrary herein, if this Lease is terminated as a result of a casualty described in this Section 33.02, the provisions of Article 15 will remain in force and effect for a period of three (3) years from the date of such termination.

33.03 Abatement. Each Party's payment obligations shall abate following any Casualty, such abatement to expire on completion of restoration or reconstruction of the South Terminal with any period of abatement to be added to the Term.

ARTICLE 34 CONDEMNATION AND BUSINESS INTERRUPTION

34.01 Taking in Entirety. If the entire Premises and/or the entire Tenant's Interest are Taken by any public or governmental body by right of eminent domain or otherwise, this Lease shall terminate as of the date the condemning authority takes possession.

34.02 Partial Taking. If less than all of the Premises and/or Tenant's Interest (including a material right of use hereunder) is Taken by any Governmental Authority by right of eminent domain or otherwise, and in Tenant's reasonable judgment, the remainder lacks adequate area, location, configuration, improvements or other capacity or potential to use the Premises for their authorized uses, Tenant shall have the right to (a) terminate the Lease in its entirety, by giving Owner written notice within thirty (30) days after the date the condemning authority takes possession or (b) receive a damages award pursuant to Section 34.03 equal to the proportion of the Tenant's Interest that is impaired. If Tenant does not terminate the Lease, the Lease shall continue in full force and effect as to the remainder of the Premises, but with a proportionate reduction in Rent commensurate with the portion taken.

34.03 Damage Award. If the condemning authority is not the City, the Parties agree to apportion the damage award as follows: first, Tenant shall be entitled to receive compensation for the Fair Market Value of Tenant's Interest so taken, and Owner shall be

entitled to receive compensation for the residual value of the real estate taken, and for any improvements to the Premises that are owned or paid for by Owner to the extent not constituting a part of Tenant's Interest. If the condemning authority is the City, Tenant shall be entitled to compensation for the Fair Market Value of Tenant's Interest so taken. Payment by the City of the compensation due Tenant hereunder, and Tenant's acceptance of such compensation, shall not constitute a waiver by Tenant of any other rights and remedies that it has under Section 29.02. In the event that the damage award is not apportioned in a manner that is consistent with this Section 34.03, then the Parties shall re-apportion such damage award so as to be so consistent. Each Party shall be responsible to bear all costs, and take all action necessary or appropriate to assert its respective interests in the condemnation action, including hiring its respective legal counsel, appraisers and other experts.

34.04 Definition of Taken; Taking. As used in this Article, "Taken" or "Taking" shall mean any taking of the Premises in or by condemnation or other eminent domain proceedings pursuant to any law, general or special, or by reason of any agreement with any condemnor in settlement of or under threat of any such condemnation or other eminent domain proceedings or by any other means, or any *de facto* condemnation. Tenant shall have no right to voluntarily devote or dedicate any portion of the Premises to public use without Owner's prior written consent.

34.05 Contingent Business Interruption. In the event that Tenant's access to the Premises or the portion of the Airport of which the Premises are a part is materially impaired at no fault of Tenant for a period exceeding forty-five (45) consecutive days, Owner agrees that the Rent shall be abated in the same proportion that Tenant's access to or use of the Premises is impaired, for the period from the date of impairment to the substantial restoration of access and use.

ARTICLE 35 ASSIGNMENT AND SUBLEASING

35.01 By Tenant.

(a) Prior to the issuance of the Notice to Proceed, Tenant may not assign this Lease, other than to an Affiliate, without the prior written consent of Owner. After issuance of the Notice to Proceed, Tenant may not assign this Lease without Owner's prior written consent, which shall not be unreasonably denied or delayed if Tenant (i) is not at the time of assignment in default under this Lease and (ii) demonstrates to the reasonable satisfaction of Owner that the proposed assignee is a Qualified Entity capable of performing the obligations and covenants under this Lease. In the event of any permitted assignment, the transferor shall be relieved of all obligations of Tenant incurred under this Lease, and transferee shall be Tenant, after the effective date of such assignment, provided that the transferee agrees in writing to be bound by the provisions hereof. Any assignment that is not permitted by this Section 35.01(a) shall be void.

(b) For the avoidance of doubt, Owner and Tenant recognize that Tenant plans to enter into subleases or other agreements with design and construction contractors, air carriers, concessionaires, ground handlers and other service providers for use or occupancy of the

Premises. The prior written consent of Owner to any such sublease or occupancy agreement shall not be required provided that such Tenant's sublease or occupancy agreement with each such subtenant or occupant is consistent with and references and incorporates this Lease by reference, and is consistent with Tenant's Concession Program or Airline Lease Program. Notwithstanding any sublease or occupancy agreement, unless otherwise agreed to by Owner, Tenant shall remain primarily liable under this Lease for all of its obligations hereunder.

35.02 Transfer of Owner's Interest.

(a) Owner may freely transfer its interest in the Premises and under this Lease from time to time to any Government Authority which has comparable or greater financial resources, qualifications, experience and legal capacity and authority to perform the obligations of Owner under this Lease (a "Public Owner").

(b) In the event of any permitted transfer, the transferor shall be relieved of all obligations of Owner accruing under this Lease after the date such transfer is consummated provided that (i) any such transfer is expressly made subject to the terms, provisions and conditions of this Lease, and (ii) the transferee agrees in writing to be bound by the provisions hereof. Tenant agrees to attorn to any such transferee. Any transfer by Owner other than in accordance with this Section 35.02 shall be void.

ARTICLE 36
APPROVALS AND AUTHORITY

36.01 Owner. Owner represents, warrants and covenants that, as of the Effective Date (a) Owner is a home rule municipal corporation organized and existing under the laws of the state of Texas with full power and authority to enter into and be bound by this Lease; (b) the execution, delivery and performance of this Lease by Owner have been duly authorized by all required actions; (c) this Lease has been duly and validly executed and delivered by Owner, and constitutes the valid and binding obligation of Owner, enforceable against Owner in accordance with its terms, except as may be limited by governmental immunity under the Constitution and laws of the State of Texas, or applicable bankruptcy, insolvency or similar laws affecting creditor's rights; (d) no consent or approval of any third party is required in connection with the execution, delivery or performance by Owner of this Lease, except for such consents or approvals that are not required to be obtained as of the Effective Date and that will be obtained in due course; (e) neither the execution and delivery by Owner of this Lease, nor the consummation of the transactions contemplated hereby, is or at the time of execution will be in conflict with or will result in a default under or violation of any Applicable Law or any other agreement or instrument to which it is a Party or by which properties and assets may be bound or affected; (f) there is no action, suit, proceeding, investigation or litigation pending or threatened against Owner which challenges Owner's authority to execute, deliver or perform, or the validity or enforceability of, this Lease; and (g) Owner owns and has good, legal, valid and beneficial title to, or has all rights to use, the Premises, subject to rights, restrictions and encumbrances of record to the extent valid and in existence.

36.02 Tenant. Tenant represents, warrants and covenants that as of the Effective Date (a) Tenant is a limited liability company duly formed, validly existing and in good standing under the laws of the State of Delaware, with full power and authority to enter into and be bound by its obligations under this Lease; (b) the execution, delivery and performance of this Lease by Tenant have been duly authorized by all requisite corporate action; (c) this Lease has been duly and validly executed and delivered by Tenant, and constitutes the valid and binding obligation of Tenant, enforceable against Tenant in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency or similar laws affecting creditor's rights; (d) no consent or approval of any third party is required in connection with the execution, delivery or performance by Tenant of this Lease, except for such consents or approvals that are not required to be obtained as of the Effective Date and that will be obtained in due course; (e) neither the execution and delivery by Tenant of this Lease, nor the consummation of the transactions contemplated hereby, is or at the time of execution will be in conflict with or will result in a default under or violation of any Applicable Law or any other agreement or instrument to which it is a Party or by which its properties and assets may be bound or affected; and (f) there is no action, suit, proceeding, investigation or litigation pending or threatened against Tenant which challenges Tenant's authority to execute, deliver or perform, or the validity or enforceability of, this Lease.

ARTICLE 37
NOTICES AND CONTRACT ADMINISTRATION

37.01 Contract Administrator. The Department of Aviation Director of Facilities and Operations is Owner's designated representative for matters relating to the Rehabilitation Project and reactivation of the South Terminal. The Department of Aviation Manager of Administration and Business Development is Owner's designated contract administrator for this Lease, and is authorized to act on behalf of the Director to organize, schedule and coordinate matters related to this Lease and the Premises, and to review and approve requests by Tenant under this Lease. Owner may change its contract administrator by written notice to Tenant.

37.02 Notices. Any notice provided for or permitted to be given hereunder must be in writing and may be given by (a) depositing same in the United States Mail, postage prepaid, registered or certified, with return receipt requested, addressed as set forth in this Article 37; (b) hand delivering the same to the Party to be notified; or (c) overnight courier of general use in the business community of Austin, Texas. Notice given by United States Mail in accordance herewith shall be deemed delivered and effective on the earlier of actual receipt or three (3) calendar days next following deposit thereof in the United States Mail in accordance with the requirements above. Notices to Owner shall be sent to:

Executive Director
Department of Aviation
Austin-Bergstrom International Airport
3600 Presidential Blvd., Suite 411
Austin, Texas 78719

Telephone: 512-530-2242

Notices to Tenant shall be sent to:

Highstar Capital IV, L.P.
277 Park Avenue, 45th Floor
New York, New York 10172
Attention: General Counsel

Telephone: 646-857-8000

The Parties hereto may from time to time change their respective addresses for purposes of notice hereunder by giving a notice in accordance with the provisions of this Section 37.02.

ARTICLE 38
CONFIDENTIALITY/PROPRIETARY INFORMATION

38.01 Confidentiality. Certain information related to this Lease may be proprietary or confidential information, including financial reports, audits, key cost and revenue assumptions, including staff costs, non-staff costs, capital costs, interfaces with Airport systems, aeronautical and non-aeronautical revenue streams, any applicable taxes and charges and any other information that would have a material impact on the South Terminal's financial performance (collectively "Confidential Information"). Each Party agrees to label or mark its Confidential Information as confidential or proprietary. Tenant further acknowledges that Owner is a political subdivision of the State of Texas, and as such is subject to the Texas Public Information Act. To the extent permitted by Applicable Law, each Party agrees it shall not distribute or disclose any Confidential Information supplied to it by the other Party without the prior written consent of the other Party. However, the foregoing sentence shall not preclude a Party from disclosing Confidential Information to its officials, officers, employees and representatives who have a need to know such information. If a Party is requested or required (by oral question, interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process) to disclose any Confidential Information, it shall promptly notify the other Party in writing of such request or requirement so that the other Party may seek an appropriate protective order, opinion of the Attorney General of the State of Texas or other applicable authority, or waive compliance with provisions of this Agreement. The Party seeking to assert the confidentiality of information shall, at its sole expense, prepare and submit all necessary information, briefs and/or legal memoranda to support its position with the appropriate authority.

38.02 Sensitive Security Information. Owner and Tenant also acknowledge that the Parties may be provided from time to time with “Sensitive Security Information” (“SSI”), as defined under 49 CFR Parts 15 and 1520, and Owner and Tenant agree to use and maintain such SSI as required by Applicable Law.

ARTICLE 39 BOND ORDINANCES

39.01 Bond Ordinance Provisions. If and to the extent that the lien and other provisions of any Bond Ordinance are applicable to this Lease, this Lease and all rights granted to Tenant hereunder are expressly subject to the lien and provisions of the pledges, transfer, hypothecation or assignment made by Owner in any Bond Ordinance executed by Owner to issue Bonds. Owner expressly reserves the right to make such pledges and grant such liens and enter into covenants as it may deem necessary or desirable to secure and provide for the payment of Bonds, including the creation of reserves therefor, provided that Owner shall not take any actions that would be inconsistent with the terms and conditions of this Lease, including the grant by Owner of any mortgage or other lien on the Premises that is superior to or on a parity with the leasehold granted to Tenant by this Lease. Tenant understands that Owner is and will be the issuer of Bonds. With respect to Bonds on which the interest is intended to be excludable from gross income for federal income tax purposes under the Internal Revenue Code of 1986 as amended or superseded, Tenant shall:

(a) not use, without the prior written consent of Owner, any portion of the Premises for any purpose other than as an airport facility serving common passenger or freight carriers or charter carriers that serve members of the general public, and facilities functionally related and subordinate to such airport facility that are of a character and size commensurate with the character and size of such airport facility, including facilities that are directly related and essential to servicing aircraft or enabling aircraft to take off and land, or transferring passengers or cargo to or from aircraft, restaurants, retail stores and ground transportation and parking areas located on the Premises, but excluding any lodging facility or any retail business (including food and beverage facilities) in excess of a size necessary to serve passengers and employees at the South Terminal in accordance with Tenant’s projections, any office building (excluding office space in the South Terminal for use by Tenant or its subtenants), any industrial park or manufacturing facility, any health club facility; any facility primarily used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises (excluding a “duty free” airport concession); and

(b) immediately cease and desist from any action, other than as permitted in Section 39.01(a) above, with respect to the use of the Airport, to the extent such action is described in a written notice delivered by Owner as an action that, pursuant to the written advice of Owner’s bond counsel or the Internal Revenue Service, may adversely affect the treatment of interest on any Bond as excludable from gross income for federal income tax purposes.

39.02 Certificate in Connection with Issuance of Bonds. Tenant agrees that in connection with any issuance of Bonds by Owner, upon not less than twenty (20) days’ prior written request by Owner, Tenant will deliver to Owner a statement in writing certifying:

(a) that this Lease is unmodified and in full force and effect (or if there have been modifications, a description of such modifications and that the Agreement as modified is in full force and effect);

(b) to Tenant's knowledge, that Owner is not in default under any provision of this Lease, or if in default, the nature thereof in reasonable detail; and

(c) such further matters as may be reasonably requested by Owner.

In each case, subject to Tenant's receipt of evidence reasonably satisfactory to it in respect of the truth and accuracy of such statements.

39.03 Tenant Tax Elections. Tenant hereby elects and makes an irrevocable election not to claim depreciation or investment tax credit for purposes of federal income taxation with respect to property financed in whole or in part with proceeds of Bonds (which such election binds Tenant and all successors in interest under any lease). Tenant represents, covenants and agrees that it will not sublease, assign or otherwise transfer the leasehold interest in the Premises unless as a condition to the effectiveness of the subletting, transfer or assignment in question the sublessee or assignee shall agree, in writing, with Tenant (which agreement shall be binding upon the sublessee or assignee and shall be for the joint benefit of Tenant and the issuer) that the sublessee or assignee, as applicable, shall not claim depreciation or an investment tax credit with such property for purposes of federal income taxation.

ARTICLE 40 ALTERNATIVE DISPUTE RESOLUTION

40.01 General. Should any dispute arise between the Parties to this Lease, (other than any dispute referred to in Section 35.02), then Owner and Tenant agree to negotiate prior to prosecuting a suit for damages. However, this Article 40 does not prohibit the filing of a lawsuit to toll the running of a statute of limitations or to seek injunctive relief. Either Party may make a written request for a meeting between representatives of each Party within ten (10) days after receipt of the request or such later period as agreed by the Parties. Each Party shall include, at a minimum, one (1) senior level individual with decision-making authority regarding the dispute. The purpose of such a meeting and any subsequent meeting with respect to such a dispute shall be to attempt in good faith to negotiate a resolution of the dispute. If, within twenty (20) days after such meeting, the Parties have not succeeded in negotiating a resolution of the dispute, the Parties will, upon written notice of one Party to the other Party, given within ten (10) days following the expiration of such twenty (20) day period (a "Request for Mediation"), proceed directly to non-binding mediation as described below.

40.02 Mediation. If the efforts to resolve such dispute through negotiation fail within the period set forth in Section 40.01, or Owner and Tenant each waive the negotiation process, the Parties may select, within twenty (20) days after the date of the Request for Mediation or mutual waiver of negotiation, as applicable, a mediator trained in mediation skills to assist with resolution of the dispute. The Parties agree to act in good

faith in the selection of the mediator and to give consideration to qualified individuals nominated to act as mediator. Nothing in this Lease prevents the Parties from relying on the skills of a person who is trained in the subject matter of the dispute or a contract interpretation expert. If the Parties fail to agree on a mediator within twenty (20) days of initiation of the mediation process, the mediator shall be selected by the Travis County Dispute Resolution Center. The mediation shall take place in Austin, Texas. The Parties agree to participate in mediation in good faith for up to thirty (30) days from the date of the first mediation session. The Parties shall share the costs of the mediator equally. In the absence of a separate written agreement of the Parties to the contrary, the results of this mediation shall not be binding on either of the Parties.

**ARTICLE 41
MISCELLANEOUS**

41.01 Gratuities. The offering or giving of gratuities in the form of entertainment, gifts or otherwise by Tenant or any agent or representative of Tenant to any official or employee of Owner with a view toward securing favorable treatment with respect to the performance of this Lease is a material breach of this Lease, for which Owner may immediately terminate this Lease upon written notice, in the absence of remedial action reasonably satisfactory to Owner, in its sole discretion.

41.02 Modification and Non-Waiver. No variations, modifications or changes to this Lease shall be binding unless in writing and executed by both Parties. No waiver by either Party of any breach or default of any term, condition or provision hereof, including the acceptance by Owner of any Rent or Tenant of Rental Car Revenue Share, at any time or in any manner other than as herein provided, shall be deemed a waiver of any other or subsequent breaches or defaults of any kind under any circumstance. No waiver of any breach or default of any term, condition or provision hereof shall be implied from any action of any Party, and any such waiver, to be effective, shall be set out in a written instrument signed by the waiving Party.

41.03 Governing Law. This Lease shall be construed and enforced in accordance with the laws of the State of Texas, without regard to any conflicts-of-law principle that would apply the law of another jurisdiction. Venue for any action arising out of or concerning this Lease shall be proper and lie exclusively in the Austin Division of the United States District Court for the Western District of Texas.

41.04 Severability. If any provision of this Lease or the application thereof to any or entity or circumstance shall, at any time or to any extent, be invalid or unenforceable, and the basis of the bargain between the Parties hereto is not destroyed or rendered ineffective thereby, the remainder of this Lease, or the application of such provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby.

41.05 Relation of Parties. It is the intention of Owner and Tenant to hereby create the relationship of landlord and tenant and no other relationship is created. Nothing

in this Lease is intended or shall be construed to make Owner and Tenant partners or joint venturers or to render either Party hereto liable for any obligation of the other.

41.06 Recordation. Owner and Tenant will, at the request of the other, promptly execute a memorandum of lease in recordable form, which may be filed for record in the Office of the County Clerk of Travis County, Texas. This Lease itself shall not be filed of record unless required by Applicable Law.

41.07 Successors and Assigns. This Lease shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns. Whenever a reference is made herein to either Party, such reference shall include the Party's successors and permitted assigns.

41.08 Survival. Any terms and provisions of this Lease pertaining to rights, duties or liabilities extending beyond the expiration or termination of this Lease shall survive the end of the Term.

41.09 No Commissions. Owner and Tenant represent and warrant to one another that there are no broker's, finder's or similar fees payable in connection with this Lease transaction.

41.10 Time of the Essence. Time is of the essence in this Lease and in each and all of the provisions hereof.

41.11 Reservation of Immunities. To the extent permitted by Applicable Law, Owner waives its rights to assert sovereign or governmental immunity from suit or liability for contract claims asserted by Tenant seeking only the remedies set forth in Section 29.02 of this Lease. Except as provided in the preceding sentence, Owner does not waive, and expressly reserves, all immunities existing under Applicable Law available to Owner as a Texas home-rule municipal corporation. It is expressly agreed and understood that the foregoing waiver is a limited and not a general waiver, and that its effect is limited to specific contract claims under this Lease.

41.12 Special Damages. Each Party hereby waives all rights to recover consequential, incidental, exemplary or punitive damages from the other Party, including under Article 23 hereof.

41.13 Avoidance of Obligations. Each Party covenants and agrees that it shall not take any action or omit to take any action the primary purpose of which is to avoid honoring any of its commitments and obligations under this Lease.

41.14 No Exclusive Rights. Except for the specific rights provided for in Article 15, no provision of this Lease is intended or shall be construed as the grant of an exclusive right by Owner for the design, construction, or operation of a terminal at the Airport, other than the South Terminal.

41.15 Capacity of Owner. Owner is executing this Lease solely in its capacity as the owner of the Premises and not in its capacity as a regulatory body, and Owner does not

waive any obligation of Tenant to comply with any law or regulation of Owner, provided that this Section 41.15 does not modify, in any respect, Owner's obligations and Tenant's rights under Section 41.13.

41.16 Counterparts. This Lease may be executed in any number of counterparts and by different Parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same instrument. The Parties shall accept executed counterparts delivered by facsimile transmission or electronic mail as of equal effect as original signatures. Each Party shall deliver its signed original counterpart to the other Party within three (3) business days.

41.17 Entire Agreement.

(a) This Lease, together with its exhibits and attachments, contains the entire understanding and agreement between the Parties hereto with respect to the subject matter of this Lease. It is the intent of the both Parties that all provisions be construed in a manner that is fair to both Parties; interpreting no provision more strictly against one Party than the other. It is further understood and agreed that neither Party has made any representations or promises with respect to this Lease, except as expressly set forth herein, and that no claim or liability or cause for termination shall be asserted by either Party against the other Party, and a Party shall not be liable to the other Party by reason of the breach of any representations or promises not expressly stated in this Lease. Owner and Tenant are the only parties to this Lease and as such are the only parties to enforce its terms. Nothing in this Lease gives, or shall be construed to give or provide, any benefit, direct or indirect, to third parties unless a third party is expressly described as an intended beneficiary of its terms. The Parties hereto acknowledge that they have thoroughly read this Lease, including any exhibits hereto, and have sought and received whatever advice needed for them to form a full and complete understanding of all rights and obligations herein. If any provision of an exhibit conflicts with a provision of the Lease, the provision in the Lease shall control.

(b) The exhibits to this Lease are as follows:

- Exhibit A** Premises
- Exhibit B** Tenant's Rehabilitation Responsibilities
- Exhibit C** Design Review Procedures
- Exhibit D** Airport Shared Telephone System Terms of Usage
- Exhibit E** Insurance Requirements
- Exhibit F** MWBE Goals
- Exhibit G** Airport's Operator's Wireless Policy
- Exhibit H** Owner's Tenant Radio Installation Guidelines

Exhibit I Environmental Questionnaire

Exhibit J Baseline Site Assessment

Exhibit K Airport Layout Plan

IN WITNESS WHEREOF, Owner and Tenant have executed this Lease through their duly authorized representatives to be effective as of March 24, 2016.

OWNER:

CITY OF AUSTIN



By: _____

Approved as to form

Name: _____

Assistant City Attorney

Title: Executive Director of Aviation

TENANT:

HIGHSTAR CAPITAL IV, L.P.

By: _____

Name: _____

Title: Authorized Signatory

By: _____

Name: _____


Title: Authorized Signatory

Signature Page to Lease Agreement

IN WITNESS WHEREOF, Owner and Tenant have executed this Lease through their duly authorized representatives to be effective as of March 24, 2016.

OWNER:

CITY OF AUSTIN

By: 
Name: J. SMITH

Approved as to form

Title: Executive Director of Aviation

Assistant City Attorney

TENANT:

HIGHSTAR CAPITAL IV, L.P.

By: _____
Name: _____
Title: Authorized Signatory

By: _____
Name: _____
Title: Authorized Signatory

IN WITNESS WHEREOF, Owner and Tenant have executed this Lease through their duly authorized representatives to be effective as of March 24, 2016.

OWNER:

CITY OF AUSTIN

By: _____

Approved as to form


Name: _____

Assistant City Attorney

Title: Executive Director of Aviation

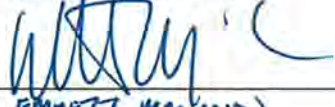
TENANT:

HIGHSTAR CAPITAL IV, L.P.

By:  _____

Name: Brian T. Jones

Title: Authorized Signatory

By:  _____

Name: EMMETT McLEAN

Title: Authorized Signatory

Signature Page to Lease Agreement

EXHIBIT A
Premises

EXHIBIT B
Tenant's Rehabilitation Responsibilities

EXHIBIT C
Design Review Procedures

EXHIBIT D

Airport Shared Telephone System Terms of Usage

EXHIBIT E
Lease – Insurance Requirements

EXHIBIT F
MWBE Goals

EXHIBIT G
Airport's Operator's Wireless Policy

EXHIBIT H
Owner's Tenant Radio Installation Guidelines

EXHIBIT I
Environmental Questionnaire

EXHIBIT J
Baseline Site Assessment

EXHIBIT K
Airport Layout Plan

**AMENDMENT NO. ONE TO THE SOUTH TERMINAL LEASE
AND CONCESSION AGREEMENT BY AND BETWEEN THE
CITY OF AUSTIN AND LONESTAR AIRPORT HOLDINGS, LLC.**

THIS FIRST AMENDMENT (“First Amendment”) to the South Terminal Lease and Concession Agreement is made and entered into as of the date specified on the signature page by and between the City of Austin, a Texas home rule city and municipal corporation, acting by and through its Executive Director of Aviation (the “City”) and LoneStar Airport Holdings, LLC, a Delaware Limited Liability Company (the “LoneStar”).

RECITALS

1. City and Highstar Capital IV, L.P. (“Highstar”) entered into the South Terminal Lease and Concession Agreement at Austin- Bergstrom International Airport (the “Airport”), dated March 24, 2016 (the “Lease”).
2. Highstar assigned the Lease and all of its interest therein to LoneStar with the consent of City.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is acknowledged, the parties agree as follows:

AGREEMENT

1. The Lease is amended as follows:
 - a. Exhibit A-1.2 hereto is added as an Exhibit to the Lease;
 - b. The definition of Premises set forth in section 1.01 of the Lease is revised to add Item C – Parking Lot (65,190 sq. ft.) and Item D – Parking Lot (42,830 sq. ft.) thereto; and
 - c. Notwithstanding the inclusion of the two parking lots in the Premises definition, Lone Star shall pay as Additional Rent for the added square footage (108,020 sq. ft.) at a rate of \$.30 per sq. ft. per annum. Said Additional Rent payment shall be due with the Fixed Rent payment on the first of each month. During the Term, the added parking lot rates will be adjusted every 5 years based on the CPI with the revised rate going into effect starting in the month of July of each fifth anniversary year of this Amendment.
2. The Term of this First Amendment and the Lease shall be coterminous. Except as expressly amended by this First Amendment, the Lease shall remain unchanged, and in full force and effect in accordance with its terms. The recitals are incorporated into the Lease. Terms defined in the Lease are used consistently in the First Amendment. If a conflict exists between the First Amendment and the Lease, the terms of the First Amendment shall prevail.

[SIGNATURES ON NEXT PAGE]

IN WITNESS WHEREOF, this First Amendment has been executed by the parties through their duly authorized representatives in Austin, Texas on June 17, 2019, to be effective on July 1, 2019.



CITY OF AUSTIN

LONESTAR AIRPORT HOLDINGS, LLC.



Jacqueline Yaff Executive Director
Department of Aviation



Jeff Pearse, Chief Executive Officer
LoneStar Airport Holdings, LLC

APPROVED AS TO FORM:

Shelby C. Reed
Assistant City Attorney

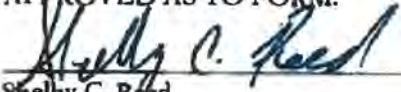
IN WITNESS WHEREOF, this First Amendment has been executed by the parties through their duly authorized representatives in Austin, Texas on _____ 2019, to be effective on _____, 2019.

CITY OF AUSTIN

LONESTAR AIRPORT HOLDINGS, LLC.

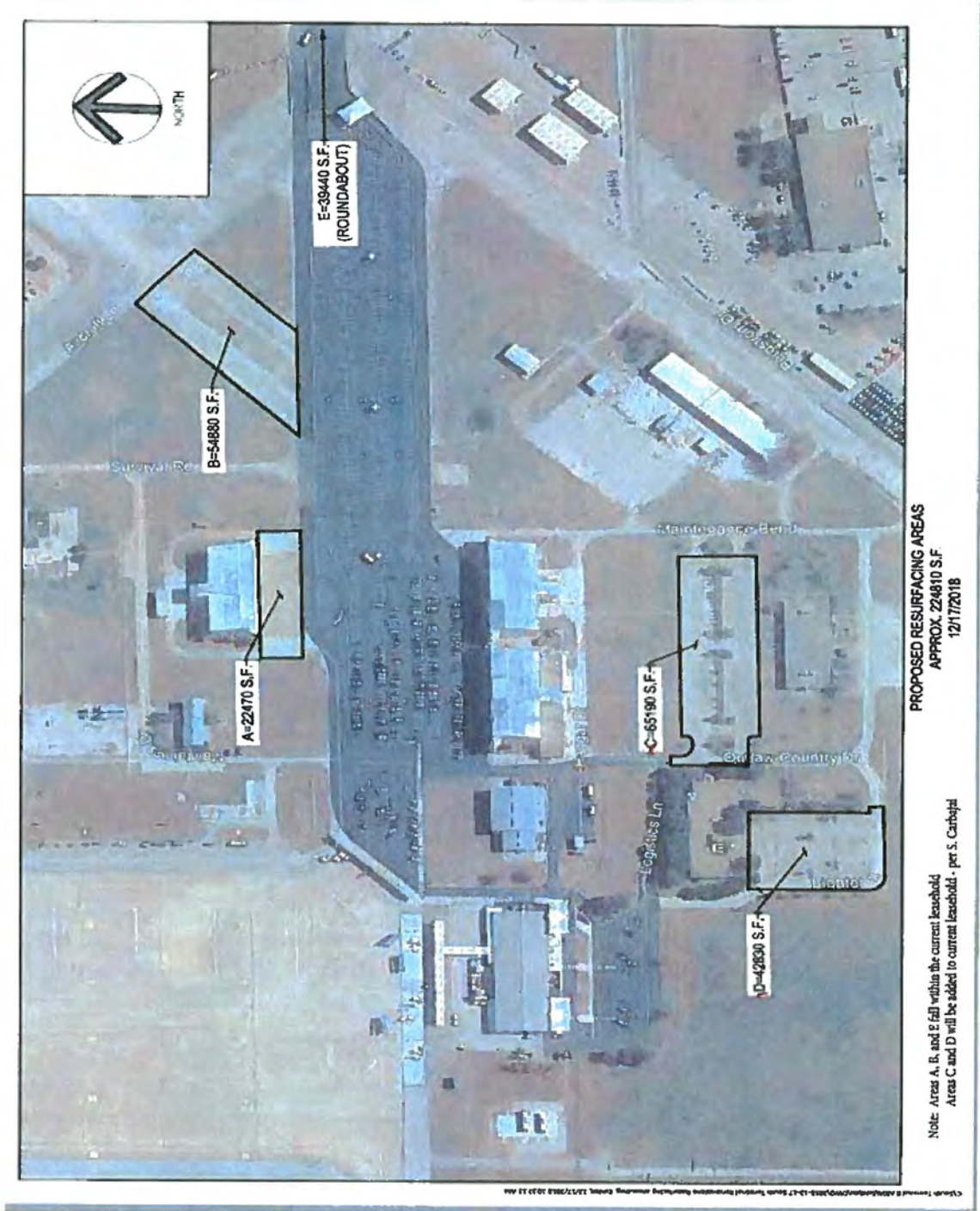
Jacqueline Yaft
Executive Director
Department of Aviation

APPROVED AS TO FORM:



Shelby C. Reed
Assistant City Attorney

EXHIBIT A 1.2



Allen, Williford & Seale, Inc.

TAX RECORDS

This is NOT a Tax Statement

2021 Notice Of Appraised Value

Do Not Pay From This Notice

TRAVIS CENTRAL APPRAISAL DISTRICT
 850 E ANDERSON LANE
 P O BOX 149012
 AUSTIN, TX 78714-9012

Property ID: 903359
 Ref ID2: 00009033590000
 DBA: SOUTH TERMINAL THE
 Legal: PERSONAL PROPERTY COMMERCIAL SOUTH TERMINAL THE

Phone: (512) 834-9138
 DATE OF NOTICE: June 4, 2021

Situs: 10000 LOGISTICS LN AUSTIN, TX 78719
 Owner ID: 1752807

LONESTAR AIRPORT HOLDINGS LLC
 SOUTH TERMINAL THE
 ATTN BROOKE DORRIEN
 10000 LOGISTICS LN
 AUSTIN, TX 78719-9812

THIS IS NOT A BILL

Dear Property Owner,
 We have appraised the property listed above for the tax year 2021. As of January 1, our appraisal is outlined below:

Market Value	Assessed Value (Includes Homestead Limitation if Applicable)
581,117	581,117

Taxing Unit	Exemptions	2020 Exemption Amount	2021 Exemption Amount	Exemption Amount Change	2020 Taxable	2021 Taxable	Freeze Year and Ceiling
CITY OF AUSTIN		0	0	0	655,367	581,117	
	Total	0	0	0			
TRAVIS COUNTY		0	0	0	655,367	581,117	
	Total	0	0	0			
DEL VALLE ISD		0	0	0	655,367	581,117	
	Total	0	0	0			
TRAVIS COUNTY HEALTHCAR		0	0	0	655,367	581,117	
	Total	0	0	0			
AUSTIN COMM COLL DIST		0	0	0	655,367	581,117	
	Total	0	0	0			

If you qualified your home for a 65 and older or disabled person exemption for school taxes, the school taxes on that home cannot increase as long as you own and live in that home. The tax ceiling is the amount that you pay in the year that you qualified for the 65 and older or disabled person exemption. The school taxes on your home may not go above the amount of the ceiling, unless you improve the home (other than normal repairs and maintenance).

Enclosed are copies of the following documents published by the Texas Comptroller of Public Accounts: (1) Property Tax Remedies, and (2) notice of protest.

The chart below is the 2020 Taxpayer Impact Statement based on the Effective, Rollback and Adopted tax rates set by each taxing unit.

Effective Tax Rate- A calculated rate that would provide the taxing unit with approximately the same amount of revenue it received in the previous year on properties taxed in both years. This rate calculation does not include the impact of additional tax revenue resulting from new construction.

Rollback Tax Rate- Tax rate level that allows the taxing jurisdiction to collect 8% more taxes, not including debt repayment, than the previous year. This is the maximum tax increase allowed by law without triggering an election to "rollback" the taxes.

Adopted Tax Rate- This is the tax rate that was adopted by the taxing unit for 2020.

2020 Taxpayer Impact Statement							
Taxing Unit	2020 Taxable Value	2020 Effective Rate	2020 Effective Taxes	2020 Rollback Rate	2020 Rollback Taxes	2020 Adopted Rate	2020 Adopted (Actual) Taxes
CITY OF AUSTIN	655,367	0.4284	2,807.59	0.4460	2,922.94	0.5335	3,496.38
TRAVIS COUNTY	655,367	0.3579	2,345.81	0.3878	2,541.53	0.3744	2,453.43
DEL VALLE ISD	655,367	1.2621	8,271.39	1.2570	8,237.96	1.2570	8,237.96
TRAVIS COUNTY HEALTH	655,367	0.1023	670.25	0.1114	730.31	0.1103	722.91
AUSTIN COMM COLL DIS	655,367	0.1017	666.51	0.1105	724.18	0.1058	693.38

The chart below is an estimate of taxes based on 2021 taxable value and the 2020 adopted tax rate. This is **NOT** the 2021 effective tax rate. If property values rise, the effective rate will go down and vice versa.

Taxing Unit	2021 Taxable Value	2020 Adopted Tax Rate	Estimate (See below)
CITY OF AUSTIN	581,117	0.5335	3,100.26
TRAVIS COUNTY	581,117	0.3744	2,175.46
DEL VALLE ISD	581,117	1.2570	7,304.64
TRAVIS COUNTY HEALTH	581,117	0.1103	641.01
AUSTIN COMM COLL DIS	581,117	0.1058	614.82

"The Texas Legislature does not set the tax amount of your local taxes. Your property tax burden is decided by your locally elected officials, and all inquiries concerning your taxes should be directed to those officials."

The appraisal district only determines the value of the property. If taxing unit budgets increase then a tax rate higher than the effective rate may be adopted by the taxing unit. The governing body of each taxing unit decides whether or not taxes on property will increase.

Truth-in-Taxation laws give taxpayers a voice in decisions that affect their property tax rates. Beginning in early August, taxing units take the first step toward adopting a tax rate by calculating and publishing the effective and rollback tax rates. If a governing body proposes to adopt a tax rate that exceeds the effective rate, it must publish a quarter-page notice in a local newspaper to announce two public hearings. The hearings give taxpayers an opportunity to voice their opinions about the proposed tax increase.

Information on taxing unit contacts, exemptions and tax rates is available on the appraisal district website at: <http://www.traviscad.org/taxinfo.html>

Appraisal Information	Last Year - 2020	Proposed - 2021
Market Value of Building & Other Structures	0	0
Market Value of Non Ag/Timber Land	0	0
Market Value of Ag/Timber Land	0	0
Market Value of Personal Property/Minerals	655,367	581,117
Total Market Value	655,367	581,117
Productivity Value of Ag/Timber Land	0	0
Assessed Value	655,367	581,117
Homestead Cap Value excluding Non-Homesite Value (i.e. Ag, Commercial)	0	0
Exemptions (DV - Disabled Vet; DP - Disabled Person; HS- Homestead; OV65 - Over 65)		

If you have any questions or need more information, please contact the appraisal district at (512) 834-9138.

PRESENT VALUE TABLES FOR INCOME APPROACH

Present Value Table for South Terminal Initial Leasehold

Inputs	
CPI/ Rent Increase Annual	3.5%
Discount Rate	8.5%
Lease Area	987,129 SF

Leasehold Value	\$1,142,212
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Leasehold - Initial Lease									
Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/ Difference	Monthly Amount	PV Factor	Present Value
6	1	3/1/2022	1	\$ 0.33	\$ 0.40	\$ 0.07	\$5,349.92	1.000000	\$5,350
		4/1/2022	2	\$ 0.33	\$ 0.40	\$ 0.07	\$5,349.92	0.992966	\$5,312
		5/1/2022	3	\$ 0.33	\$ 0.40	\$ 0.07	\$5,349.92	0.985982	\$5,275
		6/1/2022	4	\$ 0.33	\$ 0.40	\$ 0.07	\$5,349.92	0.979048	\$5,238
		7/1/2022	5	\$ 0.33	\$ 0.40	\$ 0.07	\$5,349.92	0.972161	\$5,201
		8/1/2022	6	\$ 0.33	\$ 0.40	\$ 0.07	\$5,349.92	0.965324	\$5,164
		9/1/2022	7	\$ 0.33	\$ 0.40	\$ 0.07	\$5,349.92	0.958534	\$5,128
		10/1/2022	8	\$ 0.33	\$ 0.40	\$ 0.07	\$5,349.92	0.951792	\$5,092
7		11/1/2022	9	\$ 0.35	\$ 0.41	\$ 0.06	\$4,935.65	0.945098	\$4,665
		12/1/2022	10	\$ 0.35	\$ 0.41	\$ 0.06	\$4,935.65	0.938450	\$4,632
		1/1/2023	11	\$ 0.35	\$ 0.41	\$ 0.06	\$4,935.65	0.931850	\$4,599
		2/1/2023	12	\$ 0.35	\$ 0.41	\$ 0.06	\$4,935.65	0.925296	\$4,567
		3/1/2023	13	\$ 0.35	\$ 0.41	\$ 0.06	\$4,935.65	0.918788	\$4,535
		4/1/2023	14	\$ 0.35	\$ 0.41	\$ 0.06	\$4,935.65	0.912325	\$4,503
	2	5/1/2023	15	\$ 0.35	\$ 0.41	\$ 0.06	\$4,935.65	0.905908	\$4,471
		6/1/2023	16	\$ 0.35	\$ 0.41	\$ 0.06	\$4,935.65	0.899537	\$4,440
		7/1/2023	17	\$ 0.35	\$ 0.41	\$ 0.06	\$4,935.65	0.893210	\$4,409
		8/1/2023	18	\$ 0.35	\$ 0.41	\$ 0.06	\$4,935.65	0.886927	\$4,378
		9/1/2023	19	\$ 0.35	\$ 0.41	\$ 0.06	\$4,935.65	0.880689	\$4,347
		10/1/2023	20	\$ 0.35	\$ 0.41	\$ 0.06	\$4,935.65	0.874495	\$4,316
8		11/1/2023	21	\$ 0.36	\$ 0.42	\$ 0.06	\$4,935.65	0.868344	\$4,286
		12/1/2023	22	\$ 0.36	\$ 0.42	\$ 0.06	\$4,935.65	0.862237	\$4,256
		1/1/2024	23	\$ 0.36	\$ 0.42	\$ 0.06	\$4,935.65	0.856172	\$4,226
		2/1/2024	24	\$ 0.36	\$ 0.42	\$ 0.06	\$4,935.65	0.850150	\$4,196
	3	3/1/2024	25	\$ 0.36	\$ 0.42	\$ 0.06	\$4,935.65	0.844171	\$4,167
		4/1/2024	26	\$ 0.36	\$ 0.42	\$ 0.06	\$4,935.65	0.838233	\$4,137
		5/1/2024	27	\$ 0.36	\$ 0.42	\$ 0.06	\$4,935.65	0.832337	\$4,108
		6/1/2024	28	\$ 0.36	\$ 0.42	\$ 0.06	\$4,935.65	0.826483	\$4,079
		7/1/2024	29	\$ 0.36	\$ 0.42	\$ 0.06	\$4,935.65	0.820670	\$4,051
		8/1/2024	30	\$ 0.36	\$ 0.42	\$ 0.06	\$4,935.65	0.814898	\$4,022
		9/1/2024	31	\$ 0.36	\$ 0.42	\$ 0.06	\$4,935.65	0.809166	\$3,994
		10/1/2024	32	\$ 0.36	\$ 0.42	\$ 0.06	\$4,935.65	0.803475	\$3,966
		11/1/2024	33	\$ 0.37	\$ 0.43	\$ 0.06	\$4,935.65	0.797824	\$3,938
		12/1/2024	34	\$ 0.37	\$ 0.43	\$ 0.06	\$4,935.65	0.792212	\$3,910

Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value
9		1/1/2025	35	\$ 0.37	\$ 0.43	\$ 0.06	\$4,935.65	0.786640	\$3,883
		2/1/2025	36	\$ 0.37	\$ 0.43	\$ 0.06	\$4,935.65	0.781107	\$3,855
	4	3/1/2025	37	\$ 0.37	\$ 0.43	\$ 0.06	\$4,935.65	0.775613	\$3,828
		4/1/2025	38	\$ 0.37	\$ 0.43	\$ 0.06	\$4,935.65	0.770158	\$3,801
		5/1/2025	39	\$ 0.37	\$ 0.43	\$ 0.06	\$4,935.65	0.764741	\$3,774
		6/1/2025	40	\$ 0.37	\$ 0.43	\$ 0.06	\$4,935.65	0.759362	\$3,748
		7/1/2025	41	\$ 0.37	\$ 0.43	\$ 0.06	\$4,935.65	0.754021	\$3,722
		8/1/2025	42	\$ 0.37	\$ 0.43	\$ 0.06	\$4,935.65	0.748718	\$3,695
		9/1/2025	43	\$ 0.37	\$ 0.43	\$ 0.06	\$4,935.65	0.743452	\$3,669
		10/1/2025	44	\$ 0.37	\$ 0.43	\$ 0.06	\$4,935.65	0.738223	\$3,644
10		11/1/2025	45	\$ 0.38	\$ 0.45	\$ 0.07	\$5,758.25	0.733030	\$4,221
		12/1/2025	46	\$ 0.38	\$ 0.45	\$ 0.07	\$5,758.25	0.727875	\$4,191
		1/1/2026	47	\$ 0.38	\$ 0.45	\$ 0.07	\$5,758.25	0.722755	\$4,162
		2/1/2026	48	\$ 0.38	\$ 0.45	\$ 0.07	\$5,758.25	0.717672	\$4,133
	5	3/1/2026	49	\$ 0.38	\$ 0.45	\$ 0.07	\$5,758.25	0.712624	\$4,103
		4/1/2026	50	\$ 0.38	\$ 0.45	\$ 0.07	\$5,758.25	0.707612	\$4,075
		5/1/2026	51	\$ 0.38	\$ 0.45	\$ 0.07	\$5,758.25	0.702635	\$4,046
		6/1/2026	52	\$ 0.38	\$ 0.45	\$ 0.07	\$5,758.25	0.697693	\$4,017
		7/1/2026	53	\$ 0.38	\$ 0.45	\$ 0.07	\$5,758.25	0.692785	\$3,989
		8/1/2026	54	\$ 0.38	\$ 0.45	\$ 0.07	\$5,758.25	0.687913	\$3,961
11		9/1/2026	55	\$ 0.38	\$ 0.45	\$ 0.07	\$5,758.25	0.683074	\$3,933
		10/1/2026	56	\$ 0.38	\$ 0.45	\$ 0.07	\$5,758.25	0.678270	\$3,906
		11/1/2026	57	\$ 0.39	\$ 0.47	\$ 0.08	\$6,580.86	0.673499	\$4,432
		12/1/2026	58	\$ 0.39	\$ 0.47	\$ 0.08	\$6,580.86	0.668762	\$4,401
	6	1/1/2027	59	\$ 0.39	\$ 0.47	\$ 0.08	\$6,580.86	0.664058	\$4,370
		2/1/2027	60	\$ 0.39	\$ 0.47	\$ 0.08	\$6,580.86	0.659388	\$4,339
		3/1/2027	61	\$ 0.39	\$ 0.47	\$ 0.08	\$6,580.86	0.654750	\$4,309
		4/1/2027	62	\$ 0.39	\$ 0.47	\$ 0.08	\$6,580.86	0.650145	\$4,279
		5/1/2027	63	\$ 0.39	\$ 0.47	\$ 0.08	\$6,580.86	0.645572	\$4,248
		6/1/2027	64	\$ 0.39	\$ 0.47	\$ 0.08	\$6,580.86	0.641031	\$4,219
12		7/1/2027	65	\$ 0.39	\$ 0.47	\$ 0.08	\$6,580.86	0.636523	\$4,189
		8/1/2027	66	\$ 0.39	\$ 0.47	\$ 0.08	\$6,580.86	0.632046	\$4,159
		9/1/2027	67	\$ 0.39	\$ 0.47	\$ 0.08	\$6,580.86	0.627600	\$4,130
		10/1/2027	68	\$ 0.39	\$ 0.47	\$ 0.08	\$6,580.86	0.623186	\$4,101
	7	11/1/2027	69	\$ 0.40	\$ 0.49	\$ 0.09	\$7,403.47	0.618803	\$4,581
		12/1/2027	70	\$ 0.40	\$ 0.49	\$ 0.09	\$7,403.47	0.614450	\$4,549
		1/1/2028	71	\$ 0.40	\$ 0.49	\$ 0.09	\$7,403.47	0.610129	\$4,517
		2/1/2028	72	\$ 0.40	\$ 0.49	\$ 0.09	\$7,403.47	0.605837	\$4,485
		3/1/2028	73	\$ 0.40	\$ 0.49	\$ 0.09	\$7,403.47	0.601576	\$4,454
		4/1/2028	74	\$ 0.40	\$ 0.49	\$ 0.09	\$7,403.47	0.597345	\$4,422
	5/1/2028	75	\$ 0.40	\$ 0.49	\$ 0.09	\$7,403.47	0.593143	\$4,391	
	6/1/2028	76	\$ 0.40	\$ 0.49	\$ 0.09	\$7,403.47	0.588972	\$4,360	
	7/1/2028	77	\$ 0.40	\$ 0.49	\$ 0.09	\$7,403.47	0.584829	\$4,330	
	8/1/2028	78	\$ 0.40	\$ 0.49	\$ 0.09	\$7,403.47	0.580716	\$4,299	
	9/1/2028	79	\$ 0.40	\$ 0.49	\$ 0.09	\$7,403.47	0.576631	\$4,269	

Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value
13	8	10/1/2028	80	\$ 0.40	\$ 0.49	\$ 0.09	\$7,403.47	0.572575	\$4,239
		11/1/2028	81	\$ 0.41	\$ 0.51	\$ 0.10	\$8,226.08	0.568548	\$4,677
		12/1/2028	82	\$ 0.41	\$ 0.51	\$ 0.10	\$8,226.08	0.564549	\$4,644
		1/1/2029	83	\$ 0.41	\$ 0.51	\$ 0.10	\$8,226.08	0.560579	\$4,611
		2/1/2029	84	\$ 0.41	\$ 0.51	\$ 0.10	\$8,226.08	0.556636	\$4,579
	9	3/1/2029	85	\$ 0.41	\$ 0.51	\$ 0.10	\$8,226.08	0.552721	\$4,547
		4/1/2029	86	\$ 0.41	\$ 0.51	\$ 0.10	\$8,226.08	0.548833	\$4,515
		5/1/2029	87	\$ 0.41	\$ 0.51	\$ 0.10	\$8,226.08	0.544973	\$4,483
		6/1/2029	88	\$ 0.41	\$ 0.51	\$ 0.10	\$8,226.08	0.541140	\$4,451
		7/1/2029	89	\$ 0.41	\$ 0.51	\$ 0.10	\$8,226.08	0.537334	\$4,420
		8/1/2029	90	\$ 0.41	\$ 0.51	\$ 0.10	\$8,226.08	0.533554	\$4,389
		9/1/2029	91	\$ 0.41	\$ 0.51	\$ 0.10	\$8,226.08	0.529802	\$4,358
		10/1/2029	92	\$ 0.41	\$ 0.51	\$ 0.10	\$8,226.08	0.526075	\$4,328
		11/1/2029	93	\$ 0.42	\$ 0.53	\$ 0.11	\$9,048.68	0.522375	\$4,727
12/1/2029		94	\$ 0.42	\$ 0.53	\$ 0.11	\$9,048.68	0.518701	\$4,694	
14	9	1/1/2030	95	\$ 0.42	\$ 0.53	\$ 0.11	\$9,048.68	0.515053	\$4,661
		2/1/2030	96	\$ 0.42	\$ 0.53	\$ 0.11	\$9,048.68	0.511430	\$4,628
		3/1/2030	97	\$ 0.42	\$ 0.53	\$ 0.11	\$9,048.68	0.507833	\$4,595
		4/1/2030	98	\$ 0.42	\$ 0.53	\$ 0.11	\$9,048.68	0.504261	\$4,563
		5/1/2030	99	\$ 0.42	\$ 0.53	\$ 0.11	\$9,048.68	0.500714	\$4,531
	10	6/1/2030	100	\$ 0.42	\$ 0.53	\$ 0.11	\$9,048.68	0.497192	\$4,499
		7/1/2030	101	\$ 0.42	\$ 0.53	\$ 0.11	\$9,048.68	0.493695	\$4,467
		8/1/2030	102	\$ 0.42	\$ 0.53	\$ 0.11	\$9,048.68	0.490223	\$4,436
		9/1/2030	103	\$ 0.42	\$ 0.53	\$ 0.11	\$9,048.68	0.486775	\$4,405
		10/1/2030	104	\$ 0.42	\$ 0.53	\$ 0.11	\$9,048.68	0.483351	\$4,374
15	10	11/1/2030	105	\$ 0.43	\$ 0.55	\$ 0.12	\$9,871.29	0.479952	\$4,738
		12/1/2030	106	\$ 0.43	\$ 0.55	\$ 0.12	\$9,871.29	0.476576	\$4,704
		1/1/2031	107	\$ 0.43	\$ 0.55	\$ 0.12	\$9,871.29	0.473224	\$4,671
		2/1/2031	108	\$ 0.43	\$ 0.55	\$ 0.12	\$9,871.29	0.469895	\$4,638
		3/1/2031	109	\$ 0.43	\$ 0.55	\$ 0.12	\$9,871.29	0.466590	\$4,606
	11	4/1/2031	110	\$ 0.43	\$ 0.55	\$ 0.12	\$9,871.29	0.463309	\$4,573
		5/1/2031	111	\$ 0.43	\$ 0.55	\$ 0.12	\$9,871.29	0.460050	\$4,541
		6/1/2031	112	\$ 0.43	\$ 0.55	\$ 0.12	\$9,871.29	0.456814	\$4,509
		7/1/2031	113	\$ 0.43	\$ 0.55	\$ 0.12	\$9,871.29	0.453601	\$4,478
		8/1/2031	114	\$ 0.43	\$ 0.55	\$ 0.12	\$9,871.29	0.450411	\$4,446
16	12	9/1/2031	115	\$ 0.43	\$ 0.55	\$ 0.12	\$9,871.29	0.447243	\$4,415
		10/1/2031	116	\$ 0.43	\$ 0.55	\$ 0.12	\$9,871.29	0.444097	\$4,384
		11/1/2031	117	\$ 0.45	\$ 0.57	\$ 0.12	\$9,871.29	0.440974	\$4,353
		12/1/2031	118	\$ 0.45	\$ 0.57	\$ 0.12	\$9,871.29	0.437872	\$4,322
		1/1/2032	119	\$ 0.45	\$ 0.57	\$ 0.12	\$9,871.29	0.434792	\$4,292
	13	2/1/2032	120	\$ 0.45	\$ 0.57	\$ 0.12	\$9,871.29	0.431734	\$4,262
		3/1/2032	121	\$ 0.45	\$ 0.57	\$ 0.12	\$9,871.29	0.428698	\$4,232
		4/1/2032	122	\$ 0.45	\$ 0.57	\$ 0.12	\$9,871.29	0.425682	\$4,202
		5/1/2032	123	\$ 0.45	\$ 0.57	\$ 0.12	\$9,871.29	0.422688	\$4,172
		6/1/2032	124	\$ 0.45	\$ 0.57	\$ 0.12	\$9,871.29	0.419715	\$4,143

Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value
	11	7/1/2032	125	\$ 0.45	\$ 0.57	\$ 0.12	\$9,871.29	0.416763	\$4,114
		8/1/2032	126	\$ 0.45	\$ 0.57	\$ 0.12	\$9,871.29	0.413832	\$4,085
		9/1/2032	127	\$ 0.45	\$ 0.57	\$ 0.12	\$9,871.29	0.410921	\$4,056
		10/1/2032	128	\$ 0.45	\$ 0.57	\$ 0.12	\$9,871.29	0.408031	\$4,028
17		11/1/2032	129	\$ 0.47	\$ 0.59	\$ 0.12	\$9,871.29	0.405161	\$3,999
		12/1/2032	130	\$ 0.47	\$ 0.59	\$ 0.12	\$9,871.29	0.402311	\$3,971
		1/1/2033	131	\$ 0.47	\$ 0.59	\$ 0.12	\$9,871.29	0.399482	\$3,943
		2/1/2033	132	\$ 0.47	\$ 0.59	\$ 0.12	\$9,871.29	0.396672	\$3,916
	12	3/1/2033	133	\$ 0.47	\$ 0.59	\$ 0.12	\$9,871.29	0.393882	\$3,888
		4/1/2033	134	\$ 0.47	\$ 0.59	\$ 0.12	\$9,871.29	0.391112	\$3,861
		5/1/2033	135	\$ 0.47	\$ 0.59	\$ 0.12	\$9,871.29	0.388361	\$3,834
		6/1/2033	136	\$ 0.47	\$ 0.59	\$ 0.12	\$9,871.29	0.385629	\$3,807
		7/1/2033	137	\$ 0.47	\$ 0.59	\$ 0.12	\$9,871.29	0.382917	\$3,780
		8/1/2033	138	\$ 0.47	\$ 0.59	\$ 0.12	\$9,871.29	0.380224	\$3,753
		9/1/2033	139	\$ 0.47	\$ 0.59	\$ 0.12	\$9,871.29	0.377549	\$3,727
		10/1/2033	140	\$ 0.47	\$ 0.59	\$ 0.12	\$9,871.29	0.374894	\$3,701
18		11/1/2033	141	\$ 0.49	\$ 0.61	\$ 0.12	\$9,871.29	0.372257	\$3,675
		12/1/2033	142	\$ 0.49	\$ 0.61	\$ 0.12	\$9,871.29	0.369639	\$3,649
		1/1/2034	143	\$ 0.49	\$ 0.61	\$ 0.12	\$9,871.29	0.367039	\$3,623
		2/1/2034	144	\$ 0.49	\$ 0.61	\$ 0.12	\$9,871.29	0.364457	\$3,598
	13	3/1/2034	145	\$ 0.49	\$ 0.61	\$ 0.12	\$9,871.29	0.361894	\$3,572
		4/1/2034	146	\$ 0.49	\$ 0.61	\$ 0.12	\$9,871.29	0.359348	\$3,547
		5/1/2034	147	\$ 0.49	\$ 0.61	\$ 0.12	\$9,871.29	0.356821	\$3,522
		6/1/2034	148	\$ 0.49	\$ 0.61	\$ 0.12	\$9,871.29	0.354311	\$3,498
		7/1/2034	149	\$ 0.49	\$ 0.61	\$ 0.12	\$9,871.29	0.351819	\$3,473
		8/1/2034	150	\$ 0.49	\$ 0.61	\$ 0.12	\$9,871.29	0.349345	\$3,448
		9/1/2034	151	\$ 0.49	\$ 0.61	\$ 0.12	\$9,871.29	0.346888	\$3,424
		10/1/2034	152	\$ 0.49	\$ 0.61	\$ 0.12	\$9,871.29	0.344448	\$3,400
19		11/1/2034	153	\$ 0.51	\$ 0.63	\$ 0.12	\$9,871.29	0.342025	\$3,376
		12/1/2034	154	\$ 0.51	\$ 0.63	\$ 0.12	\$9,871.29	0.339619	\$3,352
		1/1/2035	155	\$ 0.51	\$ 0.63	\$ 0.12	\$9,871.29	0.337231	\$3,329
		2/1/2035	156	\$ 0.51	\$ 0.63	\$ 0.12	\$9,871.29	0.334859	\$3,305
	14	3/1/2035	157	\$ 0.51	\$ 0.63	\$ 0.12	\$9,871.29	0.332504	\$3,282
		4/1/2035	158	\$ 0.51	\$ 0.63	\$ 0.12	\$9,871.29	0.330165	\$3,259
		5/1/2035	159	\$ 0.51	\$ 0.63	\$ 0.12	\$9,871.29	0.327843	\$3,236
		6/1/2035	160	\$ 0.51	\$ 0.63	\$ 0.12	\$9,871.29	0.325537	\$3,213
		7/1/2035	161	\$ 0.51	\$ 0.63	\$ 0.12	\$9,871.29	0.323247	\$3,191
		8/1/2035	162	\$ 0.51	\$ 0.63	\$ 0.12	\$9,871.29	0.320974	\$3,168
		9/1/2035	163	\$ 0.51	\$ 0.63	\$ 0.12	\$9,871.29	0.318716	\$3,146
		10/1/2035	164	\$ 0.51	\$ 0.63	\$ 0.12	\$9,871.29	0.316474	\$3,124
		11/1/2035	165	\$ 0.53	\$ 0.65	\$ 0.12	\$9,871.29	0.314248	\$3,102
		12/1/2035	166	\$ 0.53	\$ 0.65	\$ 0.12	\$9,871.29	0.312038	\$3,080
		1/1/2036	167	\$ 0.53	\$ 0.65	\$ 0.12	\$9,871.29	0.309843	\$3,059
		2/1/2036	168	\$ 0.53	\$ 0.65	\$ 0.12	\$9,871.29	0.307664	\$3,037
		3/1/2036	169	\$ 0.53	\$ 0.65	\$ 0.12	\$9,871.29	0.305500	\$3,016

Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value
20	15	4/1/2036	170	\$ 0.53	\$ 0.65	\$ 0.12	\$9,871.29	0.303351	\$2,994
		5/1/2036	171	\$ 0.53	\$ 0.65	\$ 0.12	\$9,871.29	0.301218	\$2,973
		6/1/2036	172	\$ 0.53	\$ 0.65	\$ 0.12	\$9,871.29	0.299099	\$2,952
		7/1/2036	173	\$ 0.53	\$ 0.65	\$ 0.12	\$9,871.29	0.296995	\$2,932
		8/1/2036	174	\$ 0.53	\$ 0.65	\$ 0.12	\$9,871.29	0.294906	\$2,911
		9/1/2036	175	\$ 0.53	\$ 0.65	\$ 0.12	\$9,871.29	0.292832	\$2,891
		10/1/2036	176	\$ 0.53	\$ 0.65	\$ 0.12	\$9,871.29	0.290773	\$2,870
		11/1/2036	177	\$ 0.55	\$ 0.67	\$ 0.12	\$9,871.29	0.288727	\$2,850
		12/1/2036	178	\$ 0.55	\$ 0.67	\$ 0.12	\$9,871.29	0.286697	\$2,830
		1/1/2037	179	\$ 0.55	\$ 0.67	\$ 0.12	\$9,871.29	0.284680	\$2,810
21	16	2/1/2037	180	\$ 0.55	\$ 0.67	\$ 0.12	\$9,871.29	0.282678	\$2,790
		3/1/2037	181	\$ 0.55	\$ 0.67	\$ 0.12	\$9,871.29	0.280690	\$2,771
		4/1/2037	182	\$ 0.55	\$ 0.67	\$ 0.12	\$9,871.29	0.278715	\$2,751
		5/1/2037	183	\$ 0.55	\$ 0.67	\$ 0.12	\$9,871.29	0.276755	\$2,732
		6/1/2037	184	\$ 0.55	\$ 0.67	\$ 0.12	\$9,871.29	0.274809	\$2,713
		7/1/2037	185	\$ 0.55	\$ 0.67	\$ 0.12	\$9,871.29	0.272876	\$2,694
		8/1/2037	186	\$ 0.55	\$ 0.67	\$ 0.12	\$9,871.29	0.270956	\$2,675
		9/1/2037	187	\$ 0.55	\$ 0.67	\$ 0.12	\$9,871.29	0.269051	\$2,656
		10/1/2037	188	\$ 0.55	\$ 0.67	\$ 0.12	\$9,871.29	0.267158	\$2,637
		11/1/2037	189	\$ 0.57	\$ 0.69	\$ 0.12	\$9,871.29	0.265279	\$2,619
22	17	12/1/2037	190	\$ 0.57	\$ 0.69	\$ 0.12	\$9,871.29	0.263413	\$2,600
		1/1/2038	191	\$ 0.57	\$ 0.69	\$ 0.12	\$9,871.29	0.261561	\$2,582
		2/1/2038	192	\$ 0.57	\$ 0.69	\$ 0.12	\$9,871.29	0.259721	\$2,564
		3/1/2038	193	\$ 0.57	\$ 0.69	\$ 0.12	\$9,871.29	0.257894	\$2,546
		4/1/2038	194	\$ 0.57	\$ 0.69	\$ 0.12	\$9,871.29	0.256080	\$2,528
		5/1/2038	195	\$ 0.57	\$ 0.69	\$ 0.12	\$9,871.29	0.254279	\$2,510
		6/1/2038	196	\$ 0.57	\$ 0.69	\$ 0.12	\$9,871.29	0.252491	\$2,492
		7/1/2038	197	\$ 0.57	\$ 0.69	\$ 0.12	\$9,871.29	0.250715	\$2,475
		8/1/2038	198	\$ 0.57	\$ 0.69	\$ 0.12	\$9,871.29	0.248951	\$2,457
		9/1/2038	199	\$ 0.57	\$ 0.69	\$ 0.12	\$9,871.29	0.247200	\$2,440
23	18	10/1/2038	200	\$ 0.57	\$ 0.69	\$ 0.12	\$9,871.29	0.245462	\$2,423
		11/1/2038	201	\$ 0.59	\$ 0.71	\$ 0.12	\$9,871.29	0.243735	\$2,406
		12/1/2038	202	\$ 0.59	\$ 0.71	\$ 0.12	\$9,871.29	0.242021	\$2,389
		1/1/2039	203	\$ 0.59	\$ 0.71	\$ 0.12	\$9,871.29	0.240319	\$2,372
		2/1/2039	204	\$ 0.59	\$ 0.71	\$ 0.12	\$9,871.29	0.238628	\$2,356
		3/1/2039	205	\$ 0.59	\$ 0.71	\$ 0.12	\$9,871.29	0.236950	\$2,339
		4/1/2039	206	\$ 0.59	\$ 0.71	\$ 0.12	\$9,871.29	0.235283	\$2,323
		5/1/2039	207	\$ 0.59	\$ 0.71	\$ 0.12	\$9,871.29	0.233628	\$2,306
		6/1/2039	208	\$ 0.59	\$ 0.71	\$ 0.12	\$9,871.29	0.231985	\$2,290
		7/1/2039	209	\$ 0.59	\$ 0.71	\$ 0.12	\$9,871.29	0.230354	\$2,274
		8/1/2039	210	\$ 0.59	\$ 0.71	\$ 0.12	\$9,871.29	0.228733	\$2,258
		9/1/2039	211	\$ 0.59	\$ 0.71	\$ 0.12	\$9,871.29	0.227125	\$2,242
		10/1/2039	212	\$ 0.59	\$ 0.71	\$ 0.12	\$9,871.29	0.225527	\$2,226
		11/1/2039	213	\$ 0.61	\$ 0.73	\$ 0.12	\$9,871.29	0.223941	\$2,211
		12/1/2039	214	\$ 0.61	\$ 0.73	\$ 0.12	\$9,871.29	0.222366	\$2,195

Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value
24		1/1/2040	215	\$ 0.61	\$ 0.73	\$ 0.12	\$9,871.29	0.220802	\$2,180
		2/1/2040	216	\$ 0.61	\$ 0.73	\$ 0.12	\$9,871.29	0.219249	\$2,164
	19	3/1/2040	217	\$ 0.61	\$ 0.73	\$ 0.12	\$9,871.29	0.217707	\$2,149
		4/1/2040	218	\$ 0.61	\$ 0.73	\$ 0.12	\$9,871.29	0.216175	\$2,134
		5/1/2040	219	\$ 0.61	\$ 0.73	\$ 0.12	\$9,871.29	0.214655	\$2,119
		6/1/2040	220	\$ 0.61	\$ 0.73	\$ 0.12	\$9,871.29	0.213145	\$2,104
		7/1/2040	221	\$ 0.61	\$ 0.73	\$ 0.12	\$9,871.29	0.211646	\$2,089
		8/1/2040	222	\$ 0.61	\$ 0.73	\$ 0.12	\$9,871.29	0.210157	\$2,075
		9/1/2040	223	\$ 0.61	\$ 0.73	\$ 0.12	\$9,871.29	0.208679	\$2,060
		10/1/2040	224	\$ 0.61	\$ 0.73	\$ 0.12	\$9,871.29	0.207212	\$2,045
25		11/1/2040	225	\$ 0.63	\$ 0.76	\$ 0.13	\$10,693.90	0.205754	\$2,200
		12/1/2040	226	\$ 0.63	\$ 0.76	\$ 0.13	\$10,693.90	0.204307	\$2,185
		1/1/2041	227	\$ 0.63	\$ 0.76	\$ 0.13	\$10,693.90	0.202870	\$2,169
		2/1/2041	228	\$ 0.63	\$ 0.76	\$ 0.13	\$10,693.90	0.201443	\$2,154
	20	3/1/2041	229	\$ 0.63	\$ 0.76	\$ 0.13	\$10,693.90	0.200026	\$2,139
		4/1/2041	230	\$ 0.63	\$ 0.76	\$ 0.13	\$10,693.90	0.198619	\$2,124
		5/1/2041	231	\$ 0.63	\$ 0.76	\$ 0.13	\$10,693.90	0.197222	\$2,109
		6/1/2041	232	\$ 0.63	\$ 0.76	\$ 0.13	\$10,693.90	0.195835	\$2,094
		7/1/2041	233	\$ 0.63	\$ 0.76	\$ 0.13	\$10,693.90	0.194458	\$2,080
		8/1/2041	234	\$ 0.63	\$ 0.76	\$ 0.13	\$10,693.90	0.193090	\$2,065
26		9/1/2041	235	\$ 0.63	\$ 0.76	\$ 0.13	\$10,693.90	0.191732	\$2,050
		10/1/2041	236	\$ 0.63	\$ 0.76	\$ 0.13	\$10,693.90	0.190383	\$2,036
		11/1/2041	237	\$ 0.65	\$ 0.79	\$ 0.14	\$11,516.51	0.189044	\$2,177
		12/1/2041	238	\$ 0.65	\$ 0.79	\$ 0.14	\$11,516.51	0.187715	\$2,162
	21	1/1/2042	239	\$ 0.65	\$ 0.79	\$ 0.14	\$11,516.51	0.186394	\$2,147
		2/1/2042	240	\$ 0.65	\$ 0.79	\$ 0.14	\$11,516.51	0.185083	\$2,132
		3/1/2042	241	\$ 0.65	\$ 0.79	\$ 0.14	\$11,516.51	0.183782	\$2,117
		4/1/2042	242	\$ 0.65	\$ 0.79	\$ 0.14	\$11,516.51	0.182489	\$2,102
21	5/1/2042	243	\$ 0.65	\$ 0.79	\$ 0.14	\$11,516.51	0.181205	\$2,087	
	6/1/2042	244	\$ 0.65	\$ 0.79	\$ 0.14	\$11,516.51	0.179931	\$2,072	
	7/1/2042	245	\$ 0.65	\$ 0.79	\$ 0.14	\$11,516.51	0.178665	\$2,058	
	8/1/2042	246	\$ 0.65	\$ 0.79	\$ 0.14	\$11,516.51	0.177409	\$2,043	
	9/1/2042	247	\$ 0.65	\$ 0.79	\$ 0.14	\$11,516.51	0.176161	\$2,029	
	10/1/2042	248	\$ 0.65	\$ 0.79	\$ 0.14	\$11,516.51	0.174922	\$2,014	
27		11/1/2042	249	\$ 0.67	\$ 0.82	\$ 0.15	\$12,339.11	0.173692	\$2,143
		12/1/2042	250	\$ 0.67	\$ 0.82	\$ 0.15	\$12,339.11	0.172470	\$2,128
		1/1/2043	251	\$ 0.67	\$ 0.82	\$ 0.15	\$12,339.11	0.171257	\$2,113
		2/1/2043	252	\$ 0.67	\$ 0.82	\$ 0.15	\$12,339.11	0.170052	\$2,098
	22	3/1/2043	253	\$ 0.67	\$ 0.82	\$ 0.15	\$12,339.11	0.168856	\$2,084
		4/1/2043	254	\$ 0.67	\$ 0.82	\$ 0.15	\$12,339.11	0.167669	\$2,069
		5/1/2043	255	\$ 0.67	\$ 0.82	\$ 0.15	\$12,339.11	0.166489	\$2,054
		6/1/2043	256	\$ 0.67	\$ 0.82	\$ 0.15	\$12,339.11	0.165318	\$2,040
		7/1/2043	257	\$ 0.67	\$ 0.82	\$ 0.15	\$12,339.11	0.164155	\$2,026
		8/1/2043	258	\$ 0.67	\$ 0.82	\$ 0.15	\$12,339.11	0.163001	\$2,011
	9/1/2043	259	\$ 0.67	\$ 0.82	\$ 0.15	\$12,339.11	0.161854	\$1,997	

Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value
28		10/1/2043	260	\$ 0.67	\$ 0.82	\$ 0.15	\$12,339.11	0.160716	\$1,983
		11/1/2043	261	\$ 0.69	\$ 0.85	\$ 0.16	\$13,161.72	0.159586	\$2,100
		12/1/2043	262	\$ 0.69	\$ 0.85	\$ 0.16	\$13,161.72	0.158463	\$2,086
		1/1/2044	263	\$ 0.69	\$ 0.85	\$ 0.16	\$13,161.72	0.157349	\$2,071
		2/1/2044	264	\$ 0.69	\$ 0.85	\$ 0.16	\$13,161.72	0.156242	\$2,056
	23	3/1/2044	265	\$ 0.69	\$ 0.85	\$ 0.16	\$13,161.72	0.155143	\$2,042
		4/1/2044	266	\$ 0.69	\$ 0.85	\$ 0.16	\$13,161.72	0.154052	\$2,028
		5/1/2044	267	\$ 0.69	\$ 0.85	\$ 0.16	\$13,161.72	0.152968	\$2,013
		6/1/2044	268	\$ 0.69	\$ 0.85	\$ 0.16	\$13,161.72	0.151892	\$1,999
		7/1/2044	269	\$ 0.69	\$ 0.85	\$ 0.16	\$13,161.72	0.150824	\$1,985
		8/1/2044	270	\$ 0.69	\$ 0.85	\$ 0.16	\$13,161.72	0.149763	\$1,971
		9/1/2044	271	\$ 0.69	\$ 0.85	\$ 0.16	\$13,161.72	0.148710	\$1,957
		10/1/2044	272	\$ 0.69	\$ 0.85	\$ 0.16	\$13,161.72	0.147664	\$1,944
		29	11/1/2044	273	\$ 0.71	\$ 0.88	\$ 0.17	\$13,984.33	0.146625
12/1/2044	274		\$ 0.71	\$ 0.88	\$ 0.17	\$13,984.33	0.145594	\$2,036	
1/1/2045	275		\$ 0.71	\$ 0.88	\$ 0.17	\$13,984.33	0.144570	\$2,022	
2/1/2045	276		\$ 0.71	\$ 0.88	\$ 0.17	\$13,984.33	0.143553	\$2,007	
24	3/1/2045		277	\$ 0.71	\$ 0.88	\$ 0.17	\$13,984.33	0.142543	\$1,993
	4/1/2045		278	\$ 0.71	\$ 0.88	\$ 0.17	\$13,984.33	0.141541	\$1,979
	5/1/2045		279	\$ 0.71	\$ 0.88	\$ 0.17	\$13,984.33	0.140545	\$1,965
	6/1/2045		280	\$ 0.71	\$ 0.88	\$ 0.17	\$13,984.33	0.139557	\$1,952
	7/1/2045		281	\$ 0.71	\$ 0.88	\$ 0.17	\$13,984.33	0.138575	\$1,938
	8/1/2045		282	\$ 0.71	\$ 0.88	\$ 0.17	\$13,984.33	0.137601	\$1,924
30	9/1/2045	283	\$ 0.71	\$ 0.88	\$ 0.17	\$13,984.33	0.136633	\$1,911	
	10/1/2045	284	\$ 0.71	\$ 0.88	\$ 0.17	\$13,984.33	0.135672	\$1,897	
	11/1/2045	285	\$ 0.73	\$ 0.91	\$ 0.18	\$14,806.94	0.134717	\$1,995	
	12/1/2045	286	\$ 0.73	\$ 0.91	\$ 0.18	\$14,806.94	0.133770	\$1,981	
	1/1/2046	287	\$ 0.73	\$ 0.91	\$ 0.18	\$14,806.94	0.132829	\$1,967	
	2/1/2046	288	\$ 0.73	\$ 0.91	\$ 0.18	\$14,806.94	0.131895	\$1,953	
	25	3/1/2046	289	\$ 0.73	\$ 0.91	\$ 0.18	\$14,806.94	0.130967	\$1,939
		4/1/2046	290	\$ 0.73	\$ 0.91	\$ 0.18	\$14,806.94	0.130046	\$1,926
		5/1/2046	291	\$ 0.73	\$ 0.91	\$ 0.18	\$14,806.94	0.129131	\$1,912
		6/1/2046	292	\$ 0.73	\$ 0.91	\$ 0.18	\$14,806.94	0.128223	\$1,899
		7/1/2046	293	\$ 0.73	\$ 0.91	\$ 0.18	\$14,806.94	0.127321	\$1,885
		8/1/2046	294	\$ 0.73	\$ 0.91	\$ 0.18	\$14,806.94	0.126426	\$1,872
9/1/2046		295	\$ 0.73	\$ 0.91	\$ 0.18	\$14,806.94	0.125536	\$1,859	
10/1/2046		296	\$ 0.73	\$ 0.91	\$ 0.18	\$14,806.94	0.124653	\$1,846	
31	11/1/2046	297	\$ 0.76	\$ 0.94	\$ 0.18	\$14,806.94	0.123777	\$1,833	
	12/1/2046	298	\$ 0.76	\$ 0.94	\$ 0.18	\$14,806.94	0.122906	\$1,820	
	1/1/2047	299	\$ 0.76	\$ 0.94	\$ 0.18	\$14,806.94	0.122042	\$1,807	
	2/1/2047	300	\$ 0.76	\$ 0.94	\$ 0.18	\$14,806.94	0.121183	\$1,794	
	3/1/2047	301	\$ 0.76	\$ 0.94	\$ 0.18	\$14,806.94	0.120331	\$1,782	
	4/1/2047	302	\$ 0.76	\$ 0.94	\$ 0.18	\$14,806.94	0.119485	\$1,769	
	5/1/2047	303	\$ 0.76	\$ 0.94	\$ 0.18	\$14,806.94	0.118644	\$1,757	
	6/1/2047	304	\$ 0.76	\$ 0.94	\$ 0.18	\$14,806.94	0.117810	\$1,744	

Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value	
32	26	7/1/2047	305	\$ 0.76	\$ 0.94	\$ 0.18	\$14,806.94	0.116981	\$1,732	
		8/1/2047	306	\$ 0.76	\$ 0.94	\$ 0.18	\$14,806.94	0.116158	\$1,720	
		9/1/2047	307	\$ 0.76	\$ 0.94	\$ 0.18	\$14,806.94	0.115341	\$1,708	
		10/1/2047	308	\$ 0.76	\$ 0.94	\$ 0.18	\$14,806.94	0.114530	\$1,696	
		11/1/2047	309	\$ 0.76	\$ 0.94	\$ 0.18	\$14,806.94	0.113725	\$1,684	
		12/1/2047	310	\$ 0.79	\$ 0.97	\$ 0.18	\$14,806.94	0.112925	\$1,672	
		1/1/2048	311	\$ 0.79	\$ 0.97	\$ 0.18	\$14,806.94	0.112130	\$1,660	
		2/1/2048	312	\$ 0.79	\$ 0.97	\$ 0.18	\$14,806.94	0.111342	\$1,649	
33	27	3/1/2048	313	\$ 0.79	\$ 0.97	\$ 0.18	\$14,806.94	0.110559	\$1,637	
		4/1/2048	314	\$ 0.79	\$ 0.97	\$ 0.18	\$14,806.94	0.109781	\$1,626	
		5/1/2048	315	\$ 0.79	\$ 0.97	\$ 0.18	\$14,806.94	0.109009	\$1,614	
		6/1/2048	316	\$ 0.79	\$ 0.97	\$ 0.18	\$14,806.94	0.108242	\$1,603	
		7/1/2048	317	\$ 0.79	\$ 0.97	\$ 0.18	\$14,806.94	0.107481	\$1,591	
		8/1/2048	318	\$ 0.79	\$ 0.97	\$ 0.18	\$14,806.94	0.106725	\$1,580	
	34	28	9/1/2048	319	\$ 0.79	\$ 0.97	\$ 0.18	\$14,806.94	0.105974	\$1,569
			10/1/2048	320	\$ 0.79	\$ 0.97	\$ 0.18	\$14,806.94	0.105229	\$1,558
			11/1/2048	321	\$ 0.82	\$ 1.00	\$ 0.18	\$14,806.94	0.104489	\$1,547
			12/1/2048	322	\$ 0.82	\$ 1.00	\$ 0.18	\$14,806.94	0.103754	\$1,536
			1/1/2049	323	\$ 0.82	\$ 1.00	\$ 0.18	\$14,806.94	0.103024	\$1,525
			2/1/2049	324	\$ 0.82	\$ 1.00	\$ 0.18	\$14,806.94	0.102299	\$1,515
34		29	3/1/2049	325	\$ 0.82	\$ 1.00	\$ 0.18	\$14,806.94	0.101580	\$1,504
			4/1/2049	326	\$ 0.82	\$ 1.00	\$ 0.18	\$14,806.94	0.100865	\$1,494
			5/1/2049	327	\$ 0.82	\$ 1.00	\$ 0.18	\$14,806.94	0.100156	\$1,483
			6/1/2049	328	\$ 0.82	\$ 1.00	\$ 0.18	\$14,806.94	0.099452	\$1,473
			7/1/2049	329	\$ 0.82	\$ 1.00	\$ 0.18	\$14,806.94	0.098752	\$1,462
			8/1/2049	330	\$ 0.82	\$ 1.00	\$ 0.18	\$14,806.94	0.098057	\$1,452
	34	29	9/1/2049	331	\$ 0.82	\$ 1.00	\$ 0.18	\$14,806.94	0.097368	\$1,442
			10/1/2049	332	\$ 0.82	\$ 1.00	\$ 0.18	\$14,806.94	0.096683	\$1,432
			11/1/2049	333	\$ 0.85	\$ 1.04	\$ 0.19	\$15,629.54	0.096003	\$1,500
			12/1/2049	334	\$ 0.85	\$ 1.04	\$ 0.19	\$15,629.54	0.095328	\$1,490
			1/1/2050	335	\$ 0.85	\$ 1.04	\$ 0.19	\$15,629.54	0.094657	\$1,479
			2/1/2050	336	\$ 0.85	\$ 1.04	\$ 0.19	\$15,629.54	0.093991	\$1,469
34		29	3/1/2050	337	\$ 0.85	\$ 1.04	\$ 0.19	\$15,629.54	0.093330	\$1,459
			4/1/2050	338	\$ 0.85	\$ 1.04	\$ 0.19	\$15,629.54	0.092674	\$1,448
			5/1/2050	339	\$ 0.85	\$ 1.04	\$ 0.19	\$15,629.54	0.092022	\$1,438
			6/1/2050	340	\$ 0.85	\$ 1.04	\$ 0.19	\$15,629.54	0.091375	\$1,428
			7/1/2050	341	\$ 0.85	\$ 1.04	\$ 0.19	\$15,629.54	0.090732	\$1,418
			8/1/2050	342	\$ 0.85	\$ 1.04	\$ 0.19	\$15,629.54	0.090094	\$1,408
34	29	9/1/2050	343	\$ 0.85	\$ 1.04	\$ 0.19	\$15,629.54	0.089460	\$1,398	
		10/1/2050	344	\$ 0.85	\$ 1.04	\$ 0.19	\$15,629.54	0.088831	\$1,388	
		11/1/2050	345	\$ 0.88	\$ 1.08	\$ 0.20	\$16,452.15	0.088206	\$1,451	
		12/1/2050	346	\$ 0.88	\$ 1.08	\$ 0.20	\$16,452.15	0.087586	\$1,441	
		1/1/2051	347	\$ 0.88	\$ 1.08	\$ 0.20	\$16,452.15	0.086970	\$1,431	
		2/1/2051	348	\$ 0.88	\$ 1.08	\$ 0.20	\$16,452.15	0.086358	\$1,421	
		3/1/2051	349	\$ 0.88	\$ 1.08	\$ 0.20	\$16,452.15	0.085751	\$1,411	

Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value
35	30	4/1/2051	350	\$ 0.88	\$ 1.08	\$ 0.20	\$16,452.15	0.085148	\$1,401
		5/1/2051	351	\$ 0.88	\$ 1.08	\$ 0.20	\$16,452.15	0.084549	\$1,391
		6/1/2051	352	\$ 0.88	\$ 1.08	\$ 0.20	\$16,452.15	0.083954	\$1,381
		7/1/2051	353	\$ 0.88	\$ 1.08	\$ 0.20	\$16,452.15	0.083364	\$1,372
		8/1/2051	354	\$ 0.88	\$ 1.08	\$ 0.20	\$16,452.15	0.082777	\$1,362
		9/1/2051	355	\$ 0.88	\$ 1.08	\$ 0.20	\$16,452.15	0.082195	\$1,352
		10/1/2051	356	\$ 0.88	\$ 1.08	\$ 0.20	\$16,452.15	0.081617	\$1,343
		11/1/2051	357	\$ 0.91	\$ 1.12	\$ 0.21	\$17,274.76	0.081043	\$1,400
		12/1/2051	358	\$ 0.91	\$ 1.12	\$ 0.21	\$17,274.76	0.080473	\$1,390
		1/1/2052	359	\$ 0.91	\$ 1.12	\$ 0.21	\$17,274.76	0.079907	\$1,380
36	31	2/1/2052	360	\$ 0.91	\$ 1.12	\$ 0.21	\$17,274.76	0.079345	\$1,371
		3/1/2052	361	\$ 0.91	\$ 1.12	\$ 0.21	\$17,274.76	0.078787	\$1,361
		4/1/2052	362	\$ 0.91	\$ 1.12	\$ 0.21	\$17,274.76	0.078233	\$1,351
		5/1/2052	363	\$ 0.91	\$ 1.12	\$ 0.21	\$17,274.76	0.077682	\$1,342
		6/1/2052	364	\$ 0.91	\$ 1.12	\$ 0.21	\$17,274.76	0.077136	\$1,333
		7/1/2052	365	\$ 0.91	\$ 1.12	\$ 0.21	\$17,274.76	0.076593	\$1,323
		8/1/2052	366	\$ 0.91	\$ 1.12	\$ 0.21	\$17,274.76	0.076055	\$1,314
		9/1/2052	367	\$ 0.91	\$ 1.12	\$ 0.21	\$17,274.76	0.075520	\$1,305
		10/1/2052	368	\$ 0.91	\$ 1.12	\$ 0.21	\$17,274.76	0.074989	\$1,295
		11/1/2052	369	\$ 0.94	\$ 1.16	\$ 0.22	\$18,097.37	0.074461	\$1,348
37	32	12/1/2052	370	\$ 0.94	\$ 1.16	\$ 0.22	\$18,097.37	0.073937	\$1,338
		1/1/2053	371	\$ 0.94	\$ 1.16	\$ 0.22	\$18,097.37	0.073417	\$1,329
		2/1/2053	372	\$ 0.94	\$ 1.16	\$ 0.22	\$18,097.37	0.072901	\$1,319
		3/1/2053	373	\$ 0.94	\$ 1.16	\$ 0.22	\$18,097.37	0.072388	\$1,310
		4/1/2053	374	\$ 0.94	\$ 1.16	\$ 0.22	\$18,097.37	0.071879	\$1,301
		5/1/2053	375	\$ 0.94	\$ 1.16	\$ 0.22	\$18,097.37	0.071374	\$1,292
		6/1/2053	376	\$ 0.94	\$ 1.16	\$ 0.22	\$18,097.37	0.070872	\$1,283
		7/1/2053	377	\$ 0.94	\$ 1.16	\$ 0.22	\$18,097.37	0.070373	\$1,274
		8/1/2053	378	\$ 0.94	\$ 1.16	\$ 0.22	\$18,097.37	0.069878	\$1,265
		9/1/2053	379	\$ 0.94	\$ 1.16	\$ 0.22	\$18,097.37	0.069387	\$1,256
38	33	10/1/2053	380	\$ 0.94	\$ 1.16	\$ 0.22	\$18,097.37	0.068899	\$1,247
		11/1/2053	381	\$ 0.97	\$ 1.20	\$ 0.23	\$18,919.97	0.068414	\$1,294
		12/1/2053	382	\$ 0.97	\$ 1.20	\$ 0.23	\$18,919.97	0.067933	\$1,285
		1/1/2054	383	\$ 0.97	\$ 1.20	\$ 0.23	\$18,919.97	0.067455	\$1,276
		2/1/2054	384	\$ 0.97	\$ 1.20	\$ 0.23	\$18,919.97	0.066981	\$1,267
		3/1/2054	385	\$ 0.97	\$ 1.20	\$ 0.23	\$18,919.97	0.066509	\$1,258
		4/1/2054	386	\$ 0.97	\$ 1.20	\$ 0.23	\$18,919.97	0.066042	\$1,250
		5/1/2054	387	\$ 0.97	\$ 1.20	\$ 0.23	\$18,919.97	0.065577	\$1,241
		6/1/2054	388	\$ 0.97	\$ 1.20	\$ 0.23	\$18,919.97	0.065116	\$1,232
		7/1/2054	389	\$ 0.97	\$ 1.20	\$ 0.23	\$18,919.97	0.064658	\$1,223
8/1/2054	390	\$ 0.97	\$ 1.20	\$ 0.23	\$18,919.97	0.064203	\$1,215		
9/1/2054	391	\$ 0.97	\$ 1.20	\$ 0.23	\$18,919.97	0.063752	\$1,206		
10/1/2054	392	\$ 0.97	\$ 1.20	\$ 0.23	\$18,919.97	0.063303	\$1,198		
11/1/2054	393	\$ 1.00	\$ 1.24	\$ 0.24	\$19,742.58	0.062858	\$1,241		
12/1/2054	394	\$ 1.00	\$ 1.24	\$ 0.24	\$19,742.58	0.062416	\$1,232		

Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value
39		1/1/2055	395	\$ 1.00	\$ 1.24	\$ 0.24	\$19,742.58	0.061977	\$1,224
		2/1/2055	396	\$ 1.00	\$ 1.24	\$ 0.24	\$19,742.58	0.061541	\$1,215
	34	3/1/2055	397	\$ 1.00	\$ 1.24	\$ 0.24	\$19,742.58	0.061108	\$1,206
		4/1/2055	398	\$ 1.00	\$ 1.24	\$ 0.24	\$19,742.58	0.060678	\$1,198
		5/1/2055	399	\$ 1.00	\$ 1.24	\$ 0.24	\$19,742.58	0.060251	\$1,190
		6/1/2055	400	\$ 1.00	\$ 1.24	\$ 0.24	\$19,742.58	0.059828	\$1,181
		7/1/2055	401	\$ 1.00	\$ 1.24	\$ 0.24	\$19,742.58	0.059407	\$1,173
		8/1/2055	402	\$ 1.00	\$ 1.24	\$ 0.24	\$19,742.58	0.058989	\$1,165
		9/1/2055	403	\$ 1.00	\$ 1.24	\$ 0.24	\$19,742.58	0.058574	\$1,156
		10/1/2055	404	\$ 1.00	\$ 1.24	\$ 0.24	\$19,742.58	0.058162	\$1,148
40		11/1/2055	405	\$ 1.04	\$ 1.28	\$ 0.24	\$19,742.58	0.057753	\$1,140
		12/1/2055	406	\$ 1.04	\$ 1.28	\$ 0.24	\$19,742.58	0.057347	\$1,132
		1/1/2056	407	\$ 1.04	\$ 1.28	\$ 0.24	\$19,742.58	0.056943	\$1,124
		2/1/2056	408	\$ 1.04	\$ 1.28	\$ 0.24	\$19,742.58	0.056543	\$1,116
	35	3/1/2056	409	\$ 1.04	\$ 1.28	\$ 0.24	\$19,742.58	0.056145	\$1,108
Total									\$1,142,212

Present Value Table for South Terminal Leasehold-Amendment

Inputs	
CPI/ Rent Increase Annual	3.5%
Discount Rate	8.5%
Lease Area	108,020 SF

Leasehold Value	\$164,317
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Leasehold - Lease Amendment											
Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/ Difference	Monthly Amount	PV Factor	Present Value		
3	1	3/1/2022	1	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	1.000000	\$900		
		4/1/2022	2	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.992966	\$894		
		5/1/2022	3	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.985982	\$888		
		6/1/2022	4	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.979048	\$881		
		7/1/2022	5	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.972161	\$875		
		8/1/2022	6	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.965324	\$869		
		9/1/2022	7	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.958534	\$863		
		10/1/2022	8	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.951792	\$857		
		11/1/2022	9	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.945098	\$851		
		12/1/2022	10	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.938450	\$845		
		4	2	1/1/2023	11	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.931850	\$839
				2/1/2023	12	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.925296	\$833
3/1/2023	13			\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.918788	\$827		
4/1/2023	14			\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.912325	\$821		
5/1/2023	15			\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.905908	\$815		
6/1/2023	16			\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.899537	\$810		
7/1/2023	17			\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.893210	\$804		
8/1/2023	18			\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.886927	\$798		
9/1/2023	19			\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.880689	\$793		
10/1/2023	20			\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.874495	\$787		
11/1/2023	21			\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.868344	\$782		
12/1/2023	22			\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.862237	\$776		
5	3	1/1/2024	23	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.856172	\$771		
		2/1/2024	24	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.850150	\$765		
		3/1/2024	25	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.844171	\$760		
		4/1/2024	26	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.838233	\$755		
		5/1/2024	27	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.832337	\$749		
		6/1/2024	28	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.826483	\$744		
		7/1/2024	29	\$ 0.30	\$ 0.40	\$ 0.10	\$900.17	0.820670	\$739		
		8/1/2024	30	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.814898	\$880		
		9/1/2024	31	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.809166	\$874		
		10/1/2024	32	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.803475	\$868		
		11/1/2024	33	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.797824	\$862		

Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value	
6		12/1/2024	34	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.792212	\$856	
		1/1/2025	35	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.786640	\$850	
		2/1/2025	36	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.781107	\$844	
	4		3/1/2025	37	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.775613	\$838
			4/1/2025	38	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.770158	\$832
			5/1/2025	39	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.764741	\$826
			6/1/2025	40	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.759362	\$820
			7/1/2025	41	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.754021	\$814
			8/1/2025	42	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.748718	\$809
			9/1/2025	43	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.743452	\$803
			10/1/2025	44	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.738223	\$797
			11/1/2025	45	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.733030	\$792
7		12/1/2025	46	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.727875	\$786	
		1/1/2026	47	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.722755	\$781	
		2/1/2026	48	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.717672	\$775	
	5		3/1/2026	49	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.712624	\$770
			4/1/2026	50	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.707612	\$764
			5/1/2026	51	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.702635	\$759
			6/1/2026	52	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.697693	\$754
			7/1/2026	53	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.692785	\$748
			8/1/2026	54	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.687913	\$743
			9/1/2026	55	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.683074	\$738
			10/1/2026	56	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.678270	\$733
			11/1/2026	57	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.673499	\$728
8		12/1/2026	58	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.668762	\$722	
		1/1/2027	59	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.664058	\$717	
		2/1/2027	60	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.659388	\$712	
	6		3/1/2027	61	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.654750	\$707
			4/1/2027	62	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.650145	\$702
			5/1/2027	63	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.645572	\$697
			6/1/2027	64	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.641031	\$692
			7/1/2027	65	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.636523	\$688
			8/1/2027	66	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.632046	\$683
			9/1/2027	67	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.627600	\$678
			10/1/2027	68	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.623186	\$673
			11/1/2027	69	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.618803	\$668
9		12/1/2027	70	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.614450	\$664	
		1/1/2028	71	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.610129	\$659	
		2/1/2028	72	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.605837	\$654	
			3/1/2028	73	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.601576	\$650
			4/1/2028	74	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.597345	\$645
			5/1/2028	75	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.593143	\$641
			6/1/2028	76	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.588972	\$636
			7/1/2028	77	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.584829	\$632

Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value		
10	7	8/1/2028	78	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.580716	\$627		
		9/1/2028	79	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.576631	\$623		
		10/1/2028	80	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.572575	\$618		
		11/1/2028	81	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.568548	\$614		
		12/1/2028	82	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.564549	\$610		
		1/1/2029	83	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.560579	\$606		
	11	8	2/1/2029	84	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.556636	\$601	
			3/1/2029	85	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.552721	\$597	
			4/1/2029	86	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.548833	\$593	
			5/1/2029	87	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.544973	\$589	
			6/1/2029	88	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.541140	\$585	
			7/1/2029	89	\$ 0.35	\$ 0.47	\$ 0.12	\$1,080.20	0.537334	\$580	
12		9	8/1/2029	90	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.533554	\$683	
			9/1/2029	91	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.529802	\$678	
			10/1/2029	92	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.526075	\$674	
			11/1/2029	93	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.522375	\$669	
			12/1/2029	94	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.518701	\$664	
			1/1/2030	95	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.515053	\$660	
		12	9	2/1/2030	96	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.511430	\$655
				3/1/2030	97	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.507833	\$650
				4/1/2030	98	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.504261	\$646
				5/1/2030	99	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.500714	\$641
				6/1/2030	100	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.497192	\$637
				7/1/2030	101	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.493695	\$632
12	10		8/1/2030	102	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.490223	\$628	
			9/1/2030	103	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.486775	\$623	
			10/1/2030	104	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.483351	\$619	
			11/1/2030	105	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.479952	\$615	
			12/1/2030	106	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.476576	\$610	
			1/1/2031	107	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.473224	\$606	
	12	10	2/1/2031	108	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.469895	\$602	
			3/1/2031	109	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.466590	\$597	
			4/1/2031	110	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.463309	\$593	
			5/1/2031	111	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.460050	\$589	
			6/1/2031	112	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.456814	\$585	
			7/1/2031	113	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.453601	\$581	
12		10	8/1/2031	114	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.450411	\$577	
			9/1/2031	115	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.447243	\$573	
			10/1/2031	116	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.444097	\$569	
			11/1/2031	117	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.440974	\$565	
			12/1/2031	118	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.437872	\$561	
			1/1/2032	119	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.434792	\$557	
12	10	2/1/2032	120	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.431734	\$553		
		3/1/2032	121	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.428698	\$549		
		4/1/2032	122	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.425682	\$545		

Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value
13	11	5/1/2032	123	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.422688	\$541
		6/1/2032	124	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.419715	\$537
		7/1/2032	125	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.416763	\$534
		8/1/2032	126	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.413832	\$530
		9/1/2032	127	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.410921	\$526
		10/1/2032	128	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.408031	\$522
		11/1/2032	129	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.405161	\$519
		12/1/2032	130	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.402311	\$515
		1/1/2033	131	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.399482	\$512
		2/1/2033	132	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.396672	\$508
14	12	3/1/2033	133	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.393882	\$504
		4/1/2033	134	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.391112	\$501
		5/1/2033	135	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.388361	\$497
		6/1/2033	136	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.385629	\$494
		7/1/2033	137	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.382917	\$490
		8/1/2033	138	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.380224	\$487
		9/1/2033	139	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.377549	\$483
		10/1/2033	140	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.374894	\$480
		11/1/2033	141	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.372257	\$477
		12/1/2033	142	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.369639	\$473
15	13	1/1/2034	143	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.367039	\$470
		2/1/2034	144	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.364457	\$467
		3/1/2034	145	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.361894	\$463
		4/1/2034	146	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.359348	\$460
		5/1/2034	147	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.356821	\$457
		6/1/2034	148	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.354311	\$454
		7/1/2034	149	\$ 0.41	\$ 0.55	\$ 0.14	\$1,280.49	0.351819	\$450
		8/1/2034	150	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.349345	\$535
		9/1/2034	151	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.346888	\$531
		10/1/2034	152	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.344448	\$527
16	14	11/1/2034	153	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.342025	\$523
		12/1/2034	154	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.339619	\$520
		1/1/2035	155	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.337231	\$516
		2/1/2035	156	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.334859	\$512
		3/1/2035	157	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.332504	\$509
		4/1/2035	158	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.330165	\$505
		5/1/2035	159	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.327843	\$502
		6/1/2035	160	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.325537	\$498
		7/1/2035	161	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.323247	\$495
		8/1/2035	162	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.320974	\$491
		9/1/2035	163	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.318716	\$488
		10/1/2035	164	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.316474	\$484
		11/1/2035	165	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.314248	\$481
		12/1/2035	166	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.312038	\$478
		1/1/2036	167	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.309843	\$474

Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value
17	15	2/1/2036	168	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.307664	\$471
		3/1/2036	169	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.305500	\$468
		4/1/2036	170	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.303351	\$464
		5/1/2036	171	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.301218	\$461
		6/1/2036	172	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.299099	\$458
		7/1/2036	173	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.296995	\$454
		8/1/2036	174	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.294906	\$451
		9/1/2036	175	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.292832	\$448
		10/1/2036	176	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.290773	\$445
		11/1/2036	177	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.288727	\$442
		12/1/2036	178	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.286697	\$439
		18	16	1/1/2037	179	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28
2/1/2037	180			\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.282678	\$433
3/1/2037	181			\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.280690	\$430
4/1/2037	182			\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.278715	\$427
5/1/2037	183			\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.276755	\$424
6/1/2037	184			\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.274809	\$421
7/1/2037	185			\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.272876	\$418
8/1/2037	186			\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.270956	\$415
9/1/2037	187			\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.269051	\$412
10/1/2037	188			\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.267158	\$409
11/1/2037	189			\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.265279	\$406
12/1/2037	190			\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.263413	\$403
19	17	1/1/2038	191	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.261561	\$400
		2/1/2038	192	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.259721	\$397
		3/1/2038	193	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.257894	\$395
		4/1/2038	194	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.256080	\$392
		5/1/2038	195	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.254279	\$389
		6/1/2038	196	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.252491	\$386
		7/1/2038	197	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.250715	\$384
		8/1/2038	198	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.248951	\$381
		9/1/2038	199	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.247200	\$378
		10/1/2038	200	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.245462	\$376
		11/1/2038	201	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.243735	\$373
		12/1/2038	202	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.242021	\$370
20	18	1/1/2039	203	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.240319	\$368
		2/1/2039	204	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.238628	\$365
		3/1/2039	205	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.236950	\$363
		4/1/2039	206	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.235283	\$360
		5/1/2039	207	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.233628	\$358
		6/1/2039	208	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.231985	\$355
		7/1/2039	209	\$ 0.48	\$ 0.65	\$ 0.17	\$1,530.28	0.230354	\$353
		8/1/2039	210	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.228733	\$350
		9/1/2039	211	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.227125	\$348
		10/1/2039	212	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.225527	\$345

Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value	
21	19	11/1/2039	213	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.223941	\$343	
		12/1/2039	214	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.222366	\$340	
		1/1/2040	215	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.220802	\$338	
		2/1/2040	216	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.219249	\$336	
	3/1/2040	217	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.217707	\$333		
	4/1/2040	218	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.216175	\$331		
	5/1/2040	219	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.214655	\$328		
	6/1/2040	220	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.213145	\$326		
	7/1/2040	221	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.211646	\$324		
	8/1/2040	222	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.210157	\$322		
	9/1/2040	223	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.208679	\$319		
	10/1/2040	224	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.207212	\$317		
	11/1/2040	225	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.205754	\$315		
	12/1/2040	226	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.204307	\$313		
	22	20	1/1/2041	227	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.202870	\$310
			2/1/2041	228	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.201443	\$308
3/1/2041			229	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.200026	\$306	
4/1/2041			230	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.198619	\$304	
5/1/2041		231	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.197222	\$302		
6/1/2041		232	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.195835	\$300		
7/1/2041		233	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.194458	\$298		
8/1/2041		234	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.193090	\$295		
9/1/2041		235	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.191732	\$293		
10/1/2041		236	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.190383	\$291		
11/1/2041		237	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.189044	\$289		
12/1/2041		238	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.187715	\$287		
1/1/2042		239	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.186394	\$285		
2/1/2042		240	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.185083	\$283		
3/1/2042		241	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.183782	\$281		
23		21	4/1/2042	242	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.182489	\$279
	5/1/2042		243	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.181205	\$277	
	6/1/2042		244	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.179931	\$275	
	7/1/2042		245	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.178665	\$273	
	8/1/2042	246	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.177409	\$271		
	9/1/2042	247	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.176161	\$270		
	10/1/2042	248	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.174922	\$268		
	11/1/2042	249	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.173692	\$266		
	12/1/2042	250	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.172470	\$264		
	1/1/2043	251	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.171257	\$262		
	2/1/2043	252	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.170052	\$260		
	24	21	3/1/2043	253	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.168856	\$258
			4/1/2043	254	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.167669	\$257
			5/1/2043	255	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.166489	\$255
			6/1/2043	256	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.165318	\$253
			7/1/2043	257	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.164155	\$251

Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value		
25	22	8/1/2043	258	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.163001	\$249		
		9/1/2043	259	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.161854	\$248		
		10/1/2043	260	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.160716	\$246		
		11/1/2043	261	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.159586	\$244		
		12/1/2043	262	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.158463	\$242		
	26	23	1/1/2044	263	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.157349	\$241	
			2/1/2044	264	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.156242	\$239	
			3/1/2044	265	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.155143	\$237	
		27	25	4/1/2044	266	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.154052	\$236
				5/1/2044	267	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.152968	\$234
				6/1/2044	268	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.151892	\$232
				7/1/2044	269	\$ 0.50	\$ 0.67	\$ 0.17	\$1,530.28	0.150824	\$231
8/1/2044				270	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.149763	\$229	
9/1/2044				271	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.148710	\$228	
10/1/2044				272	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.147664	\$226	
11/1/2044				273	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.146625	\$224	
12/1/2044				274	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.145594	\$223	
1/1/2045	275			\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.144570	\$221		
2/1/2045	276			\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.143553	\$220		
28	26			3/1/2045	277	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.142543	\$218
		4/1/2045	278	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.141541	\$217		
		5/1/2045	279	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.140545	\$215		
		6/1/2045	280	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.139557	\$214		
		7/1/2045	281	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.138575	\$212		
		8/1/2045	282	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.137601	\$211		
		9/1/2045	283	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.136633	\$209		
		10/1/2045	284	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.135672	\$208		
		11/1/2045	285	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.134717	\$206		
		12/1/2045	286	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.133770	\$205		
		1/1/2046	287	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.132829	\$203		
		2/1/2046	288	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.131895	\$202		
29	27	3/1/2046	289	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.130967	\$200		
		4/1/2046	290	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.130046	\$199		
		5/1/2046	291	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.129131	\$198		
		6/1/2046	292	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.128223	\$196		
		7/1/2046	293	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.127321	\$195		
		8/1/2046	294	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.126426	\$193		
		9/1/2046	295	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.125536	\$192		
		10/1/2046	296	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.124653	\$191		
		11/1/2046	297	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.123777	\$189		
		12/1/2046	298	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.122906	\$188		
		1/1/2047	299	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.122042	\$187		
		2/1/2047	300	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.121183	\$185		
30	28	3/1/2047	301	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.120331	\$184		
		4/1/2047	302	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.119485	\$183		

Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value
28	26	5/1/2047	303	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.118644	\$182
		6/1/2047	304	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.117810	\$180
		7/1/2047	305	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.116981	\$179
		8/1/2047	306	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.116158	\$178
		9/1/2047	307	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.115341	\$177
		10/1/2047	308	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.114530	\$175
		11/1/2047	309	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.113725	\$174
		12/1/2047	310	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.112925	\$173
		1/1/2048	311	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.112130	\$172
		2/1/2048	312	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.111342	\$170
29	27	3/1/2048	313	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.110559	\$169
		4/1/2048	314	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.109781	\$168
		5/1/2048	315	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.109009	\$167
		6/1/2048	316	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.108242	\$166
		7/1/2048	317	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.107481	\$164
		8/1/2048	318	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.106725	\$163
		9/1/2048	319	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.105974	\$162
		10/1/2048	320	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.105229	\$161
		11/1/2048	321	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.104489	\$160
		12/1/2048	322	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.103754	\$159
30	28	1/1/2049	323	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.103024	\$158
		2/1/2049	324	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.102299	\$157
		3/1/2049	325	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.101580	\$155
		4/1/2049	326	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.100865	\$154
		5/1/2049	327	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.100156	\$153
		6/1/2049	328	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.099452	\$152
		7/1/2049	329	\$ 0.52	\$ 0.69	\$ 0.17	\$1,530.28	0.098752	\$151
		8/1/2049	330	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.098057	\$150
		9/1/2049	331	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.097368	\$149
		10/1/2049	332	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.096683	\$148
31	29	11/1/2049	333	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.096003	\$147
		12/1/2049	334	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.095328	\$146
		1/1/2050	335	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.094657	\$145
		2/1/2050	336	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.093991	\$144
		3/1/2050	337	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.093330	\$143
		4/1/2050	338	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.092674	\$142
		5/1/2050	339	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.092022	\$141
		6/1/2050	340	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.091375	\$140
		7/1/2050	341	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.090732	\$139
		8/1/2050	342	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.090094	\$138
		9/1/2050	343	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.089460	\$137
		10/1/2050	344	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.088831	\$136
		11/1/2050	345	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.088206	\$135
		12/1/2050	346	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.087586	\$134
		1/1/2051	347	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.086970	\$133

Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value
32	30	2/1/2051	348	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.086358	\$132
		3/1/2051	349	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.085751	\$131
		4/1/2051	350	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.085148	\$130
		5/1/2051	351	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.084549	\$129
		6/1/2051	352	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.083954	\$128
		7/1/2051	353	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.083364	\$128
		8/1/2051	354	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.082777	\$127
		9/1/2051	355	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.082195	\$126
		10/1/2051	356	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.081617	\$125
		11/1/2051	357	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.081043	\$124
		12/1/2051	358	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.080473	\$123
		33	31	1/1/2052	359	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28
2/1/2052	360			\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.079345	\$121
3/1/2052	361			\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.078787	\$121
4/1/2052	362			\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.078233	\$120
5/1/2052	363			\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.077682	\$119
6/1/2052	364			\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.077136	\$118
7/1/2052	365			\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.076593	\$117
8/1/2052	366			\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.076055	\$116
9/1/2052	367			\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.075520	\$116
10/1/2052	368			\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.074989	\$115
11/1/2052	369			\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.074461	\$114
12/1/2052	370			\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.073937	\$113
34	32	1/1/2053	371	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.073417	\$112
		2/1/2053	372	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.072901	\$112
		3/1/2053	373	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.072388	\$111
		4/1/2053	374	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.071879	\$110
		5/1/2053	375	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.071374	\$109
		6/1/2053	376	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.070872	\$108
		7/1/2053	377	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.070373	\$108
		8/1/2053	378	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.069878	\$107
		9/1/2053	379	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.069387	\$106
		10/1/2053	380	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.068899	\$105
		11/1/2053	381	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.068414	\$105
		12/1/2053	382	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.067933	\$104
35	33	1/1/2054	383	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.067455	\$103
		2/1/2054	384	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.066981	\$102
		3/1/2054	385	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.066509	\$102
		4/1/2054	386	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.066042	\$101
		5/1/2054	387	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.065577	\$100
		6/1/2054	388	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.065116	\$100
		7/1/2054	389	\$ 0.54	\$ 0.71	\$ 0.17	\$1,530.28	0.064658	\$99
		8/1/2054	390	\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28	0.064203	\$98
		9/1/2054	391	\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28	0.063752	\$98
		10/1/2054	392	\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28	0.063303	\$97

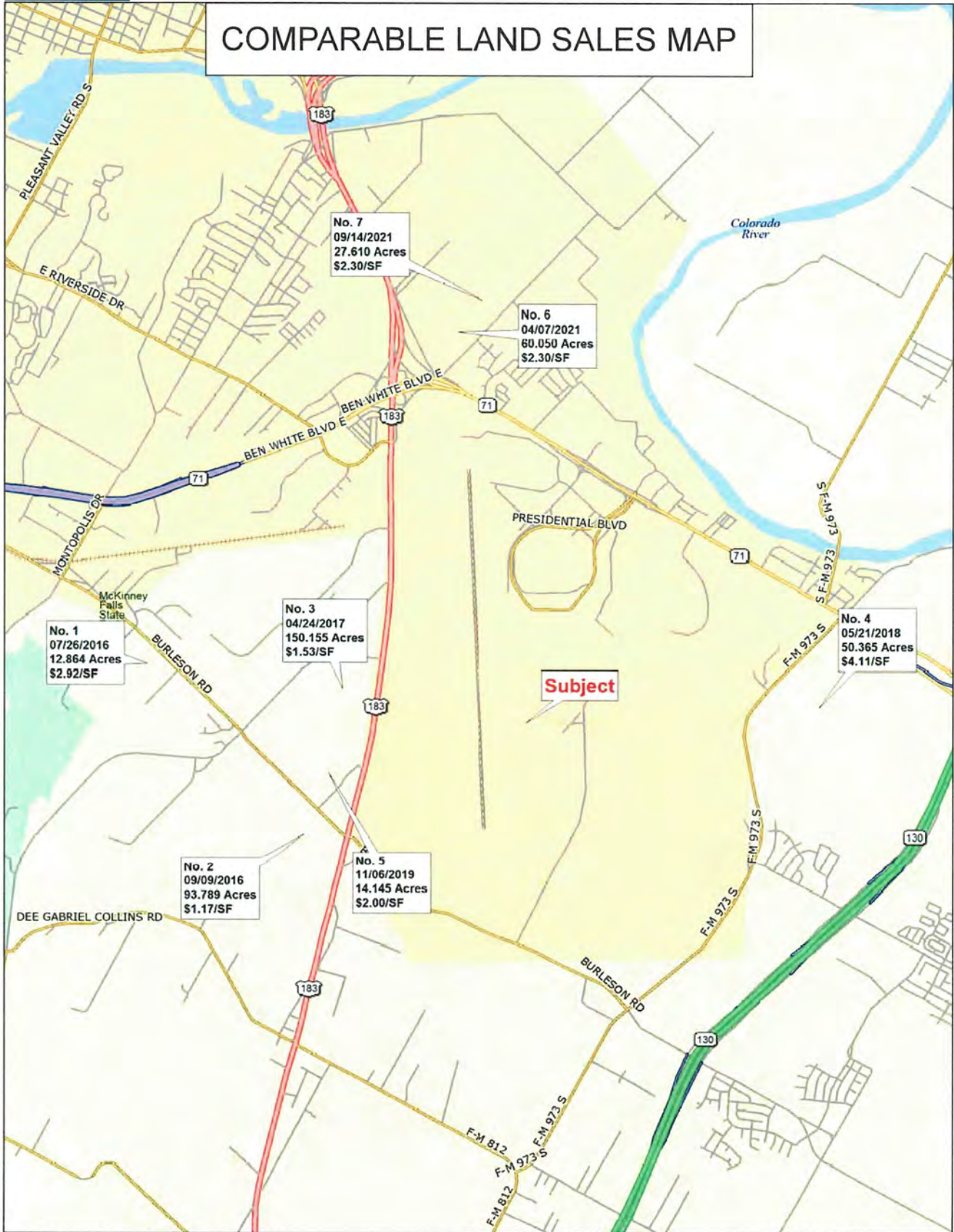
Lease Yr.	Val. Yr.	Date	Month	Contract Rent/SF	Market Rent/SF	Surplus/Difference	Monthly Amount	PV Factor	Present Value	
36		11/1/2054	393	\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28	0.062858	\$96	
		12/1/2054	394	\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28	0.062416	\$96	
		1/1/2055	395	\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28	0.061977	\$95	
		2/1/2055	396	\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28	0.061541	\$94	
	34		3/1/2055	397	\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28	0.061108	\$94
			4/1/2055	398	\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28	0.060678	\$93
			5/1/2055	399	\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28	0.060251	\$92
			6/1/2055	400	\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28	0.059828	\$92
			7/1/2055	401	\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28	0.059407	\$91
			8/1/2055	402	\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28	0.058989	\$90
			9/1/2055	403	\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28	0.058574	\$90
			10/1/2055	404	\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28	0.058162	\$89
			11/1/2055	405	\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28	0.057753	\$88
			37		12/1/2055	406	\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28
1/1/2056	407	\$ 0.56			\$ 0.73	\$ 0.17	\$1,530.28	0.056943	\$87	
2/1/2056	408	\$ 0.56			\$ 0.73	\$ 0.17	\$1,530.28	0.056543	\$87	
35	3/1/2056	409			\$ 0.56	\$ 0.73	\$ 0.17	\$1,530.28	0.056145	\$86
Total									\$164,317	

Allen, Williford & Seale, Inc.

COMPARABLE LAND SALES AND MAP



COMPARABLE LAND SALES MAP



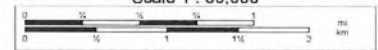
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Scale 1 : 50,000



1" = 4,166.7 ft Data Zoom 12-0

AUS ST 000485

Land Sale - 07/26/2016-Sale No. 1

County TRAVIS State TX AWS No. 00048978



Sale Date	07/26/2016	Size (Acres)	12.864	Price/Ac	\$127,195
Price	\$1,636,239	Size (SF)	560,356	Price/SF	\$2.92

Location	Southwest line of Burleson Road, southeast of Smith School Road	
Grantor	BUR13, Ltd.	
Grantee	Liquid Environmental Solutions of Texas, LLC	
Recording Data	Document No. 2016121285	
Legal Description	Being 12.864 acres of land known as Lots 1, 2, and 3, 7005 Burleson Industrial Subdivision, City of Austin, Travis County, Texas	
Financing	Cash to seller	
Frontage	±534 FF: Burleson Road	
Flood Plain	No - Zone X	Zoning LI-CO (Limited Industrial Services - Conditional Overlay)
Water	Public	Sewer Public
Use at Date of Sale	Vacant land	
Easements	Typical utility easement	
Confirmation	City of Austin Files	
Comments	The property consists of a heavily wooded vacant tract of land. The property is located in the City of Austin and is zoned LI-CO (Limited Industrial Services - Conditional Overlay). The property is located in Del Valle ISD.	

Land Sale - 09/09/2016- Sale No. 2

County TRAVIS State TX AWS No. 00048976



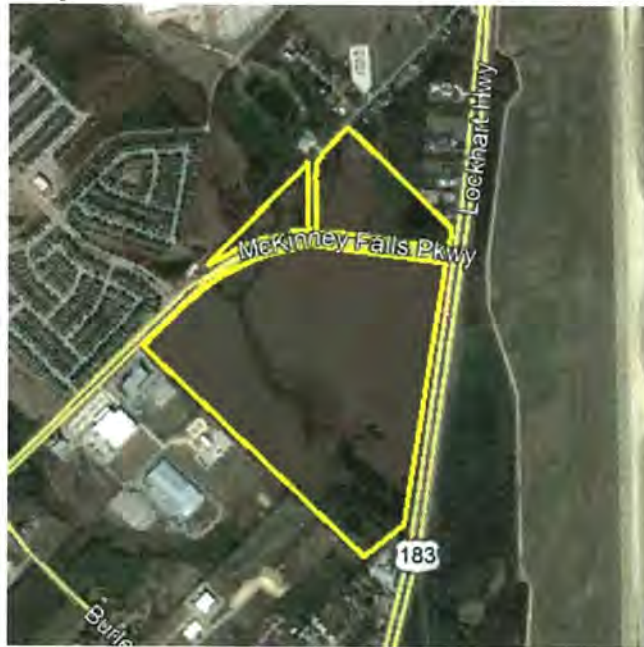
Sale Date	09/09/2016	Size (Acres)	93.789	Price/Ac	\$51,179
Price	\$4,800,000	Size (SF)	4,085,449	Price/SF	\$1.17

Location	Southwest corner of U.S. Highway 183 and Burleson Road
Grantor	Sundberg Farm Limited Partnership, et al
Grantee	Park 183 Land, LLC
Recording Data	Document No. 2016152172
Legal Description	Being 93.789 acres of land and being a portion of Lot 1, Block A, Sundberg Estates, City of Austin, Travis County, Texas
Financing	Cash to seller
Frontage	±1,275 FF: U.S. Highway 183, ±2,235 FF: Burleson Road
Flood Plain	Yes - ±5% Zone A;±10% Shaded Zone X
Water	Public
Use at Date of Sale	Agricultural/Recreational
Easements	Two pipelines, Drainage easement (0.824 Ac & 50.391 Ac) and typical utility easements
Confirmation	City of Austin Files
Comments	The tract consists of pasture with scattered trees. The property is located in the City of Austin and is zoned LI-CO (Limited Industrial Services-Conditional Overlay) and I-RR (Interim - Rural Residence). The eastern portion of the tract is located in ABIA Airport Overlay Zone AO-3 due to the proximity to the airport. A portion of the property lies within Zone A of the 100-year flood plain and Shaded Zone X of the 500-year flood plain. The property was improved with some old barns/sheds that had no value. The drainage easement over a portion of the tract was reduced by vacation after the sale in 2017. The property is located in Del Valle ISD.

AUS ST 000487

Land Sale - 04/24/2017-Sale No. 3

County TRAVIS State TX AWS No. 00034993



Sale Date	04/24/2017	Size (Acres)	150.155	Price/Ac	\$66,598
Price	\$10,000,000	Size (SF)	6,540,752	Price/SF	\$1.53

Location	Southwest Corner of U.S. Highway 183 and McKinney Falls Parkway		
Grantor	Bradsher Family Trust		
Grantee	CCI-McKinney Falls I LP		
Recording Data	Document No. 2017066156		
Legal Description	150.155 acres of land, more or less, situated in the Santiago Del Valle Grant, Abstract No. 24, Travis County, Texas		
Financing	Cash to Seller		
Frontage	±3,100 FF: McKinney Falls Parkway; ±2,323 FF: Lockhart Highway (183) 450 FF McCall Lane		
Flood Plain	Yes - 40% Zone A	Zoning	Commercial, Light Industrial -Airport Overlay AO-3
Water	Yes-City-See Comments	Sewer	Yes-City-See Comments
Use at Date of Sale	Vacant land		
Easements	2 pipelines and the City of Austin electric transmission line traverses the 19-acre and 124-acre tracts in a general north to south direction.		
Confirmation	Jack Bradsher, CBRE, City of Austin		
Comments	The property is generally flat and is cleared of trees and made up of three		

separate tracts totaling 150.155 acres (Tract 1-19.66 ac. 2-5.639 ac, 3-124.856 ac). The property is zoned as commercial and is Airport Overlay Zone AO-3 due to its proximity to the airport across Highway 183. A Citgo Products Pipeline Company pipeline carrying gasoline traverses the property and an ExxonMobil Pipeline Company pipeline carrying gasoline parallels the Citgo pipeline. Approximately 40% of the property is located in Zone A, an area inside the 100-year flood plain. Due to the flood plain (approximately 61 acres), and electric transmission line (approximately 4.54 acres) only about 84 acres are buildable according to the current listing. The city at the time of the sale had no utilities; however, utilities have been installed.

Land Sale - 05/21/2018-Sale No. 4

County TRAVIS State TX AWS No. 00048981



Sale Date	05/21/2018	Size (Acres)	50.365	Price/Ac	\$179,030
Price	\$9,016,867	Size (SF)	2,193,899	Price/SF	\$4.11

Location	Southeast line of FM 973, southwest of State Highway 71	
Grantor	SH 71-130 Holdings, LP	
Grantee	TMINE, Inc.	
Recording Data	Document No. 2018078302	
Legal Description	Being 50.365 acres of land known as Lot 1 of Velocity Technology Center, City of Austin, Travis County, Texas	
Financing	Cash to seller	
Frontage	±983 FF: FM 973	
Flood Plain	No - Zone X	Zoning LI-PDA
Water	Public	Sewer Public
Use at Date of Sale	Cropland	
Easements	City of Austin Drainage Easements (2.081 Ac & 7.514 Ac)	
Confirmation	City of Austin Records	
Comments	The property consists of cropland at the time of sale. The property is located in the City of Austin and is zoned LI-PDA (Limited Industrial Services - Planned Development Area). The property is located in Del Valle ISD.	

Land Sale - 11/06/2019-Sale No. 5

County TRAVIS State TX AWS No. 00048980

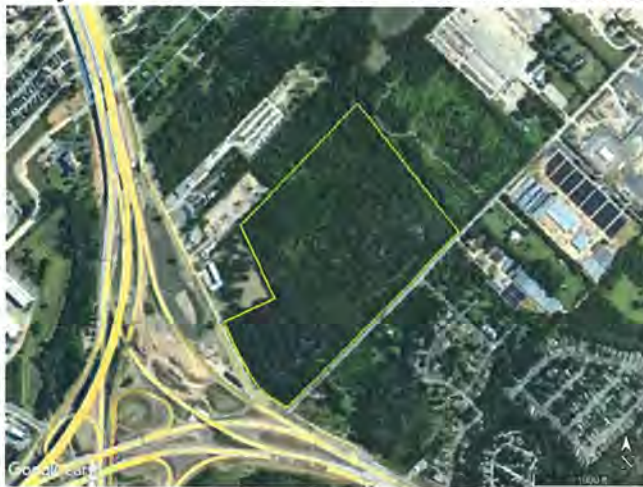


Sale Date	11/06/2019	Size (Acres)	14.145	Price/Ac	\$87,169
Price	\$1,233,000	Size (SF)	616,156	Price/SF	\$2.00

Location	Northeast line of Burleson Road, northwest of Norwood Lane	
Grantor	Jimmie L. McComb and spouse, Shirlene A. McComb	
Grantee	Hey Burl, LLC	
Recording Data	Document No. 2019175433	
Legal Description	Being 14.145 acres of land situated in the Santiago Del Valle Grant, Abstract No. 24, City of Austin, Travis County, Texas	
Financing	Cash to seller	
Frontage	±205 FF: Burleson Road	
Flood Plain	Yes - ±10% Zone A; minimal Shaded Zone X	Zoning CS-CO-NP
Water	Public	Sewer Public
Use at Date of Sale	Commercial	
Easements	Typical utility easements	
Confirmation	City of Austin Files	
Comments	The property consists of open pastureland with scattered trees. The property is located in the City of Austin and is zoned CS-CO-NP (Commercial Services-Conditional Overlay-Neighborhood Plan). A portion of the property lies within Zone A of the 100-year flood plain and Shaded Zone X of the 500-year flood plain. At the time of sale, the property was improved with an office building (2,232 SF, built 1980) and some outbuildings. According to the confirmation source, the improvements had a contributory value of \$167,000. This transaction had an initial sales price of \$1,400,000. We have deducted the contributory value of the improvements utilized a land only sales price of \$1,233,000. The property is located in Del Valle ISD.	

Land Sale - 04/07/2021-Sale No. 6

County TRAVIS State TX AWS No. 00048974



Sale Date	04/07/2021	Size (Acres)	60.050	Price/Ac	\$100,000
Price	\$6,005,000	Size (SF)	2,615,778	Price/SF	\$2.30

Location	North corner of Old Bastrop Highway and Dalton Lane	
Grantor	Cumberland & Western Resources, LLC	
Grantee	SRPF C/Dalton Lane, L.P.	
Recording Data	Document No. 2021076478	
Legal Description	Being 60.05 acres of land situated in the Santiago Del Valle Grant, City of Austin, Travis County, Texas	
Financing	Cash to seller	
Frontage	±935 FF: Old Bastrop Highway; ±2,085 FF: Dalton Lane	
Flood Plain	Yes - ±25% Zone A; ±5% Shaded Zone X	Zoning CH-CO - Airport Overlay AO-2 & AO-3
Water	Public	Sewer Public
Use at Date of Sale	Vacant land	
Easements	Typical utility easement and Aviation Easement.	
Confirmation	Jamison Stewart	
Comments	The property consists of a densely wooded vacant tract of land. The property is located in the city limits of Austin and is zoned CH-CO (Commercial Highway - Conditional Overlay). The tract has Airport Overlay AO-2 and AO-3 due to the proximity to the ABIA runway. Carson Creek traverses the northern portion of the property. Areas along Carson Creek lie within Zone A of the flood plain and Shaded Zone X of the 500 year flood plain. The property is located in Del Valle ISD.	

Land Sale - 09/14/2021-Sale No. 7

County TRAVIS State TX AWS No. 00048975



Sale Date	09/14/2021	Size (Acres)	27.610	Price/Ac	\$100,000
Price	\$2,761,000	Size (SF)	1,202,692	Price/SF	\$2.30

Location	Northwest line of Dalton lane, northeast of Old Bastrop Highway		
Grantor	Cumberland & Western Resources, LLC		
Grantee	Ranger Excavating, L.P.		
Recording Data	Document No. 2021205143		
Legal Description	Being 27.610 acres of land situated in the Santiago Del Valle Grant, City of Austin, Travis County, Texas		
Financing	Cash to seller		
Frontage	±1,025 FF: Dalton Lane		
Flood Plain	Yes - ±65% Zone A; ±5% Shaded Zone X	Zoning	LI-CO & RR- ABIA Airport Overlay A-3
Water	Public	Sewer	Public
Use at Date of Sale	Vacant land		
Easements	Typical utility easement		
Confirmation	Jamison Stewart		
Comments	The property consists of a vacant tract of land with scattered trees/brush. The property is located in the City of Austin and is zoned LI-CO (Limited Industrial Services - Conditional Overlay) and RR (Rural Residence). The tract is also in the ABIA Overlay A-3 due to its proximity to the airport. The majority of the property lies within Zone A of the flood plain and Shaded Zone X of the 500 year flood plain. The property is located in Del Valle ISD.		

Allen, Williford & Seale, Inc.

COMPARABLE RENTALS AND MAP

COMPARABLE DATA – AUS Fuel Co., LLC-RENTAL 1

State: Texas County: Travis City Limits/ETJ: City of Austin



Grantor/Lessor: City of Austin Grantee/Lessee: AUS Fuel Company, LLC.
 Beginning Date: October 1, 2019 Expiration Date: September 30, 2034 Address: 3324 Spirit of Texas Dr.
 Recording Information: None-Lease Zip Code: 78719

Legal

Description: AUS-North Site

Verified with: Lease Document

The Lease executed on October 10, 2019 and expires on September 30, 2034 with a term of 15 years with one five year renewal option. The leased area consists of 300,677 SF and the contract rent is \$0.37 per SF called ground rent with an increase every year based on CPI years after July 1, 2024. The confirmation source has indicated the current contract rent in December 2021 was \$0.37 per SF.

Rental Data: The lease also calls for "Finance Rent" which is equal to the City's debt service on the fuel facility.

Type Street: Spirit of Texas Dr. two lane asphalt paved roadway with and gutter drainage Utilities: All Available –City of Austin

Land Size: 6.903 Acres (300,677 SF)

Fuel Facility Consists of 2 storage tanks, five loading positions, 2 off-load rack, a waste fuel tank, a 25,000 gallon oil water separator, an operations building along with a pumping lift station and 50 Kw generator. The fueling tanks consist of 2 above ground tanks having a volume of 480,000 and 691,000 gallons. There is also a plane refueling position for 15 vehicles. The site has parking lot with driveways and supporting site improvements. The fuel facility was built in 1998.

Improvement(s) Description: _____

Improvement(s) Size: See Above (GBA) Not Applicable (NRA)

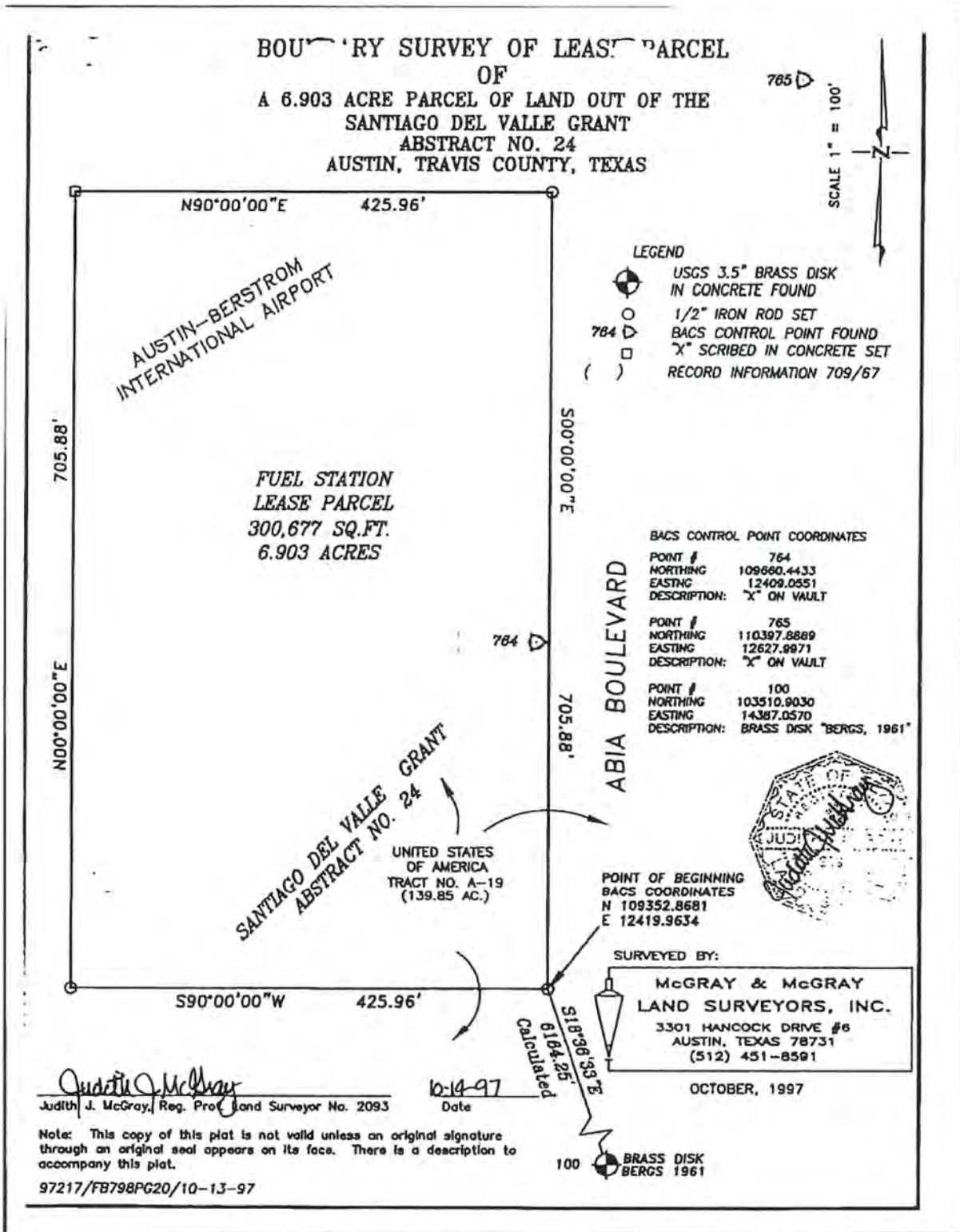
Condition and Functional Design: Good condition; Functional in design

Current Use: Aviation Service Highest & Best Use: Aviation Service

Date of Inspection: January 28, 2022 Zoning: AV-Airport Flood Plain: No – Zone X

Attach Additional Information: The leased property consists of a site used for the current ABIA Fuel Service. The parties anticipate that the fuel site may move in the future. The lease can be assigned by agreement with the City.

EXECUTION COPY



Amended and Restated Lease Agreement for the Fuel Facility 74

Austin-Bergstrom International Airport

50747395.1

COMPARABLE DATA – Austin FBO, LLC-RENTAL 2

State: Texas County: Travis City Limits/ETJ: City of Austin



Grantor/Lessor: City of Austin Grantee/Lessee: Austin FBO, LLC.
 Beginning Date: June 1, 2015 Expiration Date: October 31, 2046 Address: 4801 Emma Browning Ave.
 Recording Information: None-Lease Zip Code: 78719

Legal Description: AUS Site

Verified with: Lease Document

The Lease is a second amendment to an earlier lease. This amendment was executed in December 21, 2015 and expires no later than October 31, 2046 with a term of 30 years with no renewal options. The leased area consists of 875,517 SF and the contract rent is \$0.24 per SF called ground rent with an increase every year based on CPI. The confirmation source has indicated the current contract rent in December 2021 was \$0.25 per SF.

Rental Data: The lease had a ground rent prior to completion of the FBO improvements at \$0.08 per SF.

Type Street: Emma Browning Ave. is a two lane asphalt paved roadway with open ditch drainage Utilities: All Available –City of Austin

Land Size: 20.1 Acres (875,517 SF)

Improvement(s) Description: Property was vacant at time of lease. Lease called for building FBO facility.

Improvement(s) Size: None (GBA) Not Applicable (NRA)

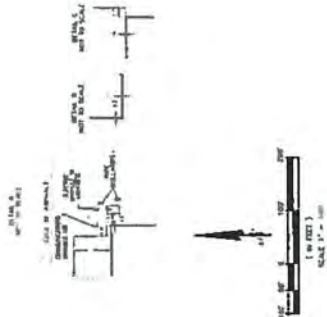
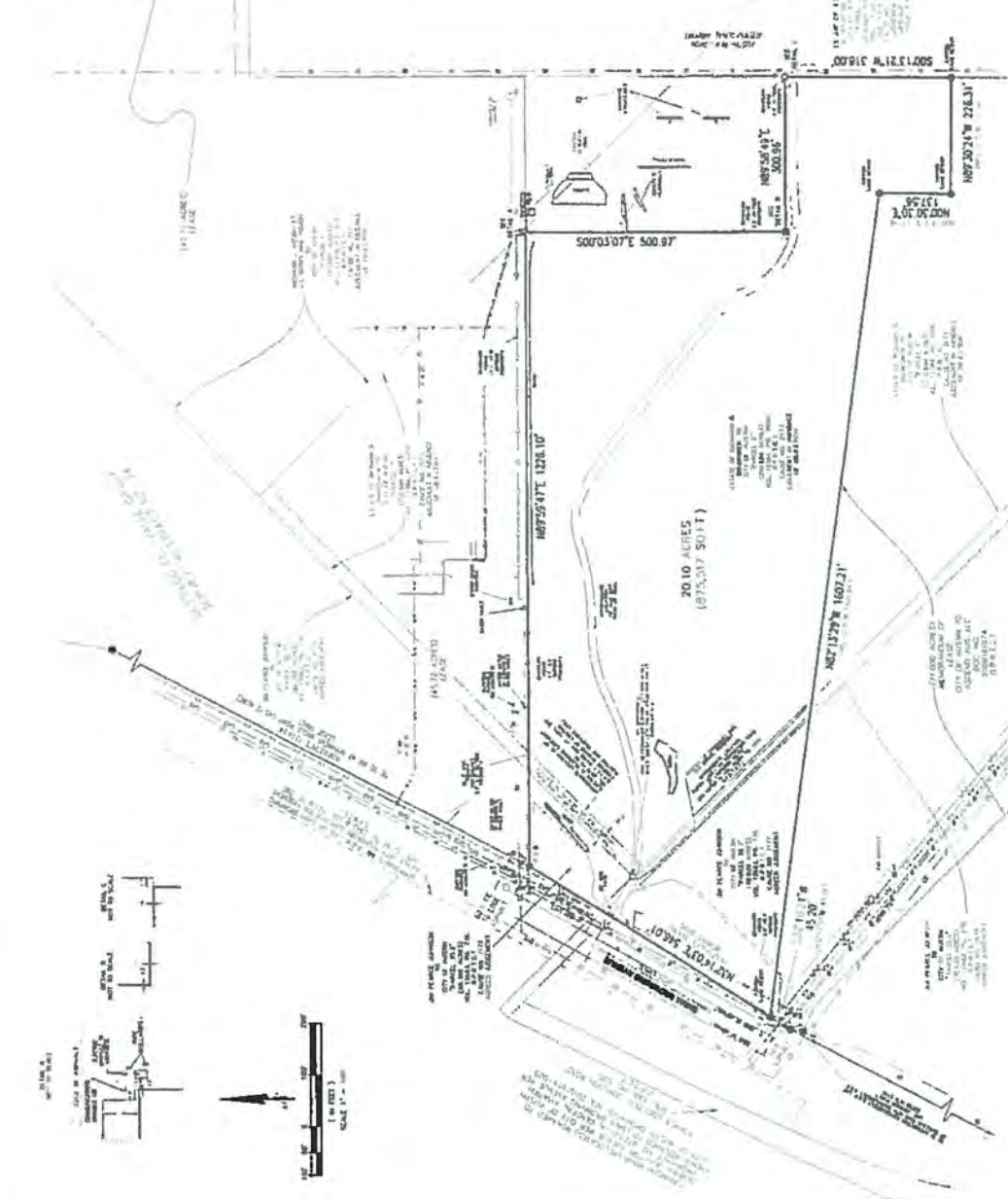
Condition and Functional Design: Not Applicable

Current Use: Aviation Service Highest & Best Use: Aviation Service

Date of Inspection: January 28, 2022 Zoning: AV-Airport Flood Plain: No – Zone X

Attach Additional Information: The leased property consists of a site used for the current FBO. The parties have executed amendments to expand the operation in the future. The lease can be assigned by agreement with the City.

AUS/ST 004274



ALTA/ACSM LAND TITLE SURVEY

Reference: Atlas 150, 115, & 120, Town of Aurora, Illinois.
 Address: 1500 North Riverside Avenue, Aurora, Illinois.
 This is a full and complete survey of the land described in the foregoing plat and is a true and correct copy of the original survey as shown to the undersigned by the owner thereof. The survey was made by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof. The survey was made by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof.



VICINITY MAP

NO.	DESCRIPTION	DATE
1	Original Survey	15/08/2022
2	Correction	15/08/2022
3	Correction	15/08/2022
4	Correction	15/08/2022
5	Correction	15/08/2022
6	Correction	15/08/2022
7	Correction	15/08/2022
8	Correction	15/08/2022
9	Correction	15/08/2022
10	Correction	15/08/2022

1. All measurements were taken by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof. The survey was made by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof.

2. The survey was made by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof.

3. The survey was made by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof.

4. The survey was made by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof.

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10. The survey was made by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof.

11. All measurements were taken by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof. The survey was made by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof.

12. The survey was made by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof.

13. The survey was made by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof.

14. The survey was made by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof.

15. The survey was made by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof.

16. The survey was made by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof.

17. The survey was made by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof.

18. The survey was made by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof.

19. The survey was made by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof.

20. The survey was made by the undersigned on the 15th day of August, 2022, and the same is hereby certified to be a true and correct copy of the original survey as shown to the undersigned by the owner thereof.



COMPARABLE DATA – LoneStar -RENTAL 3

State: Texas County: Travis City Limits/ETJ: City of Austin



Grantor/Lessor: City of Austin Grantee/Lessee: LoneStar Airport Holdings, LLC.
 Beginning Date: March 24, 2016 Expiration Date: March 23, 2046 Address: 10000 Logistics Lane
 Recording Information: None-Lease Zip Code: 78719

Legal Description: AUS Site

Verified with: Lease Document

This lease was executed in March 2016 and expires on March 23, 2046 with an initial term of 30 years with two 5-year renewal options. The leased area consists of 987,129 SF and the contract rent is \$0.30 per SF with an increase every year based on CPI. The lease also has a variable rent based on achieving over 400,000 enplaned passengers. The confirmation source has indicated the current contract rent in December 2021 was \$0.33 per SF.

Rental Data: The lease ground rent prior to completion of the terminal improvements at \$0.08 per square foot.

Type Street: Logistics Lane is a two lane asphalt paved roadway with curbs and gutters. Utilities: All Available –City of Austin

Land Size: 22.66 Acres (987,129 SF)

Improvement(s) Description: Property had a shell building at time of lease. Lease called for building South Terminal facility. The site had various parking areas.

Improvement(s) Size: 27,872 SF (GBA) Not Applicable (NRA)

Condition and Functional Design: Shell building to be renovated for South Terminal.

Current Use: Aviation Service Highest & Best Use: Aviation Service

Date of Inspection: January 28, 2022 Zoning: AV-Airport Flood Plain: No – Zone X

Attach Additional Information: The leased property consists of a site used for the current South Terminal. This lease is referred to in the report as the Initial Lease. The lease can be assigned by agreement with the City.

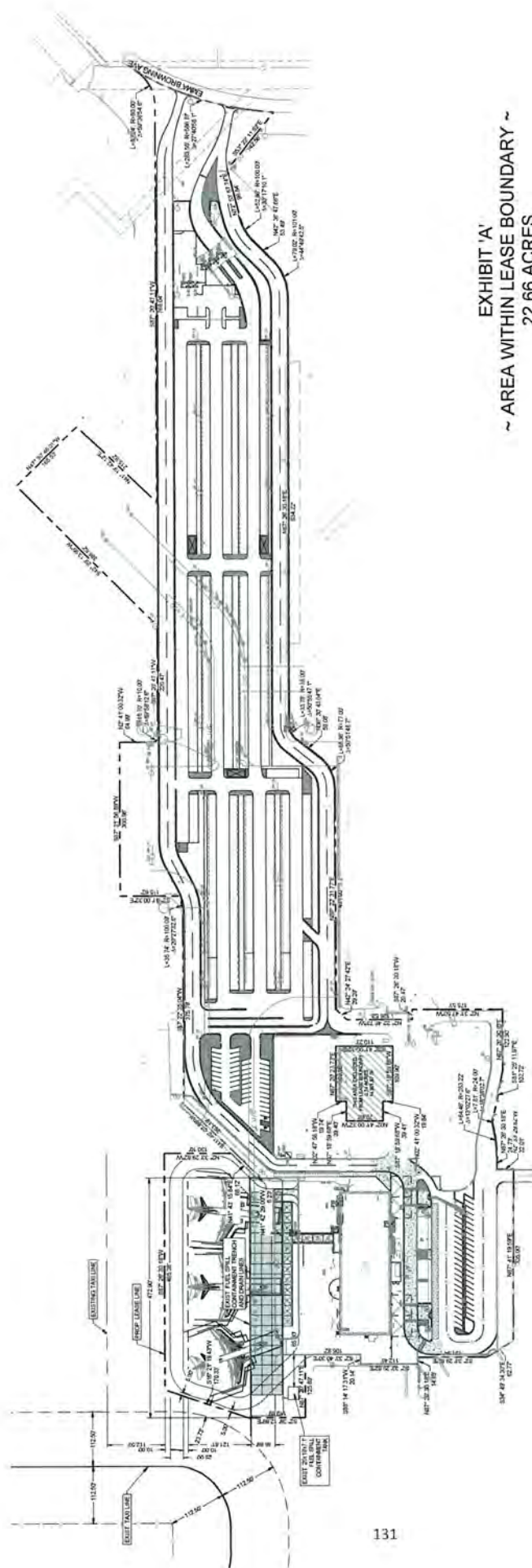
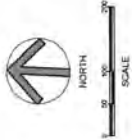


EXHIBIT 'A'
~ AREA WITHIN LEASE BOUNDARY ~
22.66 ACRES
987,129.31 S.F.

03 / 23 / 2016
AUS SOUTH TERMINAL RENOVATION
OVERALL LEASE BOUNDARY EXHIBIT



COMPARABLE DATA – LoneStar -RENTAL 4

State: Texas County: Travis City Limits/ETJ: City of Austin



Grantor/Lessor: City of Austin Grantee/Lessee: LoneStar Airport Holdings, LLC.
 Beginning Date: July 1, 2019 Expiration Date: March 23, 2046 Address: 10000 Logistics Lane
 Recording Information: None-Lease Zip Code: 78719

Legal

Description: AUS Site

Verified with: Lease Document

This amendment was executed in June 17, 2019 and expires on March 23, 2046 with a term coterminous with the original lease. The leased area consists of two tracts containing 108,020 SF and the contract rent is \$0.30 per SF with an increase every 5 years year based on CPI. The confirmation source has indicated the current contract rent in December 2021 was \$0.30 per SF.

Rental Data: The two separate tracts are 42,830 SF and 65,190 SF in size.

Type Street: Outlaw Country and Fighter Drive is a two lane asphalt paved roadway with curbs and gutters. Utilities: All Available –City of Austin

Land Size: 2.48 Acres (108,020 SF)

Improvement(s) Description: The improvements consist of two parking areas one used as an economy lot and the other for employees.

Improvement(s) Size: None (GBA) Not Applicable (NRA)

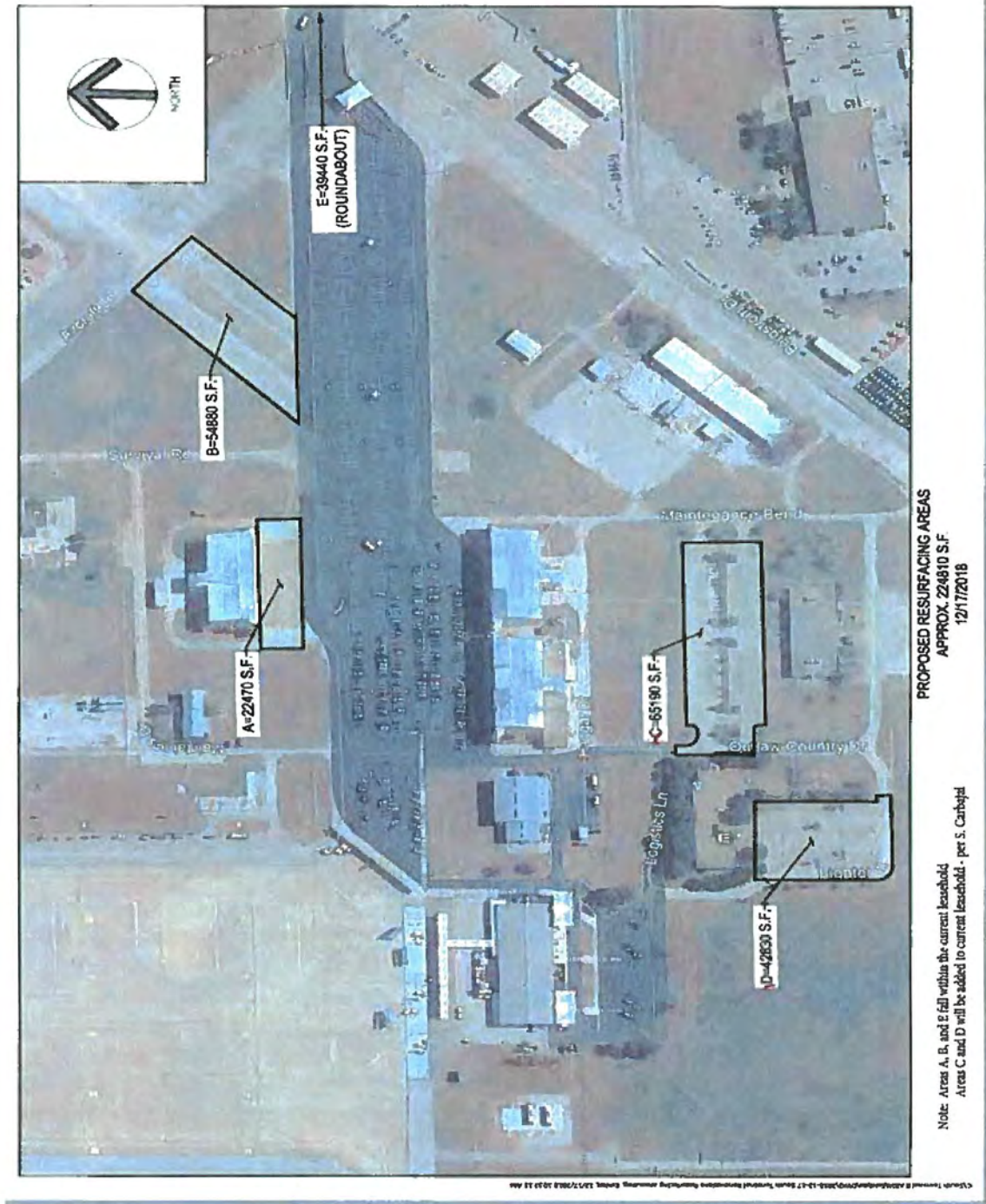
Condition and Functional Design: Parking lots.

Current Use: Aviation Service Highest & Best Use: Aviation Service

Date of Inspection: January 28, 2022 Zoning: AV-Airport Flood Plain: No – Zone X

Attach Additional Information: The leased property consists of two paved parking lots containing 235 spaces. This amendment runs with Initial Lease and is referred to as the Amendment in the report.

EXHIBIT A 1.2



Allen, Williford & Seale, Inc.

QUALIFICATIONS

QUALIFICATIONS OF RANDY L. SEALE, MAI

Randy L. Seale is a principal associated with Allen, Williford & Seale, Inc. AWS is a real estate appraisal firm with a national right of way valuation and litigation support practice. AWS maintains corporate offices in Houston, Texas and project offices throughout the country. Mr. Seale's responsibilities include appraisal of all types of right of way and commercial properties and he has testified as an expert witness regarding real property value on numerous occasions in local, state, and federal courts of law. Mr. Seale has also edited articles and co-authored an article for the International Right of Way Association's Right of Way Magazine.

BIOGRAPHICAL DATA

Mr. Seale was born in Pittsburg, Texas, in 1962. He attended public schools in Pittsburg, Texas, prior to attending Texas A & M University. Mr. Seale is married and has three children.

EDUCATION

Bachelor of Science Degree (Agricultural Economics):
Texas A & M University (1984)
Appraisal Institute: Various Course Work
International Right of Way Association: Various Course Work

PROFESSIONAL AFFILIATIONS

Appraisal Institute (MAI No. 8445)
International Right of Way Association (Member)
State Certified General Real Estate Appraiser:
Texas Certificate No. TX-1320302-G
California Appraiser I.D. No. AG017798
Louisiana Certificate No. G0972
Pennsylvania Certificate No. GA001396L
Washington Certificate No. 1100314
New Jersey Certificate No. 42RG00259400
Utah Certificate No. 5460038-CG00
Florida License No. RZ4242

ACTIVITIES

International Right of Way Association
International Valuation Committee (Past Chairman)
Past President and Director - Chapter 8
Right of Way Professional of the Year- Chapter 8
Appraisal Institute Chapter 33
Houston Livestock Show & Rodeo (Committeeman)

QUALIFICATIONS OF STEPHEN D. KOVAR, JR., MAI

Stephen Kovar is a real estate appraiser with Allen, Williford & Seale Inc. AWS is a real estate appraisal firm with corporate offices in Houston, Texas. Field offices are maintained throughout the nation. Mr. Kovar's responsibilities include appraisal and appraisal review of all types of right of way and commercial properties.

BIOGRAPHICAL DATA

Mr. Kovar was born in Wharton, Texas. He grew up in Houston and attended public schools in Cypress Fairbanks ISD prior to attending Texas A & M University in College Station, Texas where he earned a Bachelor of Science Degree in Agribusiness. Mr. Kovar is married and has two children.

EDUCATION

Bachelor of Science (Agribusiness)
Texas A&M University

Appraisal Institute:

- Appraisal Principles
- Appraisal Procedures
- Uniform Standards of Professional Practice
- Basic Income Capitalization
- General Report Writing
- Advanced Income Capitalization
- Advanced Sales Comparison and Cost Approaches
- Advanced Concepts and Case Studies
- Advanced Market Analysis and Highest and Best Use
- Real Estate Finance, Statistics, and Valuating Modeling
- Eminent Domain and Condemnation

PROFESSIONAL AFFILIATIONS

Appraisal Institute – MAI
State Certified General Real Estate Appraiser:
Texas Certificate No. TX-1338762-G
Mississippi Certificate No. GA-982
Idaho Certificate No. CGA-5383
Oregon Certificate No. C001441

International Right of Way Association (Member)

ACTIVITIES

Young Professionals group of the International Right of Way Association

EXHIBIT K



April 18, 2022

VIA OVERNIGHT COURIER AND EMAIL

Jacqueline Yaft
Executive Director
Department of Aviation
Austin-Bergstrom International Airport
3600 Presidential Boulevard, Suite 411
Austin, Texas 78719

Re: South Terminal Lease and Concession Agreement by and between the City of Austin (the "City") and Highstar Capital IV, L.P. dated as of March 24, 2016, as amended by the Assignment and Assumption Agreement between Highstar Capital IV LP and Lonestar Airport Holdings, LLC ("Lonestar") and consented to by the City of Austin dated as of March 24, 2016 (the "Lease and Concession Agreement")

Dear Ms. Yaft:

This letter constitutes notice of a dispute between Lonestar and the City and a written request for a meeting between representatives of the parties pursuant to Section 40.1 of the Lease and Concession Agreement.

As you know, Lonestar received notice that the City was contemplating an Expansion or New Facility in November 2019. Lonestar responded by indicating its interest in investing in such Expansion or New Facility. Since then, Lonestar has repeatedly indicated its interest in exercising its exclusive first right to develop, construct, and operate such Expansion or New Facility. The City has not, however, worked with Lonestar in good faith to enter into an agreement regarding the Expansion or New Facility on mutually agreeable terms. To the contrary, it is our understanding that the City is taking affirmative steps to bypass Lonestar's rights under multiple provisions of the Lease and Concession Agreement.

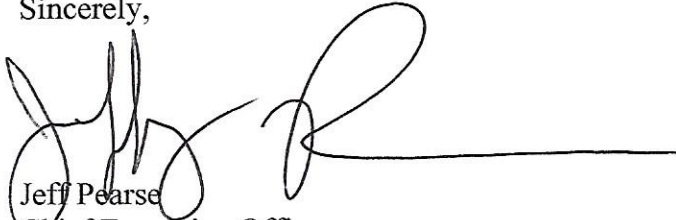
It thus is clear that there is a dispute "between the Parties to the Lease," as described in Article 40.01 of the Lease and Concession Agreement. Lonestar respectfully requests a meeting between representatives of Lonestar and the City to attempt in good faith to negotiate a resolution of the dispute within 10 days of your receipt of this letter. We request that you or your counsel contact our outside counsel, Larry Slovensky, to schedule this meeting. We are available in person or

Jacqueline Yaft
April 15, 2022
Page - 2 -

virtually. Finally, we call your attention to the requirements of Article 40.01 that each Party shall send one "senior level individual with decision-making authority regarding the dispute."

We appreciate your prompt attention to these issues. Lonestar continues to reserve all of its rights at law and under the Lease and Concession Agreement in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Pearse", with a long horizontal line extending to the right.

Jeff Pearse
Chief Executive Officer
Lonestar Airport Holdings, LLC

cc: Lawrence A. Slovensky
Julia C. Barrett
Christopher Clough

EXHIBIT L

Austin Office
808 Nueces Street
Austin, TX 78701-2216
Telephone: (512) 478-4995
Fax: (512) 478-6022



April 27, 2022

Christopher M. Clough
clough@barronadler.com
Office: (512) 478-4995

VIA EMAIL

Thomas J. Forestier
Winstead PC
600 Travis Street, Suite 5200
Houston, TX 77002
tforestier@winstead.com

Re: Purported Eminent Domain Taking from Lonestar Airport Holdings, LLC, of its Rights at Austin Bergstrom International Airport (“AUS”) - Response to March 29, 2022 Initial Offer Letter

Dear Mr. Forestier:

On behalf of our Client, Lonestar Airport Holdings, LLC (“Lonestar”), we write in response to your Initial Offer Letter dated March 29, 2022 on behalf of your Client, the City of Austin (the “City”).

The City’s offer (the “Initial Offer”) of \$1,954,000 for Lonestar’s interests under its 40-year airport concession agreement is objectively offensive. The Initial Offer is far below the substantial amount of capital Lonestar has invested in the South Terminal facility and entirely ignores the development and other rights granted to Lonestar in the concession agreement, which was entered into with the City just six years ago after an open, public discussion at the City Council and with the City Council’s unanimous approval.

The condemnation process is nothing but a bad-faith attempt to wrongfully circumvent the terms of the concession agreement and deprive Lonestar of the benefit of its bargain in order to advance the agenda of a new airport administration that would prefer not to be bound by its predecessor’s decisions. There is no doubt, however, that Lonestar has fully performed its obligations under the concession agreement. It is widely acknowledged that Lonestar has materially upgraded the South Terminal facility and improved overall airport operations for the benefit of the traveling public. Lonestar’s South Terminal employs over 200 local citizens and has provided more than 2.6 million passengers with access to ultra-low fare, safe and enjoyable travel to and from Austin since 2016.

Given the foregoing, and the more detailed points set forth below, Lonestar hereby formally rejects the City’s Initial Offer. Lonestar will not permit the City to wrongfully condemn its way out of its binding contractual obligations.

Thomas J. Forestier

April 27, 2022

Page 2

1. The Austin City Council unanimously approved a forty-year lease and concession agreement with Lonestar that was signed by the City on March 24, 2016 (the “Concession”).

This Initial Offer is a continuation down the path taken by the Department of Aviation’s current administration to subvert the City’s 2016 decision that the best way to allow AUS to grow efficiently and economically is through a public-private partnership, rather than burdening Austin’s citizens with the excess costs.

2. With express reliance on the aforementioned 40-year lease and concession agreement, Lonestar has invested substantial amounts of its own capital in South Terminal improvements, airline passenger infrastructure, passenger growth and increased route options. It has also worked diligently, and in the spirit of partnership, to help the Department of Aviation increase capacity (at Lonestar’s sole expense) at the airport at a time when the City desperately needs terminal space. The City now purports to condemn its way out of this agreement by taking all of Lonestar’s interests at AUS for \$1,954,000.

The City’s Initial Offer fails to reimburse Lonestar for even the amounts my client has invested developing the South Terminal, which are exponentially higher than the Initial Offer. The Initial Offer, moreover, entirely ignores both the value of the operating enterprise at the South Terminal which will be eliminated by this taking - which obviously cannot be relocated elsewhere - as well as the investment made into the South Terminal by Lonestar. In addition, the Initial Offer completely ignores the bargained-for rights contained in the parties’ South Terminal Concession, particularly the redevelopment rights contained in Article 15 of the Concession. Moreover, the City’s Initial Offer fails to account in any way for the value Lonestar has created during the last six years, much less the value to be created over the remaining 34-year term of the Concession.

As the City knows, Lonestar sought to potentially bring on a partner in the South Terminal prior to the City starting down the road that culminated in this purported taking, and received multiple offers for *hundreds of millions of dollars*. The City wrongfully eliminated this market by threatening a taking of South Terminal by eminent domain, creating enormous losses for Lonestar and potential damage exposure for the City.

3. The City’s effort to utilize eminent domain to take Lonestar’s bargained-for redevelopment rights so that it may claim those rights for itself violates Texas condemnation law.

The City’s strategy to use eminent domain to condemn a) Lonestar’s exclusive contractual redevelopment rights under Article 15 and b) its rights to operate a forty-year concession at AUS so that the City may claim those redevelopment and concession rights for itself violates Texas condemnation law. See *City of Blue Mound v. Southwest Water*, 449 S.W.3d 678 (2014), and its progeny. *Blue Mound* remains controlling law in Texas, and we fully expect that the courts will



Thomas J. Forestier

April 27, 2022

Page 3

reject the City's efforts to attempt a hostile taking of Lonestar's business so that it may operate that business itself. The City's own Executive Director at AUS candidly stated the primary goal of this effort was to regain local control of the facility in contravention of the rights granted to Lonestar by the City under the Concession. The proposed construction and location of a taxiway overtop our facility is unnecessary and simply intended to advance the City's condemnation action. There are numerous commercially viable alternatives to the proposed taxiway that we have presented to the City.

Practically speaking as Austinites, it is difficult to understand why the City would jettison an experienced and efficient redevelopment partner that the City already has under contract, especially during this time of difficulty and uncertainty at AUS. Given recent events at the airport as passenger volumes continue to skyrocket, Lonestar's ability to help the City redevelop AUS is particularly needed right now, but the City is inexplicably ignoring a trusted, capable and proven partner that would relieve expenses and operational burdens the City is preparing to lay at the feet of airport passengers and those of us that call Austin home. In addition, the City's chosen path is certain to result in years of unnecessary litigation, adding cost and bottlenecks to its already complicated Airport Expansion and Development Plan.

4. When the City entered a 40-year public-private partnership with Lonestar, your Client expected exceptional performance and a successful partnership, and that is what it has received.

Since the South Terminal opened in 2017 after Lonestar's refurbishment of the facility, the South Terminal has accommodated more 2.6 million passengers on more than 21,000 departing and arriving flights and has directly supported more than 200 jobs in Austin.

Ultra-low-cost airline service has flourished in the Austin market, truly to the benefit of the travelling public. In 2016, ultra-low-cost carriers offered just 1,675 departing flights from the airport. In 2019, thanks to Lonestar's capable operation of the South Terminal, that number jumped to more than 6,500 departing flights. Today, Frontier and Allegiant operate from the terminal, offering low fares and nonstop service to 24 cities from Austin, with 3 new routes to be added this month. The current and projected availability of ultra-low-cost airline service is a financial impossibility without the South Terminal, leaving price-sensitive customers with fewer choices when traveling to and from AUS.

5. At the request of the Department of Aviation in 2019, Lonestar made a significant investment to design plans that would expand ultra-low-cost carrier service at AUS.

Lonestar has long recognized the sharp growth in Austin and the need to find an expedited strategy for expansion at AUS. My client previously submitted a proposal to the City, at the request of the Department of Aviation, to meet forecasted demand through a new ultra-low-cost airline terminal at AUS. Lonestar's plan proposed to relocate the original South Terminal, clearing



Thomas J. Forestier

April 27, 2022

Page 4

that land for AUS's own expansion, while adding up to 10 gates, 5 security lanes, 22 check-in counters, and more than 154,000 square feet of terminal space for travelers. That plan – "South Terminal 2.0" – was designed to expand gates for ultra-low-cost carriers while allowing the City to reduce the size, cost and time it would take to expand the Barbara Jordan Terminal. The \$140 million dollar project was to be **fully funded by Lonestar**, with rent and revenue sharing afforded to the City and AUS, a clear benefit to the taxpayers. Lonestar's plan was to complete the construction in just two years. Ironically, had the project been approved when Lonestar presented the proposal in 2019, South Terminal 2.0 would have celebrated its grand opening this past January at a time when AUS desperately needs additional terminal capacity. This circumstance will only worsen in future years.

Lonestar remains committed to assisting the City meet the current challenges at AUS. As Lonestar's representatives have stated on several occasions to your clients, we urge you to take advantage of the opportunity that sits before the City to use Lonestar's expertise and financial resources under the existing Concession to find the right path for expanding airport facilities at AUS quickly and efficiently – just as envisioned when the Concession was granted to Lonestar a few years ago. Lonestar continues to make substantial investments in developing the South Terminal, including a recent investment of over \$1M for an operations base for Allegiant, and remains committed to participating constructively in any expansion or creation of new facilities at AUS.

Should the City Council consider authorizing this taking, they must contemplate the facts and history summarized in this letter, including the City's own records and testimony that support our operation. Eminent domain is costly, inefficient and time consuming. Regardless, Lonestar will not walk away from its investment at AUS, and Lonestar stands ready to vindicate its rights in court as needed.

Sincerely,



Christopher M. Clough

Cc: Jeff Pearse (jpearse@austinsouthterminal.com)
Lawrence A. Slovensky (LSlovensky@KSLAW.com)
Julia C. Barrett (JBarrett@KSLAW.com)



EXHIBIT M



600 Travis Street
Suite 5200
Houston, TX 77002

713.650.8400 OFFICE
713.650.2400 FAX
winstead.com

Thomas J. Forestier
direct dial: 713-650-2749
forestier@winstead.com

May 16, 2022

Via Certified Mail/Return Receipt Requested # 9314 7699 0430 0095 0529 36 and US Mail

LoneStar Airport Holdings, LLC
Attention: Jeff Pearse, Chief Executive Officer
10000 Logistics Lane
Austin, Texas 78719

Re: **FINAL OFFER**
Project: AUS South Terminal

Dear Mr. Pearse:

I am writing on behalf of my client, the City of Austin ("City"), regarding its interest in acquiring the leasehold interest of LoneStar Airport Holdings, LLC ("Tenant") in the South Terminal at AUS. As referenced in the Initial Offer Letter dated March 29, 2022 regarding this matter, the City, in connection with the Airport Expansion and Development Program at AUS, needs to acquire the "Tenant's Interest" as that term is defined in the South Terminal Lease and Concession Agreement between the City of Austin and Highstar Capital IV, L.P., a limited partnership formed and existing under the laws of the State of Delaware, on or about March 24, 2016 ("Lease"). A legal description and sketch of the "Premises", as that term is defined in the Lease, as amended, is enclosed as **Exhibit A**. It has been over 30 days since I sent you sent you an Initial Offer on behalf of the City for purchase of the leasehold interest.

Based on a written appraisal by an independent appraisal firm, Allen, Williford & Seale, Inc. ("AWS"), the City is hereby presenting you its FINAL OFFER in the amount of \$1,954,000 for the required property rights. This compensation does not include any value for damages to any remainder property, as there is no remainder property.

Please review and seriously consider this **FINAL OFFER**. A Lease Termination Agreement offering the full-appraised value of the Tenant's Interest and a Right of Entry and Possession are also enclosed as **Exhibits B and C**, respectively, for your consideration. If the terms of the Lease Termination Agreement are acceptable, please sign the Lease Termination Agreement where indicated and return it to my attention within 14 days from the date of your receipt of this letter. If the Tenant is willing to sign the Right of Entry and Possession, please return a signed copy of that document to me at your earliest convenience. Please understand that the City Council of the City of Austin must approve all contracts, and the amount of this offer can only be recommended for their approval.

LoneStar Airport Holdings, LLC
May 16, 2022
Page 2

If I have not received from you within **fourteen (14) days** from the date of delivery of this letter the Lease Termination Agreement signed by a duly-authorized representative of the Tenant, this Final Offer will be considered rejected. At that time, the City will continue to proceed with the condemnation process relating to the leasehold interest in the South Terminal.

I urge you to consider this **FINAL OFFER** to purchase the leasehold interest in the South Terminal for the amount of **\$1,954,000**. This offer is reasonable and based on a proper appraisal that complies with Texas law and should be accepted for all the reasons discussed in my letter dated May 11, 2022 in reply to the April 27, 2022 letter of Mr. Christopher M. Clough, your counsel.

If you have any questions or concerns that have not been addressed in our previous written communications regarding this matter, please ask your lawyers to call me at (713) 650-2749.

Sincerely,



Thomas J. Forestier
Counsel for the City of Austin

ENCLOSURES:

Exhibit A: Legal Description, Plat and Sketch of the Premises
Exhibit B: Lease Termination Agreement
Exhibit C: Right of Entry and Possession

cc: Lawrence A. Slovensky (via Certified Mail/Return Receipt Requested
King & Spalding LLP #9314 7699 0430 0095 0531 93)
1180 Peachtree Street, N.E.
Atlanta, GA 30309-3521

Christopher M. Clough (via Certified Mail/Return Receipt Requested
Barron Adler Clough & Oddo, LLP #9314 7699 0430 0095 0532 54)
808 Nueces Street
Austin, TX 78701

EXHIBIT A



MACIAS & ASSOCIATES, L.P.
LAND SURVEYORS – FIRM REG. NO. 101141-00

EXHIBIT “ _____ ”

CITY OF AUSTIN
TO
SOUTH TERNINAL
LEASE AGREEMENT

LEGAL DESCRIPTION FOR

A 23.00 ACRE (1,002,031 SQUARE FEET) TRACT OF LAND IN THE SANTIAGO DEL VALLE TEN LEAGUE GRANT SURVEY, ABSTRACT NO. 24, TRAVIS COUNTY, TEXAS, BEING OUT OF A CALLED 1989.252 ACRE TRACT TO THE CITY OF AUSTIN IN DEED WITHOUT WARRANTY RECORDED IN DOCUMENT NUMBER 2002002218 OF THE OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS. SAID 23.00 ACRES, SAVE & EXCEPT A 0.34 ACRE TRACT OF LAND, IN TOTAL A 22.66 ACRE TRACT AS SHOWN ON THE ACCOMPANYING SKETCH, BEING MORE PARTICULARLY DESCRIBED BY METES AND BOUNDS AS FOLLOWS:

BEGINNING at a 60d nail set in the interior of the said 1989.252 acre tract, said 60d nail having Texas State Plane Coordinates (Central Zone 4203) of N=10,044,494.22, E=3,137,398.76 for the northwest corner of this tract, from which a ½” iron rod found at an interior angle of said 1989.252 acre tract, also being a northeast corner of a 1033.081 acre tract conveyed to the City of Austin in deed without warranty recorded in Document Number 1999015608 of the Official Public Records of Travis County, Texas, bears N 05°35’01” W a distance of 6,233.50 feet;

THENCE through the interior of said 1989.252 acre tract the following forty-eight (48) calls:

- 1) N 87°26’30” E for a distance of 465.38 feet to a calculated point;
- 2) S 02°33’30” E for a distance of 130.10 feet to a calculated point;
- 3) S 41°43’16” W for a distance of 68.12 feet to a calculated point;
- 4) S 41°42’29” E for a distance of 6.23 feet to a calculated point;
- 5) N 41°40’08” E for a distance of 203.19 feet to a calculated point;
- 6) N 87°22’35” E for a distance of 375.79 feet to a point of curvature of a curve to the left;
- 7) With said curve to the left, having a radius of 100.09 feet, an arc length of 35.74 feet and a chord which bears N 77°33’57” E a distance of 35.55 feet to a calculated point;
- 8) N 02°41’00” W for a distance of 115.62 feet to a calculated point;

- 9) N 87°21'57" E a distance of 300.96 feet to a calculated point;
- 10) S 02°41'00" E a distance of 64.99 feet to a point of curvature of a curve to the left;
- 11) With said curve to the left, having a radius of 10.00 feet, an arc length of 15.70 feet and a chord which bears S 47°40'07" E a distance of 14.14 feet to a calculated point;
- 12) N 87°20'47" E a distance of 220.47 feet to a calculated point;
- 13) N 42°29'14" E a distance of 386.62 feet to a 60d nail set;
- 14) S 47°30'46" E a distance of 165.53 feet to a calculated point;
- 15) S 41°19'42" W a distance of 215.92 feet to a calculated point;
- 16) N 87°20'47" E a distance of 768.04 feet to point of curvature of a curve to the left;
- 17) With said curve to the left, having a radius of 80.00 feet, an arc length of 83.24 feet and a chord which bears N 57°32'20" E a distance of 79.53 feet to a point of cusp of a curve to the left;
- 18) With said curve to the left, having a radius of 586.87 feet, an arc length of 283.55 feet and a chord which bears S 13°50'37" W a distance of 280.80 feet to a calculated point;
- 19) N 53°22'12" W a distance of 142.56 feet to a calculated point;
- 20) S 72°53'58" W a distance of 96.54 feet to a point of curvature of a curve to the left;
- 21) With said curve to the left, having a radius of 100.00 feet, an arc length of 52.86 feet and a chord which bears S 57°45'23" W a distance of 52.25 feet to a calculated point;
- 22) S 42°36'48" W a distance of 53.49 feet to a point of curvature of a curve to the right;
- 23) With said curve to the right, having a radius of 101.00 feet, an arc length of 79.02 feet and a chord which bears S 65°01'39" W a distance of 77.02 feet to a calculated point;
- 24) S 87°26'30" W a distance of 834.22 feet to a point of curvature of a curve to the left;

- 25) With said curve to the left, having a radius of 38.00 feet, an arc length of 33.78 feet and a chord which bears S 61°58'37" W a distance of 32.68 feet to a calculated point;
- 26) S 36°30'43" W a distance of 59.08 feet to a point of curvature of a curve to the right;
- 27) With said curve to the right, having a radius of 77.00 feet, an arc length of 68.36 feet and a chord which bears S 61°56'37" W a distance of 66.13 feet to a calculated point;
- 28) S 87°22'32" W a distance of 431.05 feet to a calculated point;
- 29) S 42°24'27" W a distance of 29.29 feet to a calculated point;
- 30) S 02°22'47" E a distance of 126.52 feet to a calculated point;
- 31) N 87°26'30" E a distance of 20.47 feet to a calculated point;
- 32) S 02°31'48" E a distance of 175.53 feet to a ½" iron rod set;
- 33) S 87°26'30" W a distance of 122.30 feet to a calculated point;
- 34) N 81°25'12" W a distance of 102.72 feet to a point of curvature of a curve to the left;
- 35) With said curve to the left, having a radius of 24.00 feet, an arc length of 7.81 feet and a chord which bears S 85°33'11" W a distance of 7.77 feet to a point of curvature of a curve to the right;
- 36) With said curve to the right, having a radius of 283.22 feet, an arc length of 64.46 feet and a chord which bears S 80°30'08" W a distance of 64.32 feet to a calculated point;
- 37) S 87°26'30" W a distance of 24.73 feet to a calculated point;
- 38) S 02°33'30" E a distance of 32.01 feet to a calculated point;
- 39) S 87°41'20" W a distance of 335.00 feet to a 60d nail set, from which a ½" iron rod found at an angle point of said 1989.252 acre tract, also being an angle point of said 1033.081 acre tract bears, S 02°59'04" W a distance of 4,466.08 feet;
- 40) N 34°49'34" W a distance of 62.77 feet to a calculated point;
- 41) N 02°33'30" W a distance of 131.94 feet to a calculated point;
- 42) S 87°26'30" W a distance of 14.65 feet to a calculated point;
- 43) N 02°33'30" W a distance of 112.45 feet to a calculated point;

- 44) N 88°14'17" E a distance of 20.14 feet to a calculated point;
- 45) N 02°33'40" W a distance of 106.92 feet to a calculated point;
- 46) S 87°20'47" W a distance of 125.89 feet to a calculated point;
- 47) N 02°39'13" W a distance of 110.69 feet to a calculated point;
- 48) N 16°21'19" E a distance of 170.33 feet to the **POINT OF BEGINNING** and containing 23.00 acres (Gross) & 22.66 acres (Net).

SAVE & EXCEPT - (0.34 ACRE)

BEGINNING at a 60d nail set in the interior of the said 1989.252 acre tract, said 60d nail having Texas State Plane (Central Zone 4203) coordinates of N=10,044,191.51, E=3,138,090.88

THENCE through the interior of said 1989.252 acre tract the following eight (8) calls:

- 1) S 02°41'00" E for a distance of 110.23 feet to a calculated point;
- 2) S 87°19'00" W for a distance of 109.90 feet to a calculated point;
- 3) N 02°41'00" W for a distance of 19.84 feet to a calculated point;
- 4) S 87°19'00" W for a distance of 39.41 feet to a calculated point;
- 5) N 02°41'00" W for a distance of 70.68 feet to a calculated point;
- 6) N 87°19'00" E for a distance of 39.40 feet to a calculated point;
- 7) N 02°47'58" W for a distance of 19.74 feet to a calculated point;
- 8) N 87°20'24" E for a distance of 109.95 feet to the **POINT OF BEGINNING** and containing 0.34 acre (14,902 sq. ft.) of land;

TOTAL ACREAGE - 22.66 acres (987,129 sq. ft.) of lease area.

NOTE

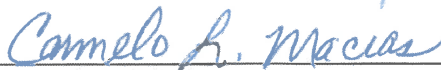
The coordinates and bearings described herein are Texas State Plane Grid Bearings, (Central Zone-4203), NAD 83.

THE STATE OF TEXAS §
 § KNOW ALL MEN BY THESE PRESENTS:
COUNTY OF TRAVIS §

That I, Carmelo L. Macias, a Registered Professional Land Surveyor, do hereby state that the above description is true and correct to the best of my knowledge and belief and that the property described herein was determined by a survey made on the ground under my direction and supervision.

WITNESS MY HAND AND SEAL at Austin, Travis County, Texas, this 15th day of November, 2016, A.D.

Macias & Associates, L.P.
5410 South 1st Street
Austin, Texas 78745
512-442-7875



Carmelo L. Macias
Registered Professional Land Surveyor
No. 4333 – State of Texas

REFERENCES
AUSTIN GRID NO. N-16
TCAD PARCEL ID NO. 03-1531-06-01
MACIAS & ASSOCIATES, L.P.,
PROJECT NO. 87-43-16

SKETCH TO ACCOMPANY LEGAL DESCRIPTION
SOUTH TERMINAL LEASE AGREEMENT

LINE TABLE		
NO.	BEARING	DISTANCE
L1	S41°43'16"W	68.12'
L2	S41°42'29"E	6.23'
L3	N41°40'08"E	203.19'
L4	N02°41'00"W	115.62'
L5	S02°41'00"E	64.99'
L6	N53°22'12"W	142.56'
L7	S72°53'58"W	96.54'
L8	S42°36'48"W	53.49'
L9	S42°24'27"W	29.29'
L10	S02°22'47"E	126.52'
L11	N87°26'30"E	20.47'
L12	S87°26'30"W	122.30'
L13	N81°25'12"W	102.72'
L14	S87°26'30"W	24.73'
L15	S02°33'30"E	32.01'
L16	S87°26'30"W	14.65'
L17	N88°14'17"E	20.14'
L18	S87°20'47"W	125.89'

CURVE TABLE					
CURVE	RADIUS	LENGTH	DELTA	CHORD DIRECTION	CHORD LENGTH
C2	100.09'	35.74'	20°27'32"	N77°33'57"E	35.55'
C3	10.00'	15.70'	89°58'13"	S47°40'07"E	14.14'
C4	80.00'	83.24'	59°36'55"	N57°32'20"E	79.53'
C5	586.87'	283.55'	27°40'58"	S13°50'37"W	280.80'
C6	100.00'	52.86'	30°17'10"	S57°45'23"W	52.25'
C7	101.00'	79.02'	44°49'43"	S65°01'39"W	77.02'
C8	38.00'	33.78'	50°55'47"	S61°58'37"W	32.68'
C9	77.00'	68.36'	50°51'49"	S61°56'37"W	66.13'
C10	24.00'	7.81'	18°38'03"	S85°33'11"W	7.77'
C11	283.22'	64.46'	13°02'28"	S80°30'08"W	64.32'

LINE TABLE		
NO.	BEARING	DISTANCE
L20	N87°19'00"E	39.40'
L21	N02°47'58"W	19.74'
L22	N87°20'24"E	109.95'
L23	S02°41'00"E	110.23'
L24	S87°19'00"W	109.90'
L25	N02°41'00"W	19.84'
L26	S87°19'00"W	39.41'
L27	N02°41'00"W	70.68'

NOTE:
THIS SURVEY WAS PERFORMED WITHOUT THE BENEFIT OF A TITLE REPORT. RECORD A PUBLIC RECORD SEARCH BY THE SURVEYOR AND MAY NOT INCLUDE EASEMENTS OR INSTRUMENTS PERTAINING TO THIS PROPERTY.



MACIAS & ASSOCIATES, L.P.
LAND SURVEYORS - FIRM NO. 101141-00
5410 SOUTH 1ST STREET
DALLAS, TEXAS 75245
PH. (972) 442-7876
WWW.MACIASLANDSURVEYORS.COM

Job No.: 87-43-16
Drawn by: P. GUERRERO
Checked by: C. MACIAS

BEARING BASIS:
ALL BEARINGS SHOWN HEREON ARE BASED ON THE STATE PLANE COORDINATE SYSTEM OF TEXAS, CENTRAL ZONE (4203). NAD83 (1983). ALL DISTANCES & COORDINATES SHOWN ARE IN GRID.

EXHIBIT A 1.2

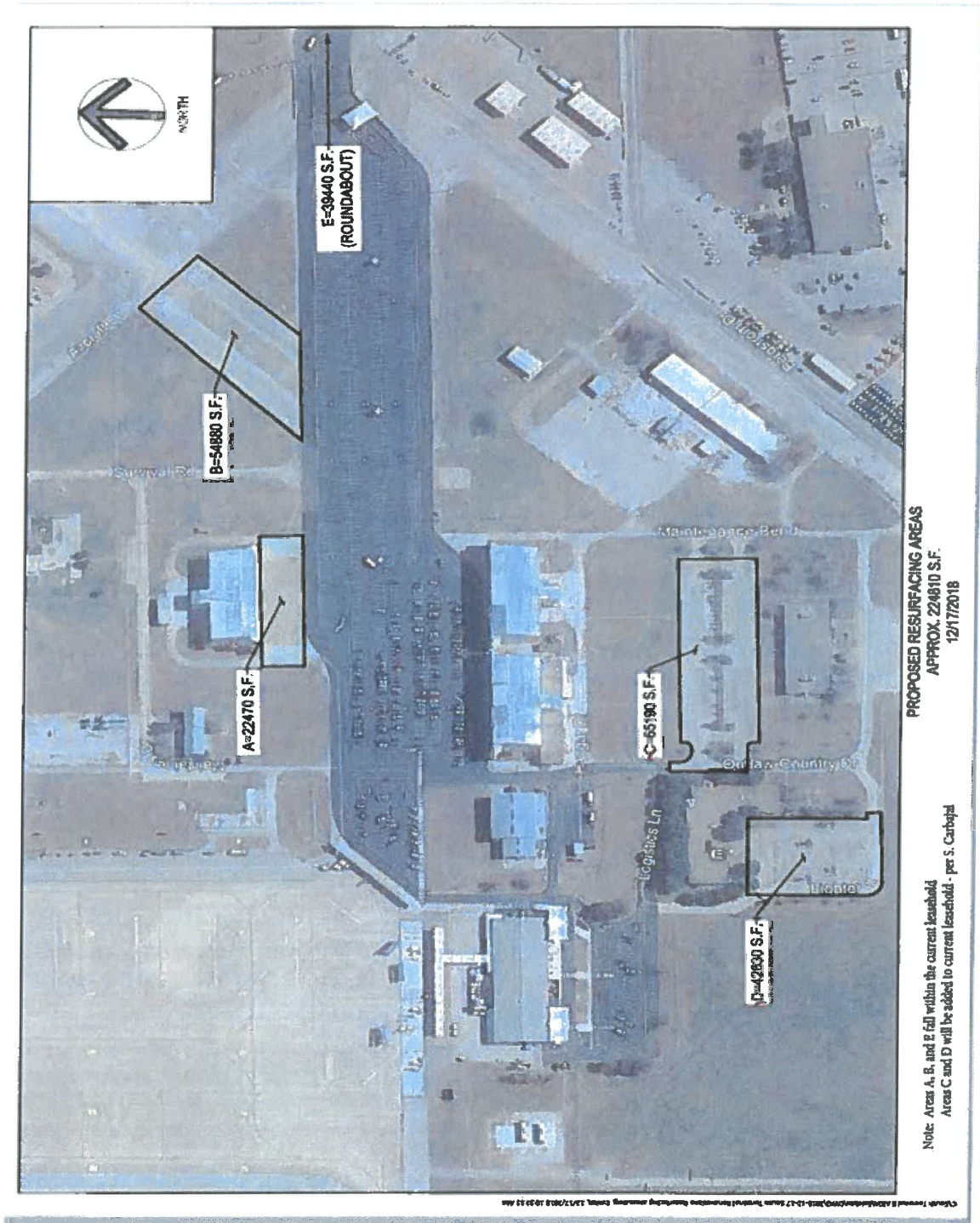


EXHIBIT B

LEASE TERMINATION AGREEMENT

THIS LEASE TERMINATION AGREEMENT (this "**Agreement**") is entered into as of the Reference Date by and between Owner and Tenant, with reference to the following:

1. *General Terms.*

- (a) **Reference Date:** _____, 2022
- (b) **Owner:** the CITY OF AUSTIN, TEXAS
a Texas home rule and municipal corporation,
- (c) **Tenant:** LONESTAR AIRPORT HOLDINGS, LLC,
a Delaware limited liability company,
- (d) **Premises:** the premises leased pursuant to the Lease covering the real property described on Exhibit A attached hereto.
- (e) **Lease:** South Terminal Lease and Concession Agreement between the Owner and Highstar Capital IV, L.P. on March 24, 2016 (the "Lease"), which was assigned to Tenant by the Assignment and Assumption Agreement by and between Highstar Capital IV LP and Tenant dated March 24, 2016, and amended by Amendment No. One to the South Terminal Lease and Concession Agreement by and between the Owner and Tenant, effective July 1, 2019.
- (f) **Termination Date:** 11:59 p.m. on the ninetieth (90th) day following Landlord's issuance of the Termination Notice (as defined herein).
- (g) **Termination Consideration:** \$1,954,000, payable on the Termination Date and upon Tenant's vacation and surrender of the Premises

2. *Recitals.*

(a) Pursuant to the Lease, Owner leased to Tenant, and Tenant leased from Owner, the Premises upon the terms and at the rental more particularly set forth in the Lease, as amended.

(b) Tenant and Owner desire to terminate the Lease, and Owner and Tenant are willing to agree to a termination of the Lease subject to the terms and conditions set forth in this Agreement. Capitalized terms used in this Agreement, unless expressly provided otherwise in this Agreement, shall have the same meanings given to such terms in the Lease.

3. **Termination.** When Owner desires to effectively terminate the Lease, it will issue written notice to Tenant that Tenant has ninety (90) days to vacate the Premises (the "**Termination Notice**"). The Lease shall terminate and be of no further force and effect as of the Termination Date. Tenant shall vacate and surrender the Premises on or prior to the Termination Date, and upon such surrender and vacation by Tenant, Owner shall pay the Termination Consideration, which Tenant acknowledges and agrees is sufficient consideration for the termination of the Lease. The Lease shall then be terminated as of the Termination Date subject to the conditions set forth in this Agreement. As of the Termination Date, all subleases, sublicenses and any other agreements Tenant has entered (with or without Owner's

consent or knowledge) with respect to Tenant's operations at the Premises, written or otherwise, shall be automatically terminated without further action from Owner. Thereafter, Tenant shall have no further right to occupy and/or use the Premises. After the Termination Date, the surrender and vacation of the Premises by Tenant and Owner's payment of the Termination Consideration, neither Tenant nor Owner shall have any further liability or obligation to the other with respect to the Lease.

4. *Tenant's Obligations.* On or before the Termination Date, Tenant shall have (a) peaceably vacated and surrendered the Premises to Owner; (b) removed from the Premises all persons occupying and using the Premises by, through or under Tenant and removed from the Premises all personal property (other than fixtures) owned by Tenant, except for those items which Tenant has no desire to remove; and (c) returned to Owner all keys and security cards issued to Tenant in connection with its use of the Premises, all of the foregoing being subject to the satisfaction of Owner.

5. *Mutual Release.* Effective on the Termination Date, and subject to satisfaction of Tenant's obligations under Section 4 hereof, and Owner's remittance to Tenant of the Termination Consideration:

(a) Tenant, on behalf of itself and its partners, officers, directors, agents, employees, successors in interest and assigns, releases and discharges Owner and its officers, directors, council members, agents, employees, contractors, successors in interest and assigns, from and against any and all claims, demands, causes of action, liabilities and obligations, known and unknown, foreseen and unforeseen, direct and indirect, in any way arising out of or relating to the Lease and/or Tenant's use and occupancy of the Premises; it being the express intention of the parties that the foregoing shall be deemed to be a full and general release.

(b) Owner, on behalf of itself and its affiliated companies, partners, officers, directors, agents, employees, successors in interest and assigns, releases and discharges Tenant and Tenant's partners, officers, directors, agents, employees, successors in interest and assigns from and against any and all claims, demands, causes of action, liabilities and obligations, known and unknown, foreseen and unforeseen, direct and indirect, in any way arising out of or relating to the Lease and/or Tenant's use and occupancy of the Premises; it being the express intention of the parties that the foregoing shall be deemed to be a full and general release, except for the following items which shall survive the termination of the Lease: (i) Tenant's obligations under the Lease which pertain to the vacation of the Premises, holdover, indemnification and any other provisions which expressly survive the termination of the Lease; and (ii) the provisions of this Agreement.

6. *Access.* Owner may prohibit access by Tenant to the Premises after the Termination Date by changing the locks to the Premises or by any other means permitted by the Lease, at law or in equity.

7. *Rent.* Tenant shall not be excused from its obligation to pay rent under the Lease up until the Termination Date.

8. *Removal of Property.*

(a) Notwithstanding anything in the Lease to the contrary, all permanent or built-in fixtures or improvements (including, without limitation Covered Improvements, as defined in the Lease) in the Premises shall be and remain the property of Owner as of the Termination Date. All Trade Fixtures (as defined in the Lease) and other removable equipment and other removable equipment installed in the Premises by Tenant and paid for by Tenant shall remain the property of Tenant and shall be removed by Tenant on or before the Termination Date.

(b) If any such Trade Fixtures or other removable equipment are not removed on or before the Termination Date, Tenant grants to Owner the option, exercisable at any time thereafter without the requirement of any notice to Tenant, (i) to treat such property, or any part of such property, as being abandoned by Tenant to Owner, in which event Owner shall be deemed to have full rights of ownership in such abandoned property; provided however, that Owner shall not assume title to, or an ownership interest in, any "solid waste," "hazardous waste," or other material regulated by or subject to any applicable environmental, health or safety laws, and any such material may be disposed of in accordance with such laws at Tenant's sole cost and expense, with reimbursement therefor to be made to Owner upon demand; and/or (ii) to sell, give away, donate or dispose of as trash or refuse any or all of such property without any responsibility to deliver to Tenant any proceeds from such disposition. Owner shall have no liability of any kind whatsoever to Tenant in respect of the exercise or failure to exercise the options set forth in this **Paragraph 8**. Specifically, Tenant shall not have the right to assert against Owner a claim either for the value, or the use, of any such property, either as an offset against any amount of money owing to Owner or otherwise.

9. *Successors and Assigns; Time.* This Agreement shall be binding upon and inure to the benefit of Owner and Tenant and their respective predecessors, successors and assigns. Time is of the essence with respect to all provisions of this Agreement.

10. *Authority; Joint and Several Liability.* Tenant covenants, warrants and represents that: (i) Tenant is the current holder of the Tenant's Interest (as defined in the Lease), and, as of the Termination Date, there is no other person or entity occupying or otherwise claiming an interest in the Premises; (ii) each individual executing, attesting and/or delivering this Agreement on behalf of Tenant is authorized to do so on behalf of Tenant; (iii) this Agreement is binding upon and enforceable against Tenant; and (iv) Tenant is duly organized and legally existing in the state of its organization and is qualified to do business in the state in which the Premises are located. Notices, payments and agreements given or made by, with or to any one person or entity shall be deemed to have been given or made by, with or to all of them.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

EXECUTED by Owner and Tenant as of the Reference Date.

OWNER:

CITY OF AUSTIN,
a Texas home rule city and municipal corporation

By: _____

Name: _____

Title: _____

TENANT:

LONESTAR AIRPORT HOLDINGS, LLC,
a Delaware limited liability company

By: _____

Name: _____

Title: _____

EXHIBIT A



MACIAS & ASSOCIATES, L.P.
LAND SURVEYORS – FIRM REG. NO. 101141-00

EXHIBIT “ _____ ”

CITY OF AUSTIN
TO
SOUTH TERNINAL
LEASE AGREEMENT

LEGAL DESCRIPTION FOR

A 23.00 ACRE (1,002,031 SQUARE FEET) TRACT OF LAND IN THE SANTIAGO DEL VALLE TEN LEAGUE GRANT SURVEY, ABSTRACT NO. 24, TRAVIS COUNTY, TEXAS, BEING OUT OF A CALLED 1989.252 ACRE TRACT TO THE CITY OF AUSTIN IN DEED WITHOUT WARRANTY RECORDED IN DOCUMENT NUMBER 2002002218 OF THE OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS. SAID 23.00 ACRES, SAVE & EXCEPT A 0.34 ACRE TRACT OF LAND, IN TOTAL A 22.66 ACRE TRACT AS SHOWN ON THE ACCOMPANYING SKETCH, BEING MORE PARTICULARLY DESCRIBED BY METES AND BOUNDS AS FOLLOWS:

BEGINNING at a 60d nail set in the interior of the said 1989.252 acre tract, said 60d nail having Texas State Plane Coordinates (Central Zone 4203) of N=10,044,494.22, E=3,137,398.76 for the northwest corner of this tract, from which a ½” iron rod found at an interior angle of said 1989.252 acre tract, also being a northeast corner of a 1033.081 acre tract conveyed to the City of Austin in deed without warranty recorded in Document Number 1999015608 of the Official Public Records of Travis County, Texas, bears N 05°35’01” W a distance of 6,233.50 feet;

THENCE through the interior of said 1989.252 acre tract the following forty-eight (48) calls:

- 1) N 87°26’30” E for a distance of 465.38 feet to a calculated point;
- 2) S 02°33’30” E for a distance of 130.10 feet to a calculated point;
- 3) S 41°43’16” W for a distance of 68.12 feet to a calculated point;
- 4) S 41°42’29” E for a distance of 6.23 feet to a calculated point;
- 5) N 41°40’08” E for a distance of 203.19 feet to a calculated point;
- 6) N 87°22’35” E for a distance of 375.79 feet to a point of curvature of a curve to the left;
- 7) With said curve to the left, having a radius of 100.09 feet, an arc length of 35.74 feet and a chord which bears N 77°33’57” E a distance of 35.55 feet to a calculated point;
- 8) N 02°41’00” W for a distance of 115.62 feet to a calculated point;

- 9) N 87°21'57" E a distance of 300.96 feet to a calculated point;
- 10) S 02°41'00" E a distance of 64.99 feet to a point of curvature of a curve to the left;
- 11) With said curve to the left, having a radius of 10.00 feet, an arc length of 15.70 feet and a chord which bears S 47°40'07" E a distance of 14.14 feet to a calculated point;
- 12) N 87°20'47" E a distance of 220.47 feet to a calculated point;
- 13) N 42°29'14" E a distance of 386.62 feet to a 60d nail set;
- 14) S 47°30'46" E a distance of 165.53 feet to a calculated point;
- 15) S 41°19'42" W a distance of 215.92 feet to a calculated point;
- 16) N 87°20'47" E a distance of 768.04 feet to point of curvature of a curve to the left;
- 17) With said curve to the left, having a radius of 80.00 feet, an arc length of 83.24 feet and a chord which bears N 57°32'20" E a distance of 79.53 feet to a point of cusp of a curve to the left;
- 18) With said curve to the left, having a radius of 586.87 feet, an arc length of 283.55 feet and a chord which bears S 13°50'37" W a distance of 280.80 feet to a calculated point;
- 19) N 53°22'12" W a distance of 142.56 feet to a calculated point;
- 20) S 72°53'58" W a distance of 96.54 feet to a point of curvature of a curve to the left;
- 21) With said curve to the left, having a radius of 100.00 feet, an arc length of 52.86 feet and a chord which bears S 57°45'23" W a distance of 52.25 feet to a calculated point;
- 22) S 42°36'48" W a distance of 53.49 feet to a point of curvature of a curve to the right;
- 23) With said curve to the right, having a radius of 101.00 feet, an arc length of 79.02 feet and a chord which bears S 65°01'39" W a distance of 77.02 feet to a calculated point;
- 24) S 87°26'30" W a distance of 834.22 feet to a point of curvature of a curve to the left;

- 25) With said curve to the left, having a radius of 38.00 feet, an arc length of 33.78 feet and a chord which bears S 61°58'37" W a distance of 32.68 feet to a calculated point;
- 26) S 36°30'43" W a distance of 59.08 feet to a point of curvature of a curve to the right;
- 27) With said curve to the right, having a radius of 77.00 feet, an arc length of 68.36 feet and a chord which bears S 61°56'37" W a distance of 66.13 feet to a calculated point;
- 28) S 87°22'32" W a distance of 431.05 feet to a calculated point;
- 29) S 42°24'27" W a distance of 29.29 feet to a calculated point;
- 30) S 02°22'47" E a distance of 126.52 feet to a calculated point;
- 31) N 87°26'30" E a distance of 20.47 feet to a calculated point;
- 32) S 02°31'48" E a distance of 175.53 feet to a ½" iron rod set;
- 33) S 87°26'30" W a distance of 122.30 feet to a calculated point;
- 34) N 81°25'12" W a distance of 102.72 feet to a point of curvature of a curve to the left;
- 35) With said curve to the left, having a radius of 24.00 feet, an arc length of 7.81 feet and a chord which bears S 85°33'11" W a distance of 7.77 feet to a point of curvature of a curve to the right;
- 36) With said curve to the right, having a radius of 283.22 feet, an arc length of 64.46 feet and a chord which bears S 80°30'08" W a distance of 64.32 feet to a calculated point;
- 37) S 87°26'30" W a distance of 24.73 feet to a calculated point;
- 38) S 02°33'30" E a distance of 32.01 feet to a calculated point;
- 39) S 87°41'20" W a distance of 335.00 feet to a 60d nail set, from which a ½" iron rod found at an angle point of said 1989.252 acre tract, also being an angle point of said 1033.081 acre tract bears, S 02°59'04" W a distance of 4,466.08 feet;
- 40) N 34°49'34" W a distance of 62.77 feet to a calculated point;
- 41) N 02°33'30" W a distance of 131.94 feet to a calculated point;
- 42) S 87°26'30" W a distance of 14.65 feet to a calculated point;
- 43) N 02°33'30" W a distance of 112.45 feet to a calculated point;

- 44) N 88°14'17" E a distance of 20.14 feet to a calculated point;
- 45) N 02°33'40" W a distance of 106.92 feet to a calculated point;
- 46) S 87°20'47" W a distance of 125.89 feet to a calculated point;
- 47) N 02°39'13" W a distance of 110.69 feet to a calculated point;
- 48) N 16°21'19" E a distance of 170.33 feet to the **POINT OF BEGINNING** and containing 23.00 acres (Gross) & 22.66 acres (Net).

SAVE & EXCEPT - (0.34 ACRE)

BEGINNING at a 60d nail set in the interior of the said 1989.252 acre tract, said 60d nail having Texas State Plane (Central Zone 4203) coordinates of N=10,044,191.51, E=3,138,090.88

THENCE through the interior of said 1989.252 acre tract the following eight (8) calls:

- 1) S 02°41'00" E for a distance of 110.23 feet to a calculated point;
- 2) S 87°19'00" W for a distance of 109.90 feet to a calculated point;
- 3) N 02°41'00" W for a distance of 19.84 feet to a calculated point;
- 4) S 87°19'00" W for a distance of 39.41 feet to a calculated point;
- 5) N 02°41'00" W for a distance of 70.68 feet to a calculated point;
- 6) N 87°19'00" E for a distance of 39.40 feet to a calculated point;
- 7) N 02°47'58" W for a distance of 19.74 feet to a calculated point;
- 8) N 87°20'24" E for a distance of 109.95 feet to the **POINT OF BEGINNING** and containing 0.34 acre (14,902 sq. ft.) of land;

TOTAL ACREAGE - 22.66 acres (987,129 sq. ft.) of lease area.

NOTE


The coordinates and bearings described herein are Texas State Plane Grid Bearings, (Central Zone-4203), NAD 83.

THE STATE OF TEXAS §
§
COUNTY OF TRAVIS § KNOW ALL MEN BY THESE PRESENTS:

That I, Carmelo L. Macias, a Registered Professional Land Surveyor, do hereby state that the above description is true and correct to the best of my knowledge and belief and that the property described herein was determined by a survey made on the ground under my direction and supervision.

WITNESS MY HAND AND SEAL at Austin, Travis County, Texas, this 15th day of November, 2016, A.D.

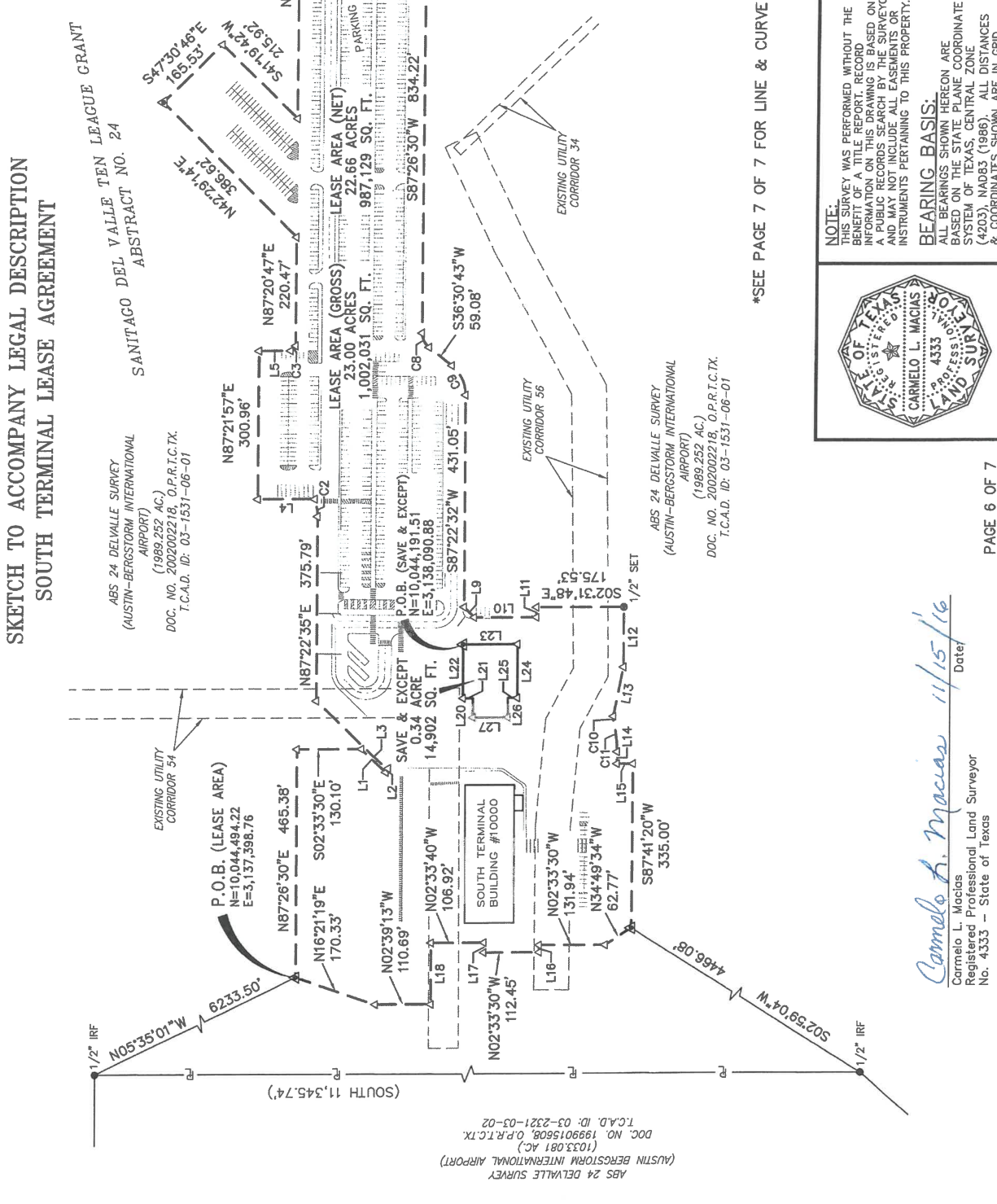
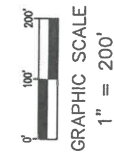
Macias & Associates, L.P.
5410 South 1st Street
Austin, Texas 78745
512-442-7875



Carmelo L. Macias
Registered Professional Land Surveyor
No. 4333 – State of Texas

REFERENCES
AUSTIN GRID NO. N-16
TCAD PARCEL ID NO. 03-1531-06-01
MACIAS & ASSOCIATES, L.P.,
PROJECT NO. 87-43-16

**SKETCH TO ACCOMPANY LEGAL DESCRIPTION
SOUTH TERMINAL LEASE AGREEMENT**



- LEGEND**
- 1/2" IRON ROD
 - ▲ 60D NAIL SET
 - △ CALCULATED POINT
 - P.O.B. POINT OF BEGINNING
 - D.R.T.C.T.M. DEED RECORDS OF TRAVIS COUNTY, TEXAS
 - O.P.R.T.C.T.X. OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS
 - () RECORD INFORMATION SHOWN
 - PL— PROPERTY LINE

*SEE PAGE 7 OF 7 FOR LINE & CURVE TABLES



NOTE:
THIS SURVEY WAS PERFORMED WITHOUT THE BENEFIT OF A TITLE REPORT. RECORD INSTRUMENTS MAY BE USED ON A PUBLIC RECORDS SEARCH BY THE SURVEYOR AND MAY NOT INCLUDE ALL EASEMENTS OR INSTRUMENTS PERTAINING TO THIS PROPERTY.
BEARING BASIS:
ALL BEARINGS SHOWN HEREON ARE BASED ON THE STATE PLANE COORDINATE SYSTEM OF TEXAS, CENTRAL ZONE (4203), NAD83 (1986). ALL DISTANCES & COORDINATES SHOWN ARE IN GRID.

Job No.: 87-43-16
Drawn by: P. GUERRERO
Checked by: C. MACIAS
MACIAS & ASSOCIATES, L.P.
LAND SURVEYORS - FIRM NO. 101141-00
5400 SOUTH 45TH STREET
AUSTIN, TEXAS 78745
PH. (512)442-7875 FAX (512)442-7878
WWW.MACIASWORLDCOM



Carmelo L. Macias
Carmelo L. Macias
Registered Professional Land Surveyor
No. 4333 - State of Texas
Date: 11/15/16

SKETCH TO ACCOMPANY LEGAL DESCRIPTION
SOUTH TERMINAL LEASE AGREEMENT


LINE TABLE		
NO.	BEARING	DISTANCE
L1	S41°43'16"W	68.12'
L2	S41°42'29"E	6.23'
L3	N41°40'08"E	203.19'
L4	N02°41'00"W	115.62'
L5	S02°41'00"E	64.99'
L6	N53°22'12"W	142.56'
L7	S72°53'58"W	96.54'
L8	S42°56'48"W	53.49'
L9	S42°24'27"W	29.29'
L10	S02°22'47"E	126.52'
L11	N87°26'30"E	20.47'
L12	S87°26'30"W	122.30'
L13	N81°25'12"W	102.72'
L14	S87°26'30"W	24.73'
L15	S02°33'30"E	32.01'
L16	S87°26'30"W	14.65'
L17	N88°14'17"E	20.14'
L18	S87°20'47"W	125.89'

CURVE TABLE					
CURVE	RADIUS	LENGTH	DELTA	CHORD DIRECTION	CHORD LENGTH
C2	100.09'	35.74'	20°27'32"	N77°33'57"E	35.55'
C3	10.00'	15.70'	89°58'13"	S47°40'07"E	14.14'
C4	80.00'	83.24'	59°36'55"	N57°32'20"E	79.53'
C5	586.87'	283.55'	27°40'58"	S13°50'37"W	280.80'
C6	100.00'	52.86'	30°17'10"	S57°45'23"W	52.25'
C7	101.00'	79.02'	44°49'43"	S65°01'39"W	77.02'
C8	38.00'	33.78'	50°55'47"	S61°58'37"W	32.68'
C9	77.00'	68.36'	50°51'49"	S61°56'37"W	66.13'
C10	24.00'	7.81'	18°38'03"	S85°33'11"W	7.77'
C11	283.22'	64.46'	13°02'28"	S80°30'08"W	64.32'

LINE TABLE		
NO.	BEARING	DISTANCE
L20	N87°19'00"E	39.40'
L21	N02°47'58"W	19.74'
L22	N87°20'24"E	109.95'
L23	S02°41'00"E	110.23'
L24	S87°19'00"W	109.90'
L25	N02°41'00"W	19.84'
L26	S87°19'00"W	39.41'
L27	N02°41'00"W	70.68'

NOTE:
THIS SURVEY WAS PERFORMED WITHOUT THE BENEFIT OF A TITLE REPORT. RECORD INFORMATION ON THIS DRAWING IS BASED ON PUBLIC RECORDS SEARCH BY THE SURVEYOR AND DOES NOT INCLUDE ALL EASEMENTS OR INSTRUMENTS PERTAINING TO THIS PROPERTY.

BEARING BASIS:
ALL BEARINGS SHOWN HEREON ARE BASED ON THE STATE PLANE COORDINATE SYSTEM OF TEXAS CENTRAL ZONE (4203) NAD83 (1983). ALL DISTANCES & COORDINATES SHOWN ARE IN GRID.



Job No.: 87-43-16
Drawn by: P. GUERRERO
Checked by: C. MACIAS

MACIAS & ASSOCIATES, L.P.
LAND SURVEYORS - FIRM NO. 101141-00
5410 SOUTH 1ST STREET
AUSTIN, TEXAS 78745
PH. (512) 452-8772 FAX (512) 442-7876
WWW.MACIASURVEYORS.COM

EXHIBIT C

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OR ALL OF THE FOLLOWING INFORMATION FROM ANY INSTRUMENT THAT TRANSFERS AN INTEREST IN REAL PROPERTY BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

RIGHT OF ENTRY AND POSSESSION

**THE STATE OF TEXAS §
 §
COUNTY OF TRAVIS §**

1. LoneStar Airport Holdings, LLC, a Delaware Limited Liability Company ("Tenant"), a Delaware limited liability company, doing business in Travis County, Texas owns certain leasehold interests in a certain tract of land in Austin, Travis County, Texas, described in the attached and incorporated **EXHIBIT A** ("Premises"), which is owned in fee simple by the City of Austin ("City").

2. The City requires the Tenant's Interest, including the entire Premises, as those terms are defined in the South Terminal Lease and Concession Agreement between the City of Austin ("Owner") and Highstar Capital IV, L.P. on March 24, 2016 (the "Lease"), which was assigned to Tenant by the Assignment and Assumption Agreement by and between Highstar Capital IV LP and Tenant dated March 24, 2016, and amended by Amendment No. One to the South Terminal Lease and Concession Agreement by and between the Owner and Tenant, effective July 1, 2019, and all improvements and other buildings therein and thereon leased to Tenant by Owner, as well as the entirety of Tenant's Interest as that term is defined in the Lease, in order to accommodate proposed improvements at the Austin-Bergstrom International Airport ("AUS") relating to the Airport Expansion and Development Program ("AEDP").

The parties agree that Tenant in consideration of \$1.00 and other good and valuable consideration paid by the City to Tenant, the receipt and sufficiency of which is acknowledged. Tenant has **GRANTED, SOLD and CONVEYED**, and by these premises do **GRANT, SELL and CONVEY**, unto the City, the right of entry in, on, over, across, under and upon, and the exclusive right of possession of the entire Premises, and Tenant's Interest.

This grant of Right of Entry and Possession is conditioned upon the following:

1. The City and its agents, contractors, and assigns ("Agents"), whether one or more), have the right of entry upon, and the possession of the Property from and after [REDACTED] **[DATE]** to survey, conduct site review and analysis, and to decommission and remove any improvements from the Premises as deemed appropriate by the City. The City and its Agents have the full and non-exclusive right to control and use the Premises.

2. Granting the Right of Entry and Possession does not in any way, prejudice Tenant's right to receive full and just compensation for the Tenant's Interest to be acquired by the City in the Premises.

3. The parties agree that the valuation date for determining the amount of just compensation for the Tenant's Interest proposed to be acquired by the City, for negotiation or eminent domain proceeding purposes, will be the Effective Date of this Agreement.

4. It is expressly provided that, if the City institutes condemnation proceedings against the Tenant's Interest, the City will not be liable to the Tenant for interest upon any award or judgment in such proceedings for any period of time prior to the deposit by the City in the condemnation proceedings as required by law. This conveyance is made for the mutual benefit of the Tenant and the City, and Tenant does not claim the right to interest for any period of time that the City might have had exclusive possession of the Premises and ownership of Tenant's Interest prior to the deposit by the City of the amount of the award.

5. This Right of Entry and Possession is irrevocable by Tenant. The Tenant will have no right to withdraw or rescind the rights herein conveyed.

TO HAVE AND TO HOLD the exclusive right of possession of the Premises and ownership of Tenant's Interest for the purposes and subject to the limitations above described, and the Tenant warrants that no other person or corporation owns any part of the Tenant's Interest or any property interest in the Premises other than the Tenant herein.

Executed on _____, 2022.

[The Remainder of page left intentionally blank.]

TENANT:

By: LONESTAR AIRPORT HOLDINGS, LLC a limited liability company formed and existing under the laws of the State of Delaware

By: _____
Name: _____
Title: _____

ACKNOWLEDGEMENT

STATE OF _____

§
§
§

COUNTY OF _____

This instrument was acknowledged before me on the _____ day of _____
202__, by _____, _____ of
_____, on behalf of _____.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this ____ day of _____
202__.

Notary Public in and for the State of _____

(Print Name of Notary Public Here)

After Recording Return to City of Austin Pick Up Box
City of Austin - Financial Services Dept. - Real Estate Office (FSD-RES)
Attn: Laura Seer – FSD-RES 13th Floor
P.O. Box 1088
Austin, Texas 78767
Project Name: AUS South Terminal

EXHIBIT A



MACIAS & ASSOCIATES, L.P.
LAND SURVEYORS – FIRM REG. NO. 101141-00

EXHIBIT “ _____ ”

CITY OF AUSTIN
TO
SOUTH TERNINAL
LEASE AGREEMENT

LEGAL DESCRIPTION FOR

A 23.00 ACRE (1,002,031 SQUARE FEET) TRACT OF LAND IN THE SANTIAGO DEL VALLE TEN LEAGUE GRANT SURVEY, ABSTRACT NO. 24, TRAVIS COUNTY, TEXAS, BEING OUT OF A CALLED 1989.252 ACRE TRACT TO THE CITY OF AUSTIN IN DEED WITHOUT WARRANTY RECORDED IN DOCUMENT NUMBER 2002002218 OF THE OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS. SAID 23.00 ACRES, SAVE & EXCEPT A 0.34 ACRE TRACT OF LAND, IN TOTAL A 22.66 ACRE TRACT AS SHOWN ON THE ACCOMPANYING SKETCH, BEING MORE PARTICULARLY DESCRIBED BY METES AND BOUNDS AS FOLLOWS:

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THENCE through the interior of said 1989.252 acre tract the following forty-eight (48) calls:

- 1) N 87°26’30” E for a distance of 465.38 feet to a calculated point;
- 2) S 02°33’30” E for a distance of 130.10 feet to a calculated point;
- 3) S 41°43’16” W for a distance of 68.12 feet to a calculated point;
- 4) S 41°42’29” E for a distance of 6.23 feet to a calculated point;
- 5) N 41°40’08” E for a distance of 203.19 feet to a calculated point;
- 6) N 87°22’35” E for a distance of 375.79 feet to a point of curvature of a curve to the left;
- 7) With said curve to the left, having a radius of 100.09 feet, an arc length of 35.74 feet and a chord which bears N 77°33’57” E a distance of 35.55 feet to a calculated point;
- 8) N 02°41’00” W for a distance of 115.62 feet to a calculated point;

- 9) N 87°21'57" E a distance of 300.96 feet to a calculated point;
- 10) S 02°41'00" E a distance of 64.99 feet to a point of curvature of a curve to the left;
- 11) With said curve to the left, having a radius of 10.00 feet, an arc length of 15.70 feet and a chord which bears S 47°40'07" E a distance of 14.14 feet to a calculated point;
- 12) N 87°20'47" E a distance of 220.47 feet to a calculated point;
- 13) N 42°29'14" E a distance of 386.62 feet to a 60d nail set;
- 14) S 47°30'46" E a distance of 165.53 feet to a calculated point;
- 15) S 41°19'42" W a distance of 215.92 feet to a calculated point;
- 16) N 87°20'47" E a distance of 768.04 feet to point of curvature of a curve to the left;
- 17) With said curve to the left, having a radius of 80.00 feet, an arc length of 83.24 feet and a chord which bears N 57°32'20" E a distance of 79.53 feet to a point of cusp of a curve to the left;
- 18) With said curve to the left, having a radius of 586.87 feet, an arc length of 283.55 feet and a chord which bears S 13°50'37" W a distance of 280.80 feet to a calculated point;
- 19) N 53°22'12" W a distance of 142.56 feet to a calculated point;
- 20) S 72°53'58" W a distance of 96.54 feet to a point of curvature of a curve to the left;
- 21) With said curve to the left, having a radius of 100.00 feet, an arc length of 52.86 feet and a chord which bears S 57°45'23" W a distance of 52.25 feet to a calculated point;
- 22) S 42°36'48" W a distance of 53.49 feet to a point of curvature of a curve to the right;
- 23) With said curve to the right, having a radius of 101.00 feet, an arc length of 79.02 feet and a chord which bears S 65°01'39" W a distance of 77.02 feet to a calculated point;
- 24) S 87°26'30" W a distance of 834.22 feet to a point of curvature of a curve to the left;

- 25) With said curve to the left, having a radius of 38.00 feet, an arc length of 33.78 feet and a chord which bears S 61°58'37" W a distance of 32.68 feet to a calculated point;
- 26) S 36°30'43" W a distance of 59.08 feet to a point of curvature of a curve to the right;
- 27) With said curve to the right, having a radius of 77.00 feet, an arc length of 68.36 feet and a chord which bears S 61°56'37" W a distance of 66.13 feet to a calculated point;
- 28) S 87°22'32" W a distance of 431.05 feet to a calculated point;
- 29) S 42°24'27" W a distance of 29.29 feet to a calculated point;
- 30) S 02°22'47" E a distance of 126.52 feet to a calculated point;
- 31) N 87°26'30" E a distance of 20.47 feet to a calculated point;
- 32) S 02°31'48" E a distance of 175.53 feet to a ½" iron rod set;
- 33) S 87°26'30" W a distance of 122.30 feet to a calculated point;
- 34) N 81°25'12" W a distance of 102.72 feet to a point of curvature of a curve to the left;
- 35) With said curve to the left, having a radius of 24.00 feet, an arc length of 7.81 feet and a chord which bears S 85°33'11" W a distance of 7.77 feet to a point of curvature of a curve to the right;
- 36) With said curve to the right, having a radius of 283.22 feet, an arc length of 64.46 feet and a chord which bears S 80°30'08" W a distance of 64.32 feet to a calculated point;
- 37) S 87°26'30" W a distance of 24.73 feet to a calculated point;
- 38) S 02°33'30" E a distance of 32.01 feet to a calculated point;
- 39) S 87°41'20" W a distance of 335.00 feet to a 60d nail set, from which a ½" iron rod found at an angle point of said 1989.252 acre tract, also being an angle point of said 1033.081 acre tract bears, S 02°59'04" W a distance of 4,466.08 feet;
- 40) N 34°49'34" W a distance of 62.77 feet to a calculated point;
- 41) N 02°33'30" W a distance of 131.94 feet to a calculated point;
- 42) S 87°26'30" W a distance of 14.65 feet to a calculated point;
- 43) N 02°33'30" W a distance of 112.45 feet to a calculated point;

- 44) N 88°14'17" E a distance of 20.14 feet to a calculated point;
- 45) N 02°33'40" W a distance of 106.92 feet to a calculated point;
- 46) S 87°20'47" W a distance of 125.89 feet to a calculated point;
- 47) N 02°39'13" W a distance of 110.69 feet to a calculated point;
- 48) N 16°21'19" E a distance of 170.33 feet to the **POINT OF BEGINNING** and containing 23.00 acres (Gross) & 22.66 acres (Net).

SAVE & EXCEPT - (0.34 ACRE)

BEGINNING at a 60d nail set in the interior of the said 1989.252 acre tract, said 60d nail having Texas State Plane (Central Zone 4203) coordinates of N=10,044,191.51, E=3,138,090.88

THENCE through the interior of said 1989.252 acre tract the following eight (8) calls:

- 1) S 02°41'00" E for a distance of 110.23 feet to a calculated point;
- 2) S 87°19'00" W for a distance of 109.90 feet to a calculated point;
- 3) N 02°41'00" W for a distance of 19.84 feet to a calculated point;
- 4) S 87°19'00" W for a distance of 39.41 feet to a calculated point;
- 5) N 02°41'00" W for a distance of 70.68 feet to a calculated point;
- 6) N 87°19'00" E for a distance of 39.40 feet to a calculated point;
- 7) N 02°47'58" W for a distance of 19.74 feet to a calculated point;
- 8) N 87°20'24" E for a distance of 109.95 feet to the **POINT OF BEGINNING** and containing 0.34 acre (14,902 sq. ft.) of land;

TOTAL ACREAGE - 22.66 acres (987,129 sq. ft.) of lease area.

NOTE


The coordinates and bearings described herein are Texas State Plane Grid Bearings, (Central Zone-4203), NAD 83.

THE STATE OF TEXAS §
§
COUNTY OF TRAVIS § **KNOW ALL MEN BY THESE PRESENTS:**

That I, Carmelo L. Macias, a Registered Professional Land Surveyor, do hereby state that the above description is true and correct to the best of my knowledge and belief and that the property described herein was determined by a survey made on the ground under my direction and supervision.

WITNESS MY HAND AND SEAL at Austin, Travis County, Texas, this 15th day of November, 2016, A.D.

Macias & Associates, L.P.
5410 South 1st Street
Austin, Texas 78745
512-442-7875



Carmelo L. Macias
Registered Professional Land Surveyor
No. 4333 – State of Texas

REFERENCES

AUSTIN GRID NO. N-16
TCAD PARCEL ID NO. 03-1531-06-01
MACIAS & ASSOCIATES, L.P.,
PROJECT NO. 87-43-16

SKETCH TO ACCOMPANY LEGAL DESCRIPTION
SOUTH TERMINAL LEASE AGREEMENT

LINE TABLE		
NO.	BEARING	DISTANCE
L1	S41°43'16"W	68.12'
L2	S41°42'29"E	6.23'
L3	N41°40'08"E	203.19'
L4	N02°41'00"W	115.62'
L5	S02°41'00"E	64.99'
L6	N53°22'12"W	142.56'
L7	S72°53'58"W	96.54'
L8	S42°36'48"W	53.49'
L9	S42°24'27"W	29.29'
L10	S02°22'47"E	126.52'
L11	N87°26'30"E	20.47'
L12	S87°26'30"W	122.30'
L13	N81°25'12"W	102.72'
L14	S87°26'30"W	24.73'
L15	S02°33'30"E	32.01'
L16	S87°26'30"W	14.65'
L17	N88°14'17"E	20.14'
L18	S87°20'47"W	125.89'

CURVE TABLE					
CURVE	RADIUS	LENGTH	DELTA	CHORD DIRECTION	CHORD LENGTH
C2	100.09'	35.74'	20°27'32"	N77°33'57"E	35.55'
C3	10.00'	15.70'	89°58'13"	S47°40'07"E	14.14'
C4	80.00'	83.24'	59°36'55"	N57°32'20"E	79.53'
C5	586.87'	283.55'	27°40'58"	S13°50'37"W	280.80'
C6	100.00'	52.86'	30°17'10"	S57°45'23"W	52.25'
C7	101.00'	79.02'	44°49'43"	S65°01'39"W	77.02'
C8	38.00'	33.78'	50°55'47"	S61°58'37"W	32.68'
C9	77.00'	68.36'	50°51'49"	S61°56'37"W	66.13'
C10	24.00'	7.81'	18°38'03"	S85°33'11"W	7.77'
C11	283.22'	64.46'	13°02'28"	S60°30'08"W	64.32'

LINE TABLE		
NO.	BEARING	DISTANCE
L20	N87°19'00"E	39.40'
L21	N02°47'58"W	19.74'
L22	N87°20'24"E	109.95'
L23	S02°41'00"E	110.23'
L24	S87°19'00"W	109.90'
L25	N02°41'00"W	19.84'
L26	S87°19'00"W	39.41'
L27	N02°41'00"W	70.68'

NOTE:
THIS SURVEY WAS PERFORMED WITHOUT THE BENEFIT OF A TITLE REPORT. RECORD INFORMATION ON THIS DRAWING IS BASED ON A PROFESSIONAL SURVEY BY THE SURVEYOR AND MAY NOT INCLUDE ALL EASEMENTS OR INSTRUMENTS PERTAINING TO THIS PROPERTY.

BEARING BASIS:
ALL BEARINGS SHOWN HEREON ARE BASED ON THE STATE PLANE COORDINATE SYSTEM OF TEXAS, CENTRAL ZONE (4203) NAD83 (1983). ALL DISTANCES & COORDINATES SHOWN ARE IN GRID.



MACIAS & ASSOCIATES, L.P.
LAND SURVEYORS - FIRM NO. 101141-00
5410 SOUTH 1ST STREET
DALLAS, TEXAS 75243
PH. (972) 442-7878
WWW.MACIASLANDSURVEYORS.COM

Job No.: 87-43-16
Drawn by: P. GUERRERO
Checked by: C. MACIAS

EXHIBIT N



600 Travis Street
Suite 5200
Houston, TX 77002

713.650.8400 OFFICE
713.650.2400 FAX
winstead.com

May 11, 2022

Thomas J. Forestier
(713) 650-2749
tforestier@winstead.com

Christopher M. Clough
Barron, Adler, Clough & Oddo, LLP
808 Nueces Street
Austin, TX 7870

via Email: clough@barronadler.com

Re: Your April 27, 2022 Letter on behalf of LoneStar Airport Holdings, LLC (“LoneStar”) in response to the City of Austin’s Initial Offer Letter dated March 29, 2022

Dear Mr. Clough:

I am writing on behalf of my client, the City of Austin (“City”), in order to reply to LoneStar’s response referenced above.

A. The City has complied with all applicable Lease provisions and Texas eminent domain law.

The City sent its Initial Offer Letter in full compliance with Article 34 of the Lease, entitled CONDEMNATION AND BUSINESS INTERRUPTION, and Chapter 21 of the Texas Property Code. That chapter contains a mandatory Bona Fide Offer process, which is designed to facilitate negotiations and resolution of eminent domain disputes. Your letter however does not contain a monetary counteroffer. The City received your letter after LoneStar invoked the Alternative Dispute Resolution procedures in Article 40 of the Lease, which makes it even more difficult to understand why no counteroffer was made. The City requests that LoneStar reconsider and make a counteroffer that will help the parties determine if this matter can be resolved without costly and protracted litigation.

B. The City is protecting the interests of all AUS passengers, employees and airlines.

Your statements about wasting taxpayer dollars are misplaced and reflect a fundamental misunderstanding of how AUS is funded. AUS is a self-funded enterprise, which means it is not

Christopher M. Clough
May 11, 2022
Page 2

funded by taxpayer dollars. The City certainly uses public funds, including federal grant monies, to operate AUS, and the City intends to use those funds wisely and lawfully. The City has determined AEDP best serves the interests of all AUS passengers, employees and airlines and the public and is consistent with the 2040 Airport Master Plan. LoneStar opposes AEDP only because it believes it is not in the best interests of LoneStar. However, AUS is not allowed by law to consider only the best interests of LoneStar or elevate LoneStar's interests above other interests and remains firmly committed to AEDP.

C. LoneStar, rather than the City, is seeking to avoid its obligations under the Lease.

It is undisputed that the Lease is a valid and enforceable agreement. Two sophisticated parties¹, who were represented by very capable and competent legal counsel, negotiated the Lease provisions extensively for more than seven months in 2015 and 2016. In Article 34 of the Lease, both parties contemplated the risk of condemnation in general by any condemning authority and specifically by the City. In that article, the parties agreed to a detailed mechanism for compensating LoneStar for its leasehold interest. The parties agreed LoneStar, as Tenant, would be entitled to compensation for "the Fair Market Value of Tenant's Interest", which the Lease defined as including, among other things, the Tenant's rights under Article 15.² However, Article 15 does not impact the value of the Tenant's Interest because it is unenforceable for several different and independent reasons, including, but not limited to, the existence of unsatisfied conditions precedent, an unenforceable promise to negotiate towards a future agreement, and governmental immunities, which were expressly reserved in Articles 36.01(c) and 41.11 and elsewhere in the Lease.

By way of further explanation, the City's Department of Aviation, after participating in months of good faith negotiations with LoneStar, has repeatedly informed LoneStar that it does not agree to LoneStar's proposed "South Terminal 2.0." That plan on its face is not consistent with the 2040 Airport Master Plan, which, like its predecessor plans, calls for the removal of the South Terminal and the construction of a new and much more expanded terminal, such as Concourse B that will be connected to the Barbara Jordan Terminal under the AEDP. Additionally, Article 26.08 of the Lease confirms that the City has "absolute discretion" to determine what is necessary and appropriate when it comes to developing and improving AUS and all roadways, terminal facilities, land areas and taxiways and any other facilities at AUS. There are other reasons why Article 15 affords LoneStar no compensable rights. If it did, however, LoneStar should have quantified its

¹ LoneStar is owned and controlled by Oaktree Capital Management, which reportedly has \$164 Billion in assets under management. <https://www.oaktreecapital.com/about>. In turn, Oaktree's majority interest owner, Brookfield Asset Management, has about \$690 Billion in assets under management. *Id.*; <https://www.brookfield.com/>.

² The parties did not agree, in the event of condemnation, that the City was obligated to compensate LoneStar for its initial capital investment, any return on that investment or its going concern value. The parties addressed the concept of LoneStar recovering all or a portion of its initial capital investment in Article 25, entitled CAPITAL RECOVERY PAYMENT, which does not apply to the present circumstances and has expired by its own terms.

Christopher M. Clough
May 11, 2022
Page 3

value, made a demand for it, and explained the legal basis for the demand, but your letter, as stated above, does none of that.³

D. In the Lease, the parties contractually ratified the City's right to condemn LoneStar's interest, and *Blue Mound* is inapplicable for multiple reasons.

LoneStar's reliance on the 2014 *Blue Mound* decision is a desperate attempt to apply irrelevant law in an effort to rewrite the Lease for the sole benefit of LoneStar. There are multiple reasons *Blue Mound* is inapplicable to the present dispute. I will highlight just a few of them.

Texas law is well-settled that lost business income, profits, capital investments and any alleged return on those investments are fatally remote and speculative and thus not compensable. That rule of law applies to this dispute. *Blue Mound*, which recognized a very narrow exception to that legal principle based on unique facts, did not involve an extensively negotiated commercial real estate lease agreement between highly sophisticated parties, which included a condemnation clause. Thus, in *Blue Mound*, there was no landlord-tenant relationship or other preexisting contractual relationship between the parties nor an express condemnation clause that describes a mechanism to compensate the tenant in the event of condemnation by the landlord/municipality. Also, the City here already owns the lease premises in fee simple as well as the South Terminal itself and is simply condemning the leasehold interest it granted to LoneStar through the Lease.⁴ The City is not condemning LoneStar's business, which it is free to continue to conduct at other airports in Texas and other states. *Blue Mound* did not involve these important legal and factual distinctions.⁵

If *Blue Mound* barred the City's exercise of its power of eminent domain, LoneStar should have invoked it when negotiating Article 34, the condemnation clause, in 2015 and 2016.⁶ LoneStar invokes that decision now only because it has tenant's remorse and wants to rewrite the deal. Of course, the City would never have been able to agree to a contract provision that restricts its freedom to decide whether to initiate eminent domain proceedings. *Seureau v. ExxonMobil Corp.*, 274 S.W.3d 206, 225 (Tex. App.—Houston [14th Dist. 2008, no pet.) (citations omitted). That type of

³ Your letter claims LoneStar has received "multiple offers for hundreds of millions of dollars" in exchange for some portion of its interests. The City's retained independent real estate appraiser requested that information in his November 11, 2021 letter addressed to you. Item 5 in that letter requested "[a]ny listings, listing agreements, offers to sell, or offers to purchase." LoneStar did not disclose any responsive information. It is unreasonable for LoneStar to complain that the City's Initial Offer disregarded information, which was requested but not disclosed.

⁴ Article 41.05 of the Lease confirms the Lease merely created a landlord-tenant relationship between the parties and expressly disclaimed any partnership or joint venture.

⁵ The Austin Court of Appeals rejected arguments similar to those made by LoneStar in a case involving a commercial lease tenant who sought to recover the going concern value of its business due to an alleged impossibility to relocate its business. *AVM-Hou, Ltd. v. Capital Metro. Transp. Auth.*, 262 S.W.3d 574 (Tex. App.—Austin 2008, no pet.).

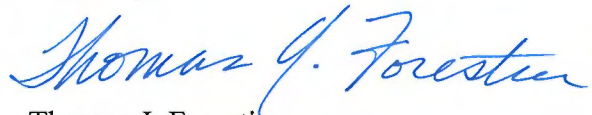
⁶ The parties amended the Lease in 2019. There is no record of LoneStar asking to modify Article 34, the condemnation clause, at that point in time either.

Christopher M. Clough
May 11, 2022
Page 4

clause is illegal and void. *Id.* Thus, *Blue Mound* is inapplicable, and LoneStar will not be able to rely on it to ask a court to rewrite the Lease in its favor.

The City hopes that the Alternative Dispute Resolution process recently invoked by LoneStar and the Bona Fide Offer process commenced by the City will generate a result that obviates the need for the parties to waste valuable time and resources in litigation. The City reserves all legal rights and interests and does not waive the right to assert other claims, defenses, and legal theories in the event of litigation. Please contact me with any questions about this letter.

Sincerely,

A handwritten signature in blue ink that reads "Thomas J. Forestier". The signature is written in a cursive style with a prominent initial 'T'.

Thomas J. Forestier
Counsel for the City of Austin

cc: Larry Slovensky

[via Email: lslovensky@kslaw.com](mailto:lslovensky@kslaw.com)

EXHIBIT O

CAUSE NO. _____

CITY OF AUSTIN, TEXAS,

Plaintiff,

v.

LONESTAR AIRPORT HOLDINGS,
LLC, and TEXAS CAPITAL BANK,

Defendants.

§
§
§
§
§
§
§
§
§
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CONDEMNATION PROCEEDING FILED

IN PROBATE COURT NO. 1

OF TRAVIS COUNTY, TEXAS

PLAINTIFF’S ORIGINAL STATEMENT AND PETITION FOR CONDEMNATION

Pursuant to Chapter 21 of the Texas Property Code, THE CITY OF AUSTIN, TEXAS, a Texas home rule city and municipal corporation (“Plaintiff” or “City of Austin”) files this Original Statement and Petition for Condemnation (the “Petition”) against Defendants LoneStar Airport Holdings, LLC and Texas Capital Bank (collectively “Defendants”; “Defendant Tenant” and Defendant Lienholder” respectively) and respectfully shows the Court as follows:

DISCOVERY PLAN AND RELIEF SOUGHT

1. Pursuant to Rules 190.1 and 190.4 of the Texas Rules of Civil Procedure, discovery is intended to be conducted under a Level 3 discovery plan. Plaintiff seeks monetary relief of \$250,000 or less and non-monetary relief. The damages and relief sought are within the jurisdictional limits of this Court. Because Plaintiff seeks non-monetary relief, Rule 169 of the Texas Rules of Civil Procedure regarding the expedited actions process does not apply to this suit. TEX. R. CIV. P. 169.

EXHIBITS

2. Plaintiff attaches to this Petition Exhibit A, as referenced below, which Plaintiff incorporates herein by reference as if fully set forth herein.

Exhibit	Interests Described/Depicted
A	25.14 acres of land being a part the Santiago Del Valle Ten League Grant Survey, Abstract No. 24, Travis County, Texas being out of a called 1989.252-acre tract to the City of Austin in a Deed Without Warranty Recorded in Document Number 2002002218 of the Official Public Records of Travis County, Texas

PARTIES

3. The City of Austin is a Texas home rule municipality and corporate body politic with all the powers granted to municipal corporations by the Texas Constitution and general and special laws of the State of Texas. The City of Austin is vested with the power of eminent domain under the provisions of Chapters 251 and 273 of the Texas Local Government Code, Chapter 22 of the Texas Transportation Code, the Texas Constitution, and the common law of the State of Texas, to acquire real property interests, for, among other things, the public purpose of airports and landing fields; and the planning, establishing, constructing, improving, equipping, maintaining, operating, regulating, protecting, and policing of airports or air navigation facilities. The City of Austin's principal place of business is in Austin, Travis County, Texas.

4. Defendant, LoneStar Airport Holdings, LLC, a Delaware limited liability company, may be served with Notice of Hearing by and through its Registered Agent, Kimberly Dorrien, at 10000 Logistics Lane, Austin, TX 78719, or wherever else found. In accordance with Section 21.012(c) of the Texas Property Code, a copy of this Petition is being sent to Defendant Tenant by certified mail, return receipt requested, and first-class mail, as well as to Defendant Tenant's counsel via email and electronic filing and service.

5. Defendant, Texas Capital Bank, may be served with Notice of Hearing by and through its Registered Agent, Anna M. Alvarado, at 2000 McKinney Ave., Suite 700, Dallas, TX 75201, or wherever else found. In accordance with Section 21.012(c) of the Texas Property Code,

a copy of this Petition is being sent to Defendant Lienholder by certified mail, return receipt requested, and first-class mail.

6. To the best of Plaintiff's knowledge, Defendants hold, possess or claim some interest in or title to, the leasehold interest in the land, improvements, and all other buildings therein and thereon (the "Subject Property") described and depicted on Exhibit A attached hereto. The Subject Property, from which Plaintiff will acquire title to Defendants' interests, is located at Austin-Bergstrom International Airport ("AUS") in Travis County, Texas in the vicinity of the South Terminal. Plaintiff reserves the right to amend this Petition and add as defendants any additional parties who may subsequently appear to own an interest in the Subject Property.

JURISDICTION AND VENUE

7. Plaintiff seeks to acquire Defendants' interests in the Subject Property by eminent domain pursuant to chapter 21 of the Texas Property Code. This Court has jurisdiction over this cause under Section 21.001 of the Texas Property Code.

8. Venue is proper under Section 21.013(a) of the Texas Property Code because Travis County is the county in which the Subject Property is located.

SUIT FOR CONDEMNATION

9. Plaintiff incorporates the foregoing paragraphs as if fully set forth herein.

10. Plaintiff is in the process of implementing the Airport Expansion and Development Program ("AEDP") at AUS, which includes the expansion of the Barbara Jordan Terminal and the construction of a new Midfield Concourse. The new Midfield Concourse facility will require the relocation of the existing midfield taxiways. Plaintiff determined that the safest, most operationally efficient, and most cost-effective alignment of the future taxiways will require the closure and removal of the South Terminal at AUS. The AEDP has been developed and will be implemented to reflect what is in the best interest of the City of Austin, the City of Austin community, the greater

Central Texas region, and the airlines to pursue a more operationally modern and cost-efficient facility for all airlines and passengers that will keep pace with the region's growing aviation demand.

11. On March 24, 2016, Plaintiff granted the South Terminal Lease and Concession Agreement ("Lease") to Highstar Capital IV, L.P., a limited partnership formed and existing under the laws of the State of Delaware ("Initial Tenant"). The Initial Tenant then assigned the Lease to Defendant Tenant by the Assignment and Assumption Agreement by and between Highstar Capital IV, L.P. and LoneStar Airport Holdings, LLC dated March 24, 2016. Plaintiff and Defendant Tenant amended the Lease by Amendment No. One to the South Terminal Lease and Concession Agreement by and between the City of Austin and LoneStar Airport Holdings, LLC, effective July 1, 2019.

12. The City Council of the City of Austin, duly incorporated, organized and existing under and by virtue of its charter adopted by the electorate pursuant to Article XI, Section 5 of the Texas Constitution, is vested with the power and authority to appropriate private property for public use and purposes by condemnation proceedings and to exercise all of the powers of eminent domain under Section 251.001 of the Texas Local Government Code.

13. The City Council of the City of Austin determined, through a passed and adopted Resolution 20220616-063 (the "Resolution"), that a public use and necessity exists and that it is in the public interest to acquire Defendants' interests in the Subject Property and all improvements and other buildings therein and thereon leased to Defendant Tenant by Plaintiff, if any, for the implementation of the AEDP. By law and as provided by the express terms of the Lease, Plaintiff is entitled to condemn Defendants' interests in the Subject Property for the purposes set forth above and asks that the same be condemned for such purposes.

14. Based on the Resolution, Plaintiff has been granted the authority to purchase or condemn title to Defendants' interests in the Subject Property and such other interests in real property as are necessary, convenient, or useful for the implementation of the AEDP.

15. Plaintiff requires Defendants' interests in the Subject Property and such other interests in real property as are necessary, convenient, or useful for the implementation of the AEDP.

16. Plaintiff made a bona fide offer to acquire Defendant Tenant's leasehold interest in the Subject Property from Defendant Tenant voluntarily as provided by Section 21.0113 of the Texas Property Code. However, Plaintiff and Defendant Tenant are unable to agree on the value of Defendant Tenant's leasehold interest in the Subject Property. Plaintiff therefore institutes this eminent domain proceeding to acquire all of Defendants' interests in the Subject Property as Plaintiff is authorized to do under existing law and the express terms of the Lease.

17. Plaintiff timely provided the Landowner's Bill of Rights Statement in accordance with Section 21.0112 of the Texas Property Code.

18. In conclusion, Plaintiff seeks to enforce its right of eminent domain for the acquisition of Defendants' interests in the Subject Property under the statutes and laws of the State of Texas and the express terms of the Lease, consistent with the established statutory scheme which the Texas Legislature and Courts have adopted for such purposes.

DISCLOSURE OF REQUIRED INFORMATION

19. As provided by Section 21.023 of the Texas Property Code, Plaintiff hereby discloses that Defendants or Defendants' heirs, successors, or assigns may be entitled to repurchase Defendants' leasehold interest in the Subject Property under Subchapter E of Chapter 21 of the Texas Property Code or request from Plaintiff certain information relating to the use of the Subject

Property and any actual progress made toward that use; and that the repurchase price is the price paid to Defendants by Plaintiff at the time Plaintiff acquired the Subject Property through eminent domain.

CONDITIONS PRECEDENT

20. All conditions precedent to instituting this condemnation proceeding have occurred or have been performed.

PRAYER

WHEREFORE, PREMISES CONSIDERED, Plaintiff, the City of Austin, Texas, prays that: (1) the Court immediately appoint three disinterested real property owners who reside in Travis County as Special Commissioners and appoint two disinterested real property owners who reside in Travis County as alternate Special Commissioners; (2) that the Special Commissioners promptly set a time and place for hearing at the earliest practical time following twenty (20) days after the order appointing the Special Commissioners and serve notice of the hearing to all parties; (3) that the Special Commissioners assess the actual damages, if any, from the condemnation action and promptly file their written decision and award with the Court; (4) that the Court grant Plaintiff a Writ of Possession to enforce the decision of the Special Commissioners immediately upon payment into the registry of the Court the amount of the Special Commissioners' award; (5) that the Court enter judgment vesting Plaintiff with the property rights sought in this condemnation action; and (6) that the Court award Plaintiff its cost of suit, and any other relief, both general and special, legal and equitable, to which Plaintiff may be entitled.

Respectfully submitted,

WINSTEAD PC

By: /s/ Thomas J. Forestier

Thomas J. Forestier
State Bar No. 07256560
tforestier@winstead.com
Christopher Robertson
State Bar No. 24107267
crobertson@winstead.com
600 Travis Street, Suite 5200
Houston, Texas 77002
Telephone: (713) 650-2749
Facsimile No.: (713) 650-2400

Andrew J. Schumacher
State Bar No. 24051310
aschumacher@winstead.com
401 Congress Avenue, Suite 2100
Austin, Texas 78701
(512) 370-2800
(512) 370-2850 (Fax)

-and-

ANNE MORGAN, CITY ATTORNEY
MEGHAN L. RILEY, LITIGATION
DIVISION CHIEF

Angela C. Rodriguez
Assistant City Attorney
State Bar No. 24013415
Angela.Rodriguez@austintexas.gov
City of Austin Law Department
P.O. Box 1088
Austin, TX 78767-1088
Telephone: (512) 974-2317
Facsimile No.: (512) 974-1311

**ATTORNEYS FOR PLAINTIFF,
THE CITY OF AUSTIN**

CERTIFICATE OF SERVICE

I hereby certify that on this 17th day of June, 2022, a true and correct copy of the foregoing document was served upon the following parties in compliance with Rule 21a of the Texas Rules of Civil Procedure:

Lawrence A. Slovensky
King & Spalding LLP
1180 Peachtree Street, N.E.
Atlanta, GA 30309-3521
lslovensky@kslaw.com

Attorney for Defendant

_____ via Certified Mail, RRR
_____ via U.S. Mail
_____ via Federal Express
_____ via Facsimile
 via E-mail
_____ via Hand Delivery
 via CM/ECF System

Christopher M. Clough
Barron Adler Clough & Oddo, LLP
808 Nueces Street
Austin, TX 78701
clough@barronadler.com

Attorney for Defendant

_____ via Certified Mail, RRR
_____ via U.S. Mail
_____ via Federal Express
_____ via Facsimile
 via E-mail
_____ via Hand Delivery
 via CM/ECF System

Kimberly Dorrien
LoneStar Airport Holdings, LLC
10000 Logistics Lane
Austin, TX 78719

*Registered Agent for Defendant,
LoneStar Airport Holdings, LLC*

via Certified Mail, RRR
 via U.S. Mail
_____ via Federal Express
_____ via Facsimile
_____ via E-mail
_____ via Hand Delivery
_____ via CM/ECF System

EXHIBIT A



MACIAS & ASSOCIATES, L.P.
LAND SURVEYORS – FIRM REG. NO. 101141-00

EXHIBIT " _____ "

CITY OF AUSTIN
TO
SOUTH TERNINAL
LEASE AGREEMENT

LEGAL DESCRIPTION FOR

A 23.00 ACRE (1,002,031 SQUARE FEET) TRACT OF LAND IN THE SANTIAGO DEL VALLE TEN LEAGUE GRANT SURVEY, ABSTRACT NO. 24, TRAVIS COUNTY, TEXAS, BEING OUT OF A CALLED 1989.252 ACRE TRACT TO THE CITY OF AUSTIN IN DEED WITHOUT WARRANTY RECORDED IN DOCUMENT NUMBER 2002002218 OF THE OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS. SAID 23.00 ACRES, SAVE & EXCEPT A 0.34 ACRE TRACT OF LAND, IN TOTAL A 22.66 ACRE TRACT AS SHOWN ON THE ACCOMPANYING SKETCH, BEING MORE PARTICULARLY DESCRIBED BY METES AND BOUNDS AS FOLLOWS:

BEGINNING at a 60d nail set in the interior of the said 1989.252 acre tract, said 60d nail having Texas State Plane Coordinates (Central Zone 4203) of N=10,044,494.22, E=3,137,398.76 for the northwest corner of this tract, from which a ½" iron rod found at an interior angle of said 1989.252 acre tract, also being a northeast corner of a 1033.081 acre tract conveyed to the City of Austin in deed without warranty recorded in Document Number 1999015608 of the Official Public Records of Travis County, Texas, bears N 05°35'01" W a distance of 6,233.50 feet;

THENCE through the interior of said 1989.252 acre tract the following forty-eight (48) calls:

- 1) N 87°26'30" E for a distance of 465.38 feet to a calculated point;
- 2) S 02°33'30" E for a distance of 130.10 feet to a calculated point;
- 3) S 41°43'16" W for a distance of 68.12 feet to a calculated point;
- 4) S 41°42'29" E for a distance of 6.23 feet to a calculated point;
- 5) N 41°40'08" E for a distance of 203.19 feet to a calculated point;
- 6) N 87°22'35" E for a distance of 375.79 feet to a point of curvature of a curve to the left;
- 7) With said curve to the left, having a radius of 100.09 feet, an arc length of 35.74 feet and a chord which bears N 77°33'57" E a distance of 35.55 feet to a calculated point;
- 8) N 02°41'00" W for a distance of 115.62 feet to a calculated point;

- 9) N 87°21'57" E a distance of 300.96 feet to a calculated point;
- 10) S 02°41'00" E a distance of 64.99 feet to a point of curvature of a curve to the left;
- 11) With said curve to the left, having a radius of 10.00 feet, an arc length of 15.70 feet and a chord which bears S 47°40'07" E a distance of 14.14 feet to a calculated point;
- 12) N 87°20'47" E a distance of 220.47 feet to a calculated point;
- 13) N 42°29'14" E a distance of 386.62 feet to a 60d nail set;
- 14) S 47°30'46" E a distance of 165.53 feet to a calculated point;
- 15) S 41°19'42" W a distance of 215.92 feet to a calculated point;
- 16) N 87°20'47" E a distance of 768.04 feet to point of curvature of a curve to the left;
- 17) With said curve to the left, having a radius of 80.00 feet, an arc length of 83.24 feet and a chord which bears N 57°32'20" E a distance of 79.53 feet to a point of cusp of a curve to the left;
- 18) With said curve to the left, having a radius of 586.87 feet, an arc length of 283.55 feet and a chord which bears S 13°50'37" W a distance of 280.80 feet to a calculated point;
- 19) N 53°22'12" W a distance of 142.56 feet to a calculated point;
- 20) S 72°53'58" W a distance of 96.54 feet to a point of curvature of a curve to the left;
- 21) With said curve to the left, having a radius of 100.00 feet, an arc length of 52.86 feet and a chord which bears S 57°45'23" W a distance of 52.25 feet to a calculated point;
- 22) S 42°36'48" W a distance of 53.49 feet to a point of curvature of a curve to the right;
- 23) With said curve to the right, having a radius of 101.00 feet, an arc length of 79.02 feet and a chord which bears S 65°01'39" W a distance of 77.02 feet to a calculated point;
- 24) S 87°26'30" W a distance of 834.22 feet to a point of curvature of a curve to the left;

- 25) With said curve to the left, having a radius of 38.00 feet, an arc length of 33.78 feet and a chord which bears S 61°58'37" W a distance of 32.68 feet to a calculated point;
- 26) S 36°30'43" W a distance of 59.08 feet to a point of curvature of a curve to the right;
- 27) With said curve to the right, having a radius of 77.00 feet, an arc length of 68.36 feet and a chord which bears S 61°56'37" W a distance of 66.13 feet to a calculated point;
- 28) S 87°22'32" W a distance of 431.05 feet to a calculated point;
- 29) S 42°24'27" W a distance of 29.29 feet to a calculated point;
- 30) S 02°22'47" E a distance of 126.52 feet to a calculated point;
- 31) N 87°26'30" E a distance of 20.47 feet to a calculated point;
- 32) S 02°31'48" E a distance of 175.53 feet to a ½" iron rod set;
- 33) S 87°26'30" W a distance of 122.30 feet to a calculated point;
- 34) N 81°25'12" W a distance of 102.72 feet to a point of curvature of a curve to the left;
- 35) With said curve to the left, having a radius of 24.00 feet, an arc length of 7.81 feet and a chord which bears S 85°33'11" W a distance of 7.77 feet to a point of curvature of a curve to the right;
- 36) With said curve to the right, having a radius of 283.22 feet, an arc length of 64.46 feet and a chord which bears S 80°30'08" W a distance of 64.32 feet to a calculated point;
- 37) S 87°26'30" W a distance of 24.73 feet to a calculated point;
- 38) S 02°33'30" E a distance of 32.01 feet to a calculated point;
- 39) S 87°41'20" W a distance of 335.00 feet to a 60d nail set, from which a ½" iron rod found at an angle point of said 1989.252 acre tract, also being an angle point of said 1033.081 acre tract bears, S 02°59'04" W a distance of 4,466.08 feet;
- 40) N 34°49'34" W a distance of 62.77 feet to a calculated point;
- 41) N 02°33'30" W a distance of 131.94 feet to a calculated point;
- 42) S 87°26'30" W a distance of 14.65 feet to a calculated point;
- 43) N 02°33'30" W a distance of 112.45 feet to a calculated point;

- 44) N 88°14'17" E a distance of 20.14 feet to a calculated point;
- 45) N 02°33'40" W a distance of 106.92 feet to a calculated point;
- 46) S 87°20'47" W a distance of 125.89 feet to a calculated point;
- 47) N 02°39'13" W a distance of 110.69 feet to a calculated point;
- 48) N 16°21'19" E a distance of 170.33 feet to the **POINT OF BEGINNING** and containing 23.00 acres (Gross) & 22.66 acres (Net).

SAVE & EXCEPT - (0.34 ACRE)

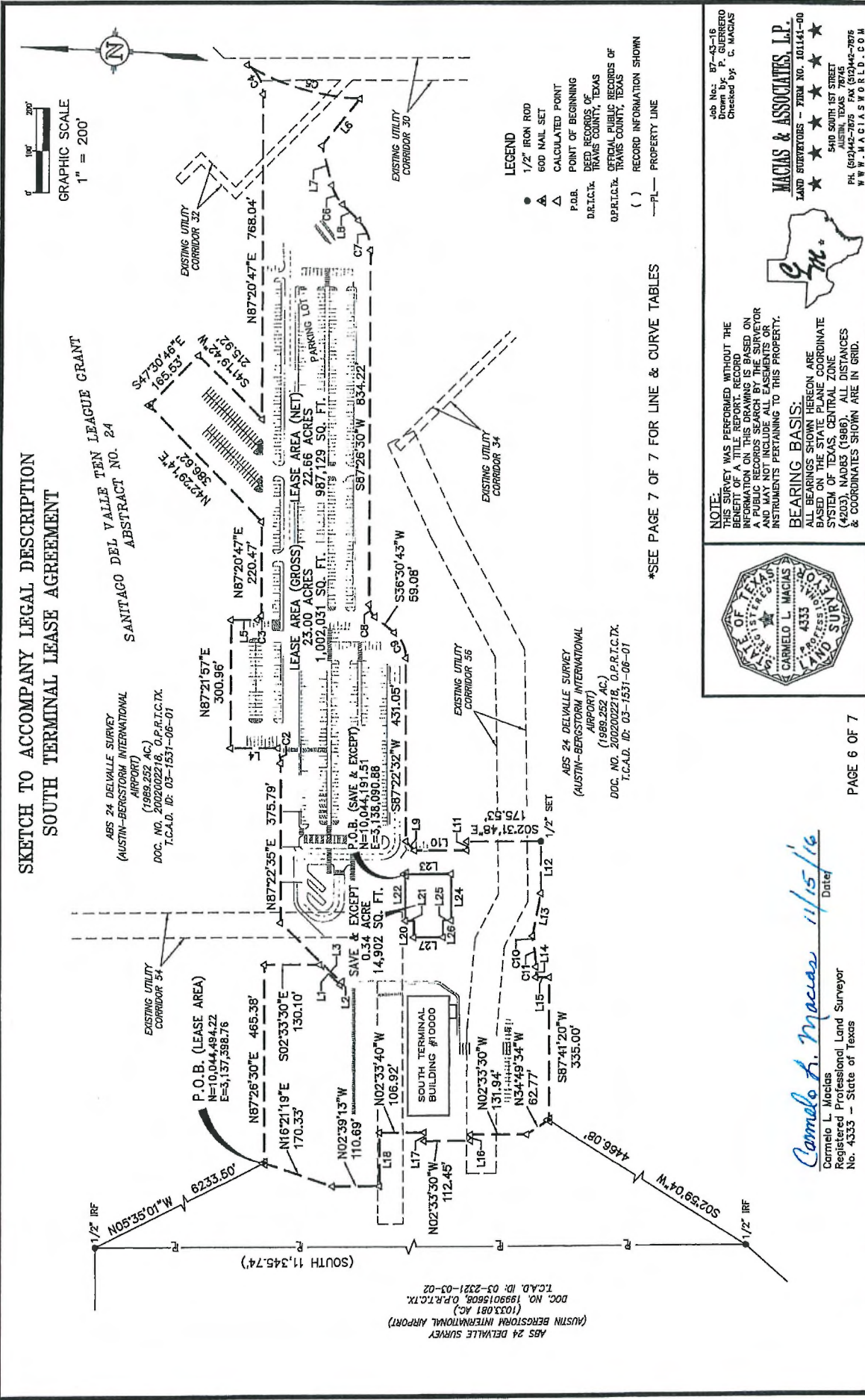
BEGINNING at a 60d nail set in the interior of the said 1989.252 acre tract, said 60d nail having Texas State Plane (Central Zone 4203) coordinates of N=10,044,191.51, E=3,138,090.88

THENCE through the interior of said 1989.252 acre tract the following eight (8) calls:

- 1) S 02°41'00" E for a distance of 110.23 feet to a calculated point;
- 2) S 87°19'00" W for a distance of 109.90 feet to a calculated point;
- 3) N 02°41'00" W for a distance of 19.84 feet to a calculated point;
- 4) S 87°19'00" W for a distance of 39.41 feet to a calculated point;
- 5) N 02°41'00" W for a distance of 70.68 feet to a calculated point;
- 6) N 87°19'00" E for a distance of 39.40 feet to a calculated point;
- 7) N 02°47'58" W for a distance of 19.74 feet to a calculated point;
- 8) N 87°20'24" E for a distance of 109.95 feet to the **POINT OF BEGINNING** and containing 0.34 acre (14,902 sq. ft.) of land;

TOTAL ACREAGE - 22.66 acres (987,129 sq. ft.) of lease area.

**SKETCH TO ACCOMPANY LEGAL DESCRIPTION
SOUTH TERMINAL LEASE AGREEMENT**



GRAPHIC SCALE
1" = 200'

- LEGEND**
- 1/2" IRON ROD
 - ▲ 600 NAIL SET
 - △ CALCULATED POINT
 - P.O.B. POINT OF BEGINNING
 - DEED RECORDS OF TRAVIS COUNTY, TEXAS
 - OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS
 - () RECORD INFORMATION SHOWN
 - PL— PROPERTY LINE

Job No. 87-43-16
Drawn by: F. GUERRERO
Checked by: C. MACIAS

MACIAS & ASSOCIATES, L.P.
LAND SURVEYORS - FIRM NO. 101141-00
540 SOUTH 1ST STREET
AUSTIN, TEXAS 78745
PH. (512) 476-3876
WWW.MACIASLANDSURV.COM

NOTE:
THIS SURVEY WAS PERFORMED WITHOUT THE BENEFIT OF A TITLE REPORT. RECORD INFORMATION ON THIS DRAWING IS BASED ON THE SURVEYOR'S FIELD NOTES AND INSTRUMENTS PERTAINING TO THIS PROPERTY.

BEARING BASIS:
ALL BEARINGS SHOWN HEREON ARE BASED ON THE STATE PLANE COORDINATE SYSTEM OF TEXAS, CENTRAL ZONE (4203), NAD83 (1986). ALL DISTANCES & COORDINATES SHOWN ARE IN GRID.



*SEE PAGE 7 OF 7 FOR LINE & CURVE TABLES

Carmelo L. Macias 11/15/16
Dated

Carmelo L. Macias
Registered Professional Land Surveyor
No. 4335 - State of Texas

ABS 24 DELVALLE SURVEY
(AUSTIN-BERGSTORM INTERNATIONAL AIRPORT)
DOC. NO. 19901968, D.P.R.T.C.T.X.
(1033081 AC.)
T.C.A.D. ID: 03-2321-03-02

ABS 24 DELVALLE SURVEY
(AUSTIN-BERGSTORM INTERNATIONAL AIRPORT)
DOC. NO. 200202216, D.P.R.T.C.T.X.
(1969252 AC.)
T.C.A.D. ID: 03-1531-06-01

ABS 24 DELVALLE SURVEY
(AUSTIN-BERGSTORM INTERNATIONAL AIRPORT)
DOC. NO. 200202216, D.P.R.T.C.T.X.
(1969252 AC.)
T.C.A.D. ID: 03-1531-06-01

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SKETCH TO ACCOMPANY LEGAL DESCRIPTION
SOUTH TERMINAL LEASE AGREEMENT

LINE TABLE		
NO.	BEARING	DISTANCE
L1	S41°43'16"W	66.12'
L2	S41°42'29"E	6.23'
L3	N41°40'08"E	203.19'
L4	N02°41'00"W	115.62'
L5	S02°41'00"E	64.99'
L6	N53°22'12"W	142.56'
L7	S72°53'58"W	96.54'
L8	S42°36'48"W	53.49'
L9	S42°24'27"W	29.29'
L10	S02°22'47"E	126.52'
L11	N87°26'30"E	20.47'
L12	S87°26'30"W	122.30'
L13	N81°25'12"W	102.72'
L14	S87°26'30"W	24.73'
L15	S02°33'30"E	32.01'
L16	S87°26'30"W	14.65'
L17	N88°14'17"E	20.14'
L18	S87°20'47"W	125.89'

CURVE TABLE					
CURVE	RADIUS	LENGTH	DELTA	CHORD DIRECTION	CHORD LENGTH
C2	100.09'	35.74'	20°27'32"	N77°33'57"E	35.55'
C3	10.00'	15.70'	89°58'13"	S47°40'07"E	14.14'
C4	80.00'	83.24'	59°36'55"	N57°32'20"E	79.53'
C5	586.87'	283.55'	27°40'58"	S13°50'37"W	280.80'
C6	100.00'	52.86'	30°17'10"	S57°45'23"W	52.25'
C7	101.00'	79.02'	44°49'43"	S85°01'39"W	77.02'
C8	38.00'	33.78'	50°55'47"	S61°56'37"W	32.68'
C9	77.00'	66.36'	50°51'49"	S61°56'37"W	66.13'
C10	24.00'	7.81'	18°38'03"	S85°33'11"W	7.77'
C11	283.22'	64.46'	13°02'28"	S80°30'08"W	64.32'

LINE TABLE		
NO.	BEARING	DISTANCE
L20	N87°19'00"E	39.40'
L21	N02°47'58"W	19.74'
L22	N87°20'24"E	109.95'
L23	S02°41'00"E	110.23'
L24	S87°19'00"W	109.90'
L25	N02°41'00"W	19.84'
L26	S87°19'00"W	39.41'
L27	N02°41'00"W	70.66'

Job No. 87-43-16
Checked by: C. MACIAS

MACIAS & ASSOCIATES, I.P.
LAND SURVEYORS - FBK NO. 101141-00

5408 SOUTH LEE STREET
DALLAS, TEXAS 75215
PH. (214)42-7875 FAX (214)42-7876
WWW.MACIASWORLDCOM

NOTE: THIS SURVEY WAS PERFORMED WITHOUT THE ASSISTANCE OF ANY INSTRUMENTS. ALL INFORMATION ON THIS DRAWING IS BASED ON A PUBLIC RECORDS SEARCH BY THE SURVEYOR AND MAY NOT INCLUDE ALL EASEMENTS OR INSTRUMENTS PERTAINING TO THIS PROPERTY.

BEARING BASIS:
ALL BEARINGS SHOWN HEREON ARE BASED ON THE STATE PLANE COORDINATE SYSTEM OF TEXAS, CENTRAL ZONE (4203). ALL DISTANCES & COORDINATES SHOWN ARE IN GRID.

EXHIBIT P

EXHIBIT 8

OFFICIAL STATEMENT DATED APRIL 26, 2022**New Issue: Book-Entry-Only System****Ratings:** Moody's: "A1" (stable outlook)

S&P: "A+" (stable outlook)

Kroll: "AA-" (stable outlook)

(See "OTHER RELEVANT INFORMATION – Ratings")

In the opinion of Bracewell LLP, Bond Counsel, under existing law, (i) interest on the Bonds is excludable from gross income for federal income tax purposes, except for any period during which a Bond is held by a person who is a "substantial user" of the facilities financed with the proceeds of the Bonds or a "related person" to such a "substantial user," each within the meaning of section 147(a) of the Code and (ii) interest on the Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining a taxpayer's alternative minimum tax liability. See "TAX MATTERS" for a discussion of the opinions of Bond Counsel.

**\$416,060,000****CITY OF AUSTIN, TEXAS****Airport System Revenue Bonds, Series 2022 (AMT)****Dated:** May 1, 2022;

Interest to accrue from Date of Initial Delivery

Due: November 15,

as shown on the inside cover page

The \$416,060,000 City of Austin, Texas Airport System Revenue Bonds, Series 2022 (AMT) (the "Bonds"), are limited special obligations of the City of Austin, Texas (the "City"), issued pursuant to an ordinance adopted by the City Council of the City on April 7, 2022 (the "Ordinance"). In the Ordinance, the City Council delegated the authority to sell the Bonds to an Authorized Officer (as defined in the Ordinance), subject to the parameters set forth in the Ordinance.

The proceeds of the Bonds will be used for the purposes of (i) designing and constructing improvements to Austin-Bergstrom International Airport ("ABIA" or the "Airport"), as more fully described in "DESCRIPTION OF THE 2022-2028 PROJECT" in this document, (ii) making a deposit to the Debt Service Reserve Fund, (iii) funding capitalized interest on the Bonds, and (iv) paying certain costs incurred in connection with the issuance of the Bonds. See "PLAN OF FINANCE" and "APPLICATION OF BOND PROCEEDS" in this document.

Interest on the Bonds is calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds will accrue from the Date of Initial Delivery (as defined below), and is payable on November 15, 2022 and semiannually thereafter on May 15 and November 15 of each year until maturity or prior redemption. The City intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"), but reserves the right on its behalf or on behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer. See "DESCRIPTION OF THE BONDS – Book-Entry-Only System" in this document.

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

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

Potential Investors must read this entire Official Statement to obtain information essential to making an informed investment decision. Investment in the Bonds is subject to certain investment considerations. See "CERTAIN INVESTMENT CONSIDERATIONS" in this document.

The Bonds are offered for delivery when, as and if issued, subject to receipt of the opinions of the Attorney General of the State of Texas and Bracewell LLP, Bond Counsel for the City. See "APPENDIX D – FORM OF BOND COUNSEL'S OPINION" in this document. Certain legal matters will be passed upon for the City by McCall, Parkhurst & Horton L.L.P., as disclosure counsel to the City, and for the underwriters listed below (the "Underwriters") by their counsel, Haynes & Boone, LLP. It is expected that the Bonds will be available for initial delivery to the Underwriters through the facilities of DTC on or about May 18, 2022 (the "Date of Initial Delivery").

Morgan Stanley
Loop Capital Markets

Ramirez & Co., Inc.
Raymond James

\$416,060,000
CITY OF AUSTIN, TEXAS
Airport System Revenue Bonds, Series 2022 (AMT)

MATURITY SCHEDULE

Base CUSIP No. 052398 ⁽¹⁾

Maturity Date (November 15)	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
2025	\$6,965,000	5.000%	2.900%	HA5
2026	7,320,000	5.000%	2.940%	HB3
2027	7,700,000	5.000%	3.040%	HC1
2028	8,090,000	5.000%	3.160%	HD9
2029	8,500,000	5.000%	3.280%	HE7
2030	8,940,000	5.000%	3.370%	HF4
2031	9,395,000	5.000%	3.490%	HG2
2032	9,885,000	5.000%	3.550%	HH0
2033	10,390,000	5.000%	3.640% ⁽²⁾	HJ6
2034	10,920,000	5.000%	3.690% ⁽²⁾	HK3
2035	11,480,000	5.000%	3.750% ⁽²⁾	HL1
2036	12,065,000	5.000%	3.800% ⁽²⁾	HM9
2037	12,685,000	5.000%	3.820% ⁽²⁾	HN7
2038	13,335,000	5.000%	3.880% ⁽²⁾	HP2
2039	14,020,000	5.000%	3.910% ⁽²⁾	HQ0
2040	14,740,000	5.000%	3.920% ⁽²⁾	HR8
2041	15,495,000	5.000%	3.930% ⁽²⁾	HS6
2042	16,290,000	5.000%	3.950% ⁽²⁾	HT4
2043	17,125,000	5.000%	3.970% ⁽²⁾	HU1

\$78,160,000 5.250% Term Bonds maturing November 15, 2047, priced to yield 3.890%⁽²⁾, CUSIP Suffix HV9 ⁽¹⁾

\$25,000,000 4.250% Term Bonds maturing November 15, 2052, priced to yield 4.270%, CUSIP Suffix HX5 ⁽¹⁾

\$97,560,000 5.000% Term Bonds maturing November 15, 2052, priced to yield 4.060%⁽²⁾, CUSIP Suffix HW7 ⁽¹⁾

(Interest to accrue from the Date of Initial Delivery)

- ⁽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.
- ⁽²⁾ Initial yield priced to November 15, 2032, the first optional call date. See “DESCRIPTION OF THE BONDS – Redemption of the Bonds” in this document.

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

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

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

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

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

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

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

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

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

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

TABLE OF CONTENTS

CITY OF AUSTIN, TEXASvii
 Elected Officialsvii
 Appointed Officials.....vii
 INTRODUCTION1
 General.....1
 COVID-19 Pandemic1
 Amendments to Revenue Bond Ordinances3
 PLAN OF FINANCE4
 DESCRIPTION OF THE 2022-2028 PROJECT4
 APPLICATION OF BOND PROCEEDS.....5
 DESCRIPTION OF THE BONDS5
 General.....5
 Payment of the Bonds5
 Redemption of the Bonds5
 Limitation on Transfer of Bonds Called for Redemption7
 Defeasance of Bonds7
 Book-Entry-Only System8
 Paying Agent/Registrar.....9
 Transfer, Exchange and Registration.....9
 SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS10
 Pledge of Net Revenues10
 Use of Passenger Facility Charges.....11
 Flow of Funds.....11
 Rate Covenant.....12
 Debt Service Reserve Fund.....13
 Remedies.....14
 Additional Revenue Bonds.....15
 Credit Agreement Obligations.....17
 Contingent Payment Obligations17
 Subordinate Obligations18
 OUTSTANDING REVENUE BONDS, SPECIAL FACILITIES BONDS AND SUBORDINATE OBLIGATIONS18
 Outstanding Revenue Bonds18
 Special Facilities Bonds.....19
 Subordinate Obligation to Support Austin Airport Hotel Refinancing.....19
 DEBT SERVICE REQUIREMENTS.....21
 THE AIRPORT SYSTEM.....22
 Airport Facilities22
 AIRPORT MANAGEMENT23
 AIRPORT SERVICE REGION.....25
 Primary Service Region.....25
 Nearby Airports25
 AIRPORT ACTIVITY26
 Table 1 - Historical Airline Traffic.....26
 Table 2 - List of Airlines.....27
 Table 3 - Airline Market Shares28
 Table 4 - Historical Aircraft Operations29
 Table 5 - Historical Aircraft Landed Weight29
 AIRPORT REVENUES AND AGREEMENTS.....30
 Passenger and Cargo Airline Agreements30
 Terminal Concession and Other Non-Airline Business Agreements.....31
 Garage and Parking Agreements.....31
 Rental Car Company Agreements31
 Ground Transportation32
 General Aviation Agreements.....32

South Terminal Arrangements.....	32
HISTORICAL FINANCIAL DATA.....	34
Table 6 - Comparative Statements of Revenues, Expenses and Changes in Net Position	34
Table 7 - Airport Revenue Detail by Fiscal Year	35
Table 8 - Historical Debt Service Coverage.....	36
Historical Debt Service Coverage Information Contained in Audited Financial Statements.....	36
AIRLINE INFORMATION.....	36
REGULATION.....	37
Rates and Charges and Revenue Use; Federal Statutes	37
Passenger Facility Charges.....	37
Table 9 - PFC Detail by Fiscal Year.....	38
Federal and State Noise Regulation	39
CAPITAL IMPROVEMENT PROGRAM	39
REPORT OF THE AIRPORT CONSULTANT.....	40
Prospective Financial Information.....	40
CERTAIN INVESTMENT CONSIDERATIONS.....	41
COVID-19	41
General.....	41
Limited Obligations.....	41
No Acceleration.....	42
Structural Changes in the Travel Market.....	42
Factors Affecting the Airline Industry.....	42
Effect of Airline Bankruptcies.....	44
Effect of Other Tenant or Concessionaire Bankruptcies	45
Effect of a City Bankruptcy	45
Aviation Security and Health Safety Concerns.....	46
Climate Change.....	46
Delays and Cost Increases; Additional Indebtedness	46
Regulations and Restrictions Affecting the Airport.....	47
Ability to Meet Rate Covenant	47
Availability of PFCs and PFC Approval	48
Availability of Funding for the Capital Improvement Program.....	48
Federal Funding Considerations.....	48
Forward-Looking Statements	49
Assumptions in the Airport Consultant’s Report	50
Competition and Alternate Modes of Transportation and Communication.....	50
Cybersecurity.....	50
Secondary Market.....	51
LITIGATION.....	51
CONTINUING DISCLOSURE OF INFORMATION.....	51
Annual Reports.....	51
Disclosure Event Notices.....	52
Availability of Information.....	52
Limitations and Amendments.....	52
Compliance with Prior Undertakings	53
TAX MATTERS.....	53
Tax Exemption	53
Collateral Tax Consequences.....	54
Tax Accounting Treatment of Original Issue Discount.....	54
Tax Accounting Treatment of Original Issue Premium.....	55
Tax Legislative Changes	55
INVESTMENTS.....	56
Legal Investments.....	56
Investment Policies	57
Additional Provisions.....	58
Current Investments	59
THE CITY.....	59

Administration	59
City Manager – Spencer Cronk	59
Assistant City Manager – Veronica Briseño	59
Chief Financial Officer – Ed Van Eenoo	60
Deputy Chief Financial Officer – Diana Thomas.....	60
Deputy Chief Financial Officer – Kimberly Oliveras.....	60
Services Provided by the City	60
Employees	60
Pension Plans	61
Other Post-Employment Benefits	63
Insurance	64
Environmental Responsibility.....	64
OTHER RELEVANT INFORMATION.....	64
Ratings.....	64
Registration and Qualification	64
Legal Investments and Eligibility to Secure Public Funds in Texas	65
Legal Matters.....	65
Financial Advisor.....	66
Financial Information and Independent Auditors	66
Underwriting.....	66
Authenticity of Financial Data and Other Information	66
Certification of the Official Statement	67
APPENDICES	
REPORT OF THE AIRPORT CONSULTANT	APPENDIX A
AUDITED FINANCIAL STATEMENTS.....	APPENDIX B
SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE	APPENDIX C
FORM OF BOND COUNSEL'S OPINION	APPENDIX D

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CITY OF AUSTIN, TEXAS

Elected Officials

	<u>Term Expires Jan. 5</u>
Steve Adler	Mayor 2023
Natasha Harper-Madison	Councilmember District 1 2023
Vanessa Fuentes	Councilmember District 2 2025
Sabino “Pio” Renteria	Councilmember District 3 2023
José “Chito” Vela.....	Councilmember District 4 2025
Ann Kitchen	Councilmember District 5 2023
Mackenzie Kelly	Councilmember District 6 2025
Leslie Pool	Councilmember District 7 2025
Paige Ellis	Councilmember District 8 2023
Kathryne B. Tovo.....	Councilmember District 9 2023
Alison Alter	Councilmember District 10 2025

Appointed Officials

Spencer Cronk.....	City Manager
Veronica Briseño	Assitant 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

BOND COUNSEL

Bracewell LLP
Austin, Texas

DISCLOSURE COUNSEL FOR THE CITY

McCall, Parkhurst & Horton L.L.P.
Dallas and 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 Avenue, Suite 2150
Austin, TX 78701
(512) 614-5323
waleyd@pfm.com

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OFFICIAL STATEMENT

relating to
\$416,060,000
CITY OF AUSTIN, TEXAS
Airport System Revenue Bonds, Series 2022 (AMT)

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page and the appendices to this Official Statement, is to set forth information concerning the City of Austin, Texas (the “City”), the Airport System (as defined in the Ordinance, as defined below), and the City’s Airport System Revenue Bonds, Series 2022 (AMT) (the “Bonds”). The Bonds are limited special obligations of the City issued pursuant to an ordinance adopted by the City on April 7, 2022, authorizing the issuance of the Bonds (the “Ordinance”). Unless otherwise indicated, capitalized terms used in this Official Statement shall have the meanings established in the Ordinance. The definitions of certain terms used in the Ordinance and in this Official Statement are included in “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Selected Definitions” in this document.

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

The Bonds, together with the Currently Outstanding Revenue Bonds, are secured by and payable from a first lien on the Net Revenues of the Airport System. Under certain circumstances, the Ordinance permits the issuance of Additional Revenue Bonds that rank on a parity with the Currently Outstanding Revenue Bonds. The Bonds are being issued as Additional Revenue Bonds. See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS – Additional Revenue Bonds” in this document. As defined in the Ordinance, the “Currently Outstanding Revenue Bonds” include the Series 2013 Bonds, the Series 2014 Bonds, the Series 2017A Bonds, the Series 2017B Bonds, the Series 2019 Bonds, the Series 2019A Bonds and the Series 2019B Bonds. For a description of the outstanding principal balances of the Currently Outstanding Revenue Bonds, see “OUTSTANDING REVENUE BONDS, SPECIAL FACILITIES BONDS AND SUBORDINATE OBLIGATIONS – Outstanding Revenue Bonds” in this document. The Currently Outstanding Revenue Bonds, the Bonds and any Additional Revenue Bonds are referred to in the Ordinance as the “Revenue Bonds,” and the Ordinance, each ordinance pursuant to which the Currently Outstanding Revenue Bonds were issued and any ordinance pursuant to which any Additional Revenue Bonds are issued, are collectively referred to as the “Revenue Bond Ordinances.”

COVID-19 Pandemic

General

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic (the “Pandemic”). Since then, many state and local governments in the United States have issued “stay at home” or “shelter in place” orders that severely restrict movement and limit social, business and other activities to essential functions. Most of these restrictions and limitations have been removed in the United States. However, the COVID-19 outbreak and resulting restrictions severely disrupted, and continue to disrupt, the economies of the United States and other countries. Business failures, worker layoffs and consumer and business bankruptcies have occurred and may continue.

The Pandemic has adversely affected domestic and international travel and travel-related industries and therefore airports have been acutely impacted by reductions in passenger volumes and number of flights, as well as by the broader economic shutdown resulting from the COVID-19 outbreak. Airlines have reported unprecedented reductions in passenger volumes and, although passenger traffic has improved since the initial outbreak, expect these lower passenger volumes to continue for the foreseeable future. In response, airlines have reduced flights in an attempt to match seat capacity to the decreased demand for air travel. Domestic leisure air travel has begun to recover slowly in the United States at many airports; however, business and international travel have been slow to recover.

The Delta, and more recently, the Omicron variants of COVID-19 significantly increased the number of cases in the United States and throughout the world. Although Delta and Omicron have subsided in the United States, it is uncertain how the Omicron or other variants will impact domestic and international air service, passenger levels and revenue assumptions at ABIA in FY 2022 and beyond.

Summary of U.S. Government Relief for Airports and the Airport

The United States government and the Federal Reserve Board have taken statutory and regulatory actions and implemented other measures to mitigate the broad disruptive effects of the COVID-19 outbreak on the U.S. economy. There have been three relief bills passed by Congress and signed by the President into law since COVID-19 began.

The Coronavirus Air, Relief, and Economic Security Act (“CARES” or “CARES Act”) was signed into law on March 27, 2020. The CARES Act provided \$10 billion of assistance to U.S. commercial airports. The Airport received a grant for \$58.7 million of CARES Act funds that may be used for debt service and operating expenses. The CARES Act funding was drawn down in fiscal years 2020 and 2021, and the remaining approximately \$7.3 million of the Airport’s allocation is anticipated to be drawn by the end of fiscal year 2022.

The Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (“CRRSAA”) was signed into law on December 27, 2020. CRRSAA included approximately \$2 billion of financial relief for airports. The Airport received two grants under CRRSAA. The first grant for \$14.6 million can be used for debt service and operating expenses. The second grant of \$1.8 million is to be used to provide financial relief to in-terminal concessionaires, on-airport rental car companies and on airport parking operations. These CRRSAA grants have not yet been drawn and are anticipated to be drawn in fiscal years 2022 through 2024.

The American Rescue Plan Act of 2021 (“ARPA”) was signed into law on March 11, 2021, totaling approximately \$8 billion for airports. The Airport received two grants under ARPA. The first grant of \$54.1 million is for debt service and operating expenses. The second grant of \$7.3 million is to be used to provide financial relief to in-terminal concessionaires. These proceeds must be obligated by September 30, 2024. These ARPA grants have not yet been drawn but are anticipated to be drawn in fiscal years 2022 through 2024.

The federal relief grants received from CARES, CRRSAA and ARPA (collectively referred to as “Federal Relief Proceeds”) have been applied towards debt service reimbursements and parking expense reimbursements. Likewise, the remaining federal relief amounts are projected to be applied towards debt service and parking expense reimbursements.

Additional information about how Federal Relief Proceeds have been spent by the Airport may be found in “APPENDIX A – REPORT OF THE AIRPORT CONSULTANT.”

Impact of COVID-19 on Passengers and Operations

As of April 2022, the Airport has fully recovered to pre-pandemic level enplanements in spite of the Omicron variant affecting January and February passenger numbers. For the months October 2019 through February 2020, the Airport had 3.5 million enplanements compared to approximately 3.5 million enplanements for the period October 2021 through February 2022. The year to date enplanements for fiscal year 2022 (October 2021 through February 2022) are 11% higher than the comparable fiscal year 2019 period (October 2018 through February 2019).

Additionally, the Airport has significantly increased the amount of international destinations served over the past two years. In June 2019, the Airport served nine international destinations in four countries. As of June 2022, the Airport is expected to serve seventeen international destinations in ten countries. Additional details may be found in “APPENDIX A – REPORT OF THE AIRPORT CONSULTANT.”

Airport Liquidity and Financial Position

As of September 30, 2021, the Airport had \$234.72 million in unrestricted and discretionary reserves, including the Operation and Maintenance Reserve Fund. Based upon \$101.963 million in operating expenses (excluding depreciation), the Airport’s days of cash on hand (“DCOH”) was 840 days at the end of Fiscal Year 2020-21 (September 30, 2021). By comparison, the Airport had \$212.335 million in unrestricted and discretionary reserves at the end of Fiscal Year 2019-20 and, based on \$118.051 million in operating expenses (excluding depreciation), the Airport had DCOH of 658 days at the

end of Fiscal Year 2019-20. The Airport has adopted an internal policy of maintaining a minimum level of unrestricted cash and equivalents in an amount not less than 400 DCOH; however, the Airport intends to maintain at least 600 DCOH.

Enplanements

See “APPENDIX A – REPORT OF THE AIRPORT CONSULTANT – HISTORICAL AIRLINE TRAFFIC AND SERVICE – Enplaned Passengers” in this document for discussion of Airport traffic prior to, during and after the Pandemic. Appendix A is referred to throughout this document as the “Report”.

Forward-Looking Statements

The statements and information under this heading “INTRODUCTION - COVID-19 Pandemic” and in other portions of this Official Statement contain “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 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 “CERTAIN INVESTMENT CONSIDERATIONS – Forward-Looking Statements” in this document.

The Airport cannot predict: (i) the duration or extent of the Pandemic or the occurrence of another outbreak or pandemic; (ii) the scope or duration of restrictions or warnings related to air travel, gatherings or any other activities, and the duration or extent to which airlines will reduce services to and from the Airport, or whether airlines will cease operations at the Airport or shut down in response to such restrictions or warnings; (iii) what effect Pandemic-related restrictions or warnings may have on air travel, including to and from the Airport, and costs and revenues of the Airport System, including the Revenues; (iv) whether and to what extent the Pandemic may and continue to disrupt the local, state, national or global economy, manufacturing or supply chain, or whether any such disruption may adversely impact construction, costs, sources of funds, schedule or implementation of the Airport System’s capital improvement program or other operations of the Airport; (v) the extent to which the Pandemic or another outbreak or pandemic, or the resultant disruption to the local, state, national or global economy, may result in changes in demand for air travel, including long-term changes in consumer behavior, or may have an impact on the airlines or concessionaires serving the Airport or the airline and travel industry, generally; (vi) whether or to what extent the Airport System may or continue to provide deferrals, forbearances, adjustments or other changes to the Airport System’s contracts with airlines and the concessionaires; or (vii) whether any of the foregoing may have a material adverse effect on the finances and operations of the Airport.

Prospective investors should assume that the restrictions and limitations related to the Pandemic and the current upheaval in the air travel industry and the national and global economies may persist and possibly increase at least over the near term and recovery may be prolonged, thereby adversely impacting Revenues. Future outbreaks, pandemics or events outside the Airport System’s control may further reduce demand for travel, which in turn could cause a continued decrease in passenger activity at the Airport and continued declines in Revenues.

Amendments to Revenue Bond Ordinances

The Ordinance includes amendments to the Ordinance and the existing Revenue Bond Ordinances. By acceptance of the Bonds, each Owner of a Bond (i) irrevocably and specifically consents to and approves the amendments to the Ordinance and the existing Revenue Bond Ordinances described below, (ii) irrevocably appoints the Aviation Director as its true and lawful attorney-in-fact to evidence such Owner’s specific consent to and approval of the amendments described below, and (iii) confirms all actions taken by the Aviation Director as attorney-in-fact for such Owner. The amendments described below were so approved by the Owners of the Series 2019A Bonds and the Series 2019B Bonds, but have not been approved by the Owners of any other Currently Outstanding Revenue Bonds.

The amendments are as follows: amend the definition of “Debt Service Reserve Fund Surety Bond” in Section 2.01 of the Ordinance and the Revenue Bond Ordinances pursuant to which the Currently Outstanding Revenue Bonds were issued as shown below (deletions shown as strikethrough and additions underlined):

“Debt Service Reserve Fund Surety Bond” means any surety bond, letter of credit, line of credit or insurance policy ~~having a rating in the highest respective rating categories by Moody’s and Standard & Poor’s~~ issued to the City for the benefit of the Owners of the Revenue Bonds to satisfy any part of the Debt Service

Reserve Fund Requirement as provided in Section 5.07 of this Ordinance; provided that, at the time of delivery to the City, either the long-term unsecured debt of the issuer of the Debt Service Reserve Fund Surety Bond or the obligations insured, secured or guaranteed by such issuer are rated “Aa3” or higher by Moody’s or “AA-” or higher by Standard & Poor’s.

The amendments described above require the consent of the Owners of not less than a majority of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding. Upon the issuance of the Bonds, the percentage of holders of the Currently Outstanding Revenue Bonds and the Bonds who have consented or will have been deemed to have consented to the amendments described above is approximately 49.65%.

See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Amendments to Revenue Bond Ordinances” and “ – Amendments – Consent of Owners” in this document.

PLAN OF FINANCE

The proceeds of the Bonds will be used for the purposes of (i) designing and constructing improvements to Austin-Bergstrom International Airport (“ABIA” or the “Airport”), as more fully described in “DESCRIPTION OF THE 2022-2028 PROJECT” in this document, (ii) making a deposit to the Debt Service Reserve Fund, (iii) funding capitalized interest on the Bonds, and (iv) paying certain costs incurred in connection with the issuance of the Bonds. See “APPLICATION OF BOND PROCEEDS” in this document.

DESCRIPTION OF THE 2022-2028 PROJECT

The projects anticipated to be funded in whole or in part with the proceeds of the Bonds are described below. In addition, the City currently intends to issue Additional Revenue Bonds in four phases, commencing in 2024 and ending in 2028, in an aggregate principal amount estimated to be approximately \$1.44 billion, to finance projects described below and not financed in full with proceeds of the Bonds and other sources. The projects described below are collectively referred to in “APPENDIX A – REPORT OF THE AIRPORT CONSULTANT” and in this document as the “2022-2028 Project.” There is no assurance that all of the components of the 2022-2028 Project will be funded in the manner described in this paragraph, if and when the proposed issues of Additional Revenue Bonds, currently anticipated to commence in 2024, will occur, and whether the amount estimated to be issued as Additional Revenue Bonds will be sufficient to fund the balance of the costs of the 2022-2028 Project not funded with proceeds of the Bonds and other sources. Estimated project costs and funding sources for the 2022-2028 Project are shown in “APPENDIX A – REPORT OF THE AIRPORT CONSULTANT – Exhibit A – 2 – CAPITAL IMPROVEMENT PROGRAM – PROJECT FUNDING BY SOURCE.”

The projects that are anticipated to be funded with proceeds of the Bonds include: design and construction of a new baggage handling facility at the Airport; design and construction of improvements to the Barbara Jordan Terminal (the “Terminal”) at the Airport, including holdrooms, passenger boarding bridges, and service infrastructure; design and construction of ground holding facilities for busing passengers at the east end of the Terminal; design of a future midfield Concourse B terminal; demolition of old buildings and infrastructure on the airfield to remove potential hazards and enable construction on the airfield; construction of cross-midfield taxiways for access to the future midfield Concourse B terminal at the Airport; upgrades to the utility infrastructure on the airside and the South Campus of the Airport; design of a new passenger conveyance and utility tunnel to the future midfield Concourse B from the Terminal; and other miscellaneous improvements around the Airport. The estimated aggregate amount of the projects to be financed with proceeds of the Bonds is set forth in the Report of the Airport Consultant.

A complete description of the projects comprising the 2022-2028 Project can be found in the Report of the Airport Consultant at “APPENDIX A – REPORT OF THE AIRPORT CONSULTANT – CAPITAL IMPROVEMENT PROGRAM.” See also, “THE AIRPORT SYSTEM – Airport Facilities,” “CAPITAL IMPROVEMENT PROGRAM,” and “REPORT OF THE AIRPORT CONSULTANT” in this document.

APPLICATION OF BOND PROCEEDS

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

Sources:	
Principal Amount	\$416,060,000.00
Net Original Issue Premium	38,458,565.00
Total Sources	\$454,518,565.00
Uses:	
Deposit to the Project Account	\$400,000,000.00
Deposit to Debt Service Reserve Fund	17,657,819.00
Deposit to the Capitalized Interest Account	34,199,934.81
Costs of Issuance ⁽¹⁾	1,200,203.64
Underwriters' Discount	1,460,607.55
Total Uses	\$454,518,565.00

(1) Includes rating agency fees and paying agent, financial advisor and legal expenses.

DESCRIPTION OF THE BONDS

General

The Bonds will be issued in the aggregate principal amount and at the interest rates, and will mature in the amounts and on the dates, as set forth on the inside cover page of this Official Statement. The Bonds will be issued in principal denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds will accrue from their date of delivery to the underwriters listed on the cover page hereof (the "Underwriters"), and will be payable on November 15, 2022, and on each May 15 and November 15 thereafter (each such date is referred to as an "Interest Payment Date") until maturity or prior redemption. The Bonds initially will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases by beneficial owners of the Bonds (the "Beneficial Owners") are to be made in book-entry form. See "DESCRIPTION OF THE BONDS – Book-Entry-Only System" in this document.

Payment of the Bonds

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

Redemption of the Bonds

Optional Redemption

The City reserves the right, at its option, to redeem the Bonds maturing on and after November 15, 2033, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on November 15, 2032, or any date thereafter, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption.

If less than all of the Bonds are to be redeemed, the City shall determine the maturities and amounts to be redeemed and, if less than all of a maturity is to be redeemed, the Paying Agent/Registrar (or DTC, while the Bonds are in book-entry-only form) shall determine by lot or other customary random selection method the Bonds, or portions thereof, within the maturity to be redeemed.

Mandatory Sinking Fund Redemption

The Bonds having a stated maturity of November 15 in the years 2047 and 2052 (the “Term Bonds”), are subject to mandatory redemption in part prior to maturity at the redemption price of 100% of the principal amount thereof plus accrued interest to the date fixed for redemption on November 15 in each of the years and in principal amounts as follows:

5.250% Term Bond due November 15, 2047	
<u>Year</u>	<u>Principal Amount</u>
2044	\$18,030,000
2045	19,000,000
2046	20,025,000
2047	21,105,000 [†]

4.250% Term Bond due November 15, 2052 (CUSIP No. 052398HX5)	
<u>Year</u>	<u>Principal Amount</u>
2048	\$4,515,000
2049	4,745,000
2050	4,990,000
2051	5,245,000
2052	5,505,000 [†]

5.000% Term Bond due November 15, 2052 (CUSIP No. 052398HW7)	
<u>Year</u>	<u>Principal Amount</u>
2048	\$17,685,000
2049	18,550,000
2050	19,465,000
2051	20,420,000
2052	21,440,000 [†]

[†] Stated maturity.

At least 50 days prior to each mandatory redemption date of the Term Bond, the Paying Agent/Registrar shall select by lot the numbers of the Term Bonds within the stated applicable maturity to be redeemed on the next following November 15 from moneys set aside for that purpose in the Debt Service Fund; provided, that during any period in which ownership of the Term Bonds is determined only by a book entry at a securities depository for the Term Bonds, the particular Term Bonds shall be selected in accordance with the arrangements between the City and the securities depository.

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

Notice of Redemption

Not less than thirty (30) days prior to a redemption date, the City shall cause a written notice of such redemption to be sent by United States mail, first class postage prepaid, to the registered owners of each Bond to be redeemed at the address shown on the registration books maintained by the Paying Agent/Registrar and subject to the terms and provisions relating

thereto contained in the Ordinance. If a Bond (or any portion of its principal sum) shall have been called for redemption and notice of its redemption given, then on the redemption date the Bond (or the portion of its principal sum to be redeemed) shall become due and payable, and interest on the Bond shall cease to accrue from and after the redemption date of the Bond, provided moneys for the payment of the redemption price and the interest on the principal amount to be redeemed to the date of redemption are held by the Paying Agent/Registrar.

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

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

Limitation on Transfer of Bonds Called for Redemption

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

Defeasance of Bonds

The Ordinance provides that the City may discharge its obligation to the Owners of any or all of the Bonds to pay Debt Service, or any portion of the Debt Service, by (1) depositing with the Paying Agent/Registrar cash in an amount equal to the Debt Service of the Bonds to the date of maturity or redemption, or any portion of the Bonds to be discharged, or (2) depositing either with the Paying Agent/Registrar or with any national banking association with capital and surplus in excess of \$100,000,000 cash and/or Defeasance Obligations in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of Debt Service on the Bonds to the date of maturity or redemption or any portion thereof to be discharged. Upon such deposit, the Bonds, or any portion thereof, will no longer be regarded to be Outstanding or unpaid.

“Defeasance Obligations” means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their purchase, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the City Council adopts or approves the proceedings authorizing the financial arrangements, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, and (d) any other then authorized securities or obligations under applicable Texas law in existence on the date the City adopts or approves any proceedings authorizing the issuance of Refunding Revenue Bonds that may be used to defease obligations such as the Bonds. There is no assurance that the ratings for any Defeasance Obligation will maintain any particular rating category. See

“APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Discharge by Deposit” in this document.

Book-Entry-Only System

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

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

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

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of

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

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

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

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

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

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

Paying Agent/Registrar

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

Transfer, Exchange and Registration

In the event the book-entry-only system should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying

Agent/Registrar at the Designated Payment/Transfer Office and any transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to the registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the Designated Payment/Transfer Office, or sent by United States mail, first class postage prepaid, to the new registered owner or its designee. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See “DESCRIPTION OF THE BONDS – Book-Entry-Only System” above in this document for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS

Pledge of Net Revenues

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

“Gross Revenues” includes all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to all or any part of the Airport System, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport System, or otherwise, and includes, except to the extent expressly excluded below, all revenues received by the City from the Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport System, or for any service rendered by the City in the operation of the Airport System, interest and other income realized from the investment or deposit of amounts required to be transferred or credited to the Revenue Fund. “Gross Revenues” expressly excludes: (a) proceeds of any Revenue Bonds and Subordinate Obligations; (b) interest or other investment income derived from Revenue Bonds and Subordinate Obligation proceeds deposited to the credit of a construction fund, and all other interest or investment income not required to be transferred or credited to the Revenue Fund; (c) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport System facilities, except to the extent any such monies are received as payments for the use of the Airport System facilities; (d) any revenues derived from any Special Facilities (e.g., customer facility charges) which are pledged to the payment of Special Facilities Bonds; (e) insurance proceeds other than loss of use or business interruption insurance proceeds; (f) the proceeds of the passenger facility charge currently imposed by the City and any other per-passenger charge as may be lawfully authorized; (g) sales and other taxes collected by the Airport System on behalf of the State of Texas and any other taxing entities; (h) Federal Payments received by the Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Bonds to be includable within the gross income of the Owners thereof for federal income tax purposes; (i) the proceeds received by the City from the sale or other disposition of Airport System property, except amounts representing interest or finance charges in a deferred sale or other similar method of conveyance where a portion of the sale price is payable on a deferred basis, in which case any interest or finance charges are considered Gross Revenues; or (j) Other Available Funds transferred to the Revenue Fund as provided in the Revenue Bond Ordinances.

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

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

As of the date of this Official Statement, there are no Credit Agreements or Credit Agreement Obligations in effect or outstanding, as applicable; however, the City may enter into Credit Agreements in the future. The City has reserved the right to issue, for any lawful Airport System purpose, obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Revenue Bonds. See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS - Subordinate Obligations” below in this document. The City has issued, and reserves the right to issue, additional obligations of the City secured by a levy of ad valorem taxes from time to time issued or to be issued by the City for Airport System purposes (“General Obligation Airport Bonds”). General Obligation Airport Bonds may be paid from remaining Net Revenues only after the payment of all Revenue Bonds and Subordinate Obligations. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Funds and Flow of Funds” in this document. The City has utilized Net Revenues to pay debt service on General Obligation Airport Bonds in the past; however, no General Obligation Airport Bonds are currently outstanding. The City has no present intention of issuing any additional General Obligation Airport Bonds, but has reserved the right in the Revenue Bond Ordinances to do so in the future.

Use of Passenger Facility Charges

In the Revenue Bond Ordinances, the City covenants and agrees, for the benefit of the Owners of the Revenue Bonds, that during each Fiscal Year the City will set aside from any passenger facility charges imposed by the City on enplaned passengers the lesser of (i) such passenger facility charges imposed and collected by the City or (ii) \$4.50 derived from each passenger facility charge (“PFC”) so imposed and collected by the City for the payment of PFC-eligible debt service on the Revenue Bonds in the following Fiscal Year, unless the City receives a report from an Airport Consultant showing that an alternative use of all or a portion of the PFCs will not reduce the forecast coverage of Debt Service Requirements with respect to the Revenue Bonds by forecast Net Revenues during the following Fiscal Year (or such longer forecast period as may be covered in the report from the Airport Consultant) to less than 125%. PFCs are currently being used to pay debt service on Revenue Bonds for PFC-eligible projects that have been approved by the Federal Aviation Administration (“FAA”). See “REGULATION – Passenger Facility Charges” in this document.

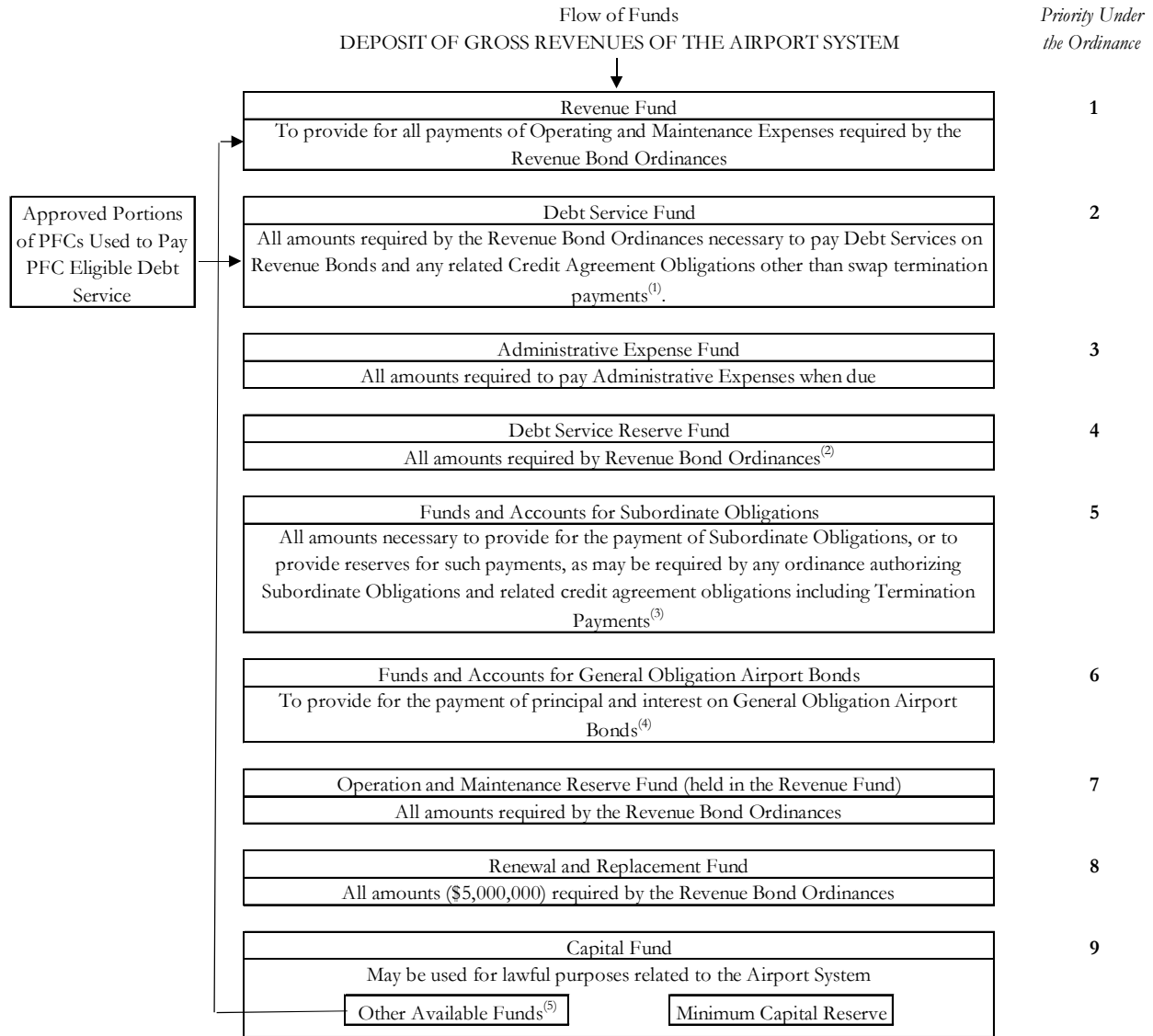
The City intends to seek approval from the FAA to use PFCs to pay a portion of the debt service on the Bonds. Upon approval, the City intends to set aside PFCs to pay PFC-eligible debt service on the Bonds in accordance with the covenant described above. The City is currently applying PFCs to pay a portion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

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

Flow of Funds

The Ordinance confirms special funds and accounts previously established, including the Revenue Fund and the other special funds and accounts described below, and provides that such special funds and accounts are to be maintained and accounted for so long as any Revenue Bond and related Credit Agreement Obligation remains Outstanding and Administrative Expenses remain unpaid. The Revenue Bond Ordinances require the City to deposit Gross Revenues as received into the Revenue Fund, and moneys in the Revenue Fund are required to be applied in the manner and order of priority set forth in the Revenue Bond Ordinances and described below. The Revenue Fund (including the Operation and Maintenance Reserve Fund), the Renewal and Replacement Fund, the Capital Fund and the Construction Fund (other than any Capitalized Interest Account in the Construction Fund) are maintained as separate funds or accounts on the books of the City and all amounts credited to the Funds and Accounts are maintained in an official depository bank of the City. The Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund are maintained at an

official depository bank of the City or in a trustee bank designated by the City separate and apart from all other funds and accounts of the City. For descriptions of the special funds and accounts confirmed by the Ordinance and application of moneys in the Revenue Fund, see “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Funds and Flow of Funds” in this document.



- (1) See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS – Pledge of Net Revenues” and “– Credit Agreement Obligations” in this document.
- (2) See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS - Debt Service Reserve Fund” in this document.
- (3) See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS -Subordinate Obligations” in this document.
- (4) See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS – Pledge of Net Revenues” in this document.
- (5) See “HISTORICAL FINANCIAL DATA – Table 8” and the definition of “Other Available Funds” in APPENDIX C in this document.

Rate Covenant

The City covenants in the Revenue Bond Ordinances that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year, the Net Revenues will be at least sufficient to equal the larger of either (i) all amounts required to be deposited in the Fiscal Year to the credit of the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund, and to pay any debt service or debt service reserve fund or account for Subordinate Obligations, or (ii) an amount, together with Other Available Funds, not less than 125% of the Debt

Service Requirements for the Revenue Bonds for the Fiscal Year plus an amount equal to 100% of anticipated and budgeted Administrative Expenses for the Fiscal Year. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Particular Covenants – Rate Covenant” in this document.

If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for the Fiscal Year, must request an Airport Consultant to make any recommendations to revise the City’s rentals, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Airport System in order to satisfy as quickly as practicable the foregoing requirements. Copies of the request and the recommendations of the Airport Consultant shall be filed with the City Clerk. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Ordinances even if the resulting Net Revenues plus Other Available Funds are not sufficient to be in compliance with the rate covenant set forth above, so long as Debt Service is paid when due.

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

Debt Service Reserve Fund

The Revenue Bond Ordinances establish a Debt Service Reserve Fund for the benefit of all Revenue Bonds and require that an amount equal to the Debt Service Reserve Fund Requirement be accumulated and maintained therein in accordance with the Revenue Bond Ordinances. The Revenue Bond Ordinances provide that the Debt Service Reserve Fund Requirement shall be computed and recomputed annually as a part of the City’s budget process and upon the issuance of each series of Revenue Bonds to be the arithmetic average of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Revenue Bonds then Outstanding including the series of Revenue Bonds then being issued. In no event, however, will the amount deposited in the Debt Service Reserve Fund that is allocable to the Revenue Bonds or Additional Revenue Bonds, in accordance with regulations promulgated under the Internal Revenue Code of 1986, as amended (the “Code”), exceed the least of (a) 10% of the stated principal amount of each issue of which the Revenue Bonds or Additional Revenue Bonds are a part, (b) the maximum annual principal and interest requirements of the issue or (c) 125% of the average annual principal and interest requirements of the issue, unless there is received an opinion of nationally recognized bond counsel to the effect that the additional amount will not cause the Revenue Bonds and any Additional Revenue Bonds to be “arbitrage bonds” within the meaning of section 148 of the Code and the regulations promulgated under the Code from time to time.

Pursuant to the Revenue Bond Ordinances, Additional Revenue Bonds may only be issued if provision is made in the Revenue Bond Ordinances authorizing the Additional Revenue Bonds proposed to be issued for additional payments into the Debt Service Reserve Fund sufficient to fund any an increase, if any, in the Debt Service Reserve Fund Requirement resulting from the issuance of such Additional Revenue Bonds. See “– Additional Revenue Bonds” below in this document.

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

In any month in which the Debt Service Reserve Fund contains less than the Debt Service Reserve Fund Requirement or in which the City is obligated to repay or reimburse any issuer of a Debt Service Reserve Fund Surety Bond (in the event the Debt Service Reserve Fund Surety Bond is drawn upon), then on or before the last Business Day of that month, after making all required transfers to the Debt Service Fund and the Administrative Expense Fund, the City shall transfer into the Debt Service Reserve Fund from the Revenue Fund, in approximately equal monthly installments, amounts sufficient to enable the City within an 18 month period to reestablish in the Debt Service Reserve Fund the Debt Service Reserve Fund Requirement and satisfy any repayment obligations to the issuer of any Debt Service Reserve Fund Surety Bond.

After this amount has been accumulated in the Debt Service Reserve Fund and after satisfying any repayment obligation to any Debt Service Reserve Fund Surety Bond issuer and so long thereafter as the Debt Service Reserve Fund contains this amount and all repayment obligations have been satisfied, no further transfers shall be required to be made, and any excess amounts in the Debt Service Reserve Fund shall be transferred to the Revenue Fund. But if and whenever the balance in the Debt Service Reserve Fund is reduced below this amount or any Debt Service Reserve Fund Surety Bond repayment obligations arise, monthly transfers to the Debt Service Reserve Fund shall be resumed and continued in amounts required to restore the Debt Service Reserve Fund to this amount and to pay reimbursement obligations within an 18 month period. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Funds and Flow of Funds – Debt Service Reserve Fund” in this document.

Upon the issuance of the Bonds, the aggregate Debt Service Reserve Fund Requirement will be approximately \$79,343,651.61. The City will deposit a portion of the proceeds of the Bonds in the amount of \$17,657,819.00 in the Debt Service Reserve Fund. Upon making this deposit, the Debt Service Reserve Fund will remain fully funded entirely with cash. See “APPLICATION OF BOND PROCEEDS” in this document.

Upon implementation of the amendments to the Ordinance and the Revenue Bond Ordinances described above in this document under “INTRODUCTION – Amendments to Revenue Bond Ordinances,” the definition of “Debt Service Reserve Fund Surety Bond” in Section 2.01 of the Ordinance and the Revenue Bond Ordinances will be amended to read as follows:

“Debt Service Reserve Fund Surety Bond” means any surety bond, letter of credit, line of credit or insurance policy issued to the City for the benefit of the Owners of the Revenue Bonds to satisfy any part of the Debt Service Reserve Fund Requirement as provided in Section 5.07 of this Ordinance; provided that, at the time of delivery to the City, either the long-term unsecured debt of the issuer of the Debt Service Reserve Fund Surety Bond or the obligations insured, secured or guaranteed by such issuer are rated “Aa3” or higher by Moody’s or “AA-” or higher by Standard & Poor’s.

Remedies

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

There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Ordinance, 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, secured by the Net Revenues of the Airport System. In the proceedings authorizing the issuance of obligations or the execution and delivery of credit agreements, the City, in its sole discretion, may agree to waive sovereign immunity from suit or liability for the purposes of adjudicating a claim to enforce the obligation or credit agreement or for damages for breach of the obligation or credit agreement. However, the City has not waived the defense of sovereign immunity with respect to the Bonds under Chapter 1371. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the State legislature has effectively waived the City’s sovereign immunity from a suit for money damages outside of Chapter 1371, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or covenants contained in the Ordinance. 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 P*”), 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*”), ruling 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 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.

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

The Revenue Bond Ordinances provide that in the event of a payment default on any of the Bonds or a default in the performance of any duty or covenant provided by law or in the Revenue Bond Ordinances, the Owner or Owners of any of the Bonds may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Bonds, may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under the Revenue Bond Ordinances, including the making of reasonably required rates and charges for the use and services of the Airport System, the deposit of the Gross Revenues into the special funds provided in the Revenue Bond Ordinances, and the application of such Gross Revenues in the manner required in the Revenue Bond Ordinances. See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS” and “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Particular Covenants” in this document.

Additional Revenue Bonds

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

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

(a) The City Manager and the Aviation Director certify that, upon the issuance of such Additional Revenue Bonds, the City will not be in default under any term or provision of any Revenue Bonds then Outstanding or any ordinance pursuant to which any Revenue Bonds were issued unless the default will be cured by the issuance of the Additional Revenue Bonds;

(b) The City’s Chief Financial Officer or trustee, if one has been appointed, certifies that, upon the issuance of Additional Revenue Bonds, the Debt Service Fund will have the required amounts on deposit and that the Debt Service Reserve Fund will contain the applicable Debt Service Reserve Fund Requirement or the amount as is required to be funded at that time; and

(c) An Airport Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues, together with the estimated Other Available Funds, of the Airport System for each of three consecutive Fiscal Years beginning in the earlier of:

(i) the first Fiscal Year following the estimated date of completion and initial use of all revenue producing facilities to be financed with Additional Revenue Bonds, based upon a certified written estimated completion date by the consulting engineer for the facility or facilities, or

(ii) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the Additional Revenue Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of the Additional Revenue Bonds, investment income on such Additional Revenue Bonds or from other appropriated sources (other than Net Revenues),

are equal to at least 125% of the Debt Service Requirements on all Outstanding Revenue Bonds scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the Additional Revenue Bonds to be issued.

(d) In lieu of the certification described in paragraph (c) above, the City's Chief Financial Officer may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues, together with Other Available Funds, of the Airport System were equal to at least 125% of the maximum Debt Service Requirements on all Revenue Bonds scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Additional Revenue Bonds proposed to be issued.

The City will satisfy the requirements of paragraph (c) above in connection with the issuance of the Bonds.

If Additional Revenue Bonds are being issued for the purpose of refunding less than all previously issued Revenue Bonds which are then Outstanding, neither of the certifications described in (c) or (d) above are required so long as the aggregate Debt Service Requirements after the issuance of the Additional Revenue Bonds do not exceed the aggregate Debt Service Requirements prior to the issuance of the Additional Revenue Bonds; provided, that the annual debt service on the refunding bonds in any Fiscal Year will not be more than 10% higher than it is in any other Fiscal Year.

In addition, Additional Revenue Bonds may only be issued if the Revenue Bond Ordinances authorizing the Additional Revenue Bonds proposed to be issued provide for: (1) additional payments into the Debt Service Fund sufficient to provide for any principal and interest requirements resulting from the issuance of the Additional Revenue Bonds; and (2) satisfaction of the Debt Service Reserve Fund Requirement by not later than the date required by the Revenue Bond Ordinance authorizing such Additional Revenue Bonds. See “– Debt Service Reserve Fund” above in this document.

Additional Revenue Bonds (which may include, without limitation, bonds, notes, bond anticipation notes, commercial paper, lease or installment purchase agreements or certificates of participation therein and Credit Agreement Obligations to Credit Providers) may mature on any date or dates over any period of time; bear interest at a fixed or variable rate; be payable in any currency or currencies; be in any denominations; be subject to additional events of default; if bearing interest at a variable rate, may be subject to mandatory tender for purchase; have any interest and principal payment dates; be in any form (including registered, book-entry or coupon); include or exclude redemption provisions; be sold at a certain price or prices; be further secured by any separate and additional security; be subject to optional tender for purchase; and otherwise include such additional terms and provisions as the City may determine, subject to the then-applicable requirements and limitations imposed by State law.

The Revenue Bond Ordinances further provide that the City reserves the right to issue one or more series of Revenue Bonds to pay the cost of completing any Project for which Revenue Bonds have previously been issued (“Completion Bonds”). Prior to the issuance of any series of Completion Bonds the City must provide:

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

(y) a certificate of the consulting engineer engaged by the City to design the Project for which the Completion Bonds are to be issued stating that the Airport Project (defined below) has not materially changed in scope

since the issuance of the most recent series of Revenue Bonds for such purpose (except as permitted in the applicable ordinance authorizing the Revenue Bonds) and setting forth the aggregate cost of the Airport Project which, in the opinion of such consulting engineer, has been or will be incurred; and

(z) a certificate of the Aviation Director (i) stating that all amounts allocated to pay costs of the Airport Project from the proceeds of the most recent series of Revenue Bonds issued in connection with the Airport Project for which the Completion Bonds are being issued were used or are still available to be used to pay costs of the Airport Project; (ii) containing a calculation of the amount by which the aggregate cost of that Airport Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Airport Project paid to such date plus the moneys available at such date within any construction fund or other like account applicable to the Airport Project plus any other moneys which the Aviation Director, in his discretion, has determined are available to pay such costs in any other fund; and (iii) certifying that, in the opinion of the Aviation Director, the issuance of the Completion Bonds is necessary to provide funds for the completion of the Airport Project.

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

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

Credit Agreement Obligations

Pursuant to the Revenue Bond Ordinances, Credit Agreement Obligations are equally and ratably secured and are on a parity with Revenue Bonds; provided, that Termination Payments are payable as Subordinate Obligations.

“Credit Agreement” means (i) any agreement of the City entered into in connection with and for the purpose of (A) enhancing or supporting the creditworthiness of a series of Revenue Bonds or (B) providing liquidity with respect to Revenue Bonds which by their terms are subject to tender for purchase, and which, by its terms, creates a liability on the part of the City on a parity with the Revenue Bonds to which it relates, and (ii) a Swap Agreement.

“Credit Agreement Obligations” means any amounts payable by the City under and pursuant to a Credit Agreement other than amounts payable as an Administrative Expense.

“Swap Agreement” means a Credit Agreement with respect to a series of Revenue Bonds pursuant to which the City has entered into an interest rate exchange agreement or other interest rate hedge agreement for the purpose of converting in whole or in part the City's fixed or variable interest rate liability on all or a portion of the Revenue Bonds to a fixed or variable rate liability (including converting a variable rate liability to a different variable rate liability). For the purpose of this definition, a counterparty is not qualified unless it holds, on the date of execution of a Swap Agreement, a current rating by at least two of the following three rating agencies: Moody's, and by Standard & Poor's, and by Fitch Ratings, or their respective successors, at least equal to the rating of each such rating agency assigned to the Revenue Bonds without reference to any Credit Agreement.

As of the date of this Official Statement, the City does not have any Credit Agreements in effect or outstanding Credit Agreement Obligations, and does not currently intend to enter into a Credit Agreement or incur a Credit Agreement Obligation, but the City may enter into Credit Agreements in the future. See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS - Contingent Payment Obligations” below in this document.

Contingent Payment Obligations

The City has entered into, and may in the future enter into, contracts and agreements in the course of its business that include an obligation on the part of the City to make payments contingent upon the occurrence or non-occurrence of certain future events, including events that are beyond the direct control of the City. These agreements include interest rate swap agreements and other similar agreements, letter of credit and line of credit agreements for advances of funds to the City in connection with its bonds and other obligations, and other agreements. See “– Credit Agreement Obligations” above in this document. The contracts and agreements may provide for contingent payments that may be conditioned upon the credit ratings of the City and/or of the other parties to the contract or agreement, maintenance by the City of specified financial ratios, the inability of the City to obtain long-term refinancing for shorter-term obligations or liquidity

arrangements, and other factors. The payments may be payable on a parity with debt service on the Bonds, including any payments made pursuant to a Swap Agreement. The amount of any such contingent payments may be substantial. To the extent that the City does not have sufficient funds on hand to make any such payment, it is likely that the City would seek to borrow such amounts through the issuance of Additional Revenue Bonds or Subordinate Obligations.

Subordinate Obligations

The City has reserved the right to issue or incur, for any lawful Airport System purpose, bonds, notes or other obligations, including reimbursement obligations and obligations pursuant to credit agreements and interest rate hedges, secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Bonds, Currently Outstanding Revenue Bonds, and any Additional Revenue Bonds. Although such obligations are referred to in the Ordinance as “Subordinate Obligations,” such obligations may bear any name or designation provided by the ordinance authorizing their issuance. Such Subordinate Obligations may be secured by any other source of revenues lawfully available for such purposes. The Revenue Bond Ordinances provide that Termination Payments in connection with Swap Agreements constitute Subordinate Obligations.

In connection with the issuance of its \$45,600,000 Austin-Bergstrom Landhost Enterprises, Inc. Airport Hotel Senior Revenue Refunding and Improvement Bonds, Series 2017, the City incurred a Subordinate Obligation, as further described in “OUTSTANDING REVENUE BONDS, SPECIAL FACILITIES BONDS AND SUBORDINATE OBLIGATIONS – Subordinate Obligation to Support Austin Airport Hotel Refinancing” in this document.

OUTSTANDING REVENUE BONDS, SPECIAL FACILITIES BONDS AND SUBORDINATE OBLIGATIONS

Outstanding Revenue Bonds

Seven series of Revenue Bonds are outstanding as of April 1, 2022: the Series 2013 Bonds, the Series 2014 Bonds, the Series 2017A Bonds, the Series 2017B Bonds, the Series 2019 Bonds, the Series 2019A Bonds and the Series 2019B Bonds.

The Series 2013 Bonds are a fixed rate direct placement loan with Prosperity Bank with a final maturity of May 15, 2028. As of April 1, 2022, the outstanding principal amount of the Series 2013 Bonds was \$34,740,000. The Series 2013 Bonds were issued for the purposes of designing and constructing improvements to the Airport, making a deposit to the Debt Service Reserve Fund and paying certain costs of issuance.

The Series 2014 Bonds were publicly offered as fixed-rate bonds with a final maturity of November 15, 2044. As of April 1, 2022, the outstanding principal amount of the Series 2014 Bonds was \$244,495,000. The Series 2014 Bonds were issued for the purposes of designing and constructing improvements to the Airport, making a deposit to the Debt Service Reserve Fund, funding capitalized interest and paying certain costs of issuance.

The Series 2017A Bonds and the Series 2017B Bonds were publicly offered as fixed rate bonds with a final maturity of November 15, 2046 for each series. As of April 1, 2022, the outstanding principal amount of the Series 2017A Bonds was \$185,300,000 and the outstanding principal amount of the Series 2017B Bonds was \$129,665,000. The Series 2017A Bonds and the Series 2017B Bonds were issued for the purposes of designing and constructing a new parking garage, expanding the passenger terminal, including the addition of new gates, and replacing or rehabilitating utility systems and other terminal infrastructure, making a deposit to the Debt Service Reserve Fund, funding capitalized interest and paying certain costs of issuance.

The Series 2019 Bonds were publicly offered as fixed rate bonds with a final maturity of November 15, 2025. As of April 1, 2022, the outstanding principal amount of the Series 2019 Bonds was \$96,675,000. The Series 2019 Bonds were issued for the purposes of refunding outstanding Revenue Bonds and paying a termination payment with respect to an interest rate swap agreement executed in connection therewith, making a deposit to the Debt Service Reserve Fund, funding capitalized interest and paying certain costs of issuance.

The Series 2019A Bonds and the Series 2019B Bonds were publicly offered as fixed rate bonds with a final maturity of November 15, 2049 for the Series 2019A Bonds and November 15, 2048 for the Series 2019B Bonds. As of April 1, 2022, the outstanding principal amount of the Series 2019A Bonds was \$16,975,000 and the outstanding principal amount of the Series 2019B Bonds was \$248,170,000. The Series 2019A Bonds and the Series 2019B Bonds were issued for the purposes of funding the terminal and apron expansion project that enlarged the adjacent aircraft parking apron and

provided nine additional gates, the construction of a new parking garage with approximately 6,000 spaces, the purchase of the Lynxs Cargo Buildings, the construction of a new consolidated Maintenance Facility, and the construction of a new information technology building, making a deposit to the Debt Service Reserve Fund, funding capitalized interest and paying certain costs of issuance.

Special Facilities Bonds

The City has reserved the right to issue from time to time, in one or more series, Special Facilities Bonds as provided in the Ordinance to finance and refinance the cost of any Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Bonds shall be payable solely from payments by Special Facilities lessees and/or other security not provided by the City. The Revenue Bond Ordinances provide that in no event will any Gross Revenues or any other amounts held in any other fund or account maintained by the City as security for the Currently Outstanding Revenue Bonds, the Bonds and any Additional Revenue Bonds or for the construction, operation, maintenance or repair of the Airport System be pledged to the payment of Special Facilities Bonds. The City has issued and there is currently outstanding one series of Special Facilities Bonds, the City of Austin, Texas, Rental Car Special Facility Revenue Refunding Bonds, Taxable Series 2021 (the “Rental Car Special Facilities Bonds”). The Rental Car Special Facilities Bonds are payable only from certain pledged revenues, consisting of rental car daily usage fees charged and collected and to be charged and collected by concessionaire rental car companies using rental car facilities at the Airport pursuant to concession agreements, any contingent fees payable by concessionaires under such concession agreements, any amounts drawn under separate letters of credit delivered by concessionaires, rental payments for parking garage vehicle staging lanes and staging spaces required pursuant to such concession agreements and investment earnings on such revenues. The Net Revenues of the Airport System have not been pledged, and no other general or special revenues of the Airport System have been pledged, as security for the payment of the Rental Car Special Facilities Bonds. The Rental Car Special Facilities Bonds are not general obligations of the City. See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS – Pledge of Net Revenues” and “AIRPORT REVENUES AND AGREEMENTS – Rental Car Company Agreements” in this document.

Subordinate Obligation to Support Austin Airport Hotel Refinancing

General

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

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

Between 2004 and 2018, the operation of the Airport Hotel did not generate sufficient cash flow to pay debt service on the Series 1999 Airport Hotel Bonds when due. The failure to pay debt service when due on the Series 1999 Airport Hotel Bonds was an event of default under the indenture authorizing the issuance of the Series 1999 Airport Hotel Bonds. In 2013, Austin-Bergstrom Acquisitions LLC, an independent entity not affiliated either with the City or ABLE, acquired a majority interest in the Series 1999 Airport Hotel Bonds.

Series 2017 Hotel Bonds

On November 1, 2017, ABLE issued its Airport Hotel Senior Revenue Refunding and Improvement Bonds, Series 2017, in the aggregate principal amount of \$45,600,000 (the “Series 2017 Hotel Bonds”), to effect the redemption and cancellation of the outstanding Series 1999 Airport Hotel Bonds, to finance improvements to the Airport Hotel, to fund a debt service reserve fund for, and to pay costs of issuance of, the Series 2017 Hotel Bonds. The Series 1999 Airport Hotel Bonds are no longer outstanding as of December 1, 2017, and all rights of the holders of the Series 1999 Airport Hotel Bonds have been extinguished. The Series 2017 Hotel Bonds are secured by a pledge of “Net Revenues,” which consist of gross revenues generated by the operation of the Airport Hotel, net of (1) operation and maintenance expenses, (2) administrative fees of the bond trustee, any consultant retained by ABLE in accordance with the proceedings authorizing the issuance of the Series 2017 Hotel Bonds, and ABLE, and (3) repair and replacement fund expenses, all as

described in the proceedings authorizing the issuance of the Series 2017 Hotel Bonds. Further, in connection with the issuance of the Series 2017 Hotel Bonds, the City and ABLE entered into an agreement (the “Series 2017 Hotel Grant Agreement”) pursuant to which the City has agreed that, if there occurs a deficiency in the reserve fund securing the Series 2017 Hotel Bonds (the “Series 2017 Hotel Reserve Fund”) resulting from a reduction of the Series 2017 Hotel Reserve Fund to pay current debt service on the Series 2017 Hotel Bonds below the “Senior Debt Service Reserve Fund Requirement” (defined in the Trust Indenture between ABLE and U.S. Bank Trust Company, National Association, as trustee, to mean (a) on November 1, 2017, the average annual principal and interest requirements for the Series 2017 Hotel Bonds and (b) on each Calculation Date (defined to mean October 1, 2022 and each fifth anniversary thereafter while the Series 2017 Hotel Bonds are outstanding), the Trustee shall provide to the City a reserve fund deficiency notice, and the City shall determine within 90 days after receipt of such deficiency notice whether surplus revenues held by the City under the terms of the Revenue Bond Ordinances (“Surplus Airport System Revenues”) are sufficient to replenish the Series 2017 Hotel Reserve Fund to the Senior Debt Service Reserve Fund Requirement. If Surplus Airport System Revenues are sufficient, the City will effect a grant to ABLE, and shall transfer Surplus Airport System Revenues to the Trustee within 120 days of its receipt of the debt service reserve deficiency notice, in accordance with the terms of the Series 2017 Hotel Grant Agreement, for deposit to the credit of the Series 2017 Hotel Reserve Fund in an amount equal to such deficiency. The City’s obligation to make any grant payments pursuant to the Series 2017 Hotel Grant Agreement constitutes a Subordinate Obligation, and the sole source of money available to the City to make any such grant payment is Surplus Airport System Revenues. The Series 2017 Hotel Bonds have a final stated maturity date of October 1, 2036.

Grant Payments

Due to the Pandemic and its effect on the travel industry, ABLE did not generate sufficient revenues to cover the October 2020 debt service payment due on the Series 2017 Hotel Bonds. Upon written notification from the Trustee of a deficit in the Series 2017 Hotel Reserve Fund, the City, in accordance with the provisions of the Series 2017 Hotel Grant Agreement, replenished the Series 2017 Hotel Reserve Fund, using Surplus Airport System Revenues, to the full extent of the schedule set forth in the Series 2017 Hotel Grant Agreement. As of March 15, 2022, the City has provided \$4,834,040.51 in grant payments, using Surplus Airport System Revenues, to ABLE to cover deficits in the Series 2017 Hotel Reserve Fund, as follows:

Series 2017 Hotel Bonds Debt Service Date	Grant Payment from the Airport
10/01/2020	\$ 1,561,040.73
04/01/2021	1,084,391.16
10/01/2021	<u>2,188,608.62</u>
Total	<u>\$ 4,834,040.51</u>

Currently, there exists sufficient funds in ABLE’s Debt Service Fund to cover the April 2022 debt service payment due on the Series 2017 Hotel Bonds, but the City anticipates that it may receive a reserve fund deficiency notice with respect to a portion of the October 2022 debt service payment due on the Series 2017 Hotel Bonds. If the City receives such deficiency notice, it will be obligated to make a grant payment from Surplus Airport System Revenues in the amount of such deficiency.

Operating Loan

In addition to the Series 2017 Hotel Grant Agreement, the City, acting through the Department of Aviation, and ABLE executed a loan agreement pursuant to the City’s authority under Chapter 380 of the Texas Local Government Code, in which the City agreed to loan an aggregate amount not to exceed \$2,600,000 to ABLE to cover Airport Hotel operating expense shortfalls and certain required administrative expenses resulting from the impact of the Pandemic. The City budget for the Fiscal Year ending September 30, 2021 appropriated \$2,600,000 from the Capital Fund to the Department of Aviation for such purpose. In connection with such loan agreement, ABLE executed and delivered to the City a nonrecourse unsecured promissory note (the “Note”). The stated final maturity date of the Note is May 1, 2028. Under the loan agreement, a base amount of \$1,350,000 was set aside within the Capital Fund to cover past due invoices and near term operating cash shortfalls and the remaining \$1,250,000 is being set aside within the Capital Fund as a contingency line of credit in case of further economic downturns caused by the Pandemic. The full base amount of the loan of \$1,350,000 was provided to ABLE on August 9, 2021, but as a result of the recovery in hotel occupancy occurring earlier than anticipated, only \$824,599 was ultimately needed by ABLE to cover operating and administrative expense cash

shortfalls. The remaining \$525,401 has been returned to the City and the \$824,599 remaining balance of the loan will be repaid by ABLE to the City in annual principal payments starting in 2025, or at the earliest possible date. The ability of ABLE to draw upon the contingency line of credit portion of the loan in the amount of \$1,250,000, and make any future requests for draws on the base amount, expires on December 31, 2022. The City does not anticipate the need to make future advances to ABLE under the loan agreement, but if the need arises, the source of funds is expected to be the Capital Fund. The City's obligation to make advances under this loan agreement does not constitute a Subordinate Obligation, and the City has no obligation to make such advances from Gross Revenues of the Airport.

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending September 30th	Outstanding Revenue Bonds	Plus: The Bonds			Total Debt Service
		Principal	Net Interest ⁽¹⁾	Total	
2022	\$ 73,517,738	\$ -	\$ -	\$ -	\$ 73,517,738
2023	77,841,188	-	-	-	77,841,188
2024	77,675,513	-	6,854,493	6,854,493	84,530,006
2025	77,500,169	-	20,810,900	20,810,900	98,311,069
2026	77,307,600	6,965,000	20,636,775	27,601,775	104,909,375
2027	67,330,613	7,320,000	20,279,650	27,599,650	94,930,263
2028	72,654,344	7,700,000	19,904,150	27,604,150	100,258,494
2029	61,937,125	8,090,000	19,509,400	27,599,400	89,536,525
2030	61,903,250	8,500,000	19,094,650	27,594,650	89,497,900
2031	61,876,375	8,940,000	18,658,650	27,598,650	89,475,025
2032	61,862,750	9,395,000	18,200,275	27,595,275	89,458,025
2033	61,829,125	9,885,000	17,718,275	27,603,275	89,432,400
2034	61,807,125	10,390,000	17,211,400	27,601,400	89,408,525
2035	61,777,875	10,920,000	16,678,650	27,598,650	89,376,525
2036	61,742,750	11,480,000	16,118,650	27,598,650	89,341,400
2037	61,707,750	12,065,000	15,530,025	27,595,025	89,302,775
2038	61,673,500	12,685,000	14,911,275	27,596,275	89,269,775
2039	61,630,625	13,335,000	14,260,775	27,595,775	89,226,400
2040	61,599,250	14,020,000	13,576,900	27,596,900	89,196,150
2041	61,559,250	14,740,000	12,857,900	27,597,900	89,157,150
2042	61,520,500	15,495,000	12,102,025	27,597,025	89,117,525
2043	61,477,500	16,290,000	11,307,400	27,597,400	89,074,900
2044	61,429,625	17,125,000	10,472,025	27,597,025	89,026,650
2045	61,380,875	18,030,000	9,570,613	27,600,613	88,981,488
2046	41,610,500	19,000,000	8,598,575	27,598,575	69,209,075
2047	41,577,250	20,025,000	7,574,169	27,599,169	69,176,419
2048	17,599,125	21,105,000	6,494,506	27,599,506	45,198,631
2049	17,592,125	22,200,000	5,402,431	27,602,431	45,194,556
2050	17,399,375	23,295,000	4,299,781	27,594,781	44,994,156
2051	-	24,455,000	3,142,538	27,597,538	27,597,538
2052	-	25,665,000	1,927,919	27,592,919	27,592,919
2053	-	26,945,000	652,981	27,597,981	27,597,981
	<u>\$ 1,708,320,788</u>	<u>\$ 416,060,000</u>	<u>\$ 384,357,756</u>	<u>\$ 800,417,756</u>	<u>\$ 2,508,738,543</u>

(1) Interest is shown net of capitalized interest.

THE AIRPORT SYSTEM

The Airport primarily serves origin and destination (“O&D”) passengers. It is estimated that O&D passengers accounted for approximately 95% of enplaned passengers in the City’s fiscal year ended September 30, 2021 and the remaining 5% were connecting passengers. Approximately 99% of enplaned passengers in fiscal year 2021 were domestic passengers who live in or who were visiting the Airport System’s five-county service area and approximately 1% were international passengers. See “AIRPORT SERVICE REGION” and “AIRPORT ACTIVITY” in this document.

Airport Facilities

The Airport System is comprised of airport, heliport and aviation facilities or any interest therein owned, operated or controlled in whole or in part by the City and, as defined in the Revenue Bond Ordinances, includes Austin-Bergstrom International Airport (“ABIA” or the “Airport”), but expressly excludes any heliport or heliports operated by City departments other than the Department of Aviation and also excludes the Mueller Airport Property and the Austin consolidated rental car facility, which was constructed by the City with proceeds of special facility revenue bonds. ABIA is classified by the FAA as a medium hub airport and according to Airports Council International, ABIA is the 36th largest airport in the United States based on total passengers in calendar year 2020. During the twelve month period ended September 30, 2021 (the most recent data available), the Airport ranked as the 26th busiest domestic O&D airport in the United States, according to U.S. Department of Transportation (“DOT”) data.

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

ABIA occupies a 4,242-acre site approximately eight miles southeast of downtown Austin. Airport access is provided by Texas State Highway 71 (SH 71), a six-lane divided highway running east-west, and U.S. Highway 183 (US 183), a six-lane divided highway running north-south. SH 71 provides access to Interstate Highway 35 (I-35) approximately six miles to the west.

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

The Terminal is 964,000 square feet and contains four levels and 34 terminal gates.

Level 1, the baggage claim level, provides 149,000 square feet of space for baggage claim devices, lobby, and support facilities. The baggage claim level accommodates a 33,000-square-foot CBP facility for the processing of arriving international passengers.

Level 2, the apron level, provides 321,000 square feet of space for inbound and outbound baggage handling equipment and facilities, airline operations space, and other non-public areas. The apron level also provides a passenger holdroom for the ground-level loading of regional airline aircraft (Gate 13). The aircraft parking apron adjacent to the terminal provides approximately 96 acres for aircraft parking at the 34 terminal gates, as well as “remain overnight” parking positions.

Level 3, the concourse level, provides 393,000 square feet of space for airline check-in counters with lobby and queuing areas, airline offices, public circulation areas, passenger security screening facilities, concessions, passenger holdrooms, restrooms, and supporting facilities. The concourse provides 33 loading bridge-equipped aircraft parking positions (gates) capable of accommodating up to B-757-size aircraft in domestic service, one loading bridge-equipped gate (Gate 2) capable of accommodating widebody aircraft in international service and providing access to the CBP facility and to Gate 1 at the apron level.

Level 4, the mezzanine level, provides 94,000 square feet of space for Department of Aviation and other offices and for airline club rooms. Above the mezzanine level is a 7,000-square-foot penthouse level with mechanical rooms.

As described below in this document, the Airport also includes a second passenger terminal. The 30,000 square-foot South Terminal opened in April 2017. In March 2016, the City entered into a South Terminal concession and lease agreement with the parent company of LoneStar Airport Holdings, LLC for an initial 30-year term to redevelop and operate the South Terminal, as more fully described below. The South Terminal includes three aircraft gates, ticketing and check-in areas, a central passenger hold room, a TSA checkpoint, a baggage screening area, a baggage claim area, a food court and other passenger amenities. See “AIRPORT REVENUES AND AGREEMENTS – South Terminal Arrangements” below in this document.

Approximately 18,140 parking spaces are provided on Airport property in the three-level parking Red Garage adjacent to the Terminal, a new Blue Garage, and in surface lots served by shuttle buses. The combined parking garages provide approximately 9,000 spaces for long-term, short-term, and valet public parking. The first level of the Red Garage is at the same level as the arrivals roadway and baggage claim level of the terminal. The third level of the Red Garage is at the same level as the departures roadway and concourse level of the terminal. The Blue Garage is adjacent to the CONRAC and the Red Garage and provides walking access to the Terminal via a walkway at the same level as the departures roadway.

The CONRAC garage provides 3,200 rental car spaces. The CONRAC garage was financed with the proceeds of Special Facilities Bonds payable primarily from customer facility charges (“CFCs”), and parking garage rental fees and concession fees. See “OUTSTANDING REVENUE BONDS, SPECIAL FACILITIES BONDS AND SUBORDINATE OBLIGATIONS – Special Facilities Bonds” above in this document and “AIRPORT REVENUES AND AGREEMENTS – Rental Car Company Agreements” below in this document.

Other facilities at the Airport include air cargo and general aviation facilities and facilities for Texas Department of Transportation flight services, Texas Air National Guard, an FAA terminal radar approach control facility, aviation support facilities (including fuel storage, maintenance, in-flight catering services and Department of Aviation operations, maintenance and engineering facilities), and non-aeronautical facilities.

AIRPORT MANAGEMENT

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

Jacqueline Yaft, Director of the Department of Aviation. Ms. Yaft is responsible for the City’s Department of Aviation. She has over 20 years of experience at some of the largest hub airports in the U.S., including the Los Angeles World Airports, Denver International Airport, and JFK International Airport. She has served in executive positions within operations management, airport safety and security compliance, and master plan implementation. At Los Angeles World Airports, she served as the Deputy Executive Director of Operations and Emergency Management and she led airport operations throughout a series of major infrastructure projects at Los Angeles International Airport. She received a Bachelor of Science degree in Aviation Management from Metropolitan State College of Denver and a Master of Business Administration degree from Embry-Riddle Aeronautical University. She is accredited as an International Airport Professional through the Global ACI-ICAO Airport Management Professional Accreditation Program.

Tracy Thompson, Esq., Airport Chief Officer, Administrative and External Affairs. Ms. Thompson is a licensed attorney in Texas and has more than 30 years of experience in airport management, airline management, and airport/aviation/transportation consulting practices. Prior to her position at ABIA, she held senior management and executive positions at American Airlines, Dallas Fort Worth International Airport, and Jacobs/LeighFisher. She has broad experience and expertise in the overall airport business management and revenue generation programs for airport operators. These programs include strategic business, financial and operating plans, airline affairs, regulatory and external stakeholder engagement and compliance matters, strategies for and negotiation of complex business initiatives. She also has coordinated major capital development programs, new airport commercial revenue initiatives, and airport programs related to internal business best practices and compliance. She earned B.B.A and J.D. degrees from Southern Methodist University and is a Certified Member of the American Association of Airport Executives.

Jamy Kazanoff, Assistant Director, Aviation Business Development & Customer Relations. Ms. Kazanoff is responsible for air service development for ABIA. She oversees the air service development and retention function and serves as the point of contact with Austin-area businesses and tourism stakeholder groups. She has been employed by the City’s Department of Aviation for 28 years. Ms. Kazanoff has over 30 years of marketing and business development experience, serving in account

executive positions with advertising agencies in the private sector. She is actively involved in ACI's International Air Service Committee, serving as Chairwoman in 2016. She is also active in ACI's Marketing and Communications Program, and a former Chairwoman for the group; the Austin Airport Task Force; and Austin Global Business Travel Association. She is a graduate of the University of Texas at Austin with a Bachelor of Journalism degree, Public Relations.

Brian L. Long, P.E., Airport Deputy Chief – Infrastructure. Mr. Long is responsible for leading the capital infrastructure management and delivery team and the asset management, purchasing and warehouse teams within the Development Program Area. He joined the City in May 2009 with Austin Water, the City's water and wastewater utility, before becoming the City's Capital Project Systems Officer in 2017, which led to his current position with ABIA at the beginning of 2020. His experience includes capital improvement program (CIP) management, business intelligence system integration, utility infrastructure engineering, asset management, GIS development, computer modeling, systems planning, infrastructure management, finance, and engineering & construction project, program and portfolio management. Prior to joining the City, he worked for the City of Houston, Lockwood, Andrews & Newnam, Inc., TxDOT, and other consulting firms. He earned his Bachelor of Science in Civil Engineering from the University of Texas at Austin and holds a Professional Engineer license.

Mukesh (Mookie) Patel, Chief Officer, Business and Finance. Mr. Patel has 27 years of airport, airline and consulting experience. He began his career at Kansas City International Airport as a property manager. His past experience includes capital program budget management for construction of Terminal 1 at JFK and International Terminal Building at SFO. He spent five years as an Airport Planner and Technology consultant and a decade working for Alaska Airlines in Seattle as a Corporate Real Estate/Airport Affairs Manager. Mr. Patel also spent time at Denver International Airport as the Senior Vice President for Airline and Commercial Affairs and is credited with driving the substantial airport gate expansion project business plan and administering the early operations of a new Westin Hotel. He also provided staff augmentation services to Alaska Airlines during the Alaska/Virgin merger on real estate transaction matters and prior to joining AUS was the Chief Aviation Administration Officer for the City of San Antonio Aviation Department. He is a Certified Member of the American Association of Airport Executives, a Certified Private Pilot and a graduate from Oklahoma State University with a BS in Aviation Management.

Rajeev Thomas, Deputy Chief - Finance. Mr. Thomas joined ABIA in 2017 and currently oversees the organization's financial short-term and long-term planning, development and monitoring of operating and capital budgets, accounting, securing funding, airline rate-setting and the airport's relationships with lending institutions, bondholders, and financial institutions. Prior to joining ABIA, he was a Finance Director with Charter Communications (Time Warner), Assistant Controller with a Instinet Corporation subsidiary and Motorola. He holds a Bachelor's degree in Finance from University of Illinois, Chicago and has 28 years of financial experience.

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

Ghizlane Badawi, Chief Operating Officer, Airport Operations. Mrs. Badawi is responsible for Airport operations, security, maintenance, and guest services. She has been employed by the City's Department of Aviation for over thirteen years, serving as Internal Auditor, Business Process Consultant Senior, Chief Administrative Officer, Deputy Chief Operating Officer and Assistant Director. Mrs. Badawi's previous work experience includes banking, insurance, auditing, consulting, information technology, sales, and customer service. She is an active member of the AAAE, ACI and Risk and Insurance Management Society ("RIMS"). She has a Bachelor of Business Administration and a Master of Business Administration. She has earned Aviation Safety and Security Certification from the Viterbi School of Engineering, University of Southern California, is a Certified Internal Controls Auditor, and has earned RIMS' certification as a Certified Risk Management Professional.

Jill Goodman, Deputy Chief - Strategy & Innovation. Ms. Goodman is responsible for strategic planning, performance reporting, video services, and innovation management. In addition to management consulting, her professional experience spans three municipalities with roles in the offices of the Mayor, City Manager, Financial Services, Performance Management, Corporate Communications & Public Information, and Aviation. Ms. Goodman holds a journalism degree from Grand

Canyon University and an MBA from Concordia University-Texas. She is formally trained in modern design thinking and lean methods, and is a member of the XCHANGE facilitators network.

Kevin Russell, Deputy Chief – Talent. Mr. Russell joined ABIA in February 2022 and is currently responsible for talent acquisition, performance management, human resources, and safety. Immediately prior to joining ABIA, he was the Quality Assurance Manager in the Human Resources Department for the City of Austin, prior to that he was the Director of Human Resources for the City of Georgetown. He holds a Bachelor’s degree in Microbiology from the University of Texas, Austin with minor in Psychology. He has worked on a Master’s degree in Public Administration with specialty in Human Resources and is a Certified Mediator. He has 25+ years of human resources experience.

AIRPORT SERVICE REGION

Primary Service Region

The Airport’s primary service region is the 4,220-square-mile, 5-county Austin-Round Rock-Georgetown Metropolitan Statistical Area (the “MSA”). According to the U.S. Department of Commerce, Bureau of the Census, the population of the MSA as of 2020 was 2,283,000. The Airport is primarily an O&D airport; approximately 95% of enplaned passengers (passengers boarding) at the Airport originated their air travel at the Airport and approximately 5% connected between flights during the City’s fiscal year 2021. Approximately 53% of enplaned passengers live in the Airport’s primary service region, and approximately 47% are visiting the service area. In general, the population and economy of an airport’s service region are the primary determinants of passenger and cargo traffic through an O&D airport.

Nearby Airports

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

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AIRPORT ACTIVITY

Passenger enplanements for fiscal year 2020 were adversely impacted by the COVID pandemic, consistent with impacts on air travel throughout the United States. See “INTRODUCTION – COVID-19 Pandemic” in this document. Table 1 summarizes growth in the numbers of passenger enplanements at the Airport and the growth in enplanements per departures between the Airport’s fiscal years 2012 and 2021. As shown in Table 1, passenger enplanements in fiscal year 2021 increased by 10.3% as compared to enplanements in 2020.

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

Fiscal Year	Enplaned Passengers	Annual Percent Increase (Decrease)	Aircraft Departures*				Passengers Enplaned per Departure
			Passenger Departures		Cargo Departures		
			Annual	Daily	Annual	Daily	
2012	4,662,738	3.0	48,372	133	2,915	8	91
2013	4,928,979	5.7	50,554	139	2,841	8	92
2014	5,275,464	7.0	51,877	142	2,866	8	96
2015	5,792,387	9.8	55,557	152	2,875	8	99
2016	6,180,464	6.7	56,349	154	2,936	8	104
2017	6,729,108	8.9	58,503	160	3,065	8	109
2018	7,739,811	15.0	65,000	178	3,067	8	119
2019	8,464,615	9.4	68,197	187	3,050	8	124
2020	4,723,544	(44.2)	46,830	128	3,246	9	101
2021	5,207,769	10.3	49,277	135	3,744	10	106

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

*The format of the table has been changed from prior years to show the passenger and cargo aircraft departures separately. Due to the format change, starting in fiscal year 2018, passengers enplaned per departure is now calculated based on passenger departures only.

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Table 2 presents, as of April 14, 2022, the U.S. and foreign-flag airlines providing scheduled passenger service, charter passenger service and all-cargo service at the Airport.

Table 2
List of Airlines

<u>Passenger Airlines</u>	<u>All-Cargo Airlines</u>
Aerovias de Mexico	ABX Air
Air Canada	Air Transport International
Alaska Airlines	Amerijet International Airlines
Allegiant Air (South Terminal)	Antonov Airlines
American Airlines	Atlas Air
British Airways ⁽¹⁾	Baron Aviation
Concesionaria Vuela Compañía de Aviación ⁽²⁾	CargoLogicAir Ltd.
Delta Airlines	EVA Airways CORP
Deutsche Lufthansa AG ⁽³⁾	Federal Express
Emirates Airlines ⁽²⁾	Kalita Air ⁽¹⁾
Frontier Airlines (South Terminal)	Kalita Charters
Global Crossing Airlines ⁽¹⁾	Mountain Air Cargo
Hawaiian Airlines	Qatar Cargo
JetBlue	Southern Air ⁽¹⁾
JSX Airline (Signature FBO) ⁽¹⁾	Sun Country Airlines
KLM ⁽⁴⁾	Turkish Airlines
Qatar Airways ⁽²⁾	United Parcel Services
Southwest Airlines	Volga-Dnepr Airlines, LLC
Spirit Airlines	
Sun Country Airlines	
Swift Air	
Taos Air (Signature FBO) ⁽¹⁾	
TUI Airways ⁽¹⁾	
United Airlines	
Virgin Atlantic ⁽⁵⁾	

Note: Listed above are airlines with OAG scheduled, chartered or diversion operations with in the past year at the Airport or are scheduled to begin service within the next four months. Other charter operators may conduct operations at the Airport but not be included on the list above.

Source: City of Austin, Department of Aviation records.

- (1) Service began in fiscal year 2022.
- (2) Service was discontinued in fiscal year 2022.
- (3) Service resumed in April 2022.
- (4) Service resumed in March 2022.
- (5) Service commencing in May 2022.

Table 3 presents the airlines' shares of enplaned passengers for fiscal years 2012-2021.

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

Airline	Share of enplaned passengers									
	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
Southwest	37.8 %	39.0 %	38.1 %	36.6 %	38.4 %	37.7 %	35.7 %	34.6 %	33.7 %	34.1 %
American	20.2	18.9	18.1	17.3	20.5	19.3	17.9	18.0	19.3	22.1
United	1.8	4.9	16.5	16.8	15.7	16.1	15.2	14.5	13.4	12.4
Delta	11.8	12.1	12.2	12.1	12.0	12.5	13.2	13.4	13.0	13.6
Spirit Airlines	-	-	-	-	-	-	-	3.2	6.0	4.9
Frontier ^(a)	2.3	1.7	1.8	2.8	2.5	3.3	6.4	5.5	4.2	2.0
Alaska Airlines	1.2	1.1	1.1	1.2	1.7	1.9	3.2	3.6	4.0	5.1
Jet Blue	6.2	6.4	5.6	4.8	4.5	4.4	3.8	3.3	3.2	3.6
Allegiant Air	-	-	0.6	1.0	1.3	1.8	1.9	1.2	1.1	1.6
British Airways	-	-	0.7	1.0	1.0	0.9	1.0	1.1	0.8	-
Deutsche Lufthansa	-	-	-	-	-	-	-	0.2	0.4	-
Air Canada	-	-	-	0.1	0.3	0.3	0.3	0.4	0.3	-
Aero Mexico ^(b)	-	-	-	-	-	0.2	0.3	0.3	0.3	0.1
Sun Country	-	-	-	-	-	-	0.1	0.2	0.2	0.2
Hawaiian Airlines	-	-	-	-	-	-	-	-	-	0.3
Norwegian Air UK	-	-	-	-	-	-	0.3	0.4	0.1	-
WestJet	-	-	-	-	-	-	-	0.1	-	-
Virgin America	-	0.3	0.9	1.8	1.6	1.2	0.3	-	-	-
Condor Airlines	-	-	-	-	0.1	0.1	0.1	-	-	-
VIA Airlines	-	-	-	-	-	-	0.1	0.1	-	-
Concesionaria Vuela Compania	-	-	-	-	-	-	0.1	-	-	-
Volaris	-	-	-	-	-	0.1	-	-	-	-
US Airways ^(c)	0.1	1.2	4.4	4.5	0.3	-	-	-	-	-
Transportes Aeromar	-	-	0.1	-	-	-	-	-	-	-
Continental ^(d)	8.1	2.6	-	-	-	-	-	-	-	-
	89.5 %	88.2 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0%
Commuters ^(e)	10.5	11.8	-	-	-	-	-	-	-	-
	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

*Airlines enplaning less than 0.1% of passengers not listed.

(a) Frontier declared bankruptcy in April 08; includes enplaned passengers both pre- and post-bankruptcy.

(b) Formerly America West; name change occurred during FY2007.

(c) Aero Mexico discontinued service during FY2008; resumed service during FY2016; declared bankruptcy in June 2020. Includes enplaned passengers both pre- and post-bankruptcy.

(d) Continental merged with United during FY2013.

(e) Prior to FY 2014, affiliates for Delta, United Airlines and US Airways were listed separately. Currently they are included with the mainline airlines.

Source: City of Austin, Department of Aviation records.

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Table 4 presents historical aircraft operations (landings and takeoffs) for fiscal years 2012 – 2021.

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

Fiscal Year	Air Carrier	Air Taxi/ Commuter	General Aviation	Military	Total Operations	Annual Increase / (Decrease)
2012	96,823	15,962	50,867	5,828	169,480	-5.9%
2013	101,006	16,979	52,582	6,698	177,265	4.6%
2014	103,710	17,289	51,231	6,994	179,224	1.1%
2015	112,079	15,830	54,401	7,771	190,081	6.1%
2016	114,150	16,194	51,231	10,435	192,010	1.0%
2017	120,242	15,181	52,709	9,830	197,962	3.1%
2018	132,334	17,198	48,742	9,774	208,048	5.1%
2019	139,470	16,296	43,820	8,697	208,283	0.1%
2020	97,567	13,909	36,444	4,916	152,836	-26.6%
2021	103,516	19,200	41,820	5,357	169,893	11.2%

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

Source: City of Austin, Department of Aviation records.

Table 5 presents historical aircraft landed weight (expressed in 1,000-pound units) for fiscal years 2012 – 2021. Landed weight, which is used to calculate landing fees, is recorded according to the aircraft's certificated maximum gross landing weight, as determined by the FAA. Changes in landed weight affect the landing fee rates but under the airline agreements described below, increased landed weight does not increase landing fee revenue to the Airport but instead reduces the landing fee rate for the airlines. See "AIRLINE REVENUES AND AGREEMENTS – Passenger and Cargo Airline Agreements" below in this document.

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

Fiscal Year	Passenger Airlines	All-Cargo Airlines	Total	Percent Increase (Decrease)
2012	5,394,633	420,904	5,815,537	1.0
2013	5,688,131	434,382	6,122,513	5.3
2014	5,958,437	433,629	6,392,066	4.4
2015	6,598,882	491,756	7,090,637	10.9
2016	6,940,667	481,109	7,421,776	4.7
2017	7,573,274	542,980	8,116,254	9.4
2018	8,756,890	528,280	9,285,170	14.4
2019	9,357,801	541,043	9,898,844	6.6
2020	6,437,026	577,166	7,014,192	(29.1)
2021	6,541,321	654,067	7,195,388	2.6

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

Source: City of Austin, Department of Aviation records.

AIRPORT REVENUES AND AGREEMENTS

As described below, in fiscal year 2021, approximately 51% of Airport revenues was derived from the Airport's agreements with the airlines for use by the airlines of the Airfield Area and for their use of exclusive, preferential and shared use space in the Terminal and aircraft loading positions on the Terminal apron. The Airfield Area, as defined in these agreements, includes the runways, taxiways and facilities at the Airport for the purpose of controlling and assisting arrivals, departures and operations of aircraft using the Airport. In general, rate-setting at the Airport for use of the Airfield Area is "residual" (the airlines have primary responsibility and risk for costs (including allocated debt service and coverage) and expenses and the benefit from non-airline revenues attributed to the Airfield Area). The Terminal and other non-Airfield Area parts of the Airport are "compensatory" (the City has the responsibility and risk) in connection with revenues and costs and expenses.

Passenger and Cargo Airline Agreements

As of the date of this document, there are seven airlines (the "Signatory Airlines") which have executed a Use and Lease Agreement (collectively, the "Use and Lease Agreements") with the City. The Use and Lease Agreements with five of the Signatory Airlines (American Airlines, Inc., Delta Airlines, Southwest Airlines, JetBlue, and United Airlines) have original expiration dates of September 30, 2021, but have been extended through September 30, 2022, pursuant to the first of two optional one-year period extension terms. Alaska Airlines and Spirit Airlines each executed Use and Lease Agreements with the City and became Signatory Airlines effective October 1, 2021. The expiration date of the Alaska Airlines and Spirit Airlines Use and Lease Agreements is September 30, 2022 and contains an optional one-year period extension term. Collectively, the Signatory Airlines account for approximately 95% of enplaned passengers at the Airport in fiscal year 2021.

The City may elect to extend the Use and Lease Agreements from September 30, 2022 through September 30, 2023, if, as of June 30, 2022, the City receives individual written notifications from greater than 50% in number of the seven total Signatory Airlines requesting to extend the Use and Lease Agreements through September 30, 2023. The City anticipates receiving by June 30, 2022 the necessary number of individual written notifications to effect the extension of the Use and Lease Agreements through September 30, 2023. The Airport and the Signatory Airlines have commenced discussions regarding new Use and Lease Agreements to be effective October 1, 2023. If the City does not receive the necessary number of individual written notifications to effect the extensions of the Use and Lease Agreements through September 30, 2023 or, if the Use and Lease Agreements are extended but the new Use and Lease Agreements are not negotiated to be effective by October 1, 2023, the City has the ability to set rates and charges to generate revenues sufficient to meet its covenants in the Revenue Bond Ordinances.

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

Landing Fees

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

Airline Terminal Rent and Other Charges

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

Terminal Concession and Other Non-Airline Business Agreements

Non-airline Terminal revenue, parking and ground transportation revenue and other non-airline space and use leases and concession revenues at the Airport represented approximately 49% of the Airport's operating revenue in fiscal year 2021.

Terminal Concession Agreements

The City has concession lease agreements with non-airline entities that operate, provide services or occupy space in the Terminal. The City entered into twelve new concession agreements since the fiscal year (also referred to in this document as "FY") ending September 30, 2018, including agreements with prime concessionaires, with 10-year terms. Two agreements began in the first half of FY18, five in the second half of FY19 and five more in the first half of FY20. The new concession agreements provide for the payment of rent and for payment of concession fees equal to the greater of (1) the minimum annual guaranteed ("MAG") concession fee (generally, 85% of Concession Fees due for the immediately preceding full Contract Year -or (2) specified percentages of annual gross receipts (net of taxes and other items) from sales of different categories of products.

Due to the impacts of the Pandemic on the aviation industry, revenues from concessionaires and their ability to pay the contractually required MAG per their concession agreements were severely impacted in the second half of FY20 and first half of FY21. In an effort to assist with the financial impact, the Airport provided \$6.24M in MAG relief to the concessionaires in FY20 and \$5.98M in FY21, including earmarked funds for concessionaires in the Coronavirus Response and Relief Supplemental Appropriations Act ("CRRSAA"). The CRRSAA portion of the relief in Fiscal Year 2021 was \$1.8 million.

Garage and Parking Agreements

The City receives revenue from approximately 18,000 public parking spaces at the Airport, consisting of parking spaces in Red Garage, the Blue Garage and surface lots, and also privilege fees from operators of approximately 6,400 off-site parking spaces. The Terminal parking garage and surface parking lots and the valet and shuttle services are managed by SP Plus Corporation pursuant to a five-year management contract that began in October 2016. The current contract is under the first option year of three – twelve month extension periods. Under the management contract, the operator is reimbursed for out-of-pocket expenses and receives a management fee. As noted below in Table 7, parking revenue is the largest component of the Airport's non-airline revenues.

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

Rental Car Company Agreements

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

As described above, the rental car companies also agree to collect CFCs from all rental car customers, and to hold in trust and pay the CFCs to the trustee for the Special Facilities Bonds and to make lease and other payments in connection with the Master Lease and financing of the Special Facilities Bonds.

Two concessionaires and lessees at the Austin CONRAC facility at the Airport filed for Chapter 11 bankruptcy protection in May 2020. The Hertz Corporation, which filed on May 22, 2020, operates the Hertz Car Rental, Dollar Car Rental, and Thrifty Car Rental franchises at the Airport. As of February 8, 2021, The Hertz Corporation assumed all its concession agreements and subleases and has since cured all pre- and post petition obligations. Advantage Holdco Inc., which filed on May 26, 2020, operated the Advantage Rent a Car and E-Z Rent a Car franchises at the Airport. The City is a creditor in the proceeding, and estimates its pre-petition claim to be \$44,438 and post-petition claim to be \$18,235. Advantage rejected both concession agreements and subleases and ceased operations at the Airport on June 30, 2020, making it unlikely that its obligation to the City will be fully recovered. The failure to receive the fees addressed in Advantage Holdco

Inc.'s pre-petition claim by the City is not expected to impact the City's ability to repay obligations payable from the fees pledged to their payment. The City also collects privilege fees from off-Airport rental car companies in the amount of 10% of the companies' gross receipts as defined in the concession agreement (or if greater, a MAG equal to 85% of the concession fee due for the immediately preceding concession agreement year) for operating at the Airport.

The Pandemic greatly impacted the rental car company revenues and their ability to pay the contractually-required MAG per their respective concession agreements in the second half of FY20 and first half of FY21. In an effort to mitigate the financial impact of the Pandemic, the Airport provided \$2.34M in MAG relief to rental car concessionaires in FY20 and \$666K in FY21, including concessionaire relief funds from CRRSAA. Currently for all concessionaires, the MAG's are applicable and are in effect.

Ground Transportation

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

General Aviation Agreements

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

South Terminal Arrangements

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

Allegiant Air and Frontier Airlines relocated their operations from the Barbara Jordan Terminal to the South Terminal in April 2017 and November 2018, respectively, which freed up gate space at the Barbara Jordan Terminal and allowed the two carriers to reduce their operating costs and potentially increase services at the Airport. As of January 2022, these two air carriers were scheduled to operate approximately 42 weekly departures.

In addition to completing and operating the South Terminal, the Concessionaire has agreed to pay to the City rent equal to the greater of (1) \$300,000 per year, increased by any increases in the CPI ("fixed rent") or (2) variable rent equal to a percentage of annual lease year gross revenues, as defined in the South Terminal Agreement, based upon the number of originating enplaned passengers enplaning at the South Terminal during the lease year. The percentage for the calculation of variable rent ranges from 0% of gross revenue for up to 399,000 enplaned passengers to 20% of gross revenue for more than 1,299,999 enplaned passengers. In fiscal year 2021, there were 185,819 enplaned passengers at the South Terminal, resulting in the City receiving \$315,207 in rental payments.

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

To implement certain future projects consistent with the Airport Expansion and Development Program ("AEDP") for the Airport, terminating the leasehold interest reflected in the South Terminal Agreement and demolishing the South Terminal will be necessary. The optimization plans undertaken as part of the projects being financed with a portion of the proceeds of the Bonds will allow the airlines currently operating out of the South Terminal to be accommodated at the Barbara Jordan Terminal. See "DESCRIPTION OF THE 2022-2028 PROJECT" in this document. On July 13, 2021, the Department of Aviation sent a memorandum (the "July 13 Memorandum") to the City Council providing an update on the AEDP, which will require the closure and demolition of the South Terminal. The July 13 Memorandum provided notice that the City intends to terminate existing leasehold interests in the South Terminal by July 2023, which date is within two years of the date the July 13 Memorandum was sent to the City Council.

On March 29, 2022, the City sent an initial offer letter to the Concessionaire relating to the value of the leasehold interest held by the Concessionaire in the South Terminal, the first step in a process to facilitate the termination of the South Terminal Agreement. On April 19, 2022, the City received a letter from the Concessionaire giving notice of a dispute under the South Terminal Agreement and seeking a meeting to discuss alleged violations by the City of the South Terminal Agreement. The City does not believe that it has violated the South Terminal Agreement and is evaluating its options before responding to the April 19, 2022, letter from the Concessionaire, including exercising its rights expressly reserved under the South Terminal Agreement to pursue eminent domain proceedings to condemn the South Terminal leasehold interest.

The estimated costs of demolishing the South Terminal are included in the projected costs of the 2022-2028 Project described in the Report of the Airport Consultant. The costs of terminating the South Terminal Agreement and acquiring all property interests in the South Terminal (including the interests of the Concessionaire) are currently anticipated to be funded from amounts available in the Capital Fund and other lawfully available sources of the Airport. A portion of such costs may also be eligible to be funded from proceeds of the Bonds and Additional Revenue Bonds. Although the termination of the South Terminal Agreement and the acquisition of the property interests in the South Terminal are currently anticipated to be completed in sufficient time to avoid any delay in the AEDP, a significant delay in such actions could potentially cause a delay in the planned construction of the future midfield Concourse B terminal and related improvements. See “DESCRIPTION OF THE 2022-2028 PROJECT” and “CERTAIN INVESTMENT CONSIDERATIONS – Delays and Cost Increases; Additional Indebtedness” in this document.

See “APPENDIX A – REPORT OF THE AIRPORT CONSULTANT – Attachment – Other Revenues – South Terminal” for a description of assumptions made by LeighFisher (the “Airport Consultant”) regarding the South Terminal.

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HISTORICAL FINANCIAL DATA

The City, as operator of the Airport System, currently accounts for its activities according to generally accepted accounting principles through an enterprise fund. Table 6 represents the historical operating results of the Airport enterprise fund for fiscal years 2017 through 2021 based on the audited financial statements of the City, as reported on by the City's independent auditors. The City's audited financial statements for the fiscal year ended September 30, 2021 are included as APPENDIX B in this document.

Table 6
Comparative Statements of Revenues, Expenses and Changes in Retained Earnings/Net Position
City of Austin, Texas
Airport Fund
(Fiscal Year Ended September 30)
(in thousands)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Revenue					
User fees and rental	\$ 149,333	\$ 167,284	\$ 180,290	\$ 144,637	\$ 155,711
Operating revenues	<u>149,333</u>	<u>167,284</u>	<u>180,290</u>	<u>144,637</u>	<u>155,711</u>
Expenses					
Operating expenses before depreciation	102,885	118,126	131,754	136,824	121,776
Depreciation and amortization	<u>26,667</u>	<u>33,723</u>	<u>35,220</u>	<u>42,470</u>	<u>44,155</u>
Total operating expenses	<u>129,552</u>	<u>151,849</u>	<u>166,974</u>	<u>179,294</u>	<u>165,931</u>
Operating income before nonoperating revenues (expenses) and operating transfers	<u>19,781</u>	<u>15,435</u>	<u>13,316</u>	<u>(34,657)</u>	<u>(10,220)</u>
Nonoperating revenues (expenses)					
Interest and other revenues	3,907	7,542	14,296	8,435	-
Interest on revenue bonds and other debt	(30,058)	(33,318)	(33,793)	(40,209)	(39,973)
Interest capitalized during construction	1,893	-	-	-	-
Passenger facility charges	29,100	30,142	33,168	17,373	22,366
Cost (recovered) to be recovered in future years	-	-	-	-	-
Other nonoperating expenses	<u>(1,859)</u>	<u>(375)</u>	<u>(2,635)</u>	<u>23,111</u>	<u>25,161</u>
Total nonoperating revenues (expenses)	<u>2,983</u>	<u>3,991</u>	<u>11,036</u>	<u>8,710</u>	<u>7,554</u>
Income (loss) before contributions and transfers	22,764	19,426	24,352	(25,947)	(2,666)
Capital contributions	14,751	7,593	13,453	8,778	8,272
Transfers in	-	-	-	-	-
Transfers out	<u>(33)</u>	<u>(182)</u>	<u>(482)</u>	<u>(24)</u>	<u>(41)</u>
Change in net position	37,482	26,837	37,323	(17,193)	5,565
Total net position, beginning	<u>578,398</u>	<u>575,280</u> ⁽¹⁾	<u>602,117</u>	<u>639,440</u>	<u>622,247</u>
Total net position, ending	<u>\$ 615,880</u>	<u>\$ 602,117</u>	<u>\$ 639,440</u>	<u>\$ 622,247</u>	<u>\$ 627,812</u>

(1) As restated, due to the implementation of GASB Statement No. 75.

The information in the following table was derived from financial information maintained by the City's Department of Aviation, which was prepared according to generally accepted accounting principles. Table 7 presents the Airport revenue detail for fiscal years 2017 through 2021. The City's audited financial statements for the fiscal year ended September 30, 2021 are included as APPENDIX B in this document.

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

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Airline Revenue					
Landing Fees	\$27,301	\$28,302	\$30,827	\$29,023	\$29,407
Terminal Rental & Other Fees	34,628	43,640	46,398	44,677	46,173
Total Airline Revenue	<u>\$61,929</u>	<u>\$71,942</u>	<u>\$77,226</u>	<u>\$73,700</u>	<u>\$75,580</u>
Non-Airline Revenue					
Parking	\$40,542	\$40,092	\$41,138	\$23,293	\$27,724
Other Concessions	28,175	32,044	35,427	23,890	28,408
Other Rentals and Fees	18,687	23,206	26,499	23,753	23,999
Total Non-Airline Revenue	<u>\$87,404</u>	<u>\$95,342</u>	<u>\$103,064</u>	<u>\$70,937</u>	<u>\$80,130</u>
Total Revenue	<u>\$149,333</u>	<u>\$167,284</u>	<u>\$180,290</u>	<u>\$144,637</u>	<u>\$155,711</u>

Source: City of Austin, Department of Aviation

Appendix A uses data calculated as per the Revenue Bond Ordinances, which may differ from amounts paid and/or presented in the City's Annual Comprehensive Financial Report ("ACFR").

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The information set forth in Table 8 was derived from financial information maintained by the City. The following table presents the historical debt service coverage information for the Outstanding Revenue Bonds for fiscal years 2017 through 2021. The amounts shown in Table 8 were determined in conformity with the requirements of the Ordinance and the Revenue Bond Ordinances. Pursuant to the terms of the Ordinance and the Revenue Bond Ordinances, “Gross Revenues,” “Operation and Maintenance Expenses,” “Administrative Expenses” and certain other amounts specified therein are not measured according to generally accepted accounting principles for purposes of the rate covenant and other provisions of the Ordinance and the Revenue Bond Ordinances. See the definitions of such terms in “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE” in this document.

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

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Gross Revenues	\$ 154,570	\$ 176,235	\$ 191,166	\$ 174,257	\$ 186,715
Other Available Funds ⁽¹⁾	<u>4,830</u>	<u>5,469</u>	<u>6,107</u>	<u>7,446</u>	<u>11,178</u>
Funds Available to Pay Debt Service	\$ 159,400	\$ 181,704	\$ 197,273	\$ 181,703	\$ 197,893
Operating Expenses ⁽²⁾	<u>(94,139)</u>	<u>(108,045)</u>	<u>(118,610)</u>	<u>(118,053)</u>	<u>(101,963)</u>
Net Available Revenue	\$ 65,261	\$ 73,659	\$ 78,663	\$ 63,650	\$ 95,930
Debt Service ⁽³⁾	\$ 19,319	\$ 21,875	\$ 24,429	\$ 29,783	\$ 44,710
Coverage	3.38	3.37	3.22	2.14	2.15

- (1) Pursuant to the terms of the Ordinance and the Revenue Bond Ordinances, for purposes of showing compliance with the rate covenant and meeting the conditions for the issuance of Additional Revenue Bonds, transfers of Other Available Funds to the Revenue Fund at the beginning of any Fiscal Year may not exceed 25% of the Debt Service Requirements for the Revenue Bonds for such Fiscal Year.
- (2) Amounts shown include "Operation and Maintenance Expenses" and "Administrative Expenses" (as such terms are defined in the Ordinance and the Revenue Bond Ordinances), and exclude depreciation and other unfunded postemployment benefits and pension obligation accruals. Pursuant to the terms of the Ordinance and the Revenue Bond Ordinances, Administrative Expenses are included in the coverage calculations for the purpose of determining compliance with the City's rate covenant, and Administrative Expenses are not included in the coverage calculations for the purpose of issuing Additional Revenue Bonds.
- (3) Amounts are net of PFCs used to pay debt service. See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS – Use of Passenger Facility Charges” in this document.

Source: The City of Austin.

Historical Debt Service Coverage Information Contained in Audited Financial Statements

As described above, the amounts shown in Table 8 were determined in conformity with the requirements of the Ordinance and the Revenue Bond Ordinances. The debt service coverage reported in Note 6.c. on page 79 and in Table 17 of the statistical section of the audited financial statements include Other Available Funds as being 25% of the net debt service on the Revenue Bonds, after deducting the amount of PFCs used to pay debt service. Pursuant to the terms of the Ordinance and the Revenue Bond Ordinances, for purposes of showing compliance with the rate covenant and meeting the conditions for the issuance of Additional Revenue Bonds, transfers of Other Available Funds to the Revenue Fund at the beginning of any Fiscal Year may not exceed 25% of the Debt Service Requirements for the Revenue Bonds for such Fiscal Year. See the definition of “Other Available Funds” in “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE” and “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS – Use of Passenger Facility Charges” in this document.

Also see “APPENDIX B – AUDITED FINANCIAL STATEMENTS” in this document.

AIRLINE INFORMATION

Revenues of the Airport System may be affected by the ability of the airlines operating at ABIA, individually and collectively, to meet their respective obligations. Many of the airlines that serve the Airport (or their respective parent corporations) are subject to the information reporting requirements of the United States Securities Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the United States Securities and

Exchange Commission (the “SEC”). Certain information, including financial information, as of particular dates concerning each of the airlines operating at ABIA (or their respective parent corporations) is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected in the Public Reference Room of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20659, and at the SEC’s regional offices at 219 South Dearborn Street, Chicago, Illinois 60604; 26 Federal Plaza, New York, New York 10278; and 5757 Wilshire Boulevard, Suite 500 East, Los Angeles, California 90036-3648 and copies of such reports and statements can be obtained from the Public Reference Section of the SEC at the above address at prescribed rates. In addition, each airline operating at ABIA is required to file periodic reports of financial and operating statistics with the United States Department of Transportation (the “U.S. DOT”). Such reports can be inspected at the following location: Office of Aviation Information Management, Data Requirements and Public Reports Division, Research and Special Programs Administration, Department of Transportation, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from the U.S. DOT at prescribed rates.

REGULATION

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

Rates and Charges and Revenue Use; Federal Statutes

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

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

Passenger Facility Charges

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

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

The City has approval from the FAA to impose a PFC per eligible enplaned passenger at the Airport. The PFC was imposed at \$3.00 in 1995 and increased to \$4.50 (the maximum allowable under current law) in 2004. The cumulative amount of PFC approvals received by the City is \$831,089,379. Through December 31, 2021, cumulative PFC revenues, including investment earnings, totaled \$454,831,398. Under FAA approvals received to date, the City is authorized to impose the PFC through an estimated date of November 2034. The City has applied PFCs toward project costs on a pay-as-you-go basis and has set aside and applied PFCs toward the following year's PFC-eligible Airport System Revenue Bond debt service, up to the maximum eligible amount. The City intends to continue such application of PFC revenues in accordance with the covenant of the City contained in the Ordinance. See "SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS – Use of Passenger Facility Charges" in this document. Provided below is a table showing the City's PFC revenues, including investment earnings, and the amount set aside for debt service on Revenue Bonds in fiscal years 2015-2021 for the payment of debt service due on Revenue Bonds during the next succeeding fiscal year.

Table 9
PFC Detail by Fiscal Year

Fiscal Year	PFC Revenues⁽¹⁾	Amount Set Aside and Applied Toward Debt Service⁽¹⁾⁽²⁾
2015	\$22,487,714	\$12,154,524
2016	24,399,643	11,915,324
2017	29,716,478	10,596,707
2018	31,499,633	17,751,536
2019	35,176,477	22,427,409
2020	18,776,099	23,239,282
2021	22,504,326	23,831,270

(1) This table uses data calculated as per the Revenue Bond Ordinances, which may differ from amounts paid and/or presented in the City's ACFR.

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

The proceeds of the PFCs are not part of the Net Revenues pledged by the City to the payment of Revenue Bonds, including the Bonds. Pursuant to the terms of the Ordinance, PFCs are expressly excluded from the definition of "Gross Revenues." Consistent with the definition of "Debt Service Requirements" in the Ordinance, debt service on Revenue Bonds for which PFCs have been appropriated and deposited into a dedicated fund or account, the proceeds of which are required to be transferred into the Debt Service Fund or directly to the Paying Agent/Registrar for such Revenue Bonds, is excluded from the calculation of Debt Service Requirements. See "SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS – Rate

Covenant,” “– Additional Revenue Bonds” and the definition of “Debt Service Requirements” in “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Selected Definitions” in this document.

The City intends to request approval from the FAA to use PFCs to pay a portion of the debt service on the Bonds. If approval is requested and received, the City intends to set aside PFCs to pay PFC-eligible debt service on the Bonds in accordance with the covenant of the City contained in the Ordinance. See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS – Use of Passenger Facility Charges” and “CERTAIN INVESTMENT CONSIDERATIONS – Availability of PFCs and PFC Approval” in this document.

Federal and State Noise Regulation

State statutes and administrative regulations require all airports in the State to institute noise abatement programs under certain circumstances. The City instituted a noise abatement program, which has been in effect for approximately 20 years. The Airport noise program was originally established under Federal Aviation Regulation Part 150 and has been updated several times, most recently by an update completed and approved by the FAA in 2008.

The United States Congress enacted the Airport Noise and Capacity Act of 1990 (“ANCA”) to balance local needs for airport noise abatement with the needs of the national air transportation system. ANCA established criteria and standards that are intended to ensure an airport operator does not impose local restrictions that negatively affect the national air transportation system. Airport management believes that the Airport is in material compliance with ANCA, and there is no pending litigation known to the City challenging noise levels of airborne aircraft.

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

CAPITAL IMPROVEMENT PROGRAM

The City continually develops and monitors a list of capital projects and assesses the timing of implementing these projects based on funding availability and needs. These projects are anticipated to be funded, all or in part, by the Bonds, Additional Revenue Bonds, Subordinate Obligations, Federal grants, PFCs, internally generated funds or other legally available sources. Four series of Additional Revenue Bonds are anticipated to be issued between 2024 and 2028 in the approximate aggregate principal amount of \$1.44 billion (in addition to the Bonds), subject to the requirements of the Revenue Bond Ordinances. Certain of the federal grants and PFCs which may be used to fund these projects either have not been applied for or the application for such sources is pending. See “CERTAIN INVESTMENT CONSIDERATIONS – Availability of Funding for the Capital Improvement Program” in this document.

A significant portion of the Capital Improvement Program is the AEDP, which is intended to increase capacity at the Airport using a strategic approach, including the following key elements:

- Optimizing the Barbara Jordan Terminal (BJT) by adding new aircraft gates and making related passenger processing improvements
- Building a new centralized baggage handling system
- Building a new midfield Concourse B facility with 10 or more gates, including associated airfield infrastructure.

As noted in “APPENDIX A – REPORT OF THE AIRPORT CONSULTANT – Exhibit A,” a portion of the 2022-2028 Project is expected to be funded with Additional Revenue Bonds to be issued between 2024 and 2028, as described above. For purposes of the Report, the financing of any other projects is not included in the forecast period of the Report included in this document as APPENDIX A.

REPORT OF THE AIRPORT CONSULTANT

APPENDIX A, which is part of this Official Statement, contains the Report prepared by the Airport Consultant (the “Report”). The Report provides information regarding the Airport System, the 2022-2028 Project, historical and projected air traffic activity for the 2019-2028 fiscal year period, historical financial information and projections of financial results for the Airport System for the projection period. As noted in the Report, the projections were based upon information and assumptions provided by or reviewed with and agreed to by Airport management and reflect Airport management’s expected course of action during the projection period and in Airport management’s judgment, present fairly the expected financial results of the Airport. The key factors and assumptions that are significant to the projections are set forth in the Report.

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

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

	Debt Service Coverage Estimates and Projections from the Report - Base Case ⁽¹⁾						
	Estimated	Projected					
	FY 2022	FY 2023	FY2024	FY 2025	FY 2026	FY 2027	FY 2028
Gross Revenues	\$ 245,830	\$ 247,620	\$ 257,145	\$ 262,483	\$ 273,441	\$ 301,177	\$ 364,469
Less: Operation and Maintenance Expenses	(119,133)	(131,046)	(134,709)	(140,097)	(145,701)	(151,529)	(184,449)
Net Revenues	\$ 126,697	\$ 116,574	\$ 122,436	\$ 122,386	\$ 127,740	\$ 149,648	\$ 180,020
Other Available Funds ⁽²⁾	13,827	14,018	13,999	17,698	18,662	24,035	29,877
Net Revenues plus Other Available Funds	\$ 140,524	\$ 130,592	\$ 136,436	\$ 140,084	\$ 146,402	\$ 173,683	\$ 209,897
Less: Administrative Expenses ⁽³⁾	-	-	-	-	-	-	-
Subtotal	\$ 140,524	\$ 130,592	\$ 136,436	\$ 140,084	\$ 146,402	\$ 173,683	\$ 209,897
Revenue Bond Debt Service Requirements ⁽⁴⁾	\$ 55,306	\$ 56,071	\$ 55,998	\$ 70,792	\$ 74,647	\$ 96,138	\$ 119,507
Debt service coverage	2.54	2.33	2.44	1.98	1.96	1.81	1.76
Debt service coverage requirement	1.25	1.25	1.25	1.25	1.25	1.25	1.25

Source: Report of the Airport Consultant

- (1) Amounts shown for Fiscal Year 2022 are estimates, and amounts for fiscal years 2023 through 2028 are forecasts.
- (2) Pursuant to the terms of the Ordinance and the Revenue Bond Ordinances, for purposes of showing compliance with the rate covenant and meeting the conditions for the issuance of Additional Revenue Bonds, transfers of Other Available Funds to the Revenue Fund at the beginning of any Fiscal Year may not exceed 25% of the Debt Service Requirements for the Revenue Bonds for such Fiscal Year. See the definition of “Other Available Funds” in “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE” in this document.
- (3) Pursuant to the terms of the Ordinance and the Revenue Bond Ordinances, moneys on deposit in the Revenue Fund are used to pay Debt Service on Revenue Bonds (including the Bonds) and any related Credit Agreement Obligations, prior to being used to pay Administrative Expenses. Further, pursuant to the terms of the Ordinance and the Revenue Bond Ordinances, Administrative Expenses are included in the coverage calculations for the purpose of determining compliance with the City’s rate covenant, but Administrative Expenses are not included in the coverage calculations for the purpose of issuing Additional Revenue Bonds. See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS – Flow of Funds,” “– Rate Covenant” and “– Additional Revenue Bonds” in this document. Administrative Expenses primarily consist of paying agent and rebate analyst fees and are anticipated to be de minimis.
- (4) Amounts are net of PFCs used to pay debt service. See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS – Use of Passenger Facility Charges” in this document.

Prospective Financial Information

The Airport Consultant has prepared the prospective financial information set forth above and in Appendix A, based on information from sources indicated and assumptions provided by or reviewed with and agreed to by Airport management, as discussed in the Report. The prospective financial information set forth above and in Appendix A was not prepared by the Airport Consultant with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Airport’s management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management’s knowledge and belief, the expected course of action and the expected future financial performance of the

Airport. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this document are cautioned not to place undue reliance on this prospective financial information. See “CERTAIN INVESTMENT CONSIDERATIONS – Forward-Looking Statements” and “– Assumptions in the Airport Consultant’s Report” in this document.

Neither the City’s independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained in this document, including the Report, nor have they expressed any opinion or any other form of assurance to the City on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information prepared by the Airport Consultant.

CERTAIN INVESTMENT CONSIDERATIONS

COVID-19

See “INTRODUCTION - COVID-19 Pandemic” in this document for risks associated with the Bonds resulting from the Pandemic.

General

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

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

The Airport System’s ability to generate Gross Revenues, and any PFC revenues, depends upon sufficient levels of aviation activity and passenger traffic at the Airport. The achievement of increased passenger traffic will depend partly on the profitability of the airline industry and the ability of individual airlines to provide sufficient capacity to meet demand. A weak economy, international hostilities and the threat of terrorist activity, among other events, reduce demand for air travel. To the extent the Airport System is unable to make up revenue shortfalls, the City’s ability to pay debt service on the Bonds may be adversely affected.

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

Limited Obligations

The Bonds, together with the Currently Outstanding Revenue Bonds and any Additional Revenue Bonds, when and if issued, are limited special obligations of the City payable from, and equally and ratably secured by, a first lien on the Net Revenues of the Airport System and the Debt Service Fund and Debt Service Reserve Fund established in the Ordinance. No mortgage of any of the physical properties forming a part of the Airport System or any lien thereon or security interest

therein has been given. **The Bonds are not general obligations of the City, and neither the taxing power of the City nor the State is pledged as security for the Bonds.** See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS” in this document.

No Acceleration

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

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

Structural Changes in the Travel Market

Many factors have combined to alter consumer travel patterns. Consumers have become more price-sensitive. Efforts of airlines to stimulate traffic by heavily discounting fares have changed consumer expectations regarding airfares. In addition, the availability of fully transparent price information on the Internet now allows quick and easy comparison shopping, which has changed consumer purchasing habits. This has made pricing and marketing even more competitive in the U.S. airline industry. Smaller corporate travel budgets, combined with the higher time costs of travel, have made business customers more amenable to communications substitutes such as tele- and video-conferencing, which services have grown significantly since the onset of the Pandemic. Further, increased adoption of videoconferencing technologies during the COVID-19 pandemic and increased acceptance of these methods of communicating could reduce the demand for business travel, though the impact of such technologies on the demand for business travel is not known at this time.

Factors Affecting the Airline Industry

General Factors Affecting Air Carriers. The ability of the airlines serving the Airport to generate revenues depends and, therefore, the amount of Net Revenues available for payment of the Revenue Bonds (including the Bonds), in part, upon the financial health of the aviation industry in general. The economic condition of the aviation industry is volatile and periodically the industry undergoes significant changes, including mergers, acquisitions, bankruptcies and closures. Further, the aviation industry is sensitive to a variety of factors, including (i) the cost and availability of financing, labor, fuel, aircraft and insurance, (ii) regional, national and international economic conditions, (iii) international trade, (iv) currency values, (v) competitive considerations, including the effects of airline ticket pricing, (vi) traffic and airport capacity constraints of the Airport and competing airports, (vii) governmental regulation, including security regulations and taxes imposed on airlines and passengers, and maintenance and environmental requirements, (viii) passenger demand for air travel and (ix) disruption caused by airline accidents, criminal incidents, acts of war or terrorism, such as the events of September 11, 2001, and public health emergencies, such as the Pandemic. The aviation industry is also vulnerable to strikes and other union activities. The number of passengers at the Airport depends partly on the profitability of the U.S. airline industry and the associated ability of the industry and individual airlines, particularly United and Southwest, to make the necessary investments to provide service.

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

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

General Factors Affecting Airline Activity. Numerous factors affect air traffic generally and air traffic at ABIA specifically. Demand for air travel is influenced by factors such as population, levels of disposable income, the nature, level and concentration of industrial and commercial activity in the service area and the price of air travel. The price of air travel is, in turn, affected by the number of airlines serving a particular airport and a particular destination, the financial condition, cost structure and hubbing strategies of the airlines serving the airport, the willingness of competing airlines to enter into an airport market, the cost of operating at an airport, the price of fuel and any operating constraints (due to capacity, environmental concerns or other related factors) limiting the frequency or timing of airport traffic within the national system or at a particular airport. In addition, the onset of war and the threat of renewed terrorist attacks may dampen air traffic. Although the City has developed contingency plans that make assumptions as to factors described above and suggest a prudent response to such events, the City may anticipate but can never predict the occurrence of any particular event or trend that could adversely impact airline traffic.

Aviation Security Concerns and Other Travel Market Changes. Concerns about the safety of airline travel and the effectiveness of security and health safety precautions influence passenger travel behavior and airline travel demand. Anxieties about the safety of flying and the inconveniences and delays associated with security and health screening procedures could lead to both the avoidance of travel and the switch from air to surface modes of transportation for short trips.

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

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

Passenger traffic at U.S. airports is also influenced by the globalization of business and increased importance of international trade and tourism, international economics, trade balances, currency exchange rates, government policies, and geopolitical relationships.

Concerns about hostilities, terrorist attacks, and other perceived security and public health risks, and associated travel restrictions also affect travel demand to particular international destinations.

Future increases in international passenger traffic will depend partly on global economic growth, a stable and secure international travel environment, and government policies that do not unreasonably restrict or deter travel.

Russia's invasion of Ukraine in February 2022 is resulting in catastrophic destruction, loss of life, and a humanitarian and refugee crisis in eastern Europe as Ukrainian civilians are trapped in the war zone or flee the fighting. The invasion prompted the United States, the European Union, and other nations to impose far-reaching economic and financial sanctions that are having significant effects on the Russian economy and international trade. The war and sanctions are causing economic disruption far beyond Russia's borders by sending energy and commodity prices, including costs of fuel and other airline operating costs, soaring, worsening inflation, disrupting international commerce, and slowing economic growth.

The war has caused the closure of airspace over much of eastern Europe and Russia and the suspension of airline service to Russia and other destinations in and near the war zone. The closure of Russian airspace requires some airline flights, particularly between Europe and Asia, to take circuitous flight paths and incur longer flight times and higher fuel costs.

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

Prior to 2010, a variety of factors reduced industry airfares and resulted in decreased airline profits. Beginning in 2010, as airline travel demand increased and seat capacity contracted because of industry consolidation, yields increased to 16.7 cents per passenger-mile in 2016. Beginning in 2006, charges were introduced by most airlines for services such as checked baggage, preferred seating, in-flight meals, and entertainment, thereby increasing the effective price of airline travel more than these yield figures indicate.

Effect of Airline Bankruptcies

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

Although with an O&D airport (like the Airport) that has residual ratemaking for costs of the airfield and preferential use agreement, leases and other agreements at the terminals, expectations would be that the amounts other airlines would be required to pay for use of the airfield would be sufficient to make up any shortfalls attributable to an airline in bankruptcy and that payments by other airlines and concessionaires in the terminals would be adequate to pay terminal-related expenses and debt service, but the other airlines likely would not be required to make up for unpaid post-bankruptcy usage and rental of terminal and concourse space and ramps, and no assurances can be given that the other airlines would be able to pay such additional amounts when needed, particularly if the bankruptcy occurred during a period in which many of the airlines and other users were struggling.

Airline Leases and Executory Contracts

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

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

Financing Leases and Other Financing Contracts

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

Automatic Stay, Preference Claims and PFC Issues

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

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

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

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

Effect of Other Tenant or Concessionaire Bankruptcies

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

Effect of a City Bankruptcy

Under current Texas law (Chapter 140 of the Texas Local Government Code), cities are authorized to file bankruptcy petitions under Chapter 9 of the Bankruptcy Code. In the event the City becomes a debtor in a bankruptcy case, the owners of the Bonds may encounter significant payment delays and significant risks of nonpayment. Bond owners may not have a lien on Net Revenues unless a bankruptcy court determines that the Net Revenues are “special revenues” within the meaning of the Bankruptcy Code. No assurance can be given that a court would make such a determination. Revenues are held by the City and applied to payment of Costs of Operation and Maintenance before being transferred to the paying agent/registrant. Even if a court determines that Revenues are “special revenues,” no assurance can be given that the court would not permit the City to use such Revenues to pay costs of operating the non-airport facilities before being transferred to pay debt service on Bonds. If Net Revenues are not “special revenues” or if Revenues are applied to pay operating costs of other City facilities, there could be very significant delays or reductions in payments or nonpayment of the Bonds.

A bankruptcy of the City also would trigger cross defaults under many of the City's other agreements, which also would lead to the possibility of additional delays and significant losses.

Aviation Security and Health Safety Concerns

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

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

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

Public health and safety concerns have also affected air travel demand from time to time. For additional information on the ongoing COVID-19 Pandemic, please see "INTRODUCTION – COVID-19 Pandemic" in this document. The City is unable to predict how serious the impact of the COVID-19 Pandemic or any future pandemic may become, what effect it may have on air travel to and from the Airport, and whether any such affects will be material.

Climate Change

Societal concerns about the contribution of the airline industry's use of petroleum-based jet fuel to the emission of carbon dioxide and other greenhouse gases into the atmosphere might lead to decreased demand for air travel. However, it is unlikely that the airline industry will be able to develop economic alternatives to petroleum-derived jet fuel in the near future. Therefore, in order to sustain growth, the airline industry will need to increase efficiencies in fuel usage and mitigate emissions, which require substantial financial investment and changes to the operating economics of the aviation industry. In the long term, the airline industry will need to develop aircraft technologies that use alternative fuels, such as hydrogen and electric power. It is likely that some of the airlines' increased costs will be passed on to passengers, thereby negatively influencing demand.

Delays and Cost Increases; Additional Indebtedness

The estimated costs of and schedules for capital improvement projects at the Airport, including the 2022-2028 Project, are subject to a number of uncertainties. The City's ability to complete projects may be adversely affected by a number of factors, including: (i) estimating errors, (ii) design and engineering errors, (iii) changes to the scope of the projects and other change orders, (iv) delays in contract awards, (v) material and/or labor shortages, (vi) delays in acquiring and unavailability of right-of-way and unforeseen site conditions, (vii) adverse weather conditions, earthquakes or other casualty events, (viii) contractor defaults, (ix) labor disputes, (x) unanticipated levels of inflation, (xi) environmental and/or permitting issues, and (xii) litigation. No assurance can be given that the projects will not cost more than the current budgets for these projects. The City expects to fund its other project costs with a combination of PFCs, available Net

Revenues, and proceeds from the sale of Additional Revenue Bonds, federal grants and investment income. In the event one or more of these funding sources is not available to the City in the amount or on the schedule contemplated by the City, the implementation of some of the projects may be delayed. Any schedule delays or cost increases could result in the need to issue Additional Revenue Bonds or other obligations and may result in increased costs that cannot be recovered from the airlines.

Regulations and Restrictions Affecting the Airport

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

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

Ability to Meet Rate Covenant

As described in “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS – Rate Covenant” in this document, the City has covenanted in the Ordinance that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year the rate covenant set forth in the Ordinance is met. In addition to Net Revenues, the City expects to use approximately \$22.3 million to \$37.0 million of PFCs in each of the Fiscal Years between 2022 through 2028, to pay a portion of the Debt Service on the Revenue Bonds. If PFCs have been appropriated and deposited into a dedicated fund or account, the proceeds of which are required to be transferred into the Debt Service Fund or directly to the Paying Agent/Registrar for the Revenue Bonds, the principal and/or interest on such Revenue Bonds is excluded from the calculation of Debt Service Requirements; thus decreasing Debt Service Requirements and increasing debt service coverage for purposes of the rate covenant under the Ordinance. See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS – Use of Passenger Facility Charges” and “CERTAIN INVESTMENT CONSIDERATIONS - Availability of PFCs and PFC Approval” in this document.

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

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

Availability of PFCs and PFC Approval

In addition to the use of Net Revenues, the City expects to use between \$22.3 million and \$37.0 million of PFCs each fiscal year between fiscal years 2022 and 2028, to pay a portion of the debt service on the Revenue Bonds (including the Bonds). See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS – Use of Passenger Facility Charges,” “REGULATION – Passenger Facility Charges” and “CERTAIN INVESTMENT CONSIDERATIONS - Ability to Meet Rate Covenant” in this document.

The proceeds of the PFCs are not part of the Net Revenues pledged by the City to the payment of Revenue Bonds, including the Bonds. Pursuant to the terms of the Ordinance, PFCs are expressly excluded from the definition of “Gross Revenues.” Consistent with the definition of “Debt Service Requirements” in the Ordinance, debt service on Revenue Bonds for which PFCs have been appropriated and deposited into a dedicated fund or account, the proceeds of which are required to be transferred into the Debt Service Fund or directly to the Paying Agent/Registrar for such Revenue Bonds, is excluded from the calculation of Debt Service Requirements. See “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS – Rate Covenant” and “– Additional Revenue Bonds” in this document and the definition of “Debt Service Requirements” in “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Selected Definitions” in this document. As described in “REGULATION – Passenger Facility Charges” in this document, under FAA approvals received to date, the City is authorized to impose the PFC through an estimated date of November 2034.

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

Availability of Funding for the Capital Improvement Program

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

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

Federal Funding Considerations

The City depends upon federal funding for the Airport not only in connection with grants and PFC authorizations but also because it is federal funding that provides for TSA, air traffic control and other FAA staffing and facilities. On

October 3, 2018, the U.S. Senate passed a five year reauthorization bill for the FAA — the FAA Reauthorization Act of 2018 — which was signed into law by the President on October 5, 2018. The 2018 FAA reauthorization retains the federal cap on PFCs at \$4.50 and authorizes \$3.35 billion per year for the FAA’s Airport Improvement Program (“AIP”) through federal fiscal year 2023, which is the same funding level as was in place for the preceding five years. The AIP provides federal capital grants to support airport infrastructure through entitlement grants, which are determined by formulas based on passenger, cargo and general aviation activity levels, and discretionary grants, allocated on the basis of specific set-asides and the national priority ranking system. Federal funding also is impacted by sequestration under the federal Budget Control Act of 2011. Except to the extent changed by Congress from time to time, sequestration is a multi-year process and could continue to affect FAA, TSA and Customs and Border Control budgets and staffing, which results in staffing shortages and furloughs and traffic delays at the Airport and also nationwide. Some of the TSA funding shortages are being addressed by increasing the amount (and removing the cap) on the security fees on tickets, but such fees have been controversial and no assurance can be given that such fees will be sufficient or that the increased ticket costs will not result in lower passenger enplanements. Further, there can be no assurance that future reauthorization legislation will be enacted before the current authorization terminates at the end of federal fiscal year 2023. Failure to approve such legislation could have a material, adverse impact on operations at airports in the United States, including the Airport System.

Forward-Looking Statements

This Official Statement, including the Appendices and the documents incorporated by reference herein, contain “forward-looking statements,” which generally can be identified with words or phrases such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “foresees,” “may,” “plan,” “predict,” “should,” “will” or other words or phrases of similar import. All statements included in this Official Statement, including the Appendices hereto, that any person expects or anticipates will, should or may occur in the future, including but not limited to, the projections in the Airport Consultant’s Report, are forward-looking statements. These statements are based on assumptions and analysis made by the City and the Airport Consultant, as applicable, in light of their experience and perception of historical trends, current conditions and expected future developments as well as other factors they believe are appropriate in the circumstances. However, whether actual results and developments will conform with expectations and predictions is subject to a number of risks and uncertainties, including, without limitation, the information discussed under “CERTAIN INVESTMENT CONSIDERATIONS” in this document as well as additional factors beyond the City’s control. The risk factors and assumptions described under such caption and elsewhere in this Official Statement could cause actual results to differ materially from those expressed in any forward-looking statement. All of the forward-looking statements made in this Official Statement and any Appendices hereto are qualified by these cautionary statements. There can be no assurance that the actual results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Net Revenues or the operations of ABIA. All subsequent forward-looking statements attributable to the City or persons acting on its behalf are expressly qualified in their entirety by the factors and assumptions described above and in any documents containing those forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City and the Airport Consultant on the date hereof, and neither the City nor the Airport Consultant assumes any obligation to update any such forward-looking statements.

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

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

Assumptions in the Airport Consultant's Report

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

Competition and Alternate Modes of Transportation and Communication

One significant source of non-airline revenues for the Airport is generated from ground transportation activity, including use of on-Airport parking facilities; trip fees paid by taxi, limousine and Transportation Network Companies ("TNCs"); shared rides; and rental car transactions by Airport passengers. While passenger levels are increasing, the relative market share of these sources of revenue is shifting. The Airport charges different fees and makes different profits from each product. There can be no assurance that passengers will not choose to utilize TNCs instead of parking or using rental cars in the future, which could result in a reduction in ground transportation revenues.

In addition to TNCs, new technologies (such as autonomous vehicles, connected vehicles or urban aerial ridesharing with VTOL (vertical takeoff and landing) aircraft) and innovative business strategies in established markets such as commercial ground transportation and car rental may continue to occur and may result in further changes in Airport passengers' choice of ground transportation mode. While the City makes every effort to anticipate demand shifts, there may be times when the Airport's expectations differ from actual outcomes. In such event, revenue from one or more ground transportation modes may be lower than expected. The City cannot predict with certainty what impact these innovations in ground transportation will have over time on revenues from parking, other ground transportation services or rental cars. The City also cannot predict with certainty whether or to what extent it will collect non-airline revenues in connection with such new technologies or innovative business strategies.

Cybersecurity

The City, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations, and faces multiple cybersecurity threats including, but not limited to, hacking, phishing, viruses, malware and other attacks on its computing and other digital networks and systems (collectively, "Systems Technology"). As a recipient and provider of personal, private, or sensitive information, the City, including the Airport, may be the target of cybersecurity incidents that could result in adverse consequences to the Airport and its Systems Technology, requiring a response action to mitigate the consequences.

The airlines serving the Airport and other Airport tenants also face cybersecurity threats that could affect their operations and finances. Computer networks and data transmission and collection are vital to the safe and efficient operation of the airlines that serve the Airport and other tenants of the Airport. Despite security measures, information technology and infrastructure of any of the airlines serving the Airport or any other tenants may be vulnerable to attacks by outside or internal hackers, or breached by employee error, negligence or malfeasance. Any such breach or attack could compromise systems and the information stored thereon. Any such disruption or other loss of information could result in a disruption in the efficiency of the operation of the airlines serving the Airport and the services provided at the Airport, thereby adversely affecting the ability of the Airport to generate revenue.

A significant cyber security incident could result in a range of potentially material negative consequences for the Airport, including unauthorized access to, disclosure, modification, misuse, loss or destruction of systems or data; theft of sensitive, regulated or confidential data, such as personal identifying information; the loss of functionality of critical systems through ransomware, denial or service or other attacks; and business delays, service or system disruptions, damage to equipment and injury to persons or property. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving and may be difficult to anticipate or to detect for long periods of time. The constantly changing nature of the threats means that the Airport may not be able to prevent all data security breaches or misuse of data. Similarly, the Airport depends on the ability of its key commercial partners, including airlines and technology vendors, to conduct their businesses in a manner that complies with applicable security standards and assures their ability to perform on a timely basis.

In addition, the costs of operation, consequences of defending against, preparing for, responding to and remediating an incident of cyber security breach may be substantial. As cyber security threats become more frequent, intense and sophisticated, costs of proactive defense measures may increase. Further, the Airport could be exposed to litigation, regulatory enforcement and other legal action as a result of an incident, carrying the potential for damages, fines, sanctions or other penalties, as well as injunctive relief requiring costly compliance measures. A cyber security incident could also impact the Airport's brand, harm its reputation and adversely impact the relationship with the Airport's customers, airlines, government partners, and employees. Failure to properly address these issues could also give rise to potentially material legal risks and liabilities. The airlines service the Airport and other Airport tenants, as well as the FAA and TSA, also face cyber security threats that could affect their operations and finances.

The Airport is proactively addressing this risk by implementing industry best practices including a third party cybersecurity assessment, cybersecurity training for employees and cybersecurity insurance.

Secondary Market

No assurance can be given concerning the existence of any secondary market in the Bonds or its creation by the Underwriters. Thus, purchasers of the Bonds should be prepared, if necessary, to hold their Bonds until their respective maturity dates.

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 will not have a material effect on the City's financial condition.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

In the Ordinance, the City agrees to provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes (i) the portions of the financial statements of the City in APPENDIX B in this document and (ii) all quantitative financial information and operating data with respect to the City of the general type included in the main text of this Official Statement within the various tables (numbered 1 through 9). The City agrees to update and provide this financial and operating data as of the end of each Fiscal Year ending in or after 2022 within six months after the end of each Fiscal Year, and the financial statements within 12 months after the end of each Fiscal Year. The City is to provide the updated information to the MSRB through its Electronic Municipal Market Access ("EMMA") information system.

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

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

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

Disclosure Event Notices

The City agrees to notify the MSRB, in a timely manner not in excess of ten Business Days after the occurrence of the event, of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material; (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties. The City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data by the time required by the Ordinance.

As used in the preceding paragraph, the terms "Business Day" and "Financial Obligation" are defined in the Ordinance. See "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Selected Definitions." As used in clause (12) above, the phrase "bankruptcy, insolvency, receivership or similar event" means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if jurisdiction has been assumed by leaving the City Council and official or officers of the City in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. The Ordinance further provides that the City intends the words used in clauses (15) and (16) above and the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

Availability of Information

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

Limitations and Amendments

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

to its agreement, although Owners of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

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

Compliance with Prior Undertakings

With respect to the continuing disclosure agreement entered into by Austin-Bergstrom Landhorst Enterprise (“ABLE”), with respect to its Series 1999A and 1999B Bonds, ABLE did not file its financial statements by the June 30 deadline for Fiscal Year December 31, 2015. The financial statements were filed on July 19, 2016, and the notice of the failure to file was filed on September 1, 2017. On June 30, 2017, the City filed update financial information and operating data to reflect Fiscal Year 2016 information on the first page of the “Water Service Rates” table. The City has implemented procedures to ensure timely filing of all future financial information and event notices.

TAX MATTERS

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

Tax Exemption

In the opinion of Bracewell LLP, Bond Counsel, under existing law, interest on the Bonds (i) is excludable from gross income for federal income tax purposes, except for any period during which a Bond is held by a person who is a “substantial user” of the facilities financed with the proceeds of the Bonds or a “related person” to such a “substantial user,” each within the meaning of section 147(a) of the Internal Revenue Code of 1986, as amended (the “Code”) and (ii) is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining a taxpayer’s alternative minimum tax liability.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The City has covenanted in the Ordinance that it will comply with these requirements.

Bond Counsel’s opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the City, the City’s Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the City, the City’s Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. If the City fails to comply with the covenants in the Ordinance or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could become

includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

The Code imposes an alternative minimum tax on the “alternative minimum taxable income” of an individual, if the amount of such alternative minimum tax is greater than the amount of such individual’s regular income tax. Generally, the alternative minimum taxable income of an individual will include items of tax preference under the Code, such as the amount of interest received on “private activity bonds” issued after August 7, 1986. Accordingly, Bond Counsel’s opinion will state that interest on the Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining a taxpayer’s alternative minimum tax liability.

Except as stated above, Bond Counsel will express no opinion as to the amount of interest on the Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Ordinance upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel’s ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Bonds from gross income for federal income tax purposes.

Bond Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel’s knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

Collateral Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Discount

The issue price of a portion of the Bonds is less than the stated redemption price payable at maturity of such Bonds (the “Original Issue Discount Bonds”). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner 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 period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions in this document regarding interest on the Bonds under the

captions “TAX MATTERS – Tax Exemption,” and “– Collateral Tax Consequences” and “– Tax Legislative Changes” generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

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.

The foregoing discussion assumes that (i) the Underwriters have purchased the Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the inside cover page of this Official Statement. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond accrues 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 (i) 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 (ii) 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, and redemption, sale or other disposition of Original Issue Discount Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that 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 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.

Tax Accounting Treatment of Original Issue Premium

The issue price of a portion of the Bonds exceeds the stated redemption price payable at maturity of such Bonds. Such Bonds (the “Premium Bonds”) are considered for federal income tax purposes to have “bond premium” equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

Tax Legislative Changes

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also

affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any recently-enacted, proposed, pending or future legislation.

INVESTMENTS

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

Legal Investments

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

- (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities;
- (2) direct obligations of the State of Texas or its agencies and instrumentalities including the Federal Home Loan Banks;
- (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
- (4) other obligations, the principal and interest of which are guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or by explicit full faith and credit of the United States;
- (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent;
- (6) bonds issued, assumed or guaranteed by the State of Israel;
- (7) interest-bearing banking deposits that are guaranteed insured by the FDIC or the National Credit Union Share Insurance Fund ("NCUSIF") or their respective successors;
- (8) interest-bearing banking deposits other than those described by subdivision (7) if the funds invested in the banking deposits are invested through (a) a broker with a main office or branch office in 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 of Texas and are guaranteed or insured by a combination of cash and the FDIC or the NCUSIF, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for City deposits;
- (10) fully collateralized repurchase agreements that have a defined termination date, are 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 of Texas;
- (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency;
- (12) commercial paper with a stated maturity of 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; and,
- (15) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Code) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than “AAA,” “AAA-m” or at an equivalent rating by at least one nationally recognized rating service.

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

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

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

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

The City, as the owner of a municipal electric utility that is engaged in the sale of electric energy to the public, may invest funds held in a “decommissioning trust” (a trust created to provide the Nuclear Regulatory Commission assurance that funds will be available for decommissioning purposes as required under 10 C.F.R. Part 50 or other similar regulation) in any investment authorized by Subtitle B, Title 9, Texas Property Code (“Texas Trust Code”). The Texas Trust Code provides that a trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution. The City has established an external irrevocable trust for decommissioning with Wilmington Trust, National Association. The decommissioning trust market value, as of December 31, 2021, was \$241,235,298.

The City is specifically prohibited from investing in:

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

Investment Policies

Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield and maturity; and also that address the quality and

capability of investment personnel. The policy includes a list of the type of authorized investments for City funds, the maximum allowable stated maturity of any individual investment owned by the City, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement must describe the investment objectives for the particular fund using the following priorities:

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

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

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

- (1) the investment position of the City;
- (2) that all investment officers jointly prepared and signed the report;
- (3) the beginning market value and the ending value of each pooled fund group;
- (4) the book value and market value of each separately listed asset at the end of the reporting period;
- (5) the maturity date of each separately invested asset;
- (6) the account or fund or pooled fund group for which each individual investment was acquired; and
- (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) State law.

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

Additional Provisions

Under 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 December 31, 2021, 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	22%
Local Government Investment Pools	27%

The dollar weighted average maturity for the combined City investment portfolios is 236 days. The City prices the portfolios weekly utilizing a market pricing service.

THE CITY

Administration

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

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

City Manager – Spencer Cronk

Mr. Spencer Cronk joined the City as City Manager on February 12, 2018. Before joining the City, Mr. Cronk was Minneapolis City Coordinator (City Administrator). He directed the management of Minneapolis city government by assisting the Mayor and City Council in defining city policy and establishing priorities, mobilizing department heads and staff to implement the Mayor and Council's priorities, and working to strengthen the management and administrative systems of the city. Mr. Cronk previously served as Commissioner of the Minnesota Department of Administration, a role he was appointed to by Minnesota Governor Mark Dayton in 2011. As Commissioner, Mr. Cronk led the state's real property, purchasing, fleet, demographic analysis and risk management divisions responsible for more than \$2 billion in state purchasing and the historic renovation of the Minnesota State Capitol. Additionally, Mr. Cronk served as chair of the Minnesota Public Data Governance Advisory Committee, and as a member of the Environmental Quality Board and the Minnesota Indian Affairs Council. Before joining the State of Minnesota, Mr. Cronk served as executive director of organizational development and senior advisor for the Department of Small Business Services for the City of New York, under former Mayor Michael Bloomberg. His accomplishments there included the design and implementation of a comprehensive performance-management system and the development of a program for integrating new employees, which was used citywide as a best practice template for the City of New York's 300,000 employees. Mr. Cronk has served a number of community organizations and agencies, including as an Advisory Council member for Northern Spark, a member of the Minnesota Advisory Board of the Trust for Public Land, and a member of the Itasca Project Task Force on Socioeconomic Disparities in the Twin Cities. He was a recipient of the Minneapolis/St. Paul Business Journal's "40 Under 40" Award in 2013. Mr. Cronk received his bachelor's degree with honors from the University of Wisconsin–Madison. He is a graduate of Harvard University's Senior Executives in State and Local Government Program and was a Public Affairs Fellow with the Coro New York Leadership Center.

Assistant City Manager – Veronica Briseño

Ms. Veronica Brisenno was appointed as Assistant City Manager over the City's Strategic Outcome "Government that Works for All" on January 18, 2022. Ms. Brisenno began her career with the City over 20 years ago. During that time, she has held multiple positions with progressive responsibilities, beginning as an intern in the City Manager's Office, working in a Council Office, serving as an Assistant Director and Director in the Small and Minority Business Resources

Department, and Director of the Economic Development Department. Most recently, in her role as the Chief Economic Recovery Officer, Veronica has been instrumental in leading the City's COVID-19 economic recovery efforts. This includes overseeing the establishment of twelve (12) new financial assistance programs for the creative and business communities and coordinating City-wide economic response efforts. Veronica has Bachelor of Arts Degrees in Government and Journalism and a Master of Public Affairs from the University of Texas at Austin.

Chief Financial Officer – Ed Van Eenoo

Mr. Ed Van Eenoo was appointed Chief Financial Officer on December 6, 2020 and oversees the City's Financial Services Department, consisting of Austin Police Financial Services, Budget Office, Capital Contracting Office, Controllers Office, Office of Performance Management, Office of Real Estate, Office of Telecommunication & Regulatory Affairs, Purchasing Office, and Treasury Office. 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 Controller's Office, the Office of Telecommunications and Regulatory Affairs, Austin Police Financial Services, and the Financial Services Department's IT division. 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, where she oversees Treasury, strategic facility delivery (P3s), tax increment reinvestment zone (TIRZ) and public improvement district (PID) financing, and Financial Services Department administrative staff. Ms. Olivares joined the City of Austin 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 her B.A. from the University of Notre Dame, Master of Public Affairs from the Lyndon B. Johnson School of Public Affairs at the University of Texas at Austin, and Master of Business Administration 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 of Austin, 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, and maintenance of bridges, streets and storm drains. The City owns and operates several major enterprises including Austin Energy, Austin Water, ABIA 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 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.

Pension Plans

The City has three contributory defined benefit retirement plans for its general municipal, fire, and police employees. These three plans include the City of Austin Employees' Retirement System ("COAERS"), the City of Austin Police Retirement System (the "Police Retirement System") and the City of Austin Fire Fighters Relief and Retirement Fund (the "Fire Fighters Retirement Fund"). These plans are single employer funded plans, each with a fiscal year end of December 31. The three retirement plans cover substantially all full-time employees. State law requires the City to make contributions to the plans in an amount at least equal to the contribution of the employee group and for the Police Retirement System an actuarially determined contribution model became effective in 2022. 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 Department of Aviation ("Aviation"); the contributions allocable to such employees are paid from gross revenues of the respective systems and constitute operating expenses of Austin Energy, Austin Water, and Aviation, respectively.

As of October 1, 2020, municipal employees contribute 8.0% and the City contributed 18.0% of payroll to the COAERS, however, effective January 1, 2021, the City's contribution to the COAERS increased to 19.0% of payroll. 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, 2020, Police officers contributed 13.0% and the City contributed 21.737% of payroll to the Police Retirement System, however, effective January 1, 2022, Police officers' contribution to the Police Retirement System increased to 15.0%. Effective January 1, 2022, the City's contribution to the Police Retirement System decreased to the actuarially determined amount of 10.1%; the City will also contribute according to a fixed payment plan established to eliminate the legacy unfunded liability existing as of December 31, 2020 over a 30-year period. The contributions to the pension plans are designed to fund current service costs and to amortize the unfunded actuarial accrued liability. As of December 31, 2020, the amortization period of the unfunded actuarial accrued liability was 32 years for the COAERS, 30 years for the Police Retirement System, and 23.3 years for the Fire Fighters Retirement Fund.

The City's net pension liability was measured as of December 31, 2020 for each of the City's three pension plans. Information on the liabilities and funding measurements of each plan is discussed below.

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

As of December 31, 2020, the COAERS reported a total net pension liability of \$1.5 billion, of which \$307.5 million is allocable to Austin Energy, \$160.8 is allocable to Austin Water, and \$61.1 is allocable to Aviation. The COAERS' fiduciary net position as a percentage of the total pension liability was 68.1%. The actuarial accrued liability for the COAERS as of December 31, 2020 was \$4.7 billion and the funded ratio was 65.3%. As of December 31, 2019, the COAERS reported a net pension liability of \$1.6 billion with a plan fiduciary net position as a percentage of the total pension liability of 65.2%. The actuarial accrued liability for the COAERS was \$4.5 billion and the funded ratio was 63.5%. The COAERS had no changes of assumptions or benefit terms that affected the total pension liability for the 2020 measurement period.

The COAERS funding policy is to maintain contribution rates sufficient to cover the normal cost of the plan and to amortize any unfunded actuarial accrued liabilities over a period not to exceed 25 years. Currently, the total contribution rate is sufficient to amortize the System's unfunded liabilities in approximately 32 years, a decrease from the 40-year amortization period in the previous year. Since 2005, the City has taken certain actions intended to improve the long-term financial health of the COAERS, including increased City contributions, the establishment of a second, lesser benefit tier for new employees hired on or after January 1, 2012 and a reduction in the pension multiplier. The City intends to explore additional plan changes as discussed in more detail below.

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

In 2021, the City and Police Retirement System collaborated to get legislation passed which addresses that system's liabilities and places it on an actuarially sound path. The 87th Texas Legislature enacted, and Governor signed, legislation that includes the following reforms which became effective on January 1, 2022:

- Establishing 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;
- Increasing employee contributions from 13% to 15%;
- Increasing City contributions to cover the legacy unfunded liability as of December 31, 2020;
- Establishing an actuarially determined contribution model to replace the current fixed contribution mode;
- Removal of authority of the Police Retirement System Board to provide cost of living adjustments, change member benefits or member contribution rates; and
- Reform of the governance structure by replacing one active member seat to a citizen seat appointed by City Council.

Initially City contributions will increase 4% with additional City contribution increases relating to initial risk sharing valuation and legacy liability to be phased in over 3 years. The approved FY 2021-22 budget includes an additional \$6 million to begin funding the additional City contributions.

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 highest months of salary is increased to 60 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, 2020, the Police Retirement System reported a net pension liability of \$605.9 million for the 2020 plan year, which is a decrease from the \$1.3 billion net pension liability reported for the prior 2019 plan year. The fiduciary net position as a percentage of the total pension liability increased to 60.8% for the 2020 plan year from 39.4% in the prior year. There were no changes to the actuarial assumptions and methodology during the most recent plan year. For plan year 2019, the Police Retirement System adopted changes to certain plan assumptions in May 2019, based on an experience study conducted in 2019, including a reduction to the investment return assumption (from 7.75% to 7.25%), a reduction of payroll growth assumption and adoption of a new mortality table. The assumption changes, among other contributing factors, resulted in a decrease in the funded ratio and an increase in the amortization period from 35 years in 2017 to infinite in 2018. Additionally, the use of a lower, blended discount rate – as required by GASB guidelines – contributed to the increase in the net pension liability. A full description of the assumptions for the Police Retirement System is available in the actuarial reports available on its website.

The actuarial accrued liability for the Police Retirement System as of December 31, 2020 was \$1.54 billion and the funded ratio was 58.6%. The actuarial accrued liability for the Police Retirement System as of December 31, 2019 was \$1.46 billion and the funded ratio was 58.4%.

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

The Fire Fighters Retirement Fund, as of December 31, 2020, reported a net pension liability of \$70.4 million, with a plan fiduciary net position as a percentage of the total pension liability of 94.3%. The actuarial accrued liability for the Fire Fighters Retirement Fund was \$1.23 billion and the funded ratio was 87.5%. As of December 31, 2019, the Fire Fighters Retirement Fund reported a net pension liability of \$126.1 million and plan fiduciary net position as a percentage of the total pension liability of 89.1%. The actuarial accrued liability for the Fire Fighters Retirement Fund as of December 31, 2019 was \$1.15 billion and the funded ratio was 86.8%.

The Fire Fighters Retirement Fund adopted changes to certain actuarial assumptions used in the 2020 actuarial valuation. The assumption changes adopted had minimal impact on the amortization period and funded ratio. Actuarial assumption changes included a decreased investment return assumption (from 7.5% to 7.3%) and increased payroll growth (from 2.0% to 2.5%). In addition, effective January 1, 2022, a cost-of-living adjustment increase of 5.4% went into effect.

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

Future City Pension System Reforms...In response to the reported actuarial funding data for COAERS, which indicates that the pension system is currently significantly underfunded, the City has begun working with COAERS to resolve the funding shortfalls. The City and COAERS remain in communication and are working collaboratively toward implementing changes during the 2023 legislative session. These changes may include a more adaptable, actuarially determined funding model, phased increases to both City and employee contributions, and changes to the governance structure.

The City earmarked \$11.3 million of funds in the FY 2020-21 budget to provide an initial first phase of increased City contributions to its pension plans. As of January 1, 2021, the City's contribution to COAERS increased by 1% to 19%.

Other Post-Employment 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 \$57.6 million in fiscal year 2021 and \$47.8 million in fiscal year 2020.

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, 2020 actuarial valuation date (roll-forward), the City's total OPEB liability increased to \$4.3 billion from \$3.5 billion as of the actuarial valuation measured as of December 31, 2019. The increase in the total OPEB liability was attributable to several assumption changes. The primary factor was a reduction in the assumed discount rate (to 2.12% from 2.74%, based on the Bond Buyer US Weekly Yields 20 General Obligation Bond Index as of the measurement date) as required by GASB guidance. In addition, changes to COAERS and the Fire Fighters' Retirement Fund assumptions such as new mortality tables and changes to certain demographics assumptions (trend rates, retirement rates, enrollment for retirees and spouses, etc.) contributed to the increase.

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

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to third party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately \$26.61 million for claims and damages at the end of fiscal year 2021. 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.

Environmental Responsibility

The Department of Aviation has adopted an Environmental Policy Statement that the Airport will incorporate sustainable principles, climate resiliency best practices, and environmental stewardship into all aspects of its culture, planning, development and operations at the Airport. The Airport has worked to reduce its impact on the environment by recycling, using alternative fuels, reducing electric and water consumption, and building with recycled materials. In 2021, the Airport was recognized as one of four airports in North America to reach carbon neutrality, with a Level 3+ Accreditation by Airports Council International – North America's Airport Carbon Accreditation Program. This makes the Airport the first and only medium-sized airport in North America to achieve carbon neutrality.

OTHER RELEVANT INFORMATION

Ratings

The Bonds received ratings of "A1" (stable outlook) from Moody's Investors Service, Inc. ("Moody's"), "A+" (stable outlook) from S&P Global Ratings ("S&P"), and "AA-" (stable outlook) from Kroll Bond Rating Agency, Inc. ("Kroll"). 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

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Legal Matters

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the City payable from sources and in the manner described in this Official Statement and in the Ordinance. Issuance of the Bonds is also subject to receipt of the approving opinion of Bond Counsel. The form of Bond Counsel’s opinion is included in this document as APPENDIX D. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System.

Bond Counsel was engaged by, and only represents, the City. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained in this Official Statement except that in its capacity as Bond Counsel, such firm has reviewed the information appearing in this Official Statement under the captions “INTRODUCTION,” “PLAN OF FINANCE,” “DESCRIPTION OF THE BONDS” (except for the information under the subcaption “Book-Entry-Only System”), “SECURITY AND SOURCES OF REPAYMENT FOR THE REVENUE BONDS” (except for the information under the subcaptions “Remedies” and “Contingent Payment Obligations”), “CONTINUING DISCLOSURE OF INFORMATION” (except for the subsection “Compliance with Prior Undertakings”), “TAX MATTERS,” “OTHER RELEVANT INFORMATION – Registration and Qualification,” “– Legal Investments and Eligibility to Secure Public Funds in Texas,” and “– Legal Matters (but only with respect to the first two paragraphs thereof), and under “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE,” and such firm will render an opinion solely to the City and the Underwriters to the effect that such descriptions present a fair and accurate summary of the provisions of the laws and instruments therein described, and such information conforms to the Bonds and the Ordinance.

In addition, certain legal matters will be passed upon (i) for the Underwriters by Haynes and Boone, LLP, counsel to the Underwriters, and (ii) for the City by McCall, Parkhurst & Horton L.L.P., as Disclosure Counsel for the City. Any opinion of Underwriters’ Counsel will be rendered solely to the Underwriters, any opinion of Disclosure Counsel will be rendered solely to the City, and any opinion of Underwriters’ Counsel or Disclosure Counsel will be limited in scope and cannot be relied upon by investors. The payment of legal fees to Bond Counsel, counsel to the Underwriters and Disclosure Counsel in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds.

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

Financial Advisor

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

Financial Information and Independent Auditors

The financial data listed as fiscal year 2022 has been derived from the internal records of the City. Deloitte & Touche LLP, the City’s independent auditors, have not reviewed, examined, or performed any procedures with respect to the fiscal year 2022 information, nor the forward-looking financial information, nor have they expressed any opinion or any other form of assurance on such financial information, and assume no responsibility for, and disclaim any association with the fiscal year 2022 financial information presented in this document. The fiscal year 2022 information is preliminary and is subject to change as a result of the audit and may differ from the audited financial statements when they are released.

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

Underwriting

Morgan Stanley & Co. LLC, on behalf of itself and the other underwriters listed on the front cover of this Official Statement (collectively, the “Underwriters”) has agreed, subject to certain conditions, to purchase the Bonds from the City at a price equal to \$453,057,957.45, calculated as the par amount of the Bonds plus a net original premium of \$38,458,565.00 and less an underwriting discount of \$1,460,607.55.

The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased.

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

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

Authenticity of Financial Data and Other Information

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

Certification of the Official Statement

This Official Statement, and the execution and delivery of this Official Statement was approved and authorized by an Authorized Officer of the City pursuant to the Ordinance.

/s/ Steve Adler

Mayor
City of Austin, Texas

ATTEST:

/s/ Myrna Rios

City Clerk
City of Austin, Texas

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APPENDIX A

REPORT OF THE AIRPORT CONSULTANT

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Appendix A

REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

CITY OF AUSTIN, TEXAS

AIRPORT SYSTEM REVENUE BONDS
Series 2022 (AMT)

Prepared for

City of Austin, Texas

Prepared by

LeighFisher
San Francisco, California

April 20, 2022

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April 20, 2022

Ms. Jacqueline Yaft
Executive Director
Austin-Bergstrom International Airport
3600 Presidential Boulevard, Suite 411
Austin, Texas 78719

Re: **Report of the Airport Consultant
City of Austin, Texas
Airport System Revenue Bonds, Series 2022 (AMT)**

Dear Ms. Yaft:

We are pleased to submit this Report of the Airport Consultant on the proposed issuance of Airport System Revenue Bonds by the City of Austin, Texas (the City). Austin-Bergstrom International Airport (the Airport or ABIA) comprises the Airport System operated by the City through its Department of Aviation. The Airport System is a self-sufficient enterprise of the City. The City's proposed Airport System Revenue Bonds, Series 2022 (AMT), are referred to herein as the 2022 Bonds. This letter and the accompanying attachment and financial exhibits constitute our report (the Report).

The proposed 2022 Bonds are being issued to partially fund the costs of the City's Airport Expansion and Development Program (AEDP). The AEDP represents the substantial majority of the Airport's capital improvement program (CIP) through 2028. In addition to the AEDP, the CIP also encompasses a range of other projects around the Airport, primarily related to the replacement and rehabilitation of existing Airport facilities. The AEDP and other Airport improvements included in the CIP through Fiscal Year 2028 are referred to collectively in this Report as the 2022-2028 Project.

The AEDP is intended to increase capacity at the Airport using a strategic approach, including optimizing the existing Barbara Jordan Terminal (BJT) enabling future Airport expansion with utilities, airfield, and terminal infrastructure. The AEDP includes the following key elements:

- Optimizing the BJT by adding additional space, new aircraft gates, and making related passenger processing improvements
- Building a new centralized baggage handling system
- Building a midfield Concourse B facility with 10 or more gates, including associated airfield infrastructure

The proposed 2022 Bonds are being issued in the approximate principal amount of \$382.0 million to partially fund certain costs of the AEDP projects, among others:

- Construction of a new baggage handling facility for the Airport (\$95.0 million of 2022 Bond proceeds)
- Design and construction of improvements to the BJT at the Airport including holdrooms, passenger boarding bridges, and service infrastructure (\$84.7 million of 2022 Bond proceeds)



Ms. Jacqueline Yaft
April 20, 2022

- Design and construction of ground loading facilities for busing passengers at the east end of the BJT (\$17.0 million of 2022 Bond proceeds)
- Demolition of old buildings and infrastructure on the airfield to remove potential hazards and enable construction on the airfield; and construction of cross-midfield taxiways for access to the future midfield Concourse B at the Airport (\$78.7 million of 2022 Bond proceeds)
- Upgrades to the utility infrastructure on the airside and the South Campus of the Airport (\$23.7 million of 2022 Bond proceeds)
- Design of a new passenger conveyance and utility tunnel to the future midfield Concourse B from the BJT (\$16.0 million of 2022 Bond proceeds)
- Other miscellaneous CIP improvements around the Airport (\$36.3 million of 2022 Bond proceeds)

The financial projections described in this Report also assume the issuance of approximately \$1.44 billion in principal amount of additional Airport System Revenue Bonds in 2024, 2026, 2027, and 2028, as follows (herein defined as the Future Bonds):

- Series 2024 Bonds: \$349.8 million of Bond issuance
- Series 2026 Bonds: \$541.0 million of Bond issuance
- Series 2027 Bonds: \$385.3 million of Bond issuance
- Series 2028 Bonds: \$167.4 million of Bond issuance

The Future Bonds are planned to be issued primarily to fund the completion of the BJT optimization and related projects, and to fund the development of a new midfield Concourse B at the Airport and associated infrastructure and airfield improvements.

The elements of the 2022-2028 Project, their estimated costs, and the associated funding plan are summarized in the attachment and in Exhibits A-1 and A-2.* The estimated sources and uses of funds from the sale of the proposed 2022 Bonds and planned Future Bonds are shown in Exhibit B. The projected Debt Service Requirements of outstanding Revenue Bonds, the proposed 2022 Bonds, and planned Future Bonds are shown in Exhibit C.

The Continuing Effects of the COVID-19 Pandemic

Historical patterns of passenger and cargo traffic at ABIA and other airports around the world were drastically disrupted by the COVID-19 pandemic beginning in early 2020. Since then, work-at-home requirements, mandated closures of offices and businesses, and other restrictions imposed to contain the pandemic caused serious economic contraction, unemployment, and financial hardship. This economic dislocation, combined with travel restrictions, public health concerns about the contagion, and social distancing requirements, resulted in drastic and unprecedented reductions in airline travel and associated passenger-related revenues at ABIA and nearly all other U.S. airports beginning in March 2020.

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

Ms. Jacqueline Yaft
April 20, 2022

At the Airport, passenger traffic declined by 96.6% in April 2020 (which was the trough) compared to the same month in 2019 with the rate of decline slowly improving over succeeding months. During FY 2020, enplaned passengers fell to 4.7 million from 8.5 million in FY 2019, resulting from the impact of the COVID-19 pandemic, before beginning to recover in FY 2021 to 5.2 million. During the first four months of FY 2022 (October 2021 to January 2022), enplaned passenger numbers have continued to recover, exceeding pre-pandemic levels (i.e., October 2019 to January 2020) by 0.5%.

Airlines serving ABIA adjusted their networks to largely focus on domestic and leisure travel given the shift in the profile of air travelers based on the recovery of leisure travel in lieu of business and international travel, sectors which are still lagging the general recovery in air travel. In reaction to the pandemic and the resulting significant decline in passengers and passenger-related revenues, the City implemented a number of financial and operational measures, including:

- Reducing expenses where operationally possible
- Deferring and reducing non-critical capital expenditures
- Preparing and implementing plans to apply COVID-19 relief funds received from the federal government, including the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA), and the American Rescue Plan Act (ARPA) grant funds (as described later in the Report)
- Providing temporary financial relief to nonairline tenants, including temporarily deferring or suspending payments due to the City from concessionaires
- Close monitoring of the City's liquidity levels in relation to cash flow needs
- Requiring mask wearing for anyone entering an Airport facility or using Airport transportation
- Increasing the cleaning of all touched public spaces, equipment, public restrooms, holdroom seating in terminals, and transportation buses
- Adding physical distancing reminder signs and clear plastic barriers throughout all facilities

In reaction to the pandemic, the U.S. Congress signed into law three separate acts that included measures to provide economic relief to U.S. airports – (1) the CARES Act in March 2020, (2) the CRRSAA in December 2020, and (3) the ARPA in March 2021. In total, the City was awarded grants of \$136.6 million, including \$9.1 million of relief for concessionaires operating at the Airport. These grants may be used for reimbursement of operating expenses, debt service, and/or capital expenditures and must be used within four years. Federal grants provided under the CARES Act, CRRSAA Act, and ARPA are collectively referred to in this Report as COVID-19 relief grants. As described later in this Report, the City has developed a plan for utilizing these COVID-19 relief grants to pay operation and maintenance (O&M) expenses and debt service. (For purposes of the calculation of debt service coverage under the Revenue Bond Ordinances, COVID-19 relief funds are treated as a component of Gross Revenues).

Given the unprecedented nature of, and continuing uncertainty regarding, the COVID-19 pandemic and its impact on the aviation industry and worldwide economies, this Report does not include a specific forecast of aviation activity. Rather, the Report presents a base case projection of enplaned passengers and aviation activity for the period FY 2022 to FY 2028, and two alternative projections reflecting a lower



Ms. Jacqueline Yaft
April 20, 2022

level of enplaned passenger growth, and a higher level of enplaned passenger growth, that is reflected in the base case projection. Projections of revenues, expenses, airline cost per enplaned passenger, and debt service coverage, were developed based on the projected levels of aviation activity under each of the three scenarios, respectively.

The level of uncertainty regarding the recovery of traffic to its pre-pandemic levels remains extremely high and dependent upon numerous variables, including among other things, the level of success of governments in the United States and around the world in controlling the virus, the emergence of mutations of the virus (such as the Delta variant, and the Omicron variant which emerged in November 2021), the potential for breakthroughs in COVID-19 treatments, the continued deployment of vaccines on a large scale basis and the willingness for people to get vaccinated, the medium-term and long-term changes to the economy brought about from the pandemic, the resilience of the U.S. airline industry, the duration of travel restrictions, and the potential for a structural shift in industry and consumer behaviors. The COVID-19 pandemic has had and is expected to continue to have material adverse effects on passenger traffic and Airport operations and financial performance for the foreseeable future.

Revenue Bond Ordinances

The 2022 Bonds are to be issued under the terms of a Revenue Bond Ordinance adopted by the City on April 7, 2022, which is substantially in the form of Revenue Bond Ordinances authorizing the prior issuance by the City of several series of Airport System Revenue Bonds in 2013-2019. The Revenue Bond Ordinances authorizing the issuance of such prior Bonds and the proposed 2022 Bonds, are collectively referred to as the Revenue Bond Ordinances. Capitalized terms are used in this Report as defined in the Revenue Bond Ordinances or in the Airline Agreement (discussed later), except as defined otherwise. All references in this Report to the Revenue Bond Ordinances and the summaries of the provisions thereof are qualified in their entirety to complete copies of the Revenue Bond Ordinances.

Outstanding Bonds

As of May 1, 2022, the City will have outstanding Revenue Bonds as follows:

Series	Outstanding principal amount	True interest cost	Final maturity (November 15)
2013 Bonds	\$ 34,740,000	1.56%	2028
2014 Bonds	244,495,000	4.19	2044
2017A Bonds	185,300,000	3.96	2046
2017B Bonds	129,665,000	4.12	2046
2019 Refunding Bonds	96,675,000	2.06	2025
2019A Bonds	16,975,000	3.83	2049
2019B Bonds	<u>248,170,000</u>	3.46	2048
TOTAL	\$956,020,000		

All such outstanding Revenue Bonds were issued at fixed interest rates.



Ms. Jacqueline Yaft
April 20, 2022

Gross and Net Revenues

The proposed 2022 Bonds are to be Additional Revenue Bonds under the Revenue Bond Ordinances and are to be secured by and payable from a first lien on the Net Revenues of the Airport System (Gross Revenues less Operation and Maintenance Expenses) on a parity with all outstanding Revenue Bonds.

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

Passenger Facility Charge Revenues

The City has authority from the Federal Aviation Administration (FAA) to impose a Passenger Facility Charge (PFC) of \$4.50 per eligible enplaned passenger at the Airport and to use PFC revenues to pay debt service on certain outstanding Revenue Bonds. Under the Revenue Bond Ordinances, PFC revenues are not a part of Gross Revenues but will be set aside during a Fiscal Year for the payment of Revenue Bond debt service in the following Fiscal Year, unless the City receives a report from an Airport Consultant showing that an alternative use of all or a portion of the PFCs will not reduce debt service coverage during the following Fiscal Year to less than 125%. Revenue Bond debt service paid from such set-aside PFC revenues is deducted in the calculation of Debt Service Requirements and debt service coverage for such following Fiscal Year. The City expects to use PFC revenues to pay a portion of the PFC-eligible debt service on the 2022 Bonds, the outstanding Revenue Bonds, and Future Bonds, and certain pay-as-you-go costs of PFC eligible AEDP projects. The projected sources and uses of PFC revenues are shown in Exhibit F, assuming the continued imposition of a \$4.50 PFC and the use of PFC revenues to pay debt service to the maximum PFC-eligible amount.

Rental Car Customer Facility Charge Revenues

As of May 1, 2022, the City will have outstanding approximately \$147.3 million principal amount of its Rental Car Special Facility Revenue Refunding Bonds, Taxable Series 2021 (the 2021 Rental Car Special Facility Bonds), which were issued to refund the 2013 Rental Car Special Facility Bonds, originally issued to pay certain of the costs of constructing a consolidated rental car center at the Airport. The 2021 Rental Car Special Facility Bonds are secured by and payable from revenues derived from a CFC collected by the rental car companies from all Airport rental car customers, currently assessed at a rate of \$6.75 per rental car transaction-day. Under the Revenue Bond Ordinances, the 2021 Rental Car Special Facility Bonds are not Revenue Bonds secured by the Net Revenues of the Airport System and CFC revenues are not included in Gross Revenues. In this Report, rental car operations were considered insofar as they may affect Net Revenues, but the adequacy of CFC revenues to meet the debt service requirements of the 2021 Rental Car Special Facility Bonds was not analyzed.



Ms. Jacqueline Yaft
April 20, 2022

Rate Covenant

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

- (a) All amounts required to be deposited in the Fiscal Year to the credit of the Debt Service Fund, the Debt Service Reserve Fund, and the Administrative Expense Fund and to any debt service or debt service reserve fund or account for Subordinate Obligations, or
- (b) An amount that, together with Other Available Funds, is not less than 125% of the Debt Service Requirements of Revenue Bonds plus 100% of budgeted Administrative Expenses for the Fiscal Year.

The amount specified in Section 5.03(b) is projected to be the larger. The City's Fiscal Year (FY) is the 12 months ended September 30.

Other Available Funds

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

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

Airline Use and Lease Agreement

Most of the airlines serving the Airport operate under the provisions of an Airline Use and Lease Agreement (the Airline Agreement) that became effective in October 2009 with an initial five-year term and, under its terms, continued on a month-to-month basis. An amendment to the Airline Agreement has been executed by the airlines that are signatory to the Airline Agreement, extending the term of the Airline Agreement through September 30, 2023. Airlines that are signatory to the Airline Agreement are:

- Alaska Airlines
- American Airlines
- Delta Air Lines
- JetBlue Airways
- Southwest Airlines
- Spirit Airlines
- United Airlines

These seven airlines, referred to collectively in this Report as the Signatory Airlines, accounted for approximately 95% of passengers enplaned at the Airport in FY 2021.



Ms. Jacqueline Yaft
April 20, 2022

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

Scope of Report

This Report was prepared to evaluate the ability of the City to generate Gross Revenues from the Airport System sufficient to pay Operation and Maintenance Expenses; pay the Debt Service Requirements of outstanding Revenue Bonds, the proposed 2022 Bonds, and the planned Future Bonds; and to meet the debt service coverage requirements of the Rate Covenant.

In conducting the study, we reviewed and analyzed:

- Historical airline traffic demand at the Airport, giving consideration to the demographic and economic characteristics of the Austin area, historical trends in airline traffic, and other key factors that may affect future airline traffic
- The impact of the COVID-19 pandemic on the economies of Austin and the nation, as well as the impact on aviation activity at the Airport and throughout the aviation system
- Debt service requirements on all current Outstanding Bonds, and estimated debt service requirements on the 2022 Bonds, and the Future Bonds that are expected to be issued during the projection period
- Historical relationships among Revenues, Operation and Maintenance Expenses, PFC revenues, and airline traffic at the Airport and other factors that may affect future Revenues, Operation and Maintenance Expenses, and PFC revenues
- Audited financial statements of the Airport for FY 2019, FY 2020, and FY 2021, and estimated financial results for FY 2022 based on <three> months of preliminary data for the first quarter of FY 2022
- The Airport's FY 2022 annual budget and internal airline rates and charges model, as well as other considerations related to the business operations of the Airport
- The CIP for the Airport, and its estimates of project costs and implementation schedules for projects included in the AEDP and the remainder of the CIP; the optimization of the BJT and the development of midfield Concourse B are projected to be completed and in-service by FY 2028
- The City's policies and contractual arrangements relating to the use and occupancy of Airport facilities, including the calculation of airline rentals, fees, and charges; the operation of concession privileges; and the leasing of buildings and grounds
- The City's approved PFC program, PFC-eligible enplaned passengers, and historical PFC revenues (including restricted interest income) as a basis for developing projections of PFC revenues



Ms. Jacqueline Yaft
April 20, 2022

We also identified key factors upon which the future financial results of the Airport may depend and formulated assumptions about those factors. On the basis of those assumptions, we assembled the financial projections through FY 2028, presented in the exhibits at the end of the Report. Estimates of project costs, financing assumptions, and debt service were provided by the sources noted in the exhibits.

Projected Debt Service Coverage

The below table (and Exhibit G) presents projected Revenue Bond debt service coverage, showing that the 125% coverage requirement of the Rate Covenant is exceeded in each year of the projection period, under the base case aviation activity scenario, assuming the entire 2022-2028 Project is implemented and all Bonds (i.e., the 2022 Bonds and all Future Bonds) are issued.

As shown in Table 14 later in the Report, the 125% coverage requirement of the Rate Covenant is also exceeded in each year of the projection period for the high case and low case aviation activity scenarios.

SUMMARY OF FINANCIAL PROJECTIONS – BASE CASE								
		Estimated		Projected				
		2022	2023	2024	2025	2026	2027	2028
Gross Revenues		\$ 245,830	\$ 247,620	\$ 257,145	\$ 262,483	\$ 273,441	\$ 301,177	\$ 364,469
Less: Operations and Maintenance Expenses		(119,133)	(131,046)	(134,709)	(140,097)	(145,701)	(151,529)	(184,449)
Net Revenues		\$ 126,697	\$ 116,574	\$ 122,436	\$ 122,386	\$ 127,740	\$ 149,648	\$ 180,020
Other Available Funds		13,827	14,018	13,999	17,698	18,662	24,035	29,877
Net Revenues plus Other Available Funds	[A]	\$ 140,524	\$ 130,592	\$ 136,436	\$ 140,084	\$ 146,402	\$ 173,683	\$ 209,897
Revenue Bond debt service		\$ 77,754	\$ 78,459	\$ 78,318	\$ 99,422	\$ 100,992	\$ 126,654	\$ 156,535
Less: Paid from PFC Revenues		(22,448)	(22,388)	(22,320)	(28,631)	(26,345)	(30,516)	(37,028)
Revenue Bond Debt Service Requirements	[B]	\$ 55,306	\$ 56,071	\$ 55,998	\$ 70,792	\$ 74,647	\$ 96,138	\$ 119,507
Debt Service Coverage								
Debt service coverage (a)	[A/B]	2.54	2.33	2.44	1.98	1.96	1.81	1.76
Debt service coverage requirement		1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x

* * * * *

The financial projections are based on information and assumptions that were provided by, or reviewed with and agreed to by, Airport management. Accordingly, the projections reflect Airport management's expected course of action during the projection period and, in Airport management's judgment, present fairly the expected financial results of the Airport.

The key factors and assumptions that are significant to the projections are set forth in the attachment, "Background, Assumptions, and Rationale for the Financial Projections." The attachment should be read in its entirety for an understanding of the projections and the underlying assumptions.

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



Ms. Jacqueline Yaft
April 20, 2022

responsibility to update this Report to reflect events and circumstances occurring after the date of this Report.

We appreciate the opportunity to serve as the City's Airport Consultant on this proposed financing.

Respectfully submitted,

A handwritten signature in black ink that reads "Leigh Fisher".

LEIGHFISHER

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Attachment

BACKGROUND, ASSUMPTIONS, AND RATIONALE
FOR THE FINANCIAL PROJECTIONS

REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

CITY OF AUSTIN, TEXAS

AIRPORT SYSTEM REVENUE BONDS
Series 2022 (AMT)

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CONTENTS

	Page
INTRODUCTION.....	A-16
Barbara Jordan Terminal.....	A-16
South Terminal.....	A-18
Public and Rental Car Parking.....	A-18
Air Cargo.....	A-18
General Aviation.....	A-18
Other Airport Facilities.....	A-19
Capital Improvement Program Overview.....	A-19
AIRLINE TRAFFIC AND ECONOMIC ANALYSIS.....	A-20
Airport Service Region.....	A-20
Airport Role and Rankings.....	A-23
Origin-Destination Passenger Base.....	A-23
Medium Hub Airport.....	A-23
Rankings in Southwest and American Networks.....	A-23
Historical Socioeconomic Indicators.....	A-25
Population.....	A-27
Nonagricultural Employment.....	A-27
Per Capita Income.....	A-27
Unemployment Rates.....	A-27
Employment by Industry Sector.....	A-28
Tourism.....	A-31
Economic Outlook.....	A-32
Historical Airline Traffic and Service.....	A-33
Enplaned Passengers.....	A-33
Airline Competition and Market Shares.....	A-36
Origin-Destination Markets.....	A-36
Passenger Airline Service.....	A-36
Air Cargo.....	A-41
Key Factors Affecting Future Airline Traffic.....	A-42
COVID-19 Pandemic and Public Health Concerns.....	A-42
Climate Change Concerns.....	A-44
National Economic Conditions.....	A-45
International Economic, Political, Health, and Security Conditions.....	A-46
Structural Changes in the Travel Market.....	A-47
Financial Health of the Airline Industry.....	A-47
Airline Industry Provisions Under the Federal Stimulus Acts.....	A-49
Airline Service and Routes.....	A-50
Airline Competition and Airfares.....	A-50
Airline Consolidation and Alliances.....	A-51
Availability and Price of Aviation Fuel.....	A-52
Aviation Safety and Security Concerns.....	A-53
Capacity of the National Air Traffic Control System.....	A-54
Capacity of the Airport.....	A-54

CONTENTS *(continued)*

	Page
AIRLINE TRAFFIC AND ECONOMIC ANALYSIS <i>(continued)</i>	
Airline Traffic Projections.....	A-54
Base Projections.....	A-55
High and Low Sensitivity Projections.....	A-56
CAPITAL IMPROVEMENT PROGRAM.....	A-61
Airport Expansion and Development Program.....	A-61
Other Capital Improvements.....	A-64
FINANCIAL ANALYSIS.....	A-65
Framework for Airport Financial Operations.....	A-65
Revenue Bond Ordinances.....	A-65
Airline Agreement.....	A-65
Sources of Funds for the 2022-2028 Project.....	A-66
Federal Grants-in-Aid.....	A-66
Passenger Facility Charge Revenues.....	A-66
Capital Fund.....	A-66
Revenue Bonds.....	A-67
Revenue Bond Debt Service Requirements.....	A-67
Operation and Maintenance Expenses.....	A-67
Revenues.....	A-68
Airline Revenues.....	A-69
Airline Cost Centers.....	A-69
Nonairline Cost Centers.....	A-70
Allocation of Requirements to Cost Centers.....	A-70
Landing Fees.....	A-70
Terminal Rentals and Fees.....	A-70
Airline Payments per Enplaned Passenger.....	A-71
Nonairline Revenues.....	A-71
Terminal Concession Revenues.....	A-71
Parking and Ground Transportation Revenues.....	A-72
Other Revenues.....	A-73
Interest Income.....	A-75
Application of Revenues.....	A-75
Application of PFC Revenues.....	A-76
Debt Service Coverage.....	A-76
Summary of Base Financial Projections.....	A-77
Alternative Aviation Activity Scenarios.....	A-77

	Page
TABLES	
1	Airline Service at Selected Texas Airports..... A-22
2	Scheduled Departing Seats on Southwest Airlines..... A-24
3	Scheduled Departing Seats on American Airlines..... A-25
4	Historical Socioeconomic Data..... A-26
5	Nonagricultural Employment by Industry Sector..... A-29
6	Largest Austin Area Private Sector Employers..... A-30
7	Historical Airline Shares of Enplaned Passengers..... A-37
8	Domestic Origin-Destination Patterns and Airline Service A-38
9	Historical Air Cargo Tonnage A-41
10	Airline Traffic Projection – Base Projection..... A-57
11	Airline Traffic Projection – Low Sensitivity..... A-58
12	Airline Traffic Projection – High Sensitivity..... A-59
13	Summary of Revenues – FY 2019 and FY 2022..... A-68
14	Summary of Projections..... A-78

FIGURES	
1	Barbara Jordan Terminal and Parking Structures..... A-17
2	Airport Service Region..... A-21
3	Trends in Unemployment Rates..... A-28
4	Historical Enplaned Passengers A-34
5	Monthly Enplaned Passengers..... A-35
6	Destinations Served Nonstop..... A-39
7	Domestic Originating Passengers and Average Fare Paid..... A-40
8	Timeline of the COVID-19 Pandemic..... A-43
9	Historical Enplaned Passengers on U.S. Airlines..... A-46
10	Quarterly Net Income for U.S. Airlines..... A-48
11	Historical Domestic Yield for U.S. Airlines..... A-51
12	Historical Aviation Fuel Prices..... A-53
13	Enplaned Passenger Projections..... A-60

EXHIBITS	
A-1	Capital Improvement Program – Project Cash Flow..... A-79
A-2	Capital Improvement Program – Project Funding by Source..... A-80
B	Sources and Uses of Revenue Bond Funds..... A-81
C	Debt Service Requirements..... A-82
D-1	Operation and Maintenance Expenses by Function..... A-83
D-2	Operation and Maintenance Expenses by Cost Center..... A-84
E	Gross Revenues..... A-85
E-1	Airline Revenues..... A-86
F	Sources and Uses of PFC Revenues..... A-87
G	Application of Revenues and Debt Service Coverage..... A-88
H	Summary of Projected Financial Results: Base Case Passenger Projection..... A-89

INTRODUCTION

The City of Austin develops, operates, and maintains the Airport System as a self-supporting enterprise fund of the City through its Department of Aviation. The Department, which consists of a staff of approximately 410 people under the direction of an Executive Director, is responsible for management of the Austin-Bergstrom International Airport (the Airport or ABIA). Certain accounting, budgeting, financing, treasury, and related functions are performed by the City's Financial Services Department. Airport System funds are held in separate City accounts.

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

The Airport is classified as a medium hub by the Federal Aviation Administration (FAA) and occupies a 4,240-acre site approximately eight miles southeast of downtown Austin. Airport access is provided by Texas State Highway 71 (SH 71), a six-lane divided highway running east-west, and U.S. Highway 183 (US 183), a six-lane divided highway running north-south. SH 71 provides access to Interstate Highway 35 (I-35) approximately six miles to the west and Texas State Highway 130 (SH 130 Toll Road) approximately six miles to the east.

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

BARBARA JORDAN TERMINAL

Figure 1 shows a site plan of the Airport's four-level, approximately 964,000-square-foot Barbara Jordan passenger terminal and adjacent public and rental car parking facilities. The square footages and gate count include a nine-gate east expansion that was completed in 2019.

- Level 1, the baggage claim level, provides 149,000 square feet of space for baggage claim devices and lobby and support facilities. The baggage claim level accommodates a 33,000-square-foot Customs and Border Protection (CBP) facility for the processing of international arriving passengers.
- Level 2, the apron level, provides 321,000 square feet of space for inbound and outbound baggage handling equipment and facilities, airline operations space, and other non-public areas. The apron level also provides a passenger holdroom for the ground-level loading of regional airline aircraft (Gate 13). The aircraft parking apron adjacent to the terminal provides approximately 96 acres for aircraft parking at the 34 terminal gates, as well as "remain overnight (RON)" aircraft parking positions.
- Level 3, the concourse level, provides 393,000 square feet of space for airline check-in counters with lobby and queuing areas, airline offices, public circulation areas, passenger

security screening facilities, concessions, passenger holdrooms, restrooms, and support facilities. The concourse provides 33 loading bridge-equipped aircraft parking positions (gates) capable of accommodating up to B-757-size aircraft in domestic service. Four gates are capable of accommodating domestic and international flights by widebody aircraft. These four widebody gates, as well as two of the narrowbody gates provide, access to the CBP facility.

- Level 4, the mezzanine level, provides 94,000 square feet of space for Department of Aviation offices and other offices and airline club rooms. Above the mezzanine level is a 7,000-square-foot penthouse level with mechanical rooms.

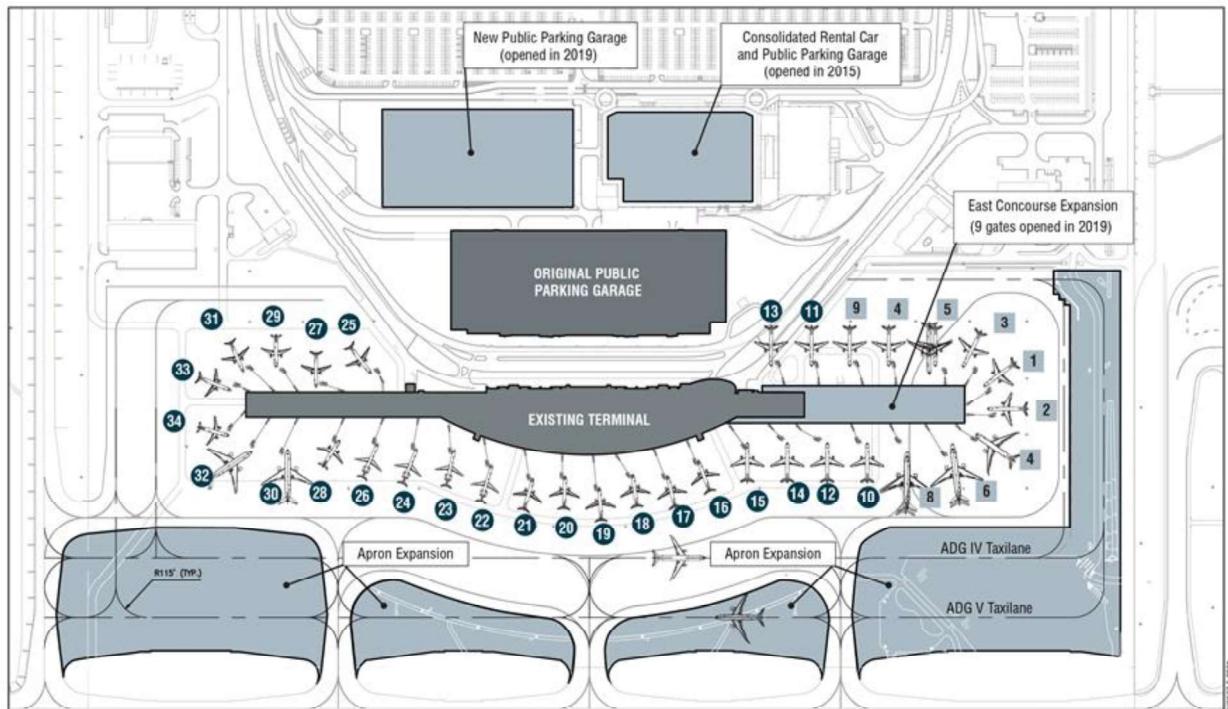


Figure 1
BARBARA JORDAN TERMINAL AND PARKING STRUCTURES
 Austin-Bergstrom International Airport

SOUTH TERMINAL

In March 2016, the City entered into a 30-year Lease and Concession Agreement on the South Terminal (a 30,000 square foot building and part of the original Air Force Base facilities) with LoneStar Airport Holdings, LLC. The building underwent an approximate \$12 million renovation funded by LoneStar Airport Holdings, LLC and opened in April 2017. The South Terminal is accessed from a separate entrance on the south side of the Airport from Burleson Road.

Frontier Airlines and Allegiant Air currently operate from the South Terminal. As of January 2022, these two air carriers operate approximately six daily departures.

PUBLIC AND RENTAL CAR PARKING

Approximately 18,000 public parking spaces are provided by the City on Airport property in public parking garages adjacent to the terminal, and in surface lots. In addition to the on-Airport public parking facilities provided by the City and managed by SP Plus Corporation, Scott Airport Parking, LLC, through a public-private-partnership with the City, provides passengers with additional parking facilities in a 2,100 space parking facility located adjacent to the Hilton hotel, which opened in 2017.

The consolidated rental car garage, opened in September 2015, provides 3,200 rental car spaces.

AIR CARGO

Air cargo facilities occupy approximately 61 acres and abut the northern boundary of the Airport site, adjacent to SH 71. Air freight and mail carried on all-cargo aircraft, which accounted for approximately 93% of air cargo enplaned and deplaned at the Airport during FY 2021, are handled at these facilities. Four air cargo buildings with a combined floor area of 230,000 square feet and 34 acres of apron for aircraft parking are provided. Three of the buildings, previously managed by Lynxs Group CargoPort, were acquired by the City in 2018 and are now operated by the City. The fourth cargo building is managed by Aeroterm. FedEx and UPS Air Cargo accounted for approximately 54% of air cargo at the Airport during FY 2021.

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

GENERAL AVIATION

General and business aviation at the Airport is served by three full-service fixed-base operators (FBOs), Atlantic Aviation Services, Signature Flight Support, and Million Air, at sites adjacent to Runway 17L-35R. Atlantic Aviation occupies a 47-acre site with five 12,000-square-foot hangars, a 14,000-square-foot terminal building, fuel storage facilities, and a 10-acre aircraft parking apron. Signature Flight Support occupies a 46-acre site with five 12,000-square-foot hangars, a 9,000-square-foot terminal building, fuel storage facilities, and a 9-acre aircraft parking apron. Million Air operates from a 20.1-acre site, incorporating a 14,500 square foot terminal, more than 100,000 square feet of hangar space, and over seven acres of ramp space.

Three T-hangar buildings contiguous with the Signature Flight Support facility provide hangars for 54 aircraft. Approximately 152 general aviation aircraft are based at the Airport.

OTHER AIRPORT FACILITIES

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

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

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

Aviation Support. Support facilities include an aircraft fuel storage facility with two above-ground storage tanks with a combined capacity of 1.2 million gallons operated by Aircraft Service International Group; an airline ground service equipment (GSE) maintenance building; an in-flight catering building occupied by Sky Chefs; and Department of Aviation operations, maintenance, and engineering facilities.

Nonaeronautical facilities. Nonaeronautical facilities on Airport property include a 262-room Hilton hotel at the entrance to the Airport, rental car service and storage facilities, and a City of Austin employee training facility (the Employment Center). In 2016, the City and ABIA Retail, LLC entered into a public-private-partnership arrangement for the two-phase development of 13 acres on-Airport. Phase 1 included the 3-acre development of a gas station, convenience store, restaurant, cell phone lot, and public restrooms opened in 2017. Phase 2 included the development of a new 140-room Hyatt hotel, and opened in 2018.

CAPITAL IMPROVEMENT PROGRAM OVERVIEW

The City has developed a comprehensive Capital Improvement Program (CIP) for the Airport, including both the Airport Expansion and Development Program (AEDP) and other needed rehabilitation and replacement projects for various Airport facilities through FY 2028. The CIP is described in a later section of the Report titled "Capital Improvement Program".

AIRLINE TRAFFIC AND ECONOMIC ANALYSIS

AIRPORT SERVICE REGION

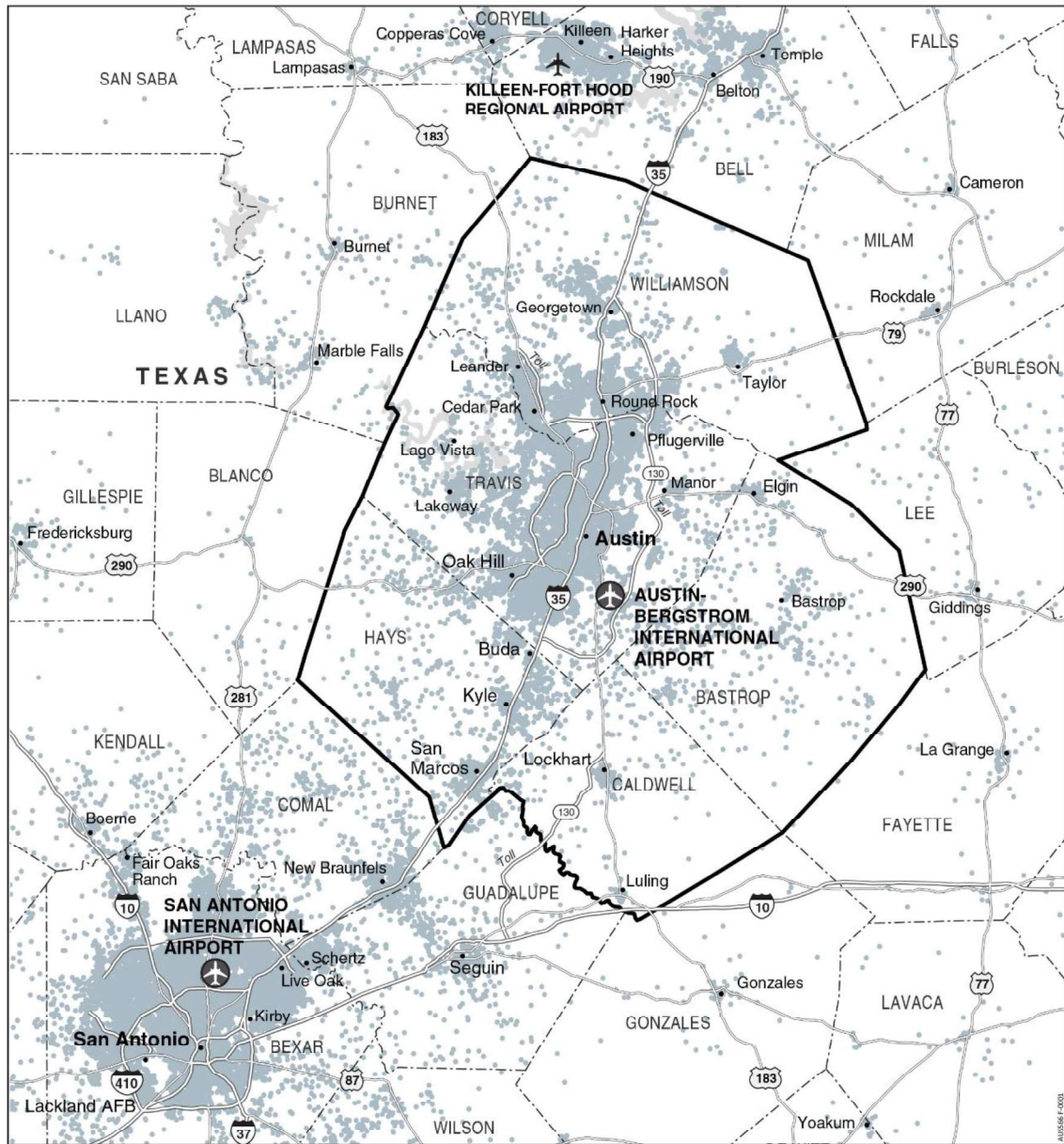
The Airport's primary service region is the 4,220-square-mile, 5-county Austin-Round Rock-Georgetown Metropolitan Statistical Area (the MSA), shown on Figure 2. According to the U.S. Department of Commerce, Bureau of the Census, the population of the MSA in 2020 was 2,283,000.

As shown on Figure 2, the nearest airports classified as large or medium hub airports by the FAA are those serving San Antonio (a medium hub approximately 80 road miles to the southwest), Houston (approximately 160 road miles to the east served by Houston Bush Intercontinental, a large hub, and Houston Hobby, a medium hub) and Dallas-Fort Worth (approximately 220 road miles to the north, served by Dallas/Fort Worth International, a large hub, and Dallas Love Field, a medium hub).

Table 1 provides data on airline service and passenger numbers at ABIA and selected other Texas airports.

San Antonio International Airport, the nearest airport with a substantial level of airline service, serves the San Antonio-New Braunfels MSA with a 2020 population of approximately 2.6 million. Because of the proximity of these two airports, passengers originating their journeys from the Austin or San Antonio airport service regions have airline service options from either airport. As shown in Table 1, in March 2022, two and a half times more scheduled departing seats will be provided from ABIA than from San Antonio International. Between Fiscal Year (FY) 2010 and FY 2019, the number of domestic originating passengers at ABIA nearly doubled compared to a 28.0% increase at San Antonio International. Dallas-Love Field also saw very strong growth between FY 2010 and FY 2019, due largely to the repeal of the Wright Amendment in 2014, which previously limited air service at Dallas-Love Field. In FY 2021, domestic origin-destination (O&D) passengers at ABIA were 63.9% of FY 2019 levels.

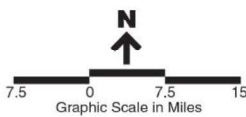
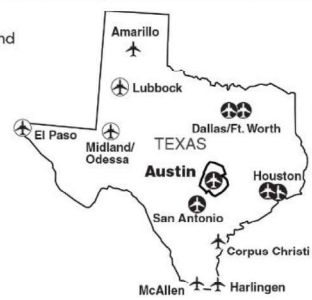
Killeen-Fort Hood Regional Airport, 75 road miles to the north of the Airport, is classified as a nonhub airport by the FAA. The Killeen airport is conveniently accessible to northern parts of the MSA, but, as shown in Table 1, provides only limited airline service by regional airlines.



LEGEND

- Airport Service Region (Austin-Round Rock Metropolitan Statistical Area)
- Population density: 1 dot represents 100 people
- Large or medium hub airport as defined by the FAA for 2020
- Small hub airport as defined by the FAA for 2020
- Other commercial service airport
- County boundary

Source: U.S. Census data, 2010.



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

Figure 2
AIRPORT SERVICE REGION
Austin-Bergstrom International Airport

Table 1
AIRLINE SERVICE AT SELECTED TEXAS AIRPORTS

	AUS	DFW	IAH	HOU	DAL	SAT	GRK
Driving distance from AUS (miles)	--	222	161	167	210	83	75
Average daily departing seats – March 2022 (a)							
Domestic	35,587	95,147	50,937	19,744	28,604	13,540	384
International	<u>1,436</u>	<u>15,909</u>	<u>18,207</u>	<u>1,563</u>	--	<u>1,535</u>	--
Total	37,023	111,056	69,143	21,307	28,604	15,075	384
<i>% of March 2019 levels</i>	133.3%	97.6%	92.9%	81.1%	95.0%	85.3%	73.4%
Average daily departures – March 2022 (a)							
Domestic	251	745	434	130	187	90	7
International	<u>9</u>	<u>92</u>	<u>114</u>	<u>11</u>	--	<u>9</u>	--
Total	260	838	549	141	187	99	7
<i>% of March 2019 levels</i>	138.7%	93.1%	86.0%	79.2%	90.6%	78.5%	73.3%
Airports served nonstop – March 2022 (a)							
Domestic	78	186	112	65	65	32	1
International	<u>11</u>	<u>63</u>	<u>64</u>	<u>8</u>	--	<u>5</u>	--
Total	89	249	176	73	65	37	1
<i>Airports served March 2019</i>	60	226	183	62	60	41	2
Domestic originating passengers (in thousands) (b)							
FY 2010	3,619	9,539	5,853	3,077	2,644	3,420	191
FY 2019	7,152	13,571	8,468	4,383	5,236	4,377	132
FY 2021	4,567	9,451	6,137	2,921	3,515	2,544	115
<i>Percent change FY 2010-FY 2019</i>	97.6%	42.3%	44.7%	42.5%	98.1%	28.0%	(31.1%)
<i>FY 2021 as % of FY 2019 levels</i>	63.9%	69.6%	72.5%	66.6%	67.1%	58.1%	87.0%

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

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

Sources: (a) OAG Aviation Worldwide Ltd, OAG Analyser database, accessed January 2022.

(b) U.S. Department of Transportation, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1, accessed January 2022. Data shown are for the 12 months ended September 30.

AIRPORT ROLE AND RANKINGS

As discussed in the following sections, ABIA is a primary commercial service airport serving Austin's large O&D passenger base and is a medium air traffic hub airport* in the national air transportation system.

Origin-Destination Passenger Base

The Airport's large O&D passenger base (i.e., passengers beginning or ending their trips at the Airport) reflects the strength of the Austin MSA's economy and its role as a business, trade, technology, tourism, and government center. During the 12 months ended September 30, 2021 (the most recent data available), the Airport ranked as the 26th busiest domestic O&D airport in the United States, according to U.S. Department of Transportation (DOT) data.

Medium Hub Airport

The FAA classifies the Airport as a medium hub. According to U.S. DOT, the Airport ranked as the 32nd largest passenger airport in the United States during the 12 months ended June 30, 2021 (the most recent data available) in terms of total enplaned passengers. As of March 2022, the Airport is scheduled to be served by five mainline passenger airlines, seven regional affiliates, five low-cost carriers, and five foreign-flag airlines, which together are expected to provide 260 daily nonstop departures to 89 airports (up from 60 airports in March 2019).

Rankings in Southwest and American Networks

The Airport's two largest airlines, Southwest and American, together served over 56% of passengers enplaned in FY 2021. This amount of activity, in turn, ranks the Airport relatively highly in the respective route networks of these two airlines as well.

As shown in Table 2, as scheduled for March 2022, the Airport will rank 12th by departing seats among airports in the Southwest route network (up from 21st in March 2015 and 20th in March 2019). As shown in Table 3, the Airport is also scheduled to rank 12th in the American route network (up from 25th in March 2015 and 19th in March 2019).

*A medium hub is defined by the FAA as a community that enplanes between 0.25% and 1.0% of all passengers enplaned on certificated route air carriers in all services in the 50 states, the District of Columbia, and other designated territorial possessions of the United States.

Table 2
SCHEDULED DEPARTING SEATS ON SOUTHWEST AIRWAYS
 Top U.S. Airports in the Southwest Airways System
 (as scheduled for March)

Rank	Airport	2015		2019		2022		2022 as % of 2019
		Seats	% of total	Seats	% of total	Seats	% of total	
1	Denver	766	4.8%	942	5.1%	1,094	6.3%	116.1%
2	Las Vegas	942	5.9	981	5.3	926	5.3	94.4
3	Chicago-Midway	1,064	6.6	1,045	5.7	896	5.1	85.7
4	Dallas-Love Field	644	4.0	886	4.8	879	5.0	99.2
5	Phoenix	789	4.9	897	4.9	854	4.9	95.2
6	Baltimore	905	5.7	927	5.1	843	4.8	90.9
7	Houston-Hobby	620	3.9	769	4.2	652	3.7	84.8
8	Nashville	382	2.4	508	2.8	551	3.2	108.4
9	Orlando	613	3.8	621	3.4	532	3.1	85.7
10	Oakland	416	2.6	536	2.9	479	2.8	89.4
11	St. Louis	391	2.4	535	2.9	469	2.7	87.7
12	Austin	227	1.4	309	1.7	449	2.6	145.4
13	Atlanta	535	3.3	568	3.1	426	2.4	74.9
14	San Diego	427	2.7	532	2.9	400	2.3	75.3
15	Los Angeles	488	3.0	563	3.1	374	2.1	66.4
	All other	<u>6,803</u>	<u>42.5</u>	<u>7,741</u>	<u>42.2</u>	<u>7,599</u>	<u>43.6</u>	98.2
	Total—U.S. system	16,013	100.0%	18,361	100.0%	17,425	100.0%	94.9%

Note: Represents seats on scheduled domestic and international flights and includes regional code-sharing affiliates.

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed January 2022.

Table 3
SCHEDULED DEPARTING SEATS ON AMERICAN AIRLINES
 Top U.S. Airports in the American Airlines System
 (as scheduled for March)

Rank	Airport	2015		2019		2022		2022 as % of 2019
		Seats	% of total	Seats	% of total	Seats	% of total	
1	Dallas/Fort Worth	2,842	14.2%	3,037	14.7%	2,946	15.1%	97.0%
2	Charlotte	2,116	10.6	2,250	10.9	2,142	11.0	95.2
3	Miami	1,537	7.7	1,537	7.4	1,702	8.8	110.8
4	Chicago-O'Hare	1,368	6.9	1,436	7.0	1,161	6.0	80.8
5	Phoenix	1,176	5.9	1,098	5.3	978	5.0	89.1
6	Philadelphia	1,214	6.1	1,119	5.4	815	4.2	72.8
7	Washington-Reagan	641	3.2	640	3.1	711	3.7	111.1
8	Los Angeles	724	3.6	855	4.1	576	3.0	67.3
9	New York-LaGuardia	463	2.3	441	2.1	496	2.5	112.3
10	New York-Kennedy	401	2.0	369	1.8	467	2.4	126.5
11	Boston	374	1.9	341	1.6	342	1.8	100.5
12	Austin	127	0.6	152	0.7	295	1.5	193.6
13	Orlando	306	1.5	283	1.4	279	1.4	98.6
14	Tampa	187	0.9	182	0.9	215	1.1	118.1
15	Las Vegas	231	1.2	209	1.0	211	1.1	100.7
	All other	<u>6,251</u>	<u>31.3</u>	<u>6,703</u>	<u>32.5</u>	<u>6,117</u>	<u>31.4</u>	91.3
	Total—U.S. system	19,958	100.0%	20,653	100.0%	19,452	100.0%	94.2%

Note: Represents seats on scheduled domestic and international flights and includes regional code-sharing affiliates.

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed January 2022.

HISTORICAL SOCIOECONOMIC INDICATORS

In general, the population and economy of an airport's service region are the primary determinants of originating passenger numbers at the airport. Connecting passenger numbers are primarily determined by airline management decisions to provide connecting service at the airport. As discussed in the later section "Airline Traffic Analysis," approximately 95% of ABIA's passengers are originating, and 5% connect between flights. Approximately 53% of originating passengers are residents of the MSA and 47% are visitors.

The following subsections provide a discussion of the economic basis for passenger traffic at the Airport in terms of historical MSA socioeconomic data and the employment profile of the MSA by industry sector. Table 4 shows historical data on population, nonagricultural employment, and per capita income for the MSA and the nation.

Table 4
HISTORICAL SOCIOECONOMIC DATA
 Austin-Round Rock MSA and United States

	Population (thousands) (a)		Nonagricultural employment (thousands) (b)		Per capita income (2021 dollars) (c)	
	MSA	United States	MSA	United States	MSA	United States
2000	1,265	282,162	684	132,024	\$46,843	\$43,639
2010	1,727	309,338	786	130,362	45,829	45,577
2011	1,781	311,644	812	131,932	47,680	46,560
2012	1,835	313,993	844	134,175	49,931	47,597
2013	1,884	316,235	884	136,381	49,728	47,166
2014	1,942	318,623	923	138,958	51,948	48,690
2015	2,001	321,040	963	141,843	53,485	50,613
2016	2,061	323,406	1,001	144,352	54,054	50,893
2017	2,116	325,719	1,033	146,624	54,817	51,640
2018	2,167	326,838	1,076	148,908	65,571	58,377
2019	2,228	328,330	1,118	150,905	66,201	59,404
2020	2,295	331,501	1,086	142,185	67,963	62,306
2021	n.a.	331,894	1,139	146,122	n.a.	n.a.
	Average annual percent increase (decrease)					
2000-2010	3.2%	0.9%	1.4%	(0.1%)	(0.2%)	0.5%
2010-2015	3.0	0.7	4.2	1.7	3.1	2.0
2015-2020	2.8	0.7	2.4	0.1	2.5	2.2
2000-2020	3.0	0.8	2.3	0.4	1.3	1.3
2019-2020	3.0	1.0	(2.9)	(5.8)	2.7	4.9
2020-2021	n.a.	0.1	4.9	2.8	n.a.	n.a.

MSA = Metropolitan Statistical Area comprising the 5 counties shown on Figure 2 for all years.
 n.a. = not yet available.

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

Calculated percentages may not match those shown because of rounding.

Sources: (a) Source: U.S. Department of Commerce, Bureau of the Census, www.census.gov, accessed January 2022.
 (b) Source: U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed January 2022. Employment numbers for the MSA for 2021 represent the average through November; U.S. numbers for 2021 are preliminary.
 (c) Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov, accessed January 2022. Adjusted to 2021 dollars using the U.S. Department of Labor *Consumer Price Index for All Urban Consumers*.

Population

Since 2000, the MSA has been one of the fastest growing major metropolitan areas in the nation. Between 2000 and 2020, the population of the MSA increased an average of 3.0% per year, compared with an increase of 0.8% per year for the nation. In 2020, the most recent year for which metropolitan area population data are available, the MSA was the fastest growing of all metropolitan areas nationwide with populations of 1 million or more.

Much of the MSA population growth resulted from in-migration caused by employment opportunities, a high quality of life, and a relatively low tax burden. According to the Austin Chamber, the MSA gains nearly 34,000 residents annually from domestic migration, which accounts for approximately 60% of overall population growth. While other parts of Texas are the primary source of domestic migration, numbers of in-migrants from California and New York have increased over the past 5 years. Austin was ranked the fifth best place to live nationwide by U.S. News and World Report for 2021-2022.

Austin's population is young, with 65.4% of the 2019 population under 45 (compared with 58.0% for the nation as a whole), and educated, with 46.2% of the MSA's adult population holding a bachelor's or more advanced degree (compared with 33.1% for the nation).

According to the Texas State Demographer, the MSA is projected to grow at an annual rate of 2.4% between 2020 and 2050. This rate of growth would double the MSA's current population within 30 years.

Nonagricultural Employment

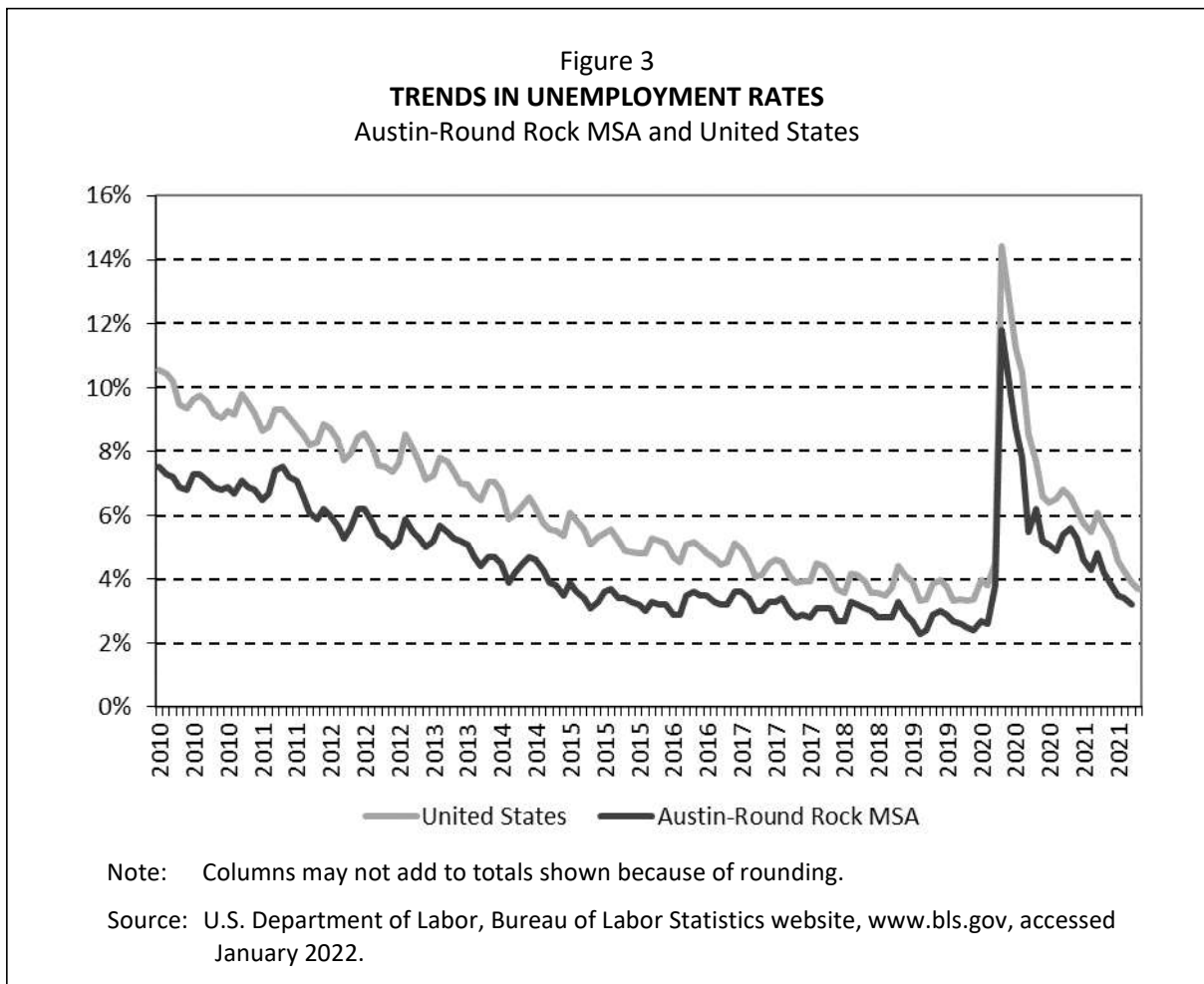
The MSA has similarly experienced much stronger growth in employment than for the nation as a whole. Since 2000, employment growth in the MSA has consistently outpaced national growth, and in 2020, the first year of the pandemic, employment in the MSA declined to a lesser extent than the nation. Between 2000 and 2021, employment in the MSA increased 2.5% per year, on average, compared with 0.5% average annual growth for the nation. Employment by industry sector is discussed in the later section "Economic Profile by Industry Sector."

Per Capita Income

Strong economic growth in the MSA has occurred since 2010. Between 2010 and 2020, per capita income for the MSA increased an average of 2.8% per year, compared with an increase of 2.1% per year for the nation.

Unemployment Rates

As shown in Figure 3, average unemployment rates for the MSA have been consistently lower than those for the United States. The unemployment rate in the MSA increased sharply at the outset of the pandemic, peaking at 11.8% in April 2020 (compared with a peak rate of 14.4% for the nation). By November 2021, the MSA unemployment rate had declined to 3.2%, compared with a national rate of 3.9%.



EMPLOYMENT BY INDUSTRY SECTOR

Table 5 presents the changes in the distribution of nonagricultural employment by industry sector in the MSA and the United States between 2015 and 2021. The unique combination of industries within the MSA provided for comprehensive employment growth averaging 1.5% per year. Over that period the MSA experienced employment growth across all industry sectors.

As in the United States as a whole, the services sector (professional, business, leisure, hospitality, education, health, and other services combined) is the largest industry sector in the MSA, accounting for 44.6% of MSA nonagricultural employment. International trade is another important component of the MSA economy. Exports from the MSA include semiconductors, electronics, software, and information technology. A foreign trade zone covers the MSA and provides for the establishment of secure sites to allow qualifying export-import businesses to defer or avoid U.S. Customs duties and certain other taxes.

Table 5
NONAGRICULTURAL EMPLOYMENT BY INDUSTRY SECTOR
 Austin-Round Rock MSA and United States
 (calendar years)

Industry sector	Share of total 2021		Average annual percent increase (decrease)	
	Austin	United	2015-2021	
	MSA	States	Austin MSA	United States
Services				
Professional and business services	19.2%	14.4%	2.7%	0.6%
Education and health services	11.1	16.1	1.2	0.6
Leisure and hospitality	10.4	10.1	0.2	(0.3)
Other services	<u>3.8</u>	<u>3.9</u>	0.2	0.1
Subtotal services	44.6%	44.4%	1.5%	0.3%
Trade, transportation, and utilities	17.3%	18.7%	1.7%	0.2%
Government	16.4	14.9	0.6	(0.1)
Mining, logging, and construction	6.3	5.5	2.3	1.0
Financial activities	6.2	6.0	2.5	0.8
Manufacturing	5.6	8.5	1.3	0.0
Information	<u>3.6</u>	<u>1.9</u>	3.7	(0.0)
Total	100.0%	100.0%	1.5%	0.3%

Note: Columns may not add to totals shown because of rounding. Employment numbers for the MSA for 2021 represent the average through November; U.S. numbers for 2021 are preliminary. Technology firms and activities span several of the industry sectors shown.

Source: U.S. Department of Labor, Bureau of Labor Statistics website, www.bls.gov, accessed January 2022.

Table 6 lists the largest private employers in the MSA in 2021. The companies listed accounted for approximately 13% of total nonagricultural employment in the MSA in 2021, with smaller businesses and organizations and public sector employers accounting for the remaining 87%.

Table 6
LARGEST AUSTIN AREA PRIVATE SECTOR EMPLOYERS
 2021

	Company	Head- quartered in MSA	Fortune 500 company	Principal industry	Number of area employees
1	H-E-B			Supermarkets	19,008
2	Ascension Seton	*		Health care	15,218
3	Walmart		*	Retail	15,000
4	Dell Technologies	*	*	Computer technology	13,000
5	Amazon		*	Online retail	11,000
6	St. David's HealthCare	*		Health care	10,541
7	Apple		*	Information technology	7,000
8	IBM		*	Information technology	6,000
9	Accenture PLC			Professional services	4,800
10	Home Depot		*	Retail	4,628
11	NXP Semiconductors			Semiconductors	4,000
12	Baylor Scott & White Health			Health care	3,800
13	Charles Schwab		*	Financial services	3,200
14	Whole Foods Market	*	*	Supermarkets	3,041
15	Samsung Austin Semiconductor			Semiconductors	3,000
16	Keller Williams Realty	*		Real estate	2,815
17	AT&T		*	Telecommunications	2,800
18	Indeed	*		Online recruiting	2,800
19	Applied Materials		*	Semiconductors	2,500
20	General Motors		*	Automotive research	2,500
21	Oracle	*	*	Computer technology	2,500
22	AMD		*	Semiconductors	2,400
23	Flex			Electronic manufacturing	2,118
24	Austin Regional Clinic PA	*		Health care	2,041
25	Facebook		*	Social media	2,000

Notes: Ranking of area employers based on number of employees as of July 2021. Government entities are not shown.

Sources: Company ranking: *Austin Business Journal*, "2021-2022 Book of Lists." Only companies that responded to the survey are included.

Status as a Fortune 500 company for 2021: www.fortune.com, accessed January 2022.

Austin is the capital of Texas, and the government sector accounted for 16.4% of MSA employment in 2021, compared with 14.9% for the nation. The share of MSA employment related to the government has decreased, from 18.2% in 2015, as the MSA's economy has diversified. In 2021, local government accounted for 51.2% of government sector jobs, State government for 40.6%, and the federal government for 8.2%.

The State of Texas is the largest single employer in the MSA, with 63,900 employees (excluding the 26,400 employees at the University of Texas at Austin who are accounted for in the services sector). An Internal Revenue Service regional processing center is the largest single federal employer, with over 5,700 employees. The largest local government employers are the City of Austin and the Austin and Round Rock independent school districts.

The University of Texas at Austin, with a student enrollment of approximately 51,000, is the tenth largest public four-year university in the nation and employs approximately 26,400 faculty and staff. The university is known as a world-class center of education and research and is an important contributor to the region's economy. Texas State University, located in San Marcos, has a student population of over 38,000 and employs 5,500 full-time faculty and staff. Another approximately 91,000 students were enrolled at 24 other universities and colleges in the region.

Research activities at the University of Texas at Austin, Texas State, and other universities and colleges have been the catalyst for the development of life sciences industries in the MSA. Approximately 240 companies provide approximately 15,000 jobs in the biotechnology, pharmaceutical, medical device, and related industries.

Dell, headquartered in Round Rock, is one of the MSA's largest private sector employers, developing and manufacturing computer technology solutions and products. Other major employers engaged in engineering, design, research, and development in the computer, data analytics, information technology, and other high-technology industries are Apple, IBM, Oracle, AMD, NI, Intel, and HP.

In July 2020, electric vehicle and clean energy company Tesla began construction of an automotive manufacturing "Gigafactory" in the MSA, designed for electric truck production. Subsequently, Tesla moved its corporate headquarters from Palo Alto, California to the MSA in December 2021, citing high cost of living and long commute times in the Bay Area.

TOURISM

Tourism is an important contributor to the MSA's economy. Austin bills itself as the "Live Music Capital of the World." Each spring the city hosts the South by Southwest (SXSW) Music-Film-Interactive conference and festival, and each fall it hosts the Austin City Limits Music Festival, a two-week-long celebration of music performance. In 2012, the 1,500-acre Circuit of the Americas motorsports venue opened. The venue hosts the Formula One United States Grand Prix, the Texas Grand Prix, and the Motorcycle Grand Prix of the Americas, among other events. The Austin Convention Center, located in downtown Austin, provides 370,000 square feet of exhibit and meeting space convenient to 11,000 hotel rooms and various attractions and entertainment districts.

ECONOMIC OUTLOOK

The COVID-19 pandemic that began in February 2020 has, in the near-term, disturbed the historical relationship between economic and passenger traffic growth.

- In 2020, regional and state lockdowns and social distancing policies combined with an increasing trend in COVID-19 cases resulted in a 3.4% decrease in U.S. real gross domestic product (GDP), adjusted for inflation, and a 61% decrease in U.S. passenger traffic between 2019 and 2020.*
- In 2021, the availability and rapid distribution of approved COVID-19 vaccines contributed to a significant decrease in new COVID-19 cases in the United States, notwithstanding the increases in new cases caused by the Delta variant in July through mid-September and the Omicron variant beginning in December. During the summer of 2021, U.S. passenger traffic approached 2019 levels, driven by pent-up domestic demand, the success of COVID-19 vaccines in reducing the spread of the coronavirus, and the establishment of airline and airport health safety procedures. By mid-January 2022, 63% of the U.S. population had been fully vaccinated, 75% had received at least one dose, and 37% of the fully vaccinated had received booster doses.**
- During the first 9 months of 2021 (January through September), U.S. real GDP increased 5.7% and 1.7%, respectively, compared with the same period in 2020 and 2019, while U.S. passenger traffic increased 60% from the same period in 2020 but remained 36% lower than 2019 levels.
- The outlook for 2022 is uncertain but improved by several factors, including increasing trends in U.S. employment, federal spending, and GDP growth, the reopening of U.S. businesses, federal government and corporate mandates for employee vaccinations, the easing of international travel restrictions in November 2021, the availability of COVID-19 booster doses, and the development of treatments such as the COVID-19 antiviral pill.

The continued restoration of the relationship between economic and passenger traffic growth will depend on the growth in the U.S. economy, the national COVID-19 vaccination program and the availability of treatments, the reopening of international borders, and restored consumer confidence in air travel. In the longer term, U.S. economic growth will depend on, among other factors, stable financial and credit markets, a stable value of the U.S. dollar versus other currencies, stable energy and other commodity prices, the ability of the federal government to reduce historically high fiscal deficits, inflation remaining within the range targeted by the Federal Reserve, growth in the economies of foreign trading partners, and stable trading relationships.

Continued economic growth in the MSA will generally depend on the same factors as those for the nation, although the MSA is seen as having advantages that will underpin its economic prosperity. A

* U.S. Bureau of Economic Analysis, Table 1.1.6. Real Gross Domestic Product, Chained Dollars, November 24, 2021, www.bea.gov. U.S. Department of Transportation, Schedule T100 and TSA Throughput Passengers, online database, accessed November 2021.

** U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, COVID Data Tracker, www.covid.cdc.gov, accessed January 12, 2022.

business-friendly economic environment, relatively low tax burden, and a quality of life that will allow a young, well-educated labor force to be attracted and retained are key factors to growth. Industries that Austin targets for growth are advanced manufacturing, clean energy and power technologies, data management, life sciences, and creative and digital media.

HISTORICAL AIRLINE TRAFFIC AND SERVICE

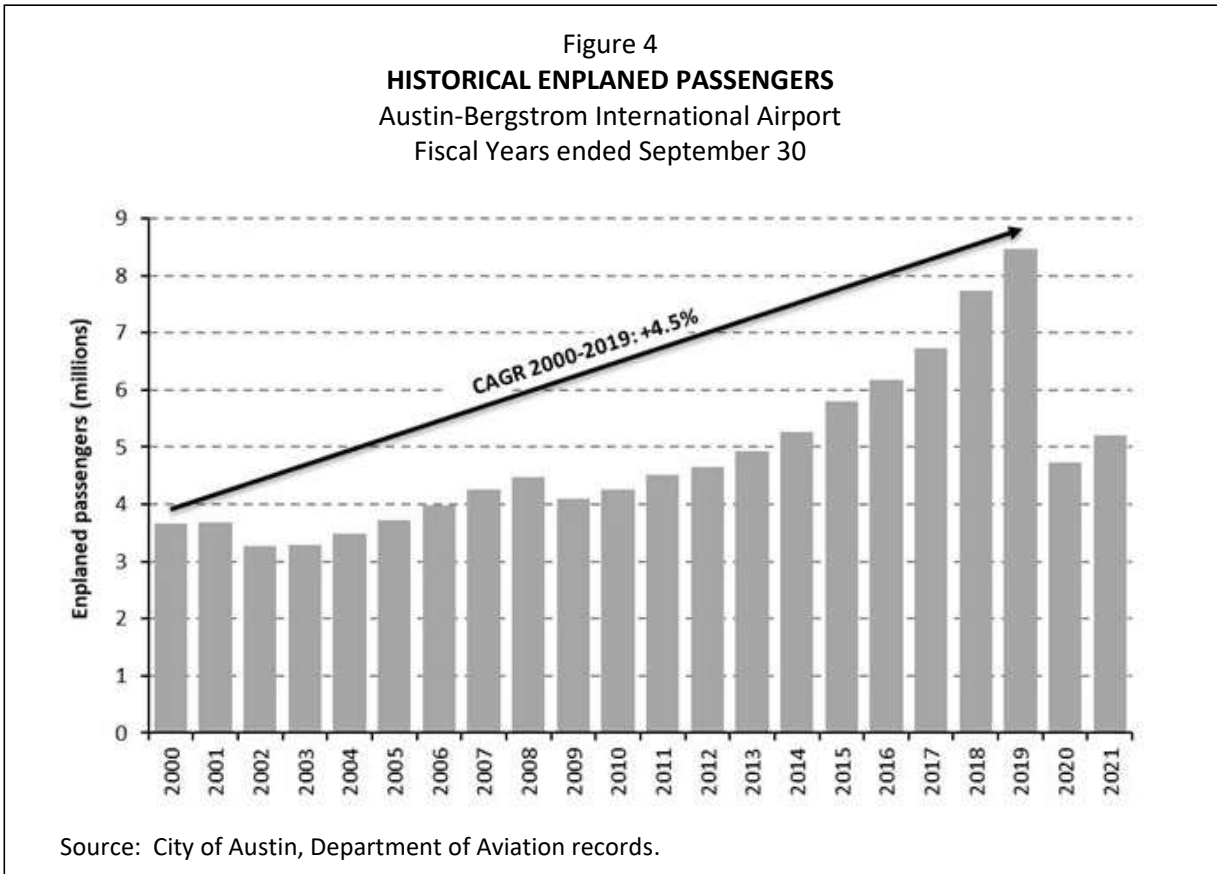
Most passengers traveling through the Airport either originate in or are destined for the MSA. These O&D passengers accounted for 94.8% of the Airport's enplaned passengers in FY 2021, while passengers connecting between flights accounted for the remainder. In FY 2021, 98.8% of passengers enplaned on domestic flights, while the remainder enplaned on international flights.

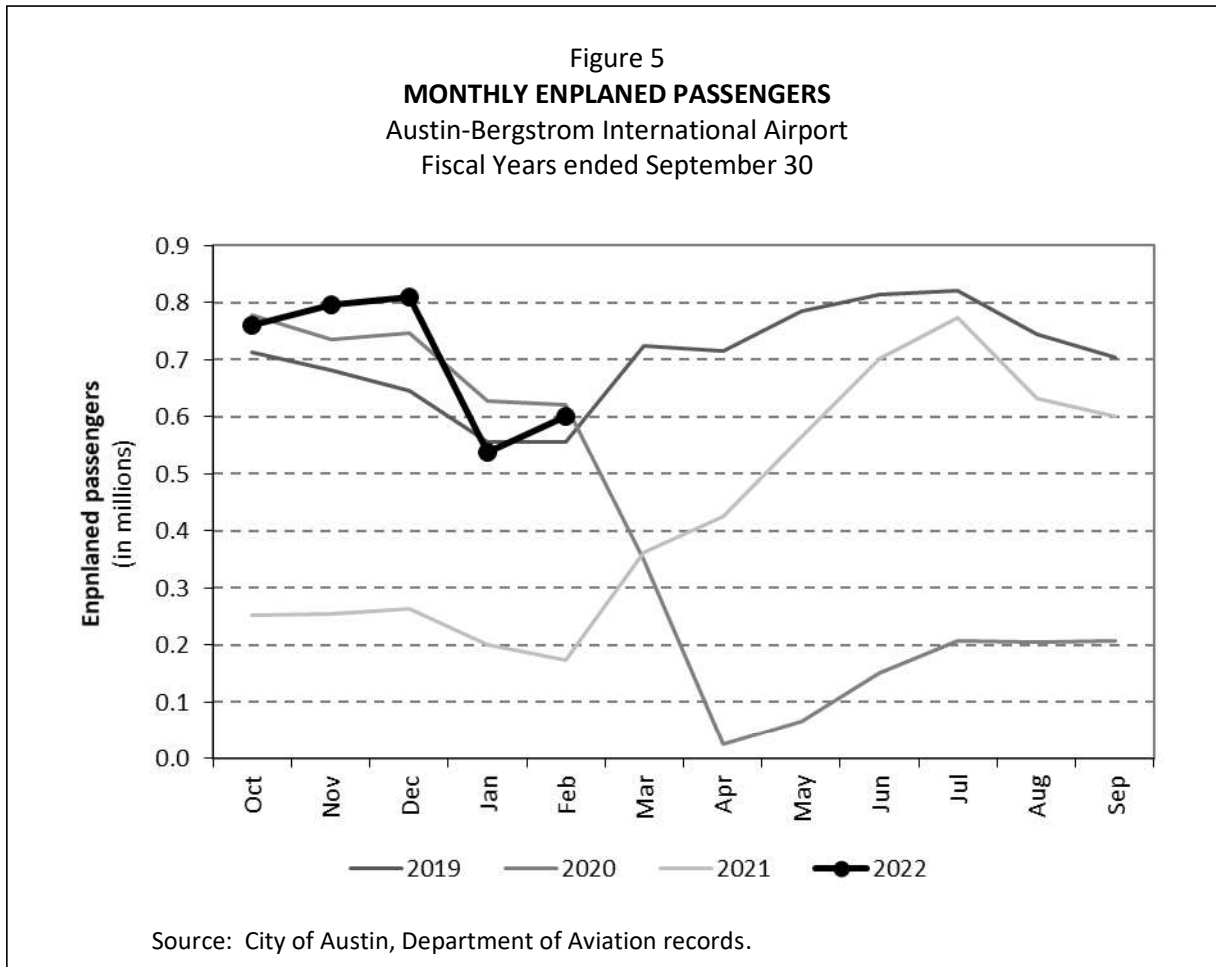
Enplaned Passengers

Figure 4 depicts historical levels of enplaned passengers at the Airport from FY 2000 to FY 2021. Unless otherwise noted, all data in this section are presented by the City's FY ended September 30. From FY 2000 to FY 2019, enplaned passengers increased at an average annual growth rate of 4.5%. Between FY 2014 and FY 2019, spurred by airline competition, decreasing airfares, a growing population base, and a robust local economy, enplaned passengers increased 9.9% per year, on average. In FY 2020, the Airport experienced an enplaned passenger decrease of 44.2%, as travel demand plummeted during the pandemic. In FY 2021, enplaned passengers increased 10.3% year-over-year and were 62% of FY 2019 levels.

Given the sharp decrease in passengers that began in March 2020, both at the Airport and nationally, and the rebound that followed, annual numbers of passengers somewhat obscure trends during FY 2020 and FY 2021.

Figure 5 shows that historical patterns of passenger traffic at the Airport were drastically disrupted by the coronavirus pandemic beginning in early 2020. In April 2020, enplaned passengers had dropped to only 3.4% of their pre-pandemic April 2019 level. By summer they had increased modestly, but then plateaued at roughly 30-40% of pre-pandemic levels through the fall and winter months. In spring 2021, increasing vaccination rates and pent-up travel demand combined to drive strong growth in passenger enplanements, rising to 94.3% of pre-pandemic levels in July 2021. In both December 2021 and February 2022, numbers of enplaned passengers at the Airport exceeded corresponding 2019 levels by approximately 8%. In January 2022, passenger traffic growth was suppressed both at the Airport and nationwide due to the surge in the COVID-19 Omicron variant.





Airline Competition and Market Shares

Table 7 lists historical airline shares of enplaned passengers. In all discussions of historical airline service and passenger traffic by airline in this Report, unless otherwise noted, data for merged airlines are accounted for with the surviving airline (i.e., America West Airlines, Trans World Airlines, and US Airways with American Airlines; Northwest Airlines with Delta Air Lines; Continental Airlines with United Airlines; Midwest Airlines with Frontier Airlines; AirTran Airways with Southwest Airlines; and Virgin America with Alaska Airlines).

Southwest's share of enplaned passengers in FY 2021 was 34.1%, down from FY 2012 (37.8%) while American's share in FY 2021 was 22.1%, down from 24.0% in FY 2012. New and expanded service by the other airlines, particularly Delta, Alaska, Spirit, and Allegiant has resulted in a more competitive and less concentrated air service offering at the Airport.

Origin-Destination Markets

Table 8 presents data on domestic passengers and airline service for the top 20 city markets as ranked by domestic originating passengers at the Airport in FY 2021. Also shown are the numbers of average daily nonstop departures as scheduled for March 2022 and the numbers of airlines providing service to each market from the Airport. The top five destinations—Los Angeles, Denver, New York, Las Vegas, and Chicago—accounted for 29.5% of originating passengers at the Airport. Daily nonstop service is provided from the Airport to each of the 20 destinations. Competing service by two or more airlines is provided to 18 of the 20 destinations and competing service by three or more airlines is provided to 10 of the 20 destinations.

Passenger Airline Service

Figure 6 shows the airports scheduled to be served nonstop from the Airport in March 2022. In addition to 77 domestic destinations, airlines at ABIA are scheduled to serve five destinations in Mexico and Central America, five in Europe, three in the Caribbean, and one in Canada.

Although departing seat capacity at the airport dropped sharply during the COVID-19 pandemic, by September 2021, it had recovered to 2019 levels (pre-pandemic). Since then, scheduled departing seats have exceed 2019 levels in each month. Advance published schedules, which are subject to change, indicate continuing increases in scheduled departing seats. These increases are largely attributable to expansion by Southwest and American at ABIA, both of which have added service to numerous destinations during the pandemic. Alaska, Allegiant, and Delta have also increased service at the Airport. Hawaiian started service at the Airport in April 2021 and KLM initiated service in March 2022. Virgin Atlantic is scheduled to start service in May 2022. In March 2022, airlines are scheduled to provide 33% more seats and 39% more flights at ABIA than in March 2019.

Table 7
HISTORICAL AIRLINE SHARES OF ENPLANED PASSENGERS
 Austin-Bergstrom International Airport
 Fiscal Years ended September 30

Airline	Enplaned passengers (thousands)				
	2012	2015	2019	2020	2021
Southwest	1,763	2,119	2,930	1,592	1,778
American	1,120	1,261	1,524	910	1,153
Delta	548	700	1,130	614	710
United	778	971	1,223	632	645
Alaska	57	175	306	188	263
Spirit	--	--	273	285	253
JetBlue	286	278	281	151	188
Frontier	109	161	464	198	105
Allegiant	2	55	99	53	81
Hawaiian	--	--	--	--	13
Sun Country	0	1	18	10	9
Aeromexico	--	0	23	13	6
All Other	<u>1</u>	<u>71</u>	<u>194</u>	<u>78</u>	<u>1</u>
Total	4,663	5,792	8,465	4,724	5,208
	Share of total				
Southwest	37.8%	36.6%	34.6%	33.7%	34.1%
American	24.0	21.8	18.0	19.3	22.1
Delta	11.8	12.1	13.3	13.0	13.6
United	16.7	16.8	14.5	13.4	12.4
Alaska	1.2	3.0	3.6	4.0	5.1
Spirit	--	--	3.2	6.0	4.9
JetBlue	6.1	4.8	3.3	3.2	3.6
Frontier	2.3	2.8	5.5	4.2	2.0
Allegiant	0.0	1.0	1.2	1.1	1.6
Hawaiian	--	--	--	--	0.3
Sun Country	0.0	0.0	0.2	0.2	0.2
Aeromexico	--	0.0	0.3	0.3	0.1
All Other	<u>0.0</u>	<u>1.2</u>	<u>2.3</u>	<u>1.7</u>	<u>0.0</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Notes: Passengers reported by regional affiliates are grouped with their respective code-sharing partners. Columns may not add to totals shown because of rounding.

Source: City of Austin, Department of Aviation records.

Table 8
Domestic Origin-Destination Patterns and Airline Service
 Austin-Bergstrom International Airport

Rank	Origin-destination market	Air miles from Austin	Percent of domestic O&D passengers		Average daily scheduled nonstop departures March 2022	Number of airlines
			FY 2019	FY 2021		
1	Los Angeles (a)	1,030	7.4%	8.9%	20	8
2	Denver	673	5.3	5.9	12	4
3	New York (b)	1,312	7.2	5.4	13	5
4	Las Vegas	945	3.7	4.7	9	5
5	Chicago (c)	847	5.1	4.5	14	3
6	San Francisco (d)	1,294	6.6	4.5	12	3
7	Orlando	862	2.8	4.0	7	3
8	Miami (e)	957	2.5	3.8	9	4
9	Atlanta	705	3.2	3.3	10	2
10	Washington DC (f)	1,143	4.4	3.2	7	3
11	Phoenix	755	2.4	2.7	8	2
12	Seattle	1,536	2.4	2.6	5	2
13	San Diego	1,009	2.3	2.2	6	2
14	Boston	1,473	2.6	1.9	5	3
15	Nashville	656	1.2	1.7	7	2
16	Salt Lake City	942	1.4	1.5	5	2
17	Dallas/Fort Worth (g)	164	2.9	1.5	20	2
18	Detroit	998	1.7	1.5	4	1
19	Portland	1,488	1.3	1.4	1	1
20	Minneapolis-St. Paul	905	<u>1.7</u>	<u>1.4</u>	<u>4</u>	2
	Cities listed		68.1%	66.7%	177	
	Other cities		<u>31.9</u>	<u>33.3</u>	<u>75</u>	
	All cities		100.0%	100.0%	252	

Note: For the Fiscal Year ended June 30, unless otherwise noted.

(a) Los Angeles International, Hollywood Burbank, Long Beach, John Wayne/Orange County, and Ontario International airports.

(b) Newark Liberty International, LaGuardia, and John F. Kennedy International airports.

(c) Chicago O'Hare and Midway International airports.

(d) San Francisco, Oakland, and Norman Y. Mineta San Jose International airports.

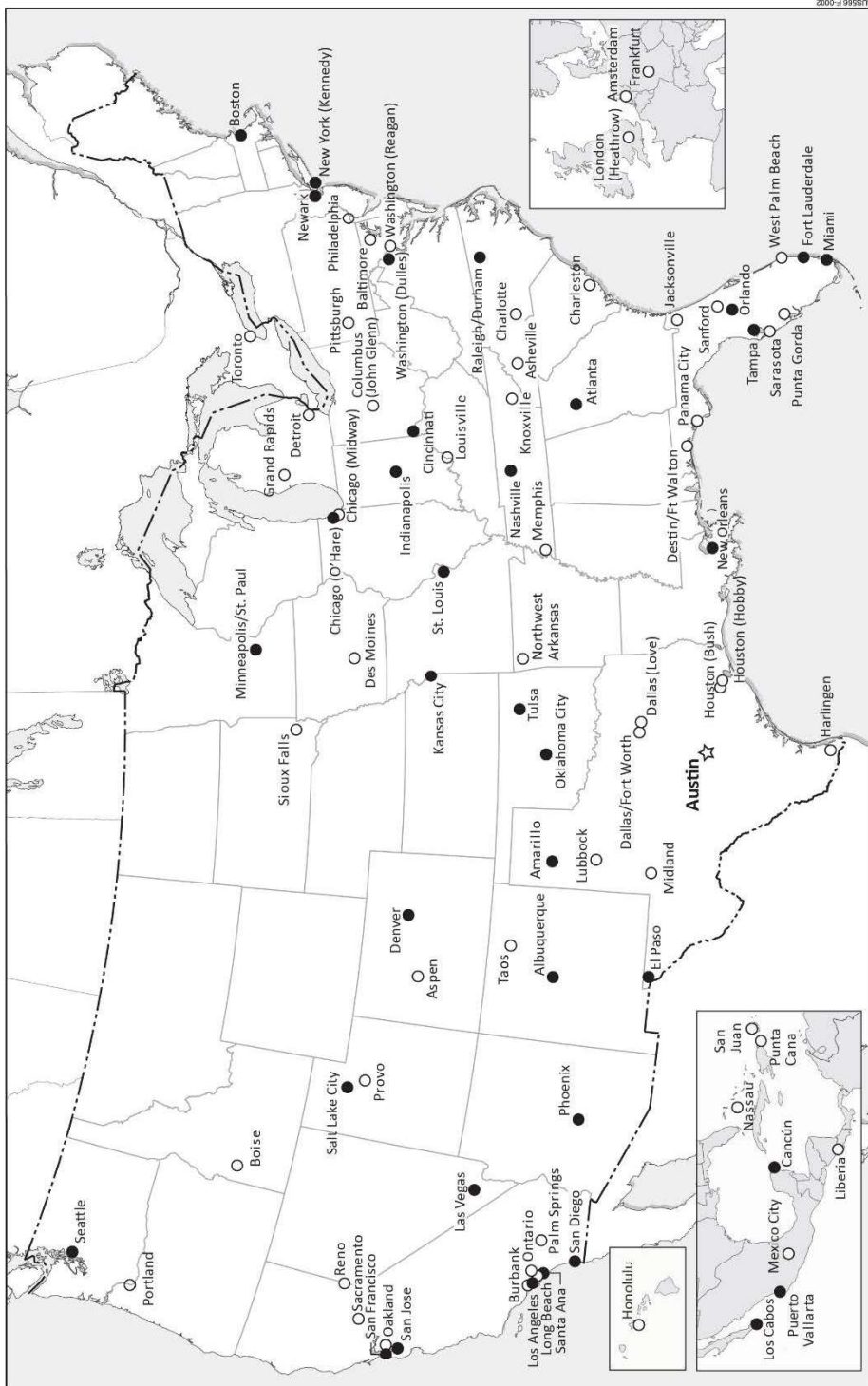
(e) Miami and Fort Lauderdale International airports.

(f) Reagan Washington National, Baltimore/Washington International Thurgood Marshall, and Washington Dulles International airports.

(g) Dallas/Fort Worth International Airport and Love Field.

Sources: O&D percentage: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedule T100, accessed January 2022.

Departures: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed January 2022.



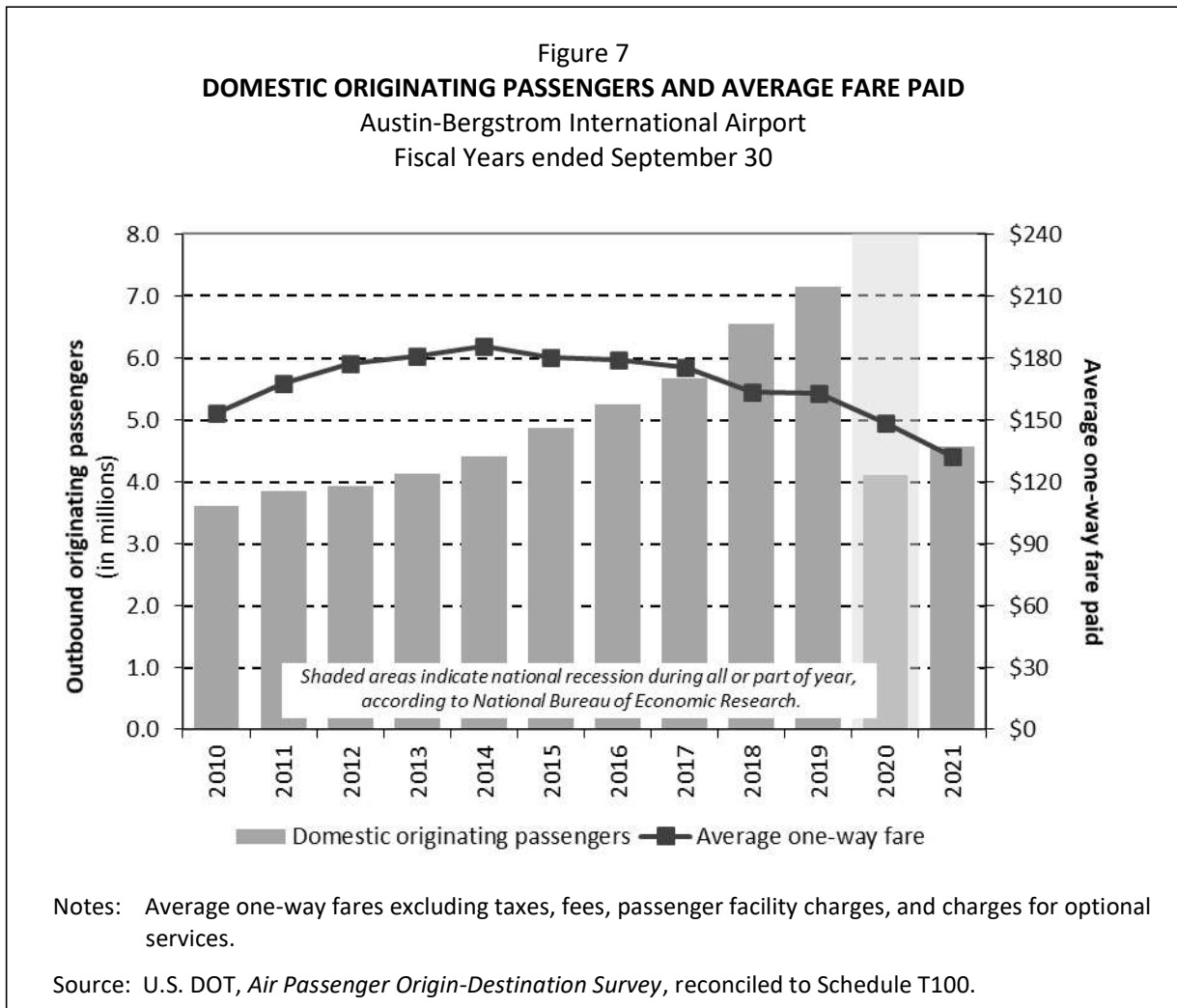
LEGEND
 ○ Destinations with service by only one airline
 ● Destinations with service by two or more airlines

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed January 2022.

Figure 6
DESTINATIONS SERVED NOMSTOP
 Austin-Bergstrom International Airport
 March 2022

Figure 7 shows domestic originating passengers and average domestic airfares at the Airport from FY 2010 to FY 2021. The average one-way fare paid for domestic flights at ABIA peaked in FY 2014 at \$186 and has trended downward (an average -4.7% per year) through FY 2021. Domestic originating passengers increased 10.1% per year, on average, between FY 2014 and FY 2019, before dropping significantly during the pandemic.

The average airfares shown in Figure 7, as reported by the airlines to the U.S. DOT, exclude charges for optional services, such as checked baggage, preferred seating, in-flight meals, entertainment, and ticket changes. Such charges have become widespread in the airline industry since 2006. As a result, the average airfares shown understate the amount actually paid by airline passengers for their travel. Optional service charges that were previously included in the ticket price are not all separately reported to the U.S. DOT. They have been estimated by industry analysts to amount to an effective average surcharge on domestic airfares of approximately 5% of ticket fare revenues, although the percentage varies widely by airline.



Air Cargo

Table 9 presents historical data on enplaned and deplaned air cargo tonnage. Cargo tonnage (carried by all-cargo aircraft and as belly cargo on passenger airline aircraft) decreased between FY 2000 and FY 2010 at an average rate of 7.5% per year. The decrease was attributable to a combination of factors, including post-September 2001 security restrictions, increased use of time-definite ground transportation modes as the relative operating economics of air and truck modes changed, changes in patterns of global trade and supply-chain functionality, and industry consolidation. Between FY 2010 and FY 2015, there was negligible growth in air cargo tonnage but, since FY 2015, growth has returned. Double digit year-over-year growth occurred in FY 2017, FY 2020, and FY 2021. In FY 2021, FedEx accounted for 39.0% of the air cargo tonnage enplaned and deplaned at the Airport, UPS for 14.7%, and Southern Air for 9.5%. The remaining 36.8% of air cargo tonnage was carried by passenger airlines and other miscellaneous air cargo operators.

Table 9
HISTORICAL AIR CARGO TONNAGE
Austin-Bergstrom International Airport
Fiscal Years ended September 30

Fiscal Year	Cargo tonnage			Annual increase (decrease)
	Freight and express	Mail	Total	
2000	154,385	14,873	169,258	
2010	75,047	2,839	77,886	
2015	75,694	3,358	79,052	
2016	81,385	2,372	83,757	6.0%
2017	91,076	3,290	94,366	12.7
2018	87,657	3,769	91,426	(3.1)
2019	85,175	4,947	90,122	(1.4)
2020	96,338	4,132	100,470	11.5
2021	112,708	3,925	116,633	16.1
	Average annual percent increase (decrease)			
2000-2010	(7.0%)	(15.3%)	(7.5%)	
2010-2015	0.2	3.4	0.3	
2015-2020	4.9	4.2	4.9	
2019-2020	13.1	(16.5)	11.5	
2020-2021	17.0	(5.0)	16.1	

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

Source: City of Austin, Department of Aviation records.

KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC

In the near-term to medium-term, the impact of the COVID-19 pandemic and the speed of recovery of both the economy and public confidence in the aviation system will significantly affect aviation activity levels at the Airport. As the Airport predominantly serves origin and destination activity (O&D passengers account for approximately 95% of ABIA's passengers), future long-term growth in aviation activity at the Airport will occur largely as a function of the growth in the population and economy of the Austin MSA, as well as regional, national, and international economic performance.

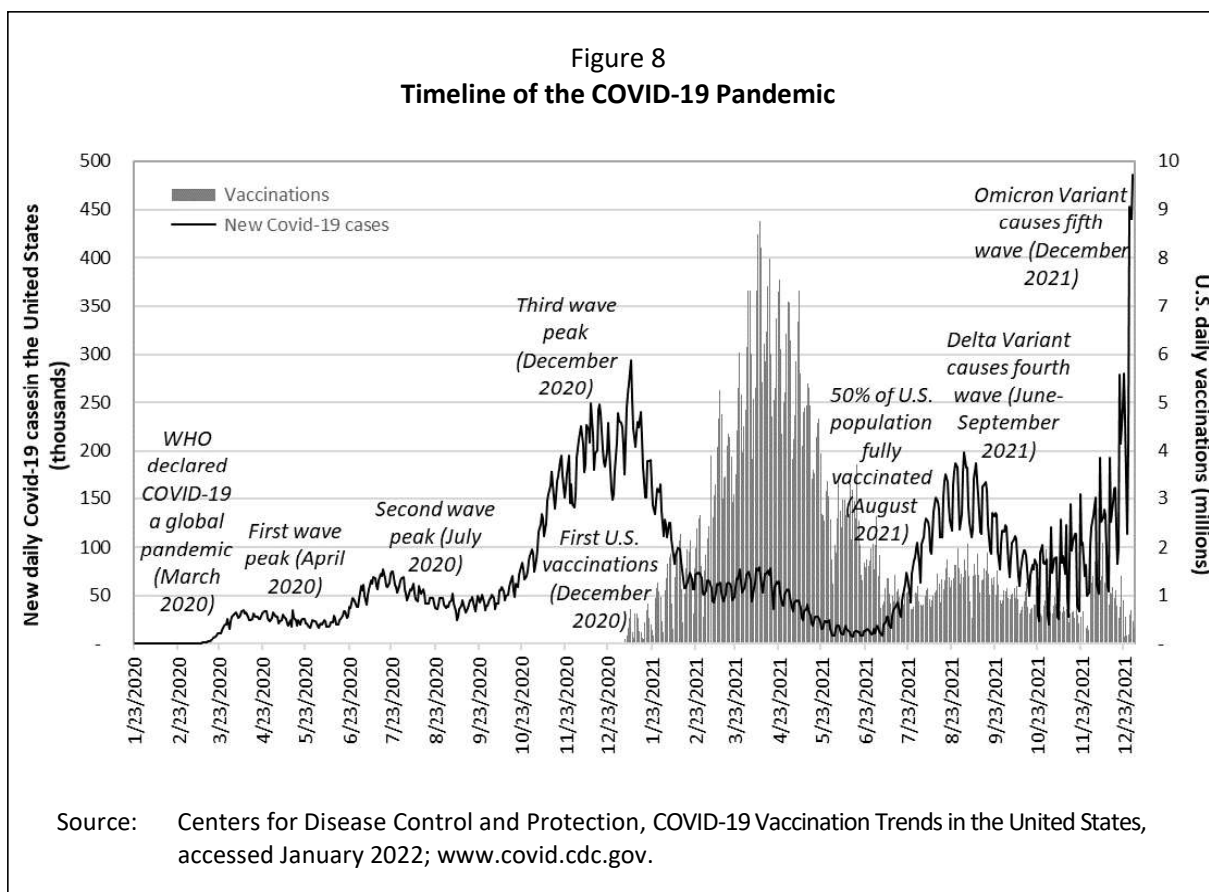
Several factors will play a role in the long-term growth in aviation activity at the Airport, including:

- COVID-19 pandemic and public health concerns
- Climate change concerns
- National economic conditions
- International economic, political, health, and security conditions
- Structural changes in the travel market
- Financial health of the airline industry
- Airline industry provisions under the Federal Stimulus Acts
- Airline service and routes
- Airline competition and airfares
- Airline consolidation and alliances
- Availability and price of aviation fuel
- Aviation safety and security concerns
- Capacity of the national air traffic control system, and
- Capacity of the Airport

COVID-19 Pandemic and Public Health Concerns

Public health concerns and associated restrictions on travel periodically reduce airline travel demand to and from various parts of the world. Examples are Severe Acute Respiratory Syndrome (SARS) in 2002-2003, the H1N1 influenza virus in 2009, Middle East Respiratory Syndrome (MERS) in 2013, Ebola Virus Disease (EVD) in 2014-2016, and the Zika virus in 2016-2017. In all these historical examples, reductions in airline travel were geographically localized and fairly short-lived, with travel soon recovering to pre-health-scare trends.

By comparison, the COVID-19 pandemic has had far more serious and widespread effects on airline travel worldwide. In late 2019, the highly contagious novel coronavirus that causes the COVID-19 respiratory illness emerged in Asia, soon spreading to most parts of the world. As shown on Figure 8, COVID-19 was declared a global pandemic by the WHO in March 2020 and has yet to be contained.



During the early months of the pandemic, governmental actions to slow the spread of the disease, including the mandated closure of businesses and offices, work-at-home requirements, prohibitions of public gatherings, quarantines, and travel restrictions contributed to a recession in the global economy and widespread job losses. The economic recession, combined with fears about contagion, resulted in a severe reduction in the demand for air travel, the grounding of much of the world's airline fleets, and cuts in airline service that extended through much of 2020.

In December 2020, the first COVID-19 vaccines were administered in the United States and, following a peak of new COVID-19 cases at the end of 2020, the number of new COVID-19 cases fell as more people were vaccinated. By August 2021, 50% of the total U.S. population had been fully vaccinated. The success of COVID-19 vaccines in preventing the transmission of the virus and reducing its effects resulted in a steady recovery in domestic air travel during the summer of 2021.

Notwithstanding the success of the vaccines, new variants of the COVID-19 virus emerged and the highly contagious Delta and then Omicron variants resulted in new waves of cases in the fall and winter of 2021. These new cases contributed to cancelled travel bookings and reduced airline schedules, as well as delays in office openings and continued travel restrictions, particularly for corporate and international travel. The Omicron variant also contributed to flight cancellations at the end of 2021 as airline crews tested positive for the virus. The combination of these factors inhibited recovery in airline travel during the second half of 2021.

TSA data show that the number of passengers screened at U.S. airports in January 2021 was approximately 40% of the number screened in January 2019. In July 2021, the number had increased to approximately 75% of the number two years earlier, and in December 2021, the number had increased to approximately 80% of the number two years earlier.

The availability and acceptance of vaccines and treatments offers hope that the pandemic will be brought under control and economic activity will be resumed, but until governments and public health authorities are able to contain the spread of the disease and its variants worldwide through widespread immunization, and to relax quarantine, testing, and other travel restrictions, COVID 19 may continue to overshadow other factors affecting future airline travel.

Questions remain about how some determinants of travel demand may change once control of the pandemic and economic recovery allow a stable travel environment to be restored. Some observers anticipate there may be permanent reductions in some business travel for in-person meetings as a result of the widespread adoption of videoconferencing during the pandemic. Many companies have also reduced travel by their employees and thereby achieved cost savings that may become a permanent feature of their financial operations.

Climate Change Concerns

There is now widespread acknowledgement of the urgent need for the nations of the world to transition from fossil fuels to cleaner energy sources that will allow the worst effects of global warming and climate change to be avoided. In November 2021, the FAA published the U.S. Aviation Climate Action Plan which sets a goal to achieve net-zero greenhouse gas (GHG) emissions from the U.S. aviation sector by 2050. The plan includes several key initiatives, including the increased production of sustainable aviation fuels (SAF), the development of new aircraft technologies, increased operations efficiency, and efforts to reduce airport emissions.

Much like the way that the pandemic appears to have changed some airline travel behavior and demand patterns, concerns about the contribution of airline travel to the emission of carbon dioxide and other greenhouse gases into the atmosphere may influence future airline travel demand. For example, there may be increased societal pressures to avoid or reduce travel perceived as wasteful, particularly long-haul international travel; to favor or require the use of lower-emission travel modes, e.g., train over airplane, for short trips; and for corporations to limit employee travel to “reduce their carbon footprint” and achieve environmental, social, and governance objectives.

Pre-pandemic, the aviation industry accounted for approximately 10% of anthropogenic greenhouse gas emissions from the U.S. transportation sector and 3% of total U.S. emissions. However, alternatives to petroleum-derived jet fuel are unlikely to be economically available at large scale for the foreseeable future, so aviation’s share of emissions will likely increase and attract more scrutiny. Consequently, it will be imperative for the industry to achieve efficiencies if growth in airline travel is to be sustained.

Achieving those efficiencies and mitigating emissions will require financial investments and changes to the operating economics of the aviation industry. Changes will likely include the early retirement and replacement of inefficient aircraft; implementation of operational changes to airline networks and systems to fly more optimal trajectories for reduced fuel use and contrail impacts; investments in emission reduction projects at airports, including electrification of ground support equipment; the payment of carbon taxes and other regulatory charges designed to penalize or offset emissions; and the development of technologies and incentives to increase the supply and reduce the cost of

sustainable aviation fuels derived from biomass and other renewable sources. In the longer term, investments will be required to develop new aircraft propulsion technologies using fuels such as hydrogen or electric power generated from renewable sources.

Increased direct governmental regulation of greenhouse gas emissions from aircraft is also possible. In 2020, the U.S. Environmental Protection Agency adopted emission standards that apply to new commercial aircraft and align with standards adopted by the International Civil Aviation Organization. More stringent emission standards may apply in the future.

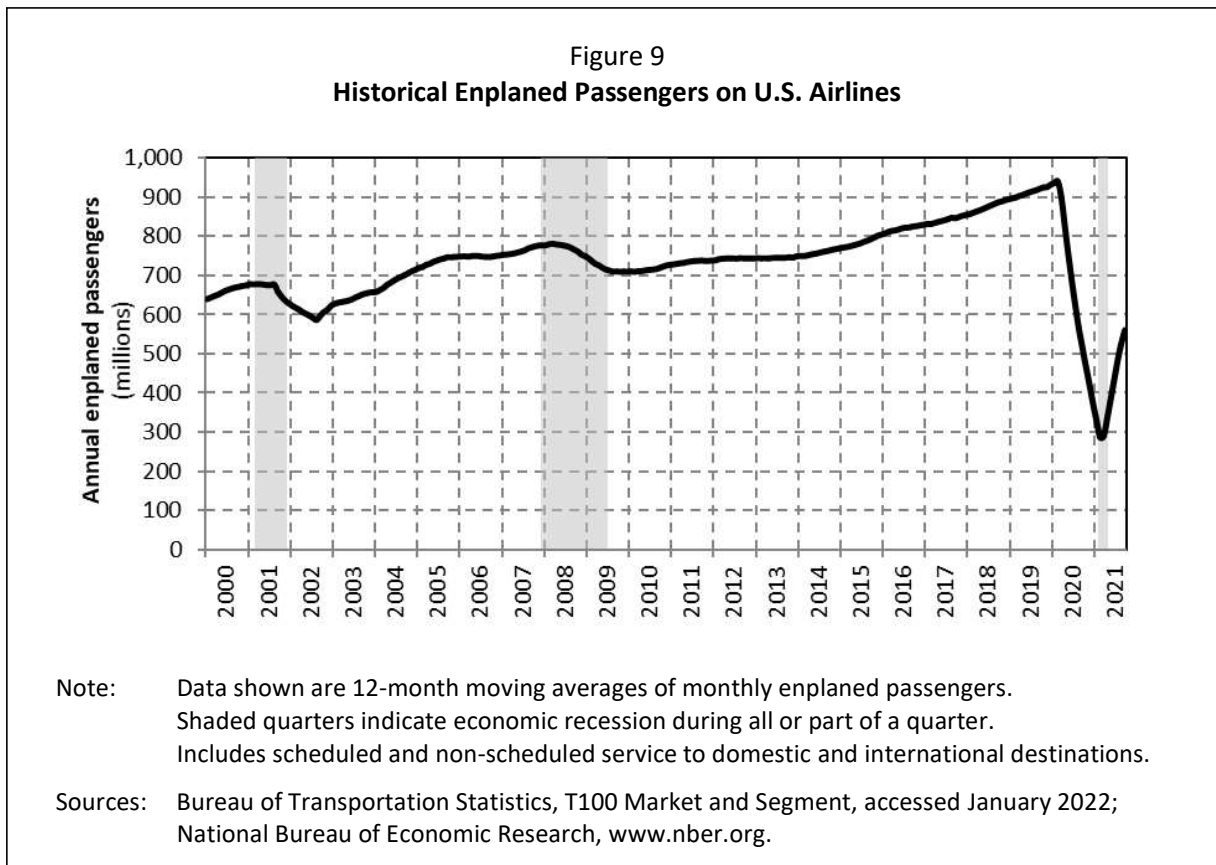
Inevitably, some of the costs required to reduce greenhouse gas emissions and combat climate change will be passed on to passengers in the form of higher fares or surcharges, and thereby inhibit airline travel demand.

National Economic Conditions

Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. As illustrated in Figure 9, recessions in the U.S. economy in 2001, 2008-2009, and 2020, and associated high unemployment reduced discretionary income and airline travel demand.

The 2020 economic recession brought about by the COVID-19 pandemic and the related government actions to slow the spread of the disease discussed earlier was relatively short-lived but caused the largest ever decrease in U.S. GDP—a decrease of 31.4% in the second quarter of 2020, with an associated sharp increase in unemployment. The second quarter decrease was followed by strong GDP growth in the third and fourth quarters of 2020, with GDP and unemployment in the fourth quarter at close to pre-pandemic levels.

Future increases in passenger traffic at the Airport will depend on national economic growth.



International Economic, Political, Health, and Security Conditions

International passenger traffic at U.S. airports is also influenced by the globalization of business, international trade and tourism, international economics, trade balances, currency exchange rates, government policies, and geopolitical relationships. Concerns about hostilities, terrorist attacks, and other perceived security and public health risks, and associated travel restrictions also affect travel demand to and from particular international destinations from time to time.

Future increases in international passenger traffic will depend partly on global economic growth, a stable and secure international travel environment, and government policies that do not unreasonably restrict or deter travel.

Russia's invasion of Ukraine in February 2022, has caused catastrophic destruction, loss of life, and a humanitarian and refugee crisis in eastern Europe. The invasion prompted the United States, the European Union, and other nations to impose far-reaching economic and financial sanctions that are having calamitous effects on the Russian economy and international trade. The war and sanctions are causing collateral economic disruption far beyond Russia's borders by sending energy and commodity prices soaring, worsening inflation, disrupting international commerce, and slowing economic growth.

The war has caused the closure of airspace over much of eastern Europe and Russia and the suspension of airline service to Russia and other destinations in and near the war zone. The closure of Russian airspace requires some airline flights, particularly between Europe and Asia, to take circuitous flight paths and incur longer flight times and higher fuel costs.

Structural Changes in the Travel Market

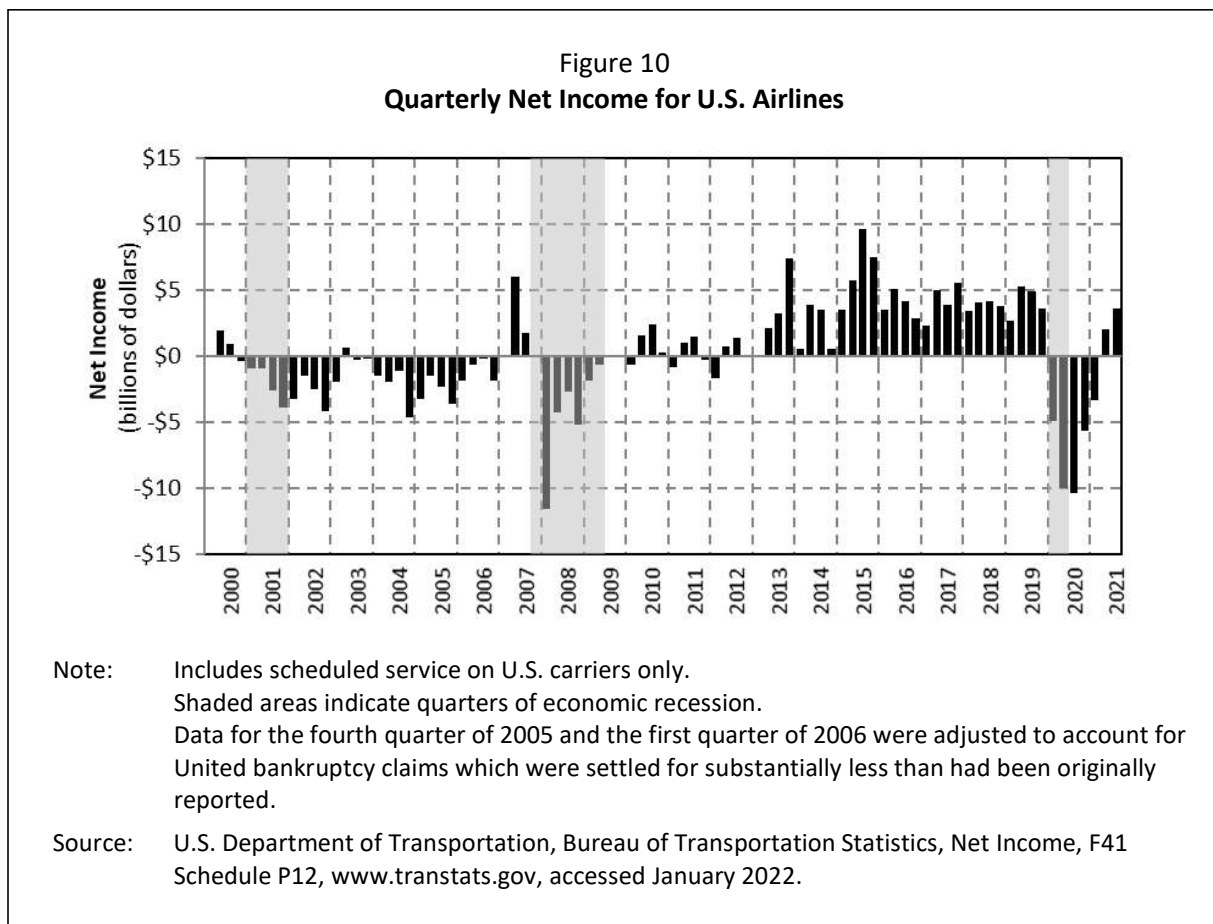
With the globalization of business and the increased importance of international trade and tourism (prior to the onset of COVID-19), international economics, trade balances, currency exchange rates, government policies, and political relationships all influence passenger traffic at major U.S. airports. Concerns about hostilities and other perceived security and public health risks and associated travel restrictions also affect travel demand to and from particular international destinations. Once the economy and the aviation system recover from the effects of the COVID-19 pandemic, it is expected that sustained future increases in passenger traffic at the Airport will once again depend on factors such as global economic growth, stable and secure international conditions, and government policies that do not materially restrict international travel.

Financial Health of the Airline Industry

The number of passengers using the Airport will depend partly on the profitability of the U.S. airline industry and the associated ability of the industry and individual airlines to make the necessary investments to provide service. Figure 10 shows historical net income for U.S. airlines.

As a result of the 2001 economic recession and the disruption of the airline industry that followed the September 2001 terrorist attacks, the industry experienced large financial losses between 2001 and 2006. During this period, Delta, Northwest, United, and US Airways all filed for bankruptcy protection and restructured their operations.

In 2007, the U.S. passenger airline industry was profitable, but in 2008, as oil and aviation fuel prices increased to unprecedented levels and the U.S. economy contracted, the U.S. passenger industry experienced large net losses. The industry responded by grounding less fuel-efficient aircraft, eliminating unprofitable routes and hubs, reducing seat capacity, and increasing airfares.



From 2010 to 2013, after recovery from the 2008-2009 recession, the U.S. passenger airline industry generally recorded positive net income, notwithstanding sustained high fuel prices, by controlling capacity and nonfuel expenses, increasing airfares, achieving high load factors, and increasing ancillary revenues. American filed for bankruptcy protection in 2011.

From 2014 to 2019, the U.S. passenger airline industry reported a succession of profitable years, as fuel prices were low, demand was strong, and control of capacity allowed fares and ancillary charges to remain high, even as agreements between the major airlines and their unionized employees resulted in increased labor costs. In 2015, the industry then achieved record net income of \$26 billion as fuel prices decreased further, demand remained strong, and capacity control allowed average fares and ancillary charges to remain high. Strong industry profitability continued in 2016 through 2018.

Beginning in 2020, reductions in air travel demand caused by the COVID-19 pandemic resulted in unprecedented airline industry losses. In response to the pandemic-induced losses, airlines took various actions to reduce costs and maintain liquidity. Most airlines offered their employees voluntary separation programs whereby employees were provided with severance payments and kept health care and other benefits. Many airlines also accelerated the retirement of older aircraft and deferred the acquisition of new aircraft.

Recovering from the effects of the pandemic and regaining industry profitability will depend on, among other factors, economic growth to support airline travel demand, continued capacity control to enable

increased airfares, stable fuel prices and labor costs, and sufficient numbers of qualified employees, particularly pilots, to provide airline service. ABIA is less susceptible to the potential impacts of an airline bankruptcy due to its relatively low degree of airline concentration compared with many other large U.S. hub airports and its large population and O&D passenger traffic base which would likely be served by other airlines at the Airport if an airline were to cease operations.

Airline Industry Provisions Under the Federal Stimulus Acts

The Coronavirus Aid, Relief, and Economic Security Act, known as the CARES Act, provided for \$50 billion in aid for passenger airlines, including \$25 billion for the Payroll Support Program (PSP) and \$25 billion in loans. Under the PSP, direct grants accounted for 70% of an airline's total support payment, with the remaining 30% made in the form of a loan. PSP funding ended on September 30, 2020. Passenger airlines were also eligible to apply for \$25 billion in loans under the CARES Act.* Several U.S. airlines have received loans under the CARES Act, including Alaska, American, Frontier, Hawaiian, jetBlue, Mesa, Republic, Sky West, and United.** U.S. passenger airlines also offered voluntary separation programs and extended non-paid leave to maintain an appropriately sized workforce in response to the decreased demand for air travel related to the pandemic. Such programs provided employees with the opportunity to voluntarily end their employment in exchange for severance, healthcare coverage, and travel privileges and to voluntarily take extended emergency time off. Several airlines have taken other measures to bolster liquidity, including debt issuances and stock offerings. After the conditions of the CARES Act expired, approximately 32,000 airline employees were furloughed.

In December 2020, a second stimulus package was passed which included an additional \$15 billion in payroll support for passenger airlines. As a condition of the package, airlines had to put furloughed workers back on the payroll through March 2021. The third pandemic relief bill, the ARP enacted in March 2021, includes \$14 billion of aid for airlines, \$8 billion for airports, and \$1 billion for aviation contractors to help them operate normally, limit the spread of the virus, and pay workers and service their debts. In exchange for the aid, airports, contractors and airlines were prohibited from large layoffs through September 2021.

* National Law Review, "Passenger Airlines and U.S. Treasury Department Reach Agreement on CARES Act Payroll Support Program," April 17, 2020, www.natlawreview.com. "In accordance with the CARES Act, all aid recipients must use the payroll support payments exclusively to cover the cost of payroll and benefits. Each passenger airline must comply with the required terms and conditions of the CARES Act, such as (1) refraining from imposing involuntary furloughs on US-based employees or reducing employee pay or benefits through September 30; (2) maintaining certain limitations on executive compensation through March 24, 2022; (3) suspending the payment of dividends or other distributions and cease stock buybacks through September 30, 2021; and (4) continuation of service as is reasonable and practicable under Department of Transportation regulations."

** Congressional Research Service, "Treasury and Federal Reserve Financial Assistance in Title IV of the CARES Act (P.L. 116-136)", updated January 6, 2021.

Airline Service and Routes

The Airport serves as a gateway to the MSA. The number of originating passengers at the Airport depends primarily on the intrinsic attractiveness of the region as a business and leisure destination, the propensity of its residents to travel, and the airfares and service provided at the Airport and at other competing airports. Although passenger demand at an airport depends primarily on the population and economy of the region served, airline service and the numbers of passengers enplaned also depend on the route networks of the airlines serving that airport.

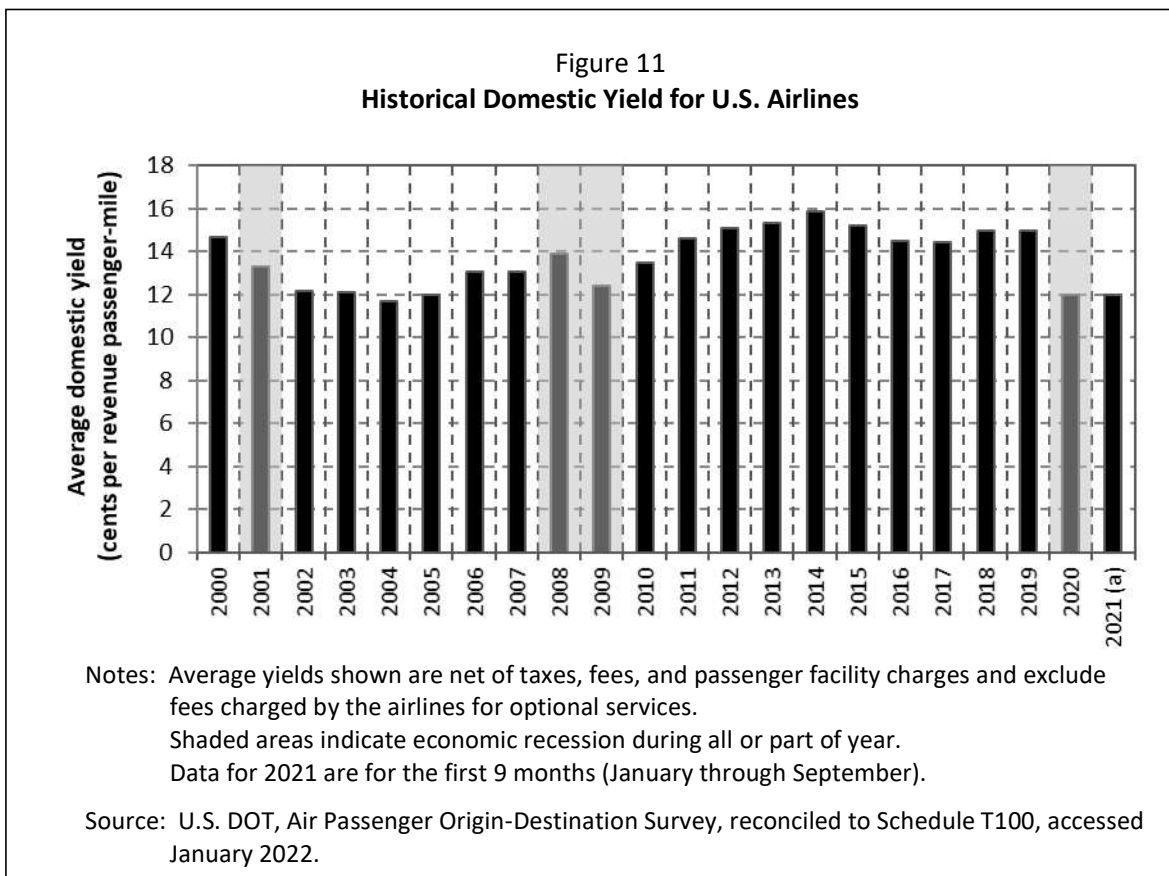
The large airlines have developed hub-and-spoke systems that allow them to offer high-frequency service to many destinations. Because most connecting passengers have a choice of airlines and intermediate airports, connecting traffic at an airport depends primarily on the route networks and flight schedules of the airlines serving that airport and competing hub airports. Since 2003, as the U.S. airline industry consolidated, airline service has been reduced at many former connecting hub airports, including those serving St. Louis (American, 2003-2005), Dallas-Fort Worth (Delta, 2005), Pittsburgh (US Airways, 2006-2008), Las Vegas (US Airways, 2007-2010), Cincinnati (Delta, 2009-2012), Memphis (Delta, 2011-2013), and Cleveland (United, 2014).

Airline Competition and Airfares

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

Figure 11 shows the historical average domestic yield (airfare per passenger-mile) for U.S. airlines. After the 2008-2009 recession, the average yield then increased through 2014 as airline travel demand strengthened, the airlines collectively reduced available seat capacity, and were able to sustain airfare increases. Between 2014 and 2016, the average yield was reduced as a result of airline competition, and, through 2019 was fairly stable. The average yield decreased in 2020 and 2021 as travel demand was depressed during the pandemic.

Beginning in 2006, ancillary charges were introduced by most airlines for optional services such as checked baggage, preferred seating, in-flight meals, and entertainment; thereby increasing the effective price of airline travel more than these yield figures indicate.



Airline Consolidation and Alliances

In response to competitive pressures, the U.S. airline industry has consolidated. Among the significant mergers and combinations were:

- In April 2001, American completed an acquisition of failing Trans World Airlines
- In September 2005, US Airways and America West Airlines merged
- In October 2009, Republic Airways Holdings completed purchases of Frontier and Midwest airlines
- In December 2009, Delta and Northwest merged
- In October 2010, United and Continental completed a merger
- In May 2011, Southwest completed its acquisition of AirTran, and integrated operations in 2014
- In December 2013, American and US Airways completed their merger and have maintained all hubs in the combined system
- In December 2016, Alaska Air Group, parent of Alaska Airlines, and Virgin America Airlines completed their merger. The merged airline received a single operating certificate from the FAA in January 2018, moved to a single reservations system and rebranded as Alaska Airlines on April 25, 2018, and retired the Virgin America brand in June 2019.

In February 2022, Spirit and Frontier announced plans to merge, which would create the nation's fifth largest airline by enplaned passengers. In April 2022, JetBlue made an unsolicited offer to acquire Spirit, which would likewise create the nation's fifth largest airline. JetBlue's offer is under

consideration by Spirit's board. Either the announced Frontier-Spirit merger or any JetBlue-Spirit merger is subject to approval by the U.S. DOT and Justice Department and will be scrutinized for its potential effects on competition and airfares.

This consolidation has resulted in four airlines (American, Delta, Southwest, and United) and their regional affiliates now accounting for approximately 80% of domestic seat-mile capacity. Consolidation contributed to pre-pandemic airline industry profitability; however, any resumption of financial losses could cause U.S. airlines to seek bankruptcy protection or liquidate. The liquidation of any of the large network airlines could drastically affect airline service at certain connecting hub airports, and change airline travel patterns nationwide. As a primarily O&D airport, it is expected that in the unlikely event any of the large network carriers liquidated, the air service provided by such airline at ABIA would be eventually replaced by another airline.

Alliances, joint ventures, and other marketing arrangements provide airlines with many of the advantages of mergers. Alliances typically involve marketing, code sharing, and scheduling arrangements to facilitate the transfer of passengers between the airlines. Joint ventures involve even closer cooperation and the sharing of costs and revenues on designated routes. Most of the largest U.S. airlines are members of such alliances with foreign-flag airlines.

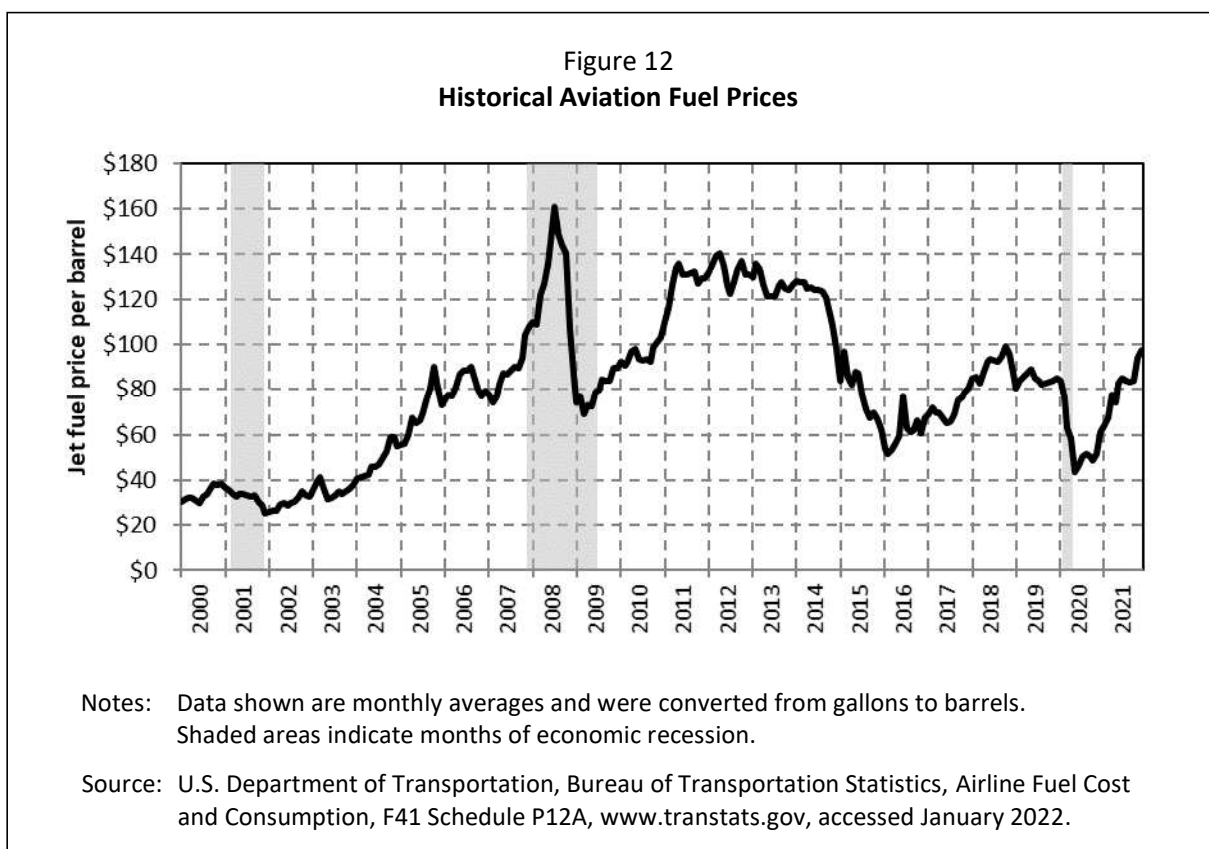
Availability and Price of Aviation Fuel

The price of aviation fuel is a critical and uncertain factor affecting airline operating economics. Figure 12 shows the historical fluctuation in fuel prices caused by the many factors influencing the global demand for and supply of oil.

Between early 2011 and mid-2014, fuel prices were relatively stable, partly because of increased oil supply from U.S. domestic production made possible by the hydraulic fracturing of oil-bearing shale deposits and other advances in extraction technologies.

Beginning in mid-2014, an imbalance between worldwide supply and demand resulted in a precipitous decline in the price of oil and aviation fuel through the end of 2015. Fuel prices then increased but the average price of aviation fuel at the end of 2019 was still approximately 30% below the price at mid-2014.

As the pandemic drastically reduced the demand for aviation fuel in early 2020, the price of aviation fuel fell sharply, before rebounding in 2021 as pandemic restrictions were eased, economies recovered, and demand exceeded supply. The economic disruption and sanctions resulting from the Russian invasion and war on Ukraine exacerbated the worldwide imbalance of demand and supply and caused a spike in oil and aviation fuel prices. Higher fuel prices have a negative effect on airline profitability as well as far-reaching implications for the global economy. Any costs associated with higher fuel prices that are passed on to passengers in the form of higher fares or surcharges could inhibit airline travel demand.



Aviation Safety and Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions influence passenger travel behavior and airline travel demand. Anxieties about the safety of flying and the inconveniences and delays associated with security screening procedures, COVID-19 testing, and vaccination requirements, lead to both the avoidance of travel and the switching from air to surface modes of transportation for short trips. Quarantine requirements and other restrictions create additional impediments for international travelers.

Safety concerns in the aftermath of the September 2001 attacks were largely responsible for the steep decline in airline travel nationwide in 2002. Since 2001, government agencies, airlines, and airport operators have upgraded security measures to guard against changing threats and maintain confidence in the safety of airline travel. Measures have included strengthened aircraft cockpit doors, increased presence of armed sky marshals, federalization of airport security under the TSA, and more intensive screening of passengers and baggage. The TSA has introduced “pre-check” service to expedite the screening of passengers who have submitted to background checks. At ABIA, the system known as CLEAR is also available for expedited passenger screening.

Following fatal crashes of B-737 MAX aircraft caused by the malfunction of the aircraft’s automated flight control system, all B-737 MAX aircraft were grounded in March 2019. Among North American airlines, Air Canada, American, Southwest, United, and WestJet were affected. At the time of the grounding, B-737 MAX aircraft accounted for approximately 1.5% of U.S. airline seat capacity and less

than 1.0% of seat capacity at the Airport. In November 2020, following the approval of modifications to the flight control system software and pilot training, FAA rescinded its order grounding the aircraft, allowing it gradually to be reintroduced into service.

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

Capacity of the National Air Traffic Control System

Demands on the national air traffic control system have, in the past, caused delays and operational restrictions affecting airline schedules and passenger traffic. The FAA is gradually implementing its Next Generation Air Transport System (NextGen) air traffic management programs to modernize and automate the guidance and communications equipment of the air traffic control system and enhance the use of airspace and runways through improved air navigation aids and procedures. Since 2007, airline traffic delays have decreased because of reduced numbers of aircraft operations (down approximately 15% between 2007 and 2018), but, as airline travel increases in the future and recovers from the impact of the COVID-19 pandemic, flight delays and restrictions may be expected.

Capacity of the Airport

In addition to any future constraints that may be imposed by the capacity of the national air traffic control and national airport systems, future growth in airline traffic at ABIA will depend on the provision of capacity to accommodate aircraft flights and passengers. The projections presented later in this section were based on the assumption that neither available airfield capacity nor demand management initiatives will constrain traffic growth at the Airport. Furthermore, it is assumed that the projected increases in enplaned passengers can be accommodated by existing terminal capacity in conjunction with the capital improvements planned through the end of the projection period (i.e., the 2022-2028 Project, including the projects planned to be funded with proceeds of the 2022 Bonds).

AIRLINE TRAFFIC PROJECTIONS

The projections of airline traffic at the Airport through FY 2028 were developed based on the economic outlook for the MSA, trends in historical airline traffic, and key factors likely to affect future airline traffic, all as discussed earlier in this Report. The forecast for the Airport included in the FAA's most recent *Terminal Area Forecast (TAF)*, issued in May 2021, was also reviewed.

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

The aviation activity projections for the Airport were developed based on the assumptions that:

- The U.S. economy will experience sustained growth in GDP averaging between 2.0% and 2.5% per year, an average rate of GDP growth generally consistent with that projected by the Congressional Budget Office.
- Population and employment in the MSA will increase at a faster rate than the United States as a whole.
- Demand for passenger travel to and from the MSA will remain strong based on the strength of the local economy, population growth, and the region's relative attractiveness as a tourism, business, and convention destination.
- The Airport will continue to be primarily an origin-destination airport and the small percentage of passengers connecting at the Airport will not change materially.
- Airlines will add service to meet travel demand at the Airport and competition among airlines will ensure competitive airfares for flights from the Airport.
- International travel restrictions will ease over time, notwithstanding temporary setbacks due to potential future COVID-19 variants which are impossible to predict with certainty.
- Future variants of COVID-19 will have less disruptive effects on air travel, as population vaccinations become increasingly widespread.
- Certain categories of air travel will not recover completely, e.g., some portion of business travel will be replaced permanently by online videoconferencing.
- A generally stable international political environment and safety and security precautions will ensure airline traveler confidence in aviation without imposing unreasonable inconveniences.
- There will be no major disruption of airline service or airline travel behavior as a result of international hostilities, terrorist acts or threats, efforts to combat climate change, or government policies restricting or deterring travel.

Base Projections

FY 2021 total enplaned passengers at the Airport equaled 5.2 million, a 10.3% increase from the 4.7 million enplaned in FY 2020, but still 38.5% below the 8.5 million enplaned in FY 2019, pre-pandemic. In FY 2022, enplaned passengers are projected to nearly double, to 10.0 million. The projection considers robust growth in actual enplanements, up 207% year-over-year in the first 3 months of FY 2022, and advance published airline flight schedules that indicate substantial increases in airline capacity at the Airport during the remainder of FY 2022. It must be noted, however, that such advance published flight schedules are always subject to change and could be reduced in the face of insufficient air travel demand.

Table 10 presents the base projections of enplaned passengers through FY 2028. It also shows base projections of departing flights and aircraft landed weight, which were derived from the passenger projections using assumed trends in average seat occupancy, aircraft seat capacity, and aircraft size.

The number of enplaned passengers at the Airport is projected to increase from 10.0 million in FY 2022 to 12.4 million in FY 2028 in the base case projections, or an average of 3.7% per year. This is lower than the 4.5% average annual growth rate at the Airport between 2000 and 2019. In its *Terminal Area Forecast*, the FAA forecasts 11.1 million enplaned passengers in FY 2028, albeit increasing from a significantly lower base in FY 2022.

High and Low Sensitivity Projections

High and low sensitivity projections of enplaned passengers, departing flights, and aircraft landed weight were developed to test the Airport's financial results against stronger or weaker growth in airline traffic during the projection period. In FY 2028, the number of enplaned passengers in the high sensitivity projection is approximately 15% higher than in the base projection, while in the low sensitivity projection it is approximately 15% lower.

Table 11 and Table 12 present the low sensitivity projections and the high sensitivity projections, respectively. Figure 13 graphically depicts the full range of enplaned passenger projections, as well as the FAA TAF.

Table 10
AIRLINE TRAFFIC PROJECTION – BASE PROJECTION
 Austin-Bergstrom International Airport
 Fiscal Years ended September 30

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

	Actual			Projection							CAGR	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-'28	2022-'28
Enplaned passengers												
Domestic	8,220	4,622	5,146	9,675	10,225	10,625	10,975	11,275	11,575	11,875	4.2%	3.5%
International	<u>245</u>	<u>101</u>	<u>62</u>	<u>275</u>	<u>350</u>	<u>400</u>	<u>425</u>	<u>450</u>	<u>475</u>	<u>500</u>	8.3	10.5
Total	8,465	4,724	5,208	9,950	10,575	11,025	11,400	11,725	12,050	12,375	4.3	3.7
Annual % increase/decrease												
Domestic	9.1%	(43.8%)	11.3%	88.0%	5.7%	3.9%	3.3%	2.7%	2.7%	2.6%		
International	17.4	(58.6)	(38.7)	343.3	27.3	14.3	6.3	5.9	5.6	5.3		
Total	9.4	(44.2)	10.3	91.1	6.3	4.3	3.4	2.9	2.8	2.7		
Departing flights												
Annual % increase/decrease	71,247	50,076	53,021	89,760	93,225	94,965	96,090	96,720	97,335	97,940	3.6%	1.5%
	4.7%	(29.7%)	5.9%	69.3%	3.9%	1.9%	1.2%	0.7%	0.6%	0.6%		
Aircraft Landed Weight (millions of pounds)												
Annual % increase/decrease	9,899	7,014	7,195	12,217	12,809	13,173	13,457	13,674	13,891	14,108	4.0%	2.4%
	6.6%	(29.1%)	2.6%	69.8%	4.8%	2.8%	2.2%	1.6%	1.6%	1.6%		

Note: Includes passenger and all-cargo airlines.

Sources: Actual – City of Austin, Department of Aviation records.
 Projections – LeighFisher, February 2022.

Table 11
AIRLINE TRAFFIC PROJECTION – LOW SENSITIVITY
 Austin-Bergstrom International Airport
 Fiscal Years ended September 30

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

	Actual			Projection							CAGR	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-'28	2022-'28
Enplaned passengers												
Domestic	8,220	4,622	5,146	8,865	9,175	9,380	9,560	9,740	9,920	10,100	2.3%	2.2%
International	<u>245</u>	<u>101</u>	<u>62</u>	<u>260</u>	<u>325</u>	<u>345</u>	<u>365</u>	<u>385</u>	<u>405</u>	<u>425</u>	6.3	8.5
Total	8,465	4,724	5,208	9,125	9,500	9,725	9,925	10,125	10,325	10,525	2.5	2.4
Annual % increase/decrease												
Domestic	9.1%	(43.8%)	11.3%	72.3%	3.5%	2.2%	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%
International	17.4	(58.6)	(38.7)	319.2	25.0	6.2	5.8	5.5	5.2	4.9	4.9	4.9
Total	9.4	(44.2)	10.3	75.2	4.1	2.4	2.1	2.0	2.0	1.9	1.9	1.9
Departing flights												
Annual % increase/decrease	71,247	50,076	53,021	83,420	85,650	86,255	86,865	87,470	87,940	88,540	2.4%	1.0%
Aircraft Landed Weight (millions of pounds)	9,899	7,014	7,195	11,257	11,578	11,682	11,787	11,892	11,979	12,084	2.2%	1.2%
Annual % increase/decrease	6.6%	(29.1%)	2.6%	56.5%	2.8%	0.9%	0.9%	0.9%	0.7%	0.9%	0.9%	0.9%

Note: Includes passenger and all-cargo airlines.

Sources: Actual – City of Austin, Department of Aviation records. Projections – LeighFisher, February 2022.

Table 12
AIRLINE TRAFFIC PROJECTION – HIGH SENSITIVITY
 Austin-Bergstrom International Airport
 Fiscal Years ended September 30

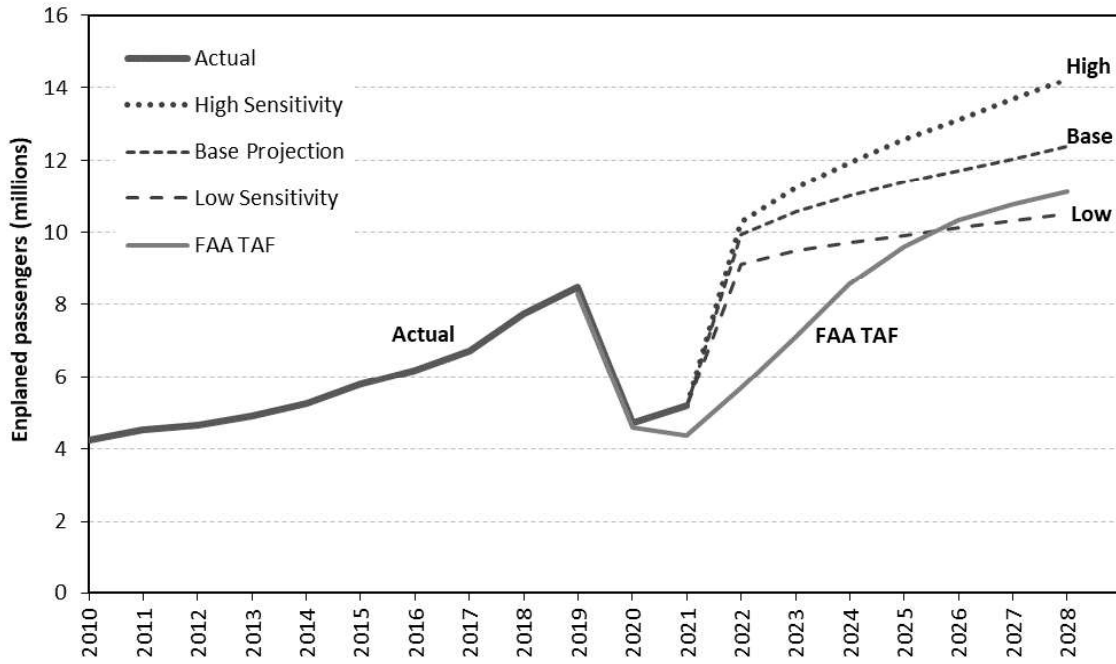
The projections presented in this figure were prepared using the information and assumptions described in the accompanying text. Inevitably, some of the assumptions will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from the projections,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

	Actual			Projection							CAGR	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-'28	2022-'28
Enplaned passengers												
Domestic	8,220	4,622	5,146	10,010	10,870	11,500	12,090	12,610	13,130	13,650	5.8%	5.3%
International	<u>245</u>	<u>101</u>	<u>62</u>	<u>290</u>	<u>380</u>	<u>450</u>	<u>485</u>	<u>515</u>	<u>545</u>	<u>575</u>	10.0	12.1
Total	8,465	4,724	5,208	10,300	11,250	11,950	12,575	13,125	13,675	14,225	5.9	5.5
Annual % increase/decrease												
Domestic	9.1%	(43.8%)	11.3%	94.5%	8.6%	5.8%	5.1%	4.3%	4.1%	4.0%		
International	17.4	(58.6)	(38.7)	367.5	31.0	18.4	7.8	6.2	5.8	5.5		
Total	9.4	(44.2)	10.3	97.8	9.2	6.2	5.2	4.4	4.2	4.0		
Departing flights	71,247	50,076	53,021	92,810	98,605	102,045	104,635	106,525	108,375	110,055	5.0%	2.9%
Annual % increase/decrease	4.7%	(29.7%)	5.9%	75.0%	6.2%	3.5%	2.5%	1.8%	1.7%	1.6%		
Aircraft Landed Weight (millions of pounds)	9,899	7,014	7,195	12,628	13,583	14,234	14,778	15,232	15,687	16,123	5.6%	4.2%
Annual % increase/decrease	6.6%	(29.1%)	2.6%	75.5%	7.6%	4.8%	3.8%	3.1%	3.0%	2.8%		

Note: Includes passenger and all-cargo airlines.

Sources: Actual – City of Austin, Department of Aviation records.
 Projections – LeighFisher, February 2022.

Figure 13
ENPLANED PASSENGER PROJECTIONS
 Austin-Bergstrom International Airport
 Fiscal Years ended September 30



Sources: Actual – City of Austin, Department of Aviation records.
 Projections – LeighFisher, February 2022; FAA TAF, issued May 2021.

CAPITAL IMPROVEMENT PROGRAM

The CIP for ABIA encompasses the AEDP as well as a range of other projects around the Airport, primarily related to the replacement and rehabilitation of existing Airport facilities. The AEDP represents the substantial majority of the Airport's CIP through FY 2028. In addition to the AEDP, the CIP also encompasses a range of other projects around the Airport, primarily related to the replacement and rehabilitation of existing Airport facilities. The AEDP and other Airport improvements included in the CIP through Fiscal Year 2028 are referred to collectively in this Report as the 2022-2028 Project.

The 2022-2028 Project will be funded from a range of funding sources including Bonds previously issued by the City, the proposed 2022 Bonds, planned Future Bonds, grants, PFCs on a pay-as-you-go basis, and Airport funds. The CIP is summarized in the following sections. Estimated project cash flow and funding sources for the CIP are shown in Exhibit A-1 and Exhibit A-2. In total the AEDP as described in this Report and summarized in Exhibit A-1 and Exhibit A-2 totals \$1.97 billion.

AIRPORT EXPANSION AND DEVELOPMENT PROGRAM

The AEDP is intended to increase capacity at the Airport using a strategic approach, including optimizing the existing Barbara Jordan Terminal and enabling future Airport expansion with utilities, airfield, and terminal infrastructure. The AEDP is intended to address the rapidly increasing aviation activity trends that were evident at the Airport before the onset of the pandemic; such trends are expected to once again be exhibited as the impact of the pandemic recedes over time. In particular, the AEDP is structured to provide a significant number of new aircraft gates and parking positions to what is currently a gate constrained facility.

The AEDP includes the following key elements:

- Optimizing the Barbara Jordan Terminal (BJT) by adding new aircraft gates and making related passenger processing improvements
- Building a new centralized baggage handling system
- Building a new midfield Concourse B facility with 10 or more gates, including associated airfield infrastructure

For purposes of managing the AEDP, the City has grouped the AEDP projects into a number of categories, as follows:

- **AEDP-A** refers to the improvements occurring in the immediate term, including the BJT optimization, installation of a new baggage handling system, and associated improvements
- **AEDP-B** refers to airfield, utilities and infrastructure projects that enable the development of the new Concourse B
- **AEDP-C** refers to the new Concourse B, related apron improvements, a passenger and utility tunnel connecting the Concourse B to the BJT, and a hydrant fueling system for Concourse B
- **AEDP-D** refers to a new arrivals and departures hall in the BJT, terminal curbside roadway reorientation and realignment, a new parallel taxiway, and utility infrastructure
- **AEDP-MC** refers to architectural and engineering, program management, and environmental and sustainability management for the overall AEDP

- **AEDP-S/E** and **AEDP-U** refers to other miscellaneous projects around the Airport

The 2022-2028 Project as defined herein assumes that all of the projects within categories AEDP-A and AEDP-B are built between FY 2022 and FY 2028, as well as a majority of the projects within the AEDP-C category. The majority of AEDP-D is excluded, as it refers to a phase of the program that will not be operational by FY 2028. A pro rata share of spending under category AEDP-MC is included, and portions of both AEDP-S/E and AEDP-U are included, depending on the timing of implementation of those projects.

The following are the key elements of the AEDP, by category:

AEDP-A

- **Existing Terminal Centralized Baggage Handling System:** Design and construction of a new centralized baggage handling system (BHS) to increase screening capacity, address existing operational concerns, and upgrade capacity to 22 million annual passenger processing capability. Includes improvements to facility ticketing, security, and other infrastructure. (Total cost: \$181.6 million, of which \$95.0 million is proposed to be funded from 2022 Bond proceeds.)
- **Barbara Jordan Terminal Optimization:** Design and construction of improvements to the BJT. Project includes holdrooms, passenger boarding bridges, and service infrastructure needed for passenger comfort, health, and safety. (Total cost: \$85.2 million, of which \$84.7 million is proposed to be funded from 2022 Bond proceeds.)
- **Interim Ground Loading at the BJT:** Design and construction of passenger ground-load facilities for busing at the east-end of the BJT in the vicinity of Gate 11 and Gate 13. Includes facility, remote gate infrastructure, passenger security checkpoint improvements and other required infrastructure. (Total cost: \$17.0 million, all of which is proposed to be funded from 2022 Bond proceeds.)

AEDP-B

- **South Campus Stormwater Infrastructure:** Stormwater Master Plan for the south and west sides of the Airport to support the 2030 activity levels and beyond. Preliminary drainage design for Taxiways H and J, Concourse B and the apron. Permitting support and Development Ordinance update. (Total cost: \$5.6 million, of which \$5.1 million is proposed to be funded from 2022 Bond proceeds.)
- **PFAS Long-Term Management:** This project will help the Airport determine how and where to store PFAS (Perfluoroalkyl) contaminated soil currently stored in a temporary location and the quantities expected to be excavated from the airfield during construction of facility. (Total cost: \$10.0 million, of which \$9.7 million is proposed to be funded from 2022 Bond proceeds.)
- **AEDP Airfield Infrastructure and Building Demolitions:** Demolition of old buildings and infrastructure and south buildings to reduce physical and environmental risks, remove potential hazards from the airfield, and enable taxiway improvements. Design and construction of new concrete cross-midfield taxiways and roadways for access to the new midfield Concourse B and efficient access between runways. (Total cost: \$168.3 million, of which \$78.7 million is proposed to be funded from 2022 Bond proceeds.)

- **Utility Infrastructure Airside and South Campus:** South Campus and airside utility infrastructure design and construction. (Total cost: \$200.0 million, of which \$23.7 million is proposed to be funded from 2022 Bond proceeds.)
- **New Central Utility Plant (CUP B) for Concourse B:** Design and construction of a new, rehabilitated, or expanded central utility plant to provide the required chilling and heating capacity for expansion projects at the Airport including Concourse B. (Total cost: \$65.0 million, of which \$5.0 million is proposed to be funded from 2022 Bond proceeds.)

AEDP-C

- **Concourse B – 10 or more gates:** Design and construction of a new midfield terminal (Concourse B) to accommodate increased airline and passenger traffic. Project will include new apron and facility equipment to support 10 or more gates. (Total cost: \$541.1 million, of which \$2.5 million is proposed to be funded from 2022 Bond proceeds.)
- **Concourse B Apron and Airfield Connections:** Design and construction of airfield improvements to support new airfield geometry for safe and efficient aircraft movement, separate from the construction of Concourse B. Includes North and South airfield connections to Taxiways H and J. (Total cost: \$113.6 million, none of which is proposed to be funded from 2022 Bond proceeds.)

AEDP-D

- **Passenger and Utility Tunnel:** Design and construction of a new Passenger Conveyance and Utility Tunnel to Concourse B from the existing BJT. (Total cost: \$448.0 million, of which \$16.0 million is proposed to be funded from 2022 Bond proceeds.)
- **Hydrant Fueling System for Concourse B:** A hydrant fueling system to be installed during apron and new Concourse B construction. It is assumed that an Aircraft Consortium or similar entity would fund this project. (Total cost: \$3.0 million, none of which is proposed to be funded from 2022 Bond proceeds.)
- **New Parallel Taxiway D:** Build a new taxiway parallel to Runway 17R running from North to South. This taxiway would replace Taxiway C. (Total cost: \$1.4 million, none of which is proposed to be funded from 2022 Bond proceeds.)
- **Utility Infrastructure Curbside and North Campus:** Design and construction of major utilities to support campus development on the north, curbside, and landside areas. Project may include a reoriented utility corridor, drainage easements, grease traps, and related infrastructure. (Total cost: \$37.0 million, none of which is proposed to be funded from 2022 Bond proceeds.)
- **Curbside Roadway Reorientation for Terminal Expansion:** Design and construction of a new curbside roadway to service arriving and departing passengers and commercial vehicles to support an expanded BJT Arrival and Departure Hall. (Total cost: \$120.9 million, of which \$61,221 is proposed to be funded from 2022 Bond proceeds.)

AEDP-MC, AEDP-S/E, and AEDP-U

- **AEDP Professional Services and Other Miscellaneous Projects:** Environmental and sustainability management, program management, architectural and engineering services,

and other miscellaneous projects associated with the AEDP. (Total cost: \$47.5 million, of which \$13.9 million is proposed to be funded from 2022 Bond proceeds.)

OTHER CAPITAL IMPROVEMENTS

Other Airport renewal, replacement, and upgrade needs included in the CIP (which are not part of the AEDP) are planned to total \$149.3 million over the six-year period FY 2022 to FY 2028, or an average of \$21.3 million per year. Less than \$2 million of costs for these projects are proposed to be funded with 2022 Bond proceeds. Airport staff expects that this amount will be reduced during the next capital planning cycle.

These improvements will span most Airport cost centers, with the majority of the spending in the airfield, terminal, and parking cost centers.

FINANCIAL ANALYSIS

FRAMEWORK FOR AIRPORT FINANCIAL OPERATIONS

Revenue Bond Ordinances

The financial operations of the Airport are governed, in large part, by the Revenue Bond Ordinances, under the provisions of which all outstanding and future Revenue Bonds, including the proposed 2022 Bonds and the planned Future Bonds are to be secured by a first lien and pledge of Net Revenues.

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

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

In connection with the issuance of the 2022 Bonds, LeighFisher expects to provide an "Additional Bonds Test Report" on the closing date for the 2022 Bonds in accordance with Section 6.01 of the Revenue Bond Ordinances. The Additional Bonds Test Report will take into account the 2022 Bonds, but not any future issuance of Bonds the City may undertake during the projection period.

Airline Agreement

Effective the beginning of FY 2010, the City executed an Airport Use and Lease Agreement (the Airline Agreement) with Signatory Airlines that collectively accounted for approximately 95% of enplaned passengers at the Airport in FY 2021. An amendment to the Airline Agreement has been executed by each of the Signatory Airlines, extending the term of the Agreement through September 30, 2023. If the current Airline Agreement is not extended beyond September 30, 2023, the rates and charges for the airlines are expected to be determined by a City ordinance. The City and the airlines are currently in negotiations to create a successor Airline Agreement, and the City has indicated that it is committed to having a new agreement in place by October 1, 2023.

As described in the later sections "Landing Fees" and "Airline Terminal Rentals and Fees," the current Airline Agreement provides for the calculation of Signatory Airline rentals, fees, and charges according to cost-recovery principles. Other airlines operate at the Airport under Airline Lease and Operating Agreements (Operating Agreements) that, while not providing Signatory Airline status, provide for the payment of rentals, fees, and charges at the Signatory Airline rates. Airline revenues presented in this Report were projected on the assumption that the Signatory Airlines and Operating Agreement Airlines will pay rentals, fees, and charges in accordance with the provisions of the Airline Agreement through the projection period.

SOURCES OF FUNDS FOR THE 2022-2028 PROJECT

Exhibit A-2 summarizes estimated funding sources for the 2022-2028 Project as defined in this Report (including the AEDP and other CIP projects expected to be implemented through FY 2028).

Federal Grants-in-Aid

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

In the City's funding plan shown in Exhibit A-1, AIP entitlement and discretionary grants totaling \$40.1 million are assumed to be available for the AEDP.

The City expects to receive additional grant funding under the terms of the federal Bipartisan Infrastructure Law (BIL) related to infrastructure investment which became law in November 2021. During FY 2022, approximately \$17.5 million is expected to be received by the City, and similar amounts are expected annually for the following four fiscal years. No BIL grant funding is included in the projections described in this Report.

Passenger Facility Charge Revenues

The City has approval from the FAA to impose a PFC per eligible enplaned passenger at the Airport. The PFC was imposed at \$3.00 in 1995 and increased to \$4.50 in 2004. Through December 31, 2021, cumulative PFC revenues, including investment earnings, totaled \$454.8 million, of which \$390.2 million had been expended for approved project costs, essentially all to pay Revenue Bond debt service. Under FAA approvals received to date, the City is authorized to continue to impose the PFC and use PFC revenues to pay certain debt service on outstanding bonds. The City's PFC collection and spending authorization as of the date of this Report totals \$831.1 million at the \$4.50 level and is projected to expire on November 1, 2034.

Exhibit F presents historical and projected sources and uses of PFC revenues by year, assuming the continued imposition of a \$4.50 PFC to allow the collections and expenditures shown. The City expects to pay a portion of the debt service on the 2022 Bonds with PFC revenues. The Airport expects to prepare and submit one or more future PFC applications to the FAA to obtain approval for PFC funding of elements of the AEDP. For purposes of this Report it was assumed that those applications would be approved by the FAA.

Capital Fund

As shown in Exhibit A-2, the City plans to use \$283.3 million of amounts accumulated in the Capital Fund to pay certain of the costs of various elements of the 2022-2028 Project. Monies accumulated in the Capital Fund represent the net revenues remaining (see Application of Gross Revenues) after satisfying all other requirements in the Revenue Bond Ordinances.

Revenue Bonds

Project costs not paid from federal grants, PFC revenues, and contributions from the Capital Fund are to be paid from the proceeds of Revenue Bonds. Exhibit B presents the estimated sources and uses of funds from the proposed 2022 Bonds, and four planned Future Bond issuances (in 2024, 2026, 2027, and 2028). Financing assumptions, as provided by PFM Financial Advisors LLC, the City's independent registered municipal advisor, are shown in Exhibit B.

Additionally, previously issued Bond proceeds are available to be applied to AEDP projects (\$77.5 million) and other CIP projects (\$10.3 million).

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

Revenue Bond Debt Service Requirements

Exhibit C presents Debt Service Requirements (amounts to be accrued for the Fiscal Years ended September 30) for outstanding Revenue Bonds, the proposed 2022 Bonds, and the planned Future Bonds. Debt Service Requirements are allocated to Airport cost centers in accordance with the provisions of the Airline Agreement.

Seven series of Revenue Bonds are now outstanding. The 2013 Bonds were issued to fund various Airport improvements. The 2014 Bonds were issued to fund various Airport improvements, including the Terminal East Infill project and certain construction and design costs for the Terminal and Apron Expansion Project and design costs of the new automobile parking garage. The 2017A and 2017B Bonds were issued to pay portions of the construction costs of the new parking garage, associated roadway work, and the East Concourse Expansion. The 2019 Refunding Bonds were issued to fully refund the 2005 Refunding Bonds. The 2019A and 2019B Bonds were issued to fund the costs of landside and airfield improvements, including completion of a new automobile parking garage, completing the expansion of the passenger terminal and making other improvements including new maintenance and IT facilities, a centralized baggage handling system, and a new administration building.

OPERATION AND MAINTENANCE EXPENSES

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

Exhibits D-1 and D-2 present Operation and Maintenance Expenses by function and by cost center. Data for FY 2019 through FY 2021 are from the City's annual *Rates and Charges Reconciliation* reports, and data for FY 2022 are from the *FY 2022 Rates and Charges Budget* report. Expenses are allocated to cost centers in accordance with the provisions of the Airline Agreement.

The projected Operation and Maintenance Expenses shown in Exhibits D-1 and D-2 were based on FY 2022 budgeted figures and Airport management's expectations for FY 2023, and account for

increases in unit costs resulting from inflation, projected aircraft and passenger activity, and planned Airport development.

For the purposes of this Report, the following assumptions were made:

- A 10% increase in Operations and Maintenance Expenses for FY 2023 was assumed based on Airport management's expectations.
- The unit costs of salaries, wages, benefits, materials, services, and supplies will increase an average of approximately 3.0% per year due to inflation.
- In addition to inflation-related increases, the costs of operating, maintaining, and administering airfield, terminal, and other Airport facilities will increase as a function of the projected passenger and aircraft activity documented in the earlier section, "Airline Traffic Projections." A real (net of inflation) increase of 1% per year was assumed, giving an overall increase of 4.0% increase in operating expenses.
- As new facilities are completed as part of the AEDP, additional expenses will be incurred. Specifically, it was assumed that operating expenses would increase by \$25 million per year in FY 2028 when the new midfield Concourse B opens for service.

REVENUES

Exhibit E presents Gross Revenues. Data for FY 2019 through FY 2021 are from the City's annual *Rates and Charges Reconciliation Reports*, and data for FY 2022 are estimated based on Fiscal Year-to-date trends, which is significantly outperforming the City's revenue budget set for FY 2022. The distributions of operating revenues by major category in FY 2019 and FY 2022 are as shown in Table 13.

Table 13
SUMMARY OF OPERATING REVENUES – FY 2019 AND FY 2022
(Dollars in thousands)

	Actual FY 2019		Estimated FY 2022	
	Revenues	Share	Revenues	Share
Airline Revenues				
Landing Fees	\$ 30,827	17.1%	\$ 37,299	18.0%
Terminal Building Rentals & Other	46,398	25.7%	52,492	25.4%
Subtotal	\$ 77,225	42.8%	\$ 89,791	43.4%
Nonairline Revenues				
Terminal Concessions	\$ 19,635	10.9%	\$ 23,482	11.4%
Parking and Ground Transportation	62,837	34.9%	76,814	37.1%
Other	20,592	11.4%	16,751	8.1%
Subtotal	\$103,064	57.2%	\$117,048	56.6%
Total	\$180,289	100.0%	\$206,839	100.0%

Individual components of Gross Revenues shown in Exhibit E were projected, using FY 2022 estimated amounts as the base, accounting for unit price inflation at 3.0% per year, planned terminal and parking developments, and the provisions of the Airline Agreement and other leases and agreements with tenants and users of the Airport.

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

AIRLINE REVENUES

Airline revenues shown in Exhibits E and E-1 are as calculated under the provisions of the Airline Agreement (on the assumption that the provisions of any successor agreement(s) relating to the calculation of rentals, fees, and charges will be substantially the same as those of the Airline Agreement).

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

Airline Cost Centers

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

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

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

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

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

Nonairline Cost Centers

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

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

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

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

Allocation of Requirements to Cost Centers

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

Debt Service: Debt service on outstanding Revenue Bonds and on the proposed 2022 Bonds and planned Future Bonds are allocated in accordance with the project costs funded (as shown in Exhibit C).

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

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

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

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

Landing Fees

Exhibit E-1 shows historical and projected Landing Fees and Signatory Airline landing fee rates per 1,000 pounds of landed weight. Airlines operating under Operating Agreements pay rentals, fees, and charges at the Signatory Airline rates. For the financial projections in this Report, it was assumed that airlines accounting for substantially all landed weight at the Airport will pay Landing Fees at the Signatory Airline rate, which is projected to remain between \$3.05 and \$3.60 per 1000 pounds through FY 2028.

Terminal Rentals and Fees

Terminal Apron Revenues. Exhibit E-1 shows historical and projected Terminal Apron fees and overnight parking fee revenues. Projected revenues remain steady through 2026 when additional Apron space begins coming available as part of the 2022-2028 Project.

Terminal Building Rentals. Exhibit E-1 shows historical and projected Terminal Building rentals and the average terminal rental rate per square foot of leased space. Terminal rentals are projected to increase from approximately \$150 to \$300 per sq. ft. in conjunction with investments

being made to optimize the BJT and addition of Concourse B gates, further resulting in increased airline leasable and projected airline leased space.

Other Terminal Building and Airline Fees. Exhibit E-1 also shows other Terminal Building charges for baggage claim, Terminal Equipment fees, Shared Use revenues, fees for the use of the CBP international arrivals facility (US Customs fees), and a credit for airline service incentives. The City waives certain landing fees and space rentals for airlines providing new airline service under its air service incentive program. For FY 2021, landing fees and terminal rents waived were \$0.3 million and \$0.5 million, respectively. No further incentives are assumed throughout the projection.

Terminal Occupancy. For the purposes of the projection of Terminal Building rentals and other terminal fees shown in Exhibit E-1, it was assumed that the AEDP project will provide approximately 240,000 additional sq. ft. of airline-leasable concourse space to be 100% occupied when the expansion is fully operational in FY 2028.

Airline Payments per Enplaned Passenger

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

NONAIRLINE REVENUES

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

Terminal Concession Revenues

In FY 2021, concessions and other services in the terminals generated 9.9% of total Airport operating revenues. The City has entered into twelve new concession agreements since FY 2018, including agreements with prime concessionaires, with 10-year terms. Two agreements began in the first half of FY 2018, five in the second half of FY 2019 and five more in the first half of FY 2020. The new concession agreements provide for the payment of rent and for payment of concession fees equal to the greater of (1) the minimum annual guaranteed (MAG) concession fee (generally, 85% of Concession Fees due for the immediately preceding full Contract Year -or (2) specified percentages of annual gross receipts (net of taxes and other items) from sales of different categories of products. Certain retail and food and beverage outlets were temporarily closed during the early months of the COVID-19 pandemic, and concessionaires' ability to pay their respective MAGs was severely impacted. The Airport provided \$6.2 million in MAG relief to its concessionaires in FY 2020 and \$6.0 million in FY 2021, including earmarked funds for concessionaires in the CRRSAA.

Food and Beverage. Thirty eight food and beverage outlets are operated in the terminals. In FY 2019 food and beverage concession revenues totaled approximately \$11.8 million, or \$1.39 per enplaned passenger. By FY 2021, food and beverage concession revenues had fallen to \$7.3 million. Approximately \$14.0 million in food and beverage concession revenue is estimated for FY 2022.

Retail. Twenty news, gift, and other retail merchandise concession outlets are operated in the terminals. In FY 2019 retail merchandise concession revenues totaled \$4.5 million, or \$0.54 per enplaned passenger. Though decreasing in FY 2020 to approximately \$3.2 million, retail merchandise concession revenues increased to \$5.6 million in FY 2021 and are estimated at \$5.5 million for FY 2022.

Advertising. Advertising in the terminal is managed by Clear Channel Airports under a concession agreement that provides for concession fees calculated as a percentage of gross revenues against a minimum annual guaranteed amount. In FY 2019, the City received approximately \$2.6 million, or \$0.31 per enplaned passenger, in advertising revenues, falling to \$1.9 million in FY 2021. Advertising revenues are estimated at \$3.1 million for FY 2022.

Passenger Services. Other passenger convenience services from which the City derives revenues include telephone, wireless, ATM, luggage carts, currency exchange, massage, and shoeshine. In FY 2021, the City received \$773,000 in revenues from the providers of such services. Passenger services revenues are estimated at \$896,000 for FY 2022.

Projection Assumptions. It was assumed that terminal concession revenues will increase as a function of inflation and projected increases in numbers of enplaned passengers, with allowances for increased sales per passenger during FY 2023 when additional concession space opens in the expanded terminal.

Parking and Ground Transportation Revenues

Public Parking. As described in the Introduction, the City currently provides approximately 18,000 public parking spaces at the Airport. All Airport public parking facilities and shuttle bus services are provided under a management fee contract with SP Plus Corporation under which SP Plus is reimbursed for operating and maintenance expenses and paid a management fee of approximately \$472,000 million per year. The management fee contract became effective on October 1, 2016, and extends through June 15, 2022.

Additionally, the City and Scott Airport Parking LLC entered into a 30-year public-private partnership arrangement for a multi-phased parking lot and pet hotel with a total of approximately 2,100 spaces. That arrangement requires the developer to pay percentage rent of between 1% and 10% of parking revenue and the greater of a MAG or 1% to 10% of pet hotel gross revenues.

In FY 2019, parking revenues totaled approximately \$41.7 million, or 40.4% of the total Operating Revenues shown in Exhibit E. Included in this amount are privilege fees paid by off-Airport parking operators and parking charges derived from parking spaces provided by the City for Airport and airline employees. Parking revenues fell to \$27.9 million in FY 2021 resulting from the impact of the pandemic.

Parking revenues have recovered and are estimated at \$52.0 million for FY 2022 and were projected in relation to the projected increase in enplaned passengers. No parking rate increases were assumed during the projection period. It was further assumed that parking facilities will continue to be operated under management fee agreements with financial terms substantially the same as the current agreement.

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

(shown in Exhibit E under building and ground rentals). Nine rental car companies operate on Airport under 12 different rental car brands.

In FY 2019, rental car privilege fees from these companies totaled \$14.8 million, falling to \$12.9 million in FY 2021. Rental car revenues have recovered in FY 2022 and are estimated at \$17.4 million. Rental car revenues for FY 2023 forward were projected in relation to the projected increase in enplaned passengers.

On behalf of the City, each on-Airport rental car company collects a customer facility charge (CFC) of \$6.75 per transaction-day. As discussed earlier in this Report, the Rental Car Special Facility Bonds issued to fund construction of the consolidated rental car facility are secured by and payable from revenues derived from the CFC. Under the Revenue Bond Ordinances, CFC revenues are not included in Gross Revenues and are not shown in Exhibit E.

Transportation Network Companies. Since 2017, Transportation Network Companies (TNCs) have been permitted to operate at the Airport, following the passage of state legislation that established statewide operating standards for TNCs. The City has levies a fee of \$2.50 on both pick-ups and drop-offs at the Airport. In FY 2019, the City generated \$5.7 million in TNC trip fees, or \$0.67 per enplaned passenger (falling to \$3.2 million in FY 2021). Projected TNC revenue accounts for increases in enplaned passengers.

Other Ground Transportation Fees. The City collects commercial ground transportation fees from the operators of taxicabs, limousines, and shuttle buses and vans. In FY 2019, such fees totaled approximately \$712,000 (falling to \$475,000 in FY 2021). Other ground transportation fees have recovered in FY 2022 and are estimated at \$896,000. Other ground transportation fees for FY 2023 forward were projected to increase with inflation and enplaned passengers.

Other Revenues

In FY 2021, revenues from various other sources totaled approximately \$20.1 million, including the following:

Fuel Flowage Fees. General and business aviation at the Airport is presently served by three fixed base operators (FBOs), Atlantic Aviation Services, Signature Flight Support, and Million Air. The FBOs collect fuel flowage fees on behalf of the City. In FY 2021, such revenues totaled approximately \$1.1 million, and were projected to increase with inflation. Ground and facility rentals paid by the FBOs are included in Exhibit E with other building and ground rentals.

Fuel Facility Fees. In FY 2021, fuel facility fees (calculated to meet capital recovery requirements of the fuel storage facility) were \$862,000 and were projected to grow with inflation. These facility payments from the airlines are not included in the calculation of airline payments per enplaned passenger.

Cargo Apron and Facility Fees. In FY 2021, aircraft parking fees paid to the City for the use of the apron at the Cargo Port were \$2.8 million and were projected to increase with inflation.

Hotel Fees. A Hilton hotel at the entrance to the Airport provides approximately 260 rooms, restaurants, and meeting facilities. Revenues paid to the City are calculated as approximately 5% of gross hotel receipts.

In 2017, the Hyatt Place Austin Airport hotel opened with 140 rooms. Revenue to the City is derived through ground rent per square foot—with CPI adjustments occurring annually—and 25% of net operating income beyond a target return on investment. In FY 2021, hotel revenues totaled \$460,000. Hotel fees have recovered in FY 2022 and are estimated at \$840,000. Other ground transportation fees for FY 2023 forward were projected to increase with inflation.

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

In FY 2021, revenues from building and ground rentals totaled approximately \$6.4 million and were projected assuming that the provisions of existing leases or other business arrangements (with payments generally increasing with inflation) will continue through the projection period.

South Terminal. For the use of the South Terminal, LoneStar Airport Holdings, LLC pays the Airport an annual rent of \$300,000, plus a sliding scale from 0 to 20% of gross revenues based on enplanements in the South Terminal. LoneStar operates approximately 1,339 spaces in an automobile surface parking lot adjacent to the South Terminal. LoneStar receives concession revenues generated at the South Terminal, airline fees for use of the facility, and a share of rental car revenues earned by the Airport (in proportion to South Terminal enplanements relative to total Airport enplanements). The airline users of the South Terminal pay landing fees at the Signatory rate to the City.

To implement certain future projects consistent with the AEDP, terminating the South Terminal Agreement and razing the South Terminal will be necessary. On July 13, 2021, the Department of Aviation sent a memorandum to the City Council providing an update on the AEDP which will require the closure and removal of the South Terminal. This memorandum provided notice that the City intends to terminate the existing leasehold interests by July 2023, which is within two years of the date the memorandum was sent to the City Council.

For purposes of this Report, it was assumed that the South Terminal would continue operating until the end of FY 2023, and that upon its closure the airlines operating from that facility would relocate to the BJT. It was assumed that the annual rental payments to the Airport from the South Terminal would continue through FY 2023 and then cease. Thereafter, it was assumed that revenues derived from passengers on those airlines relocating from the South Terminal to the BJT (including parking and terminal concessions) would be Airport revenues.

In-flight catering fees. In-flight catering services to the airlines are provided by Sky Chefs under a concession agreement that provides for fees to the City calculated as 10% of airline catering sales. FY 2021, fees from such services were \$97,000. estimated FY 2022 assumes growth back to approximately \$300,000 in in-flight catering fees, before being projected to increase with inflation and enplaned passengers.

Shared tenant service fees. In FY 2021, fees paid by airlines and others for telecommunications and other shared tenant services were \$642,000. Budget FY 2022 assumes approximately \$400,000 in shared tenant services, which is then projected to increase with inflation.

Rental car facility contributions. The City receives revenues from the rental car facility trust as reimbursements of foregone parking revenues and operating expenses associated with the construction and operation of the rental car facility. In FY 2021, such revenues were approximately \$0.9 million. The City anticipates receiving these reimbursements through the projection period and until the Rental Car Special Facilities Bonds reach maturity.

Interest Income

Interest income shown in Exhibit E represents investment earnings on balances in the Revenue Fund. In FY 2021, such earnings totaled approximately \$1.1 million and are projected to remain between \$1.8-3.1 million per year through the projection period based on higher interest rates and projected cash balances. Interest income on balances in the Debt Service Reserve Fund are retained in said fund and are not included.

APPLICATION OF REVENUES

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

- **Operation and Maintenance Expenses.** Pay all reasonable and necessary expenses of operating, maintaining, and repairing the Airport System. (Operation and Maintenance Expenses as shown in Exhibit D are projected.)
- **Debt Service Fund.** Pay Debt Service on Revenue Bonds and any related Credit Agreement Obligations. (Debt Service Requirements as shown in Exhibit C, net of amounts paid from PFC revenues as shown in Exhibit F, are projected.)
- **Administrative Expense Fund.** Pay fees, expenses, and other amounts payable as Administrative Expenses associated with Revenue Bonds and related Credit Agreement Obligations.
- **Debt Service Reserve Fund.** Transfer any amounts to maintain a balance equal to the Debt Service Reserve Fund Requirement. (The increase in such requirement is projected to be met from the proceeds of the proposed 2022 Bonds and planned Future Bonds, and no transfers are projected to be required from the Revenue Fund.)
- **Subordinate Obligations.** Pay any Debt Service or other amounts due on Subordinate Obligations. (The Airport has been making certain payments that constitute Subordinate Obligations on a temporary basis related to the operation of the on-Airport hotel, which was negatively impacted by the pandemic.)
- **General Obligation Airport Bonds.** Pay Debt Service on City of Austin General Obligation Bonds. (The City has no currently outstanding General Obligation Bonds payable from Airport revenues.)

- **Operation and Maintenance Reserve Fund.** Transfer any amounts required to maintain a balance at least equal to two months budgeted Operation and Maintenance Expenses. (Amounts increasing with Operation and Maintenance are projected.)
- **Renewal and Replacement Fund.** Transfer any amounts required to maintain the Renewal and Replacement Fund Requirement, currently established at \$10 million. (No such transfers are projected to be required.)
- **Capital Fund.** Amounts remaining after all other funding requirements of the Revenue Bond Ordinances have been met are transferred to the Capital Fund. Projected amounts are shown in Exhibit G.

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

APPLICATION OF PFC REVENUES

All PFC revenues are deposited by the City into the PFC Fund to be used for FAA-approved PFC-eligible projects, either to pay project costs directly or to pay debt service on Revenue Bonds. Under the Revenue Bond Ordinances, PFC revenues are not a part of Gross Revenues but will be set aside during a Fiscal Year for the payment of PFC-eligible debt service in the following Fiscal Year, unless the City receives a report from an Airport Consultant showing that an alternative use of all or a portion of the PFCs will not reduce debt service coverage during the following Fiscal Year to less than 125%. Revenue Bond debt service paid from such set-aside PFC revenues is deducted in the calculation of Debt Service Requirements and debt service coverage for such following Fiscal Year. As shown in Exhibit F, the balance in the PFC Fund at the end of each Fiscal Year is projected to exceed the amount to be set aside and used to pay debt service on Revenue Bonds in the following Fiscal Year. Such excess balance would, subject to FAA approval, be available for the payment of the costs of PFC-eligible projects.

DEBT SERVICE COVERAGE

Exhibit G shows the calculation of debt service coverage. As required by the Rate Covenant, Net Revenues (Gross Revenues less Operation and Maintenance Expenses), plus Other Available Funds are projected to be sufficient to pay at least 125% of the Debt Service Requirements of all Revenue Bonds (which includes the currently outstanding Revenue Bonds, the proposed 2022 Bonds, and the planned Future Bonds), 100% of Administrative Expenses, and all other amounts required under the Revenue Bond Ordinances in each Fiscal Year of the projection period. Gross Revenues include COVID relief grant funds received by the Airport.

SUMMARY OF BASE CASE FINANCIAL PROJECTIONS

Exhibit H summarizes the projected financial results as presented in Exhibits A through G and discussed in the preceding sections for the base case. Revenues and O&M Expenses were projected using the base case aviation activity projection of enplaned passengers and aircraft landed weight presented earlier in the Report.

ALTERNATIVE AVIATION ACTIVITY SCENARIOS

As described earlier, in addition to the base case, two alternative aviation activity projections were developed – a high case, and a low case.

If aviation activity were to increase quicker than projected under the base case, then revenue sources which are variable with passenger traffic would be higher than shown in Exhibit H, and airline revenues and cost per enplaned passenger would be approximately the same. Annual debt service coverage would be higher under a faster aviation activity growth scenario. It was assumed that O&M Expenses and annual debt service are the same under each scenario.

Similarly, if aviation activity were to recover slower than projected under the base case, then revenue sources which are variable with passenger traffic would be lower than shown in Exhibit H, and airline revenues and cost per enplaned passenger would be approximately the same, due to the compensatory cost recovery nature of the airline ratemaking methodology. Debt service coverage would be lower under a slower aviation activity growth scenario, but would exceed the requirements of the Rate Covenant. Again, it was assumed that O&M Expenses and annual debt service are the same under each scenario.

In each case, airline payments were calculated under the compensatory cost rate-making methodology of the Airline Agreements (a methodology which was assumed to remain in effect through the end of the projection period). Under all three hypothetical scenarios, the City would generate sufficient Net Revenues to meet the requirements of the Rate Covenant, and debt service coverage requirements would be met in each of the base case, the high case, and the low case scenarios.

Table 14 summarizes projected key metrics under the base case, the high case, and the low case scenarios.

Table 14
SUMMARY OF PROJECTIONS
(For Fiscal Years ending September 30; amounts in thousands, except ratios)

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
Enplaned Passengers							
High case	10,300	11,250	11,950	12,575	13,125	13,675	14,225
Base case	9,950	10,575	11,025	11,400	11,725	12,050	12,375
Low case	9,125	9,500	9,725	9,925	10,125	10,325	10,525
Airline revenues							
High case	\$ 89,749	\$ 97,335	\$ 100,619	\$ 120,760	\$ 128,136	\$ 150,721	\$ 208,727
Base case	89,791	97,415	100,731	120,904	128,310	150,927	208,965
Low case	89,890	97,544	100,892	121,088	128,512	151,150	209,208
Nonairline revenues							
High case	\$ 121,165	\$ 135,720	\$ 144,195	\$ 151,947	\$ 158,969	\$ 166,068	\$ 173,244
Base case	117,047	127,985	133,732	138,736	143,255	147,828	152,455
Low case	107,342	115,258	118,507	121,529	124,590	127,688	130,829
Total operating revenues							
High case	\$ 210,914	\$ 233,055	\$ 244,814	\$ 272,707	\$ 287,105	\$ 316,789	\$ 381,971
Base case	206,839	225,399	234,464	259,640	271,565	298,755	361,420
Low case	197,233	212,802	219,398	242,617	253,102	278,839	340,037
Airline cost per enplanement							
High case	\$ 8.49	\$ 8.46	\$ 8.22	\$ 9.37	\$ 9.53	\$ 10.79	\$ 14.42
Base case	8.79	9.00	8.91	10.33	10.67	12.24	16.58
Low case	9.58	10.01	10.09	11.86	12.35	14.28	19.48
PFC revenues							
High case	\$ 39,972	\$ 44,180	\$ 47,180	\$ 49,340	\$ 51,752	\$ 54,233	\$ 56,690
Base case	38,635	41,582	43,589	44,740	46,223	47,762	49,262
Low case	35,484	37,429	38,514	38,921	39,839	40,805	41,723
PFCs applied to debt service							
High case	\$ 22,448	\$ 22,388	\$ 22,320	\$ 28,631	\$ 26,345	\$ 30,516	\$ 37,028
Base case	22,448	22,388	22,320	28,631	26,345	30,516	37,028
Low case	22,448	22,388	22,320	28,631	26,345	30,516	37,028
PFC fund ending balance							
High case	\$ 80,860	\$ 102,653	\$ 87,513	\$ 108,222	\$ 133,629	\$ 157,347	\$ 177,008
Base case	79,523	98,718	79,986	96,095	115,973	133,219	145,453
Low case	76,373	91,414	67,607	77,897	91,391	101,681	106,376
Debt service coverage							
High case	2.61	2.47	2.62	2.17	2.17	2.00	1.93
Base case	2.54	2.33	2.44	1.98	1.96	1.81	1.76
Low case	2.37	2.10	2.16	1.73	1.71	1.59	1.57

Exhibit A-1

CAPITAL IMPROVEMENT PROGRAM - PROJECT CASH FLOW

Austin-Bergstrom International Airport

(for the fiscal years ending September 30; in thousands)

	Total Project Costs	Prior Years	Subtotal FY 2022-28	2022	2023	2024	2025	2026	2027	2028
Airport Expansion and Development Program										
AEDP-A	\$ 283,820	\$ 39,185	\$ 244,636	\$ 61,662	\$ 116,610	\$ 56,200	\$ 10,163	\$ -	\$ -	\$ -
AEDP-B	448,855	17,063	431,792	15,017	102,960	71,550	55,725	20,540	15,000	151,000
AEDP-C	1,030,737	-	1,030,737	1,000	18,000	43,161	185,496	458,000	325,080	-
AEDP-D	159,473	34	159,438	10	6,901	4,622	147,905	-	-	-
AEDP-MC	29,636	236	29,400	2,900	6,500	10,000	10,000	-	-	-
AEDP-S/E	5,449	299	5,150	-	500	4,500	150	-	-	-
AEDP-U	12,427	1,427	11,000	100	6,000	2,800	2,100	-	-	-
Total AEDP	\$ 1,970,397	\$ 58,244	\$ 1,912,153	\$ 80,690	\$ 257,472	\$ 192,833	\$ 411,538	\$ 478,540	\$ 340,080	\$ 151,000
Other Projects (by cost center)										
Airfield	\$ 15,540	\$ -	\$ 15,540	\$ 4,964	\$ 2,533	\$ 2,974	\$ 1,619	\$ 475	\$ -	\$ 2,975
Apron	5,770	-	5,770	1,287	1,176	1,410	748	100	-	1,050
Terminal - Aero	43,455	-	43,455	5,263	2,601	26,345	6,928	72	-	2,247
Terminal - NonAero	43,021	-	43,021	6,555	3,945	21,012	7,327	129	-	4,053
Parking	10,061	-	10,061	1,053	2,249	1,698	3,077	1,460	-	525
Other	24,645	-	24,645	2,465	1,409	18,121	2,600	50	-	-
PBX/STS	1,750	-	1,750	250	-	1,000	500	-	-	-
FIS	-	-	-	-	-	-	-	-	-	-
Terminal Equip	1,847	-	1,847	1,500	347	-	-	-	-	-
Shared Use	3,200	-	3,200	200	2,000	1,000	-	-	-	-
Cargo Facilities	0	-	0	0	-	-	-	-	-	-
Total Other Projects	\$ 149,289	\$ 58,244	\$ 149,289	\$ 23,537	\$ 16,259	\$ 73,560	\$ 22,798	\$ 2,285	\$ -	\$ 10,850
Total Project Costs	\$ 2,119,686	\$ 58,244	\$ 2,061,442	\$ 104,227	\$ 273,730	\$ 266,393	\$ 434,337	\$ 480,825	\$ 340,080	\$ 161,850

Source: City of Austin, Department of Aviation, February 7, 2022.

Exhibit A-2

CAPITAL IMPROVEMENT PROGRAM - PROJECT FUNDING BY SOURCE

Austin-Bergstrom International Airport

(for the fiscal years ending September 30, in thousands)

	Total Project Costs	Airport Cash	Grants	Future Grants	Pay-Go PFC	Prior Bonds	Future Bonds					Subtotal Future Bonds	Subtotal Bonds
							2022 Bonds	2024 Bonds	2026 Bonds	2027 Bonds	2028 Bonds		
Airport Expansion and Development Program													
AEDP-A	\$ 283,820	\$ -	\$ 7,427	\$ 4,100	\$ -	\$ 75,635	\$ 196,658	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 272,293
AEDP-B	448,855	300	-	36,000	40,000	1,100	154,677	20,540	15,000	151,000	216,778	372,555	
AEDP-C	1,030,737	-	-	-	-	500	18,500	458,000	325,080	-	1,011,737	1,030,737	
AEDP-D	159,473	113,522	-	-	-	-	14,274	-	-	-	31,677	45,951	
AEDP-MC	29,636	20,236	-	-	-	-	9,400	-	-	-	-	9,400	
AEDP-S/E	5,449	4,650	-	-	-	299	500	-	-	-	-	799	
AEDP-U	12,427	8,427	-	-	-	-	4,000	-	-	-	-	4,000	
Total AEDP	\$ 1,970,397	\$ 147,135	\$ 7,427	\$ 40,100	\$ 40,000	\$ 77,534	\$ 398,009	\$ 478,540	\$ 340,080	\$ 151,000	\$ 1,260,192	\$ 1,735,734	
Other Projects (by cost center)													
Airfield	\$ 15,540	\$ 13,812	\$ -	\$ -	\$ -	\$ 1,727	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,727
Apron	5,770	5,482	-	-	-	288	-	-	-	-	-	-	288
Terminal - Aero	43,455	39,716	-	-	-	3,104	635	-	-	-	-	-	3,739
Terminal - NonAero	43,021	39,160	-	-	-	3,083	778	0	-	0	0	0	3,861
Parking	10,061	9,422	-	-	-	640	-	-	-	-	-	-	640
Other	24,645	21,764	-	-	-	1,503	579	800	-	-	800	-	2,881
PBX/STS	1,750	1,750	-	-	-	-	-	-	-	-	-	-	-
FIS	0	-	-	-	-	0	-	-	-	-	-	-	0
Terminal Equip	1,847	1,847	-	-	-	-	-	-	-	-	-	-	-
Shared Use	3,200	3,200	-	-	-	-	-	-	-	-	-	-	-
Cargo Facilities	0	-	-	-	-	0	-	-	-	-	-	-	0
Total Other Projects	\$ 149,289	\$ 136,153	\$ -	\$ -	\$ -	\$ 10,345	\$ 1,991	\$ 800	\$ 0	\$ 0	\$ 800	\$ 13,137	
Total Project Costs	\$ 2,119,686	\$ 283,288	\$ 7,427	\$ 40,100	\$ 40,000	\$ 87,879	\$ 400,000	\$ 478,540	\$ 340,080	\$ 151,000	\$ 1,260,992	\$ 1,748,871	

Source: City of Austin, Department of Aviation, February 7, 2022.

Exhibit B

SOURCES AND USES OF REVENUE BOND FUNDS

Austin-Bergstrom International Airport
(for the fiscal years ending September 30; in thousands)

	Future Bonds				Total Future Bonds	Total Bonds
	2022 Bonds	2024 Bonds	2026 Bonds	2027 Bonds		
Sources of Bond Funds						
Bond Proceeds:						
Principal Amount of Bonds	\$ 382,040	\$ 349,767	541,015	385,265	167,430	\$ 1,825,517
Capitalized Interest Fund Earnings	-	-	-	-	-	-
Debt Service Reserve Fund Earnings	-	-	-	-	-	-
Original Issue Premium (discount)	86,393	-	-	-	-	86,393
Total Sources	\$ 468,433	\$ 349,767	\$ 541,015	\$ 385,265	\$ 167,430	\$ 1,911,909
Uses of Bond Funds						
Project Fund	\$ 400,000	\$ 291,372	478,540	340,080	151,000	\$ 1,660,992
Other Fund Deposits						
Capitalized Interest Fund	48,025	34,977	27,051	19,263	8,372	137,687
Debt Service Reserve Fund	16,586	19,044	28,659	21,102	5,964	91,355
Delivery Date Expenses						
Cost of Issuance	1,910	2,623	4,058	2,889	1,256	12,736
Underwriter's Discount	1,910	1,749	2,705	1,926	837	9,128
Other Uses of Funds						
Additional Proceeds	1	2	3	4	1	11
Total Uses	\$ 468,433	\$ 349,767	\$ 541,015	\$ 385,265	\$ 167,430	\$ 1,911,909
Key Financing Assumptions						
All in True Interest Cost	3.45%	5.10%	5.11%	5.11%	5.11%	
Issuance Date	2022	2024	2026	2027	2028	
Capitalized Interest Period (years)	2.5	2.0	1.0	1.0	1.0	
Interest-only Period Thereafter (years)	-	-	-	-	-	
Principal Amortization Period (years)	27.5	28.0	29.0	29.0	29.0	

Source: Sources and uses of funds and debt service associated with the Bond issues are based on information provided by PFM Financial Advisors LLC, March 9, 2022.

Exhibit C

DEBT SERVICE REQUIREMENTS

Austin-Bergstrom International Airport
(for the fiscal years ending September 30; in thousands)

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

	Estimated		Projected				
	2022	2023	2024	2025	2026	2027	2028
Debt Service Requirements (Deposit Basis)							
Revenue Bonds							
2013 Bonds	\$ 5,412	\$ 5,408	\$ 5,415	\$ 5,413	\$ 5,411	\$ 7,195	\$ 4,529
2014 Bonds	12,225	12,225	12,225	12,225	18,896	20,230	20,233
2017A Bonds	9,265	9,265	9,265	9,265	13,590	14,451	14,453
2017B Bonds	6,483	6,483	6,483	6,483	9,508	10,112	10,116
2019 Refunding Bonds	27,497	27,360	27,206	27,053	4,505	-	-
2019A Bonds	849	849	849	849	849	849	849
2019B Bonds	16,024	16,870	16,876	16,875	16,885	16,893	16,898
2022 Bonds	-	-	-	21,260	25,520	25,528	25,538
2024 Bonds	-	-	-	-	5,829	22,379	23,364
2026 Bonds	-	-	-	-	-	9,017	34,134
2027 Bonds	-	-	-	-	-	-	6,421
2028 Bonds	-	-	-	-	-	-	-
Subtotal Revenue Bonds	\$ 77,754	\$ 78,459	\$ 78,318	\$ 99,422	\$ 100,992	\$ 126,654	\$ 156,535
Less: PFC Revenues Applied to Prior Debt Service	(22,448)	(22,388)	(22,320)	(22,253)	(17,523)	(16,578)	(16,583)
Less: PFC Revenues Applied to 2022 & Future Debt Service	-	-	-	(6,378)	(8,822)	(13,938)	(20,445)
Total Revenue Bonds Less Paid with PFCs	\$ 55,306	\$ 56,071	\$ 55,998	\$ 70,792	\$ 74,647	\$ 96,138	\$ 119,507
Allocation By Cost Center							
Airline Cost Centers							
Airfield	\$ 7,080	\$ 7,185	\$ 7,164	\$ 11,760	\$ 9,030	\$ 7,692	\$ 7,417
Terminal Apron	3,110	3,171	3,170	3,169	4,421	6,304	6,410
Terminal Building (Airline)	14,171	14,394	14,383	18,468	23,018	41,144	65,324
Terminal Equipment	1,469	1,545	1,546	5,145	5,885	5,891	5,893
Subtotal Airline Cost Centers	\$ 25,831	\$ 26,296	\$ 26,263	\$ 38,542	\$ 42,354	\$ 61,031	\$ 85,043
Nonairline Cost Centers							
Terminal Building (Nonairline)	\$ 8,112	\$ 8,252	\$ 8,240	\$ 8,392	\$ 7,162	\$ 7,236	\$ 6,752
Parking	14,508	14,518	14,497	14,475	15,935	16,223	16,225
Other Nonairline Cost Centers	6,854	7,006	6,998	9,382	9,197	11,649	11,487
Subtotal Nonairline Cost Centers	\$ 29,475	\$ 29,775	\$ 29,735	\$ 32,250	\$ 32,293	\$ 35,108	\$ 34,464
Total Debt Service	\$ 55,306	\$ 56,071	\$ 55,998	\$ 70,792	\$ 74,647	\$ 96,138	\$ 119,507

Source: Sources and uses of funds and debt service associated with the Bond issues are based on information provided by PFM Financial Advisors LLC, March 9, 2022.

Exhibit D-1

OPERATION AND MAINTENANCE EXPENSES BY FUNCTION

Austin-Bergstrom International Airport
(for the fiscal years ending September 30; in thousands)

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

	Historical			Estimated			Projected				
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
Expenses by Function											
Administration											
Management	\$ 5,749	\$ 5,976	\$ 3,950	\$ 7,175	\$ 7,893	\$ 8,209	\$ 8,537	\$ 8,878	\$ 9,234	\$ 9,603	
Information Technology	10,058	9,781	8,392	12,536	13,790	14,341	14,915	15,512	16,132	16,778	
Finance and Purchasing	3,038	3,691	2,906	3,480	3,828	3,981	4,140	4,306	4,478	4,657	
City Support Services	10,403	11,632	13,046	10,832	11,915	12,392	12,887	13,403	13,939	14,497	
Other Administration	3,375	5,249	4,629	6,394	6,314	6,567	6,830	7,103	7,387	7,682	
Subtotal Administration	\$ 32,622	\$ 36,328	\$ 32,923	\$ 40,418	\$ 43,740	\$ 45,490	\$ 47,310	\$ 49,202	\$ 51,170	\$ 53,217	
Operations and Maintenance											
Operations	\$ 2,680	\$ 2,740	\$ 2,246	\$ 2,726	\$ 2,918	\$ 3,034	\$ 3,156	\$ 3,282	\$ 3,413	\$ 3,550	
Parking	11,838	6,224	509	611	672	699	727	756	786	818	
Custodial Services	8,938	8,072	6,769	7,812	8,593	8,937	9,294	9,666	10,053	10,455	
Airfield Maintenance	3,741	3,215	2,818	3,497	3,847	4,001	4,161	4,328	4,501	4,681	
Building Maintenance	7,606	7,579	6,584	7,414	8,156	8,482	8,821	9,174	9,541	9,923	
Grounds Maintenance	2,005	1,555	1,484	1,636	1,800	1,872	1,947	2,024	2,105	2,190	
Utilities	6,312	6,265	6,394	6,538	7,191	7,479	7,778	8,089	8,413	8,749	
Aircraft Rescue and Firefighting	6,653	7,380	8,243	8,247	9,072	9,434	9,812	10,204	10,612	11,037	
Security	16,901	17,477	17,003	18,561	20,417	21,234	22,083	22,966	23,885	24,840	
Planning and Engineering	5,014	5,710	4,603	6,049	6,654	6,920	7,197	7,485	7,785	8,096	
Other Operations and Maintenance	7,908	7,533	6,544	7,381	8,920	7,807	8,119	8,444	8,781	9,133	
Incremental O&M for new facilities	-	-	-	-	-	-	-	-	-	25,000	
Subtotal Operations and Maintenance	\$ 79,594	\$ 73,752	\$ 63,197	\$ 70,473	\$ 78,239	\$ 79,899	\$ 83,095	\$ 86,419	\$ 89,876	\$ 118,471	
Expenses for Rate Calculations	\$ 112,216	\$ 110,081	\$ 96,120	\$ 110,891	\$ 121,980	\$ 125,389	\$ 130,405	\$ 135,621	\$ 141,046	\$ 171,688	
% change		-1.9%	-12.7%	15.4%	10.0%	2.8%	4.0%	4.0%	4.0%	21.7%	
Plus: Other Items Not Included in R&C Calculations	7,538	8,182	5,843	8,242	9,066	9,320	9,693	10,080	10,484	12,761	
Less: Cash Funded Vehicles / Equipment	(1,146)	(212)	-	-	-	-	-	-	-	-	
Total Operation and Maintenance Expenses	\$ 118,609	\$ 118,051	\$ 101,963	\$ 119,133	\$ 131,046	\$ 134,709	\$ 140,097	\$ 145,701	\$ 151,529	\$ 184,449	

Source: City of Austin, Department of Aviation, April 2022 for historical and estimated; LeighFisher for projections.

Exhibit D-2

OPERATION AND MAINTENANCE EXPENSES BY COST CENTER

Austin-Bergstrom International Airport
(for the fiscal years ending September 30; in thousands)

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

	Estimated		Projected				
	2022	2023	2024	2025	2026	2027	2028
Expenses by Cost Center							
Airline Cost Centers							
Airfield	\$ 28,312	\$ 30,931	\$ 32,168	\$ 33,454	\$ 34,793	\$ 36,184	\$ 37,632
Terminal Apron	10,603	11,567	12,030	12,511	13,012	13,532	14,074
Terminal Building (Airline)	21,584	23,572	24,515	25,496	26,515	27,576	28,657
Terminal Equipment	4,626	5,088	5,292	5,503	5,724	5,952	6,191
Shared Use	1,317	2,249	2,339	2,433	2,530	2,631	2,737
Subtotal Airline Cost Centers	\$ 66,442	\$ 73,408	\$ 76,344	\$ 79,398	\$ 82,574	\$ 85,877	\$ 99,289
Nonairline Cost Centers							
Terminal Building (Nonairline)	\$ 32,519	\$ 35,490	\$ 36,909	\$ 38,386	\$ 39,921	\$ 41,518	\$ 58,201
Parking	5,085	5,558	5,780	6,011	6,252	6,502	6,762
South Terminal	1,285	1,413	-	-	-	-	-
Other Nonairline Cost Centers	5,560	6,111	6,356	6,610	6,875	7,150	7,436
Subtotal Nonairline Cost Centers	\$ 44,449	\$ 48,572	\$ 49,045	\$ 51,007	\$ 53,047	\$ 55,169	\$ 72,398
Expenses for Rate Calculations							
% change	\$ 110,891	\$ 121,980	\$ 125,389	\$ 130,405	\$ 135,621	\$ 141,046	\$ 171,688
	15.4%	10.0%	2.8%	4.0%	4.0%	4.0%	21.7%
Plus: Other Items Not Included in R&C Calculations	8,242	9,066	9,320	9,693	10,080	10,484	12,761
Less: Cash Funded Vehicles / Equipment	-	-	-	-	-	-	-
Total Operation and Maintenance Expenses	\$ 119,133	\$ 131,046	\$ 134,709	\$ 140,097	\$ 145,701	\$ 151,529	\$ 184,449

Source: City of Austin, Department of Aviation, April 2022 for estimated; LeighFisher for projections.

Exhibit E

GROSS REVENUES
Austin-Bergstrom International Airport
(for the fiscal years ending September 30; in thousands)

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

	Historical		Estimated				Projected			
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Airline Revenues										
Landing Fee Revenues	\$ 30,827	\$ 29,023	\$ 29,407	\$ 37,299	\$ 40,451	\$ 41,383	\$ 48,473	\$ 46,213	\$ 45,676	\$ 47,587
Terminal Building Rentals	17,646	19,834	22,784	30,896	33,268	34,440	43,549	49,738	67,128	121,281
Other Rentals and Fees	28,752	24,843	23,389	21,597	23,696	24,908	28,881	32,359	38,123	40,097
Subtotal Airline Revenues	\$ 77,225	\$ 73,700	\$ 75,580	\$ 89,791	\$ 97,415	\$ 100,731	\$ 120,904	\$ 128,310	\$ 150,927	\$ 208,965
Nonairline Revenues										
Terminal Concessions Revenues										
Food & Beverage	\$ 11,773	\$ 7,045	\$ 7,344	\$ 14,030	\$ 17,405	\$ 18,417	\$ 19,329	\$ 20,179	\$ 21,049	\$ 21,941
Retail	4,530	3,241	5,610	5,473	6,789	7,184	7,540	7,871	8,211	8,559
Advertising	2,648	2,383	1,898	3,085	3,827	4,049	4,250	4,436	4,628	4,824
Passenger Services	684	779	773	896	966	1,022	1,073	1,120	1,168	1,218
Subtotal Terminal Concessions Revenues	\$ 19,635	\$ 13,449	\$ 15,626	\$ 23,482	\$ 28,986	\$ 30,673	\$ 32,192	\$ 33,606	\$ 35,056	\$ 36,541
Revenue per Enplaned Passenger	\$ 2.32	\$ 2.85	\$ 3.00	\$ 2.36	\$ 2.74	\$ 2.78	\$ 2.82	\$ 2.87	\$ 2.91	\$ 2.95
Parking and Ground Transportation										
Parking	\$ 41,682	\$ 23,813	\$ 27,942	\$ 52,039	\$ 55,307	\$ 57,661	\$ 59,622	\$ 61,322	\$ 63,022	\$ 64,721
Rental Cars	14,784	10,259	12,851	17,413	18,506	19,294	19,950	20,519	21,088	21,656
Transportation Network Companies	5,658	3,509	3,154	6,468	6,874	7,166	7,410	7,621	7,833	8,044
Other Ground Transportation	712	404	475	896	952	992	1,026	1,055	1,085	1,114
Subtotal Parking and Ground Transportation	\$ 62,837	\$ 37,985	\$ 44,421	\$ 76,814	\$ 81,639	\$ 85,113	\$ 88,008	\$ 90,517	\$ 93,026	\$ 95,535
Revenue per Enplaned Passenger	\$ 7.42	\$ 8.04	\$ 8.53	\$ 7.72	\$ 7.72	\$ 7.72	\$ 7.72	\$ 7.72	\$ 7.72	\$ 7.72
Other Revenues										
Fuel Flowage Fees	\$ 854	\$ 714	\$ 1,071	\$ 1,194	\$ 1,289	\$ 1,366	\$ 1,437	\$ 1,504	\$ 1,574	\$ 1,646
Fuel Facility Fees	758	861	862	867	893	920	947	976	1,005	1,035
Cargo Apron Fees	543	563	744	831	856	882	908	935	963	992
Cargo Facility Fees	1,635	2,129	2,062	2,224	2,291	2,360	2,431	2,503	2,579	2,656
Hotel Fees	822	503	460	840	865	891	918	946	974	1,003
Building and Ground Rentals	5,412	5,738	6,356	6,455	6,648	6,848	7,053	7,265	7,483	7,707
Other	10,568	8,997	8,568	4,340	4,516	4,681	4,842	5,003	5,169	5,339
Subtotal Other Revenues	\$ 20,592	\$ 19,503	\$ 20,124	\$ 16,751	\$ 17,359	\$ 17,946	\$ 18,536	\$ 19,132	\$ 19,746	\$ 20,379
% change	-5.3%		3.2%	-16.8%	3.6%	3.4%	3.3%	3.2%	3.2%	3.2%
Subtotal Nonairline Revenues	\$ 103,064	\$ 70,937	\$ 80,171	\$ 117,047	\$ 127,985	\$ 133,732	\$ 138,736	\$ 143,255	\$ 147,828	\$ 152,455
Operating Revenues	\$ 180,289	\$ 144,637	\$ 155,751	\$ 206,839	\$ 225,399	\$ 234,464	\$ 259,640	\$ 271,565	\$ 298,755	\$ 361,420
COVID Relief Funds	-	21,547	29,872	36,940	19,575	19,575	-	-	-	-
Interest Income	10,876	8,073	1,132	2,052	2,646	3,107	2,843	1,877	2,422	3,048
Adjustment	-	-	(40)	-	-	-	-	-	-	-
Gross Revenues	\$ 191,165	\$ 174,257	\$ 186,715	\$ 245,830	\$ 247,620	\$ 257,145	\$ 262,483	\$ 273,441	\$ 301,177	\$ 364,469
% change	-8.8%		7.1%	31.7%	0.7%	3.8%	2.1%	4.2%	10.1%	21.0%

Source: City of Austin, Department of Aviation, April 2022 for historical and estimated; LeighFisher for projections.

Exhibit E-1

AIRLINE REVENUES

Austin-Bergstrom International Airport
(for the fiscal years ending September 30; in thousands)

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

	Estimated		Projected				
	2022	2023	2024	2025	2026	2027	2028
Airfield Revenues							
Average Landing Fee Rate (a)	\$ 3.05	\$ 3.16	\$ 3.14	\$ 3.60	\$ 3.38	\$ 3.29	\$ 3.37
Landed Weight (000's)	12,217	12,809	13,173	13,457	13,674	13,891	14,108
Landing Fee Revenues	\$ 37,299	\$ 40,451	\$ 41,383	\$ 48,473	\$ 46,213	\$ 45,676	\$ 47,587
Terminal Apron Revenues							
Terminal Apron Fees	\$ 7,550	\$ 8,164	\$ 8,341	\$ 8,597	\$ 9,648	\$ 11,110	\$ 13,167
RON Fees	7,314	7,908	8,080	8,329	9,347	10,763	9,718
Subtotal Terminal Apron Revenues	\$ 14,863	\$ 16,072	\$ 16,421	\$ 16,926	\$ 18,995	\$ 21,873	\$ 22,885
Terminal Building Revenues							
Average Terminal Rental Rate (b)	\$ 150.00	\$ 161.92	\$ 167.46	\$ 198.84	\$ 225.15	\$ 303.84	\$ 302.68
Airline Leased Conditioned Space (c)	121	121	121	121	121	121	290
Air-conditioned Space Rentals (d)	\$ 18,113	\$ 19,553	\$ 20,222	\$ 24,011	\$ 27,188	\$ 36,690	\$ 87,784
Other Terminal Building Revenues							
Baggage Claim Conveyor Revenues	\$ 7,396	\$ 8,023	\$ 8,310	\$ 11,792	\$ 13,295	\$ 16,263	\$ 16,320
Conditioned Apron Space Rentals	1,567	1,626	1,693	2,395	2,966	4,889	6,698
Unconditioned Apron Space Rentals	1,069	1,110	1,156	1,634	2,024	3,337	4,571
Mezzanine Space Rentals	2,751	2,956	3,060	3,717	4,265	5,949	5,908
Subtotal Other Terminal Building Revenues	\$ 12,783	\$ 13,715	\$ 14,218	\$ 19,539	\$ 22,550	\$ 30,438	\$ 33,498
Other Airline Revenues							
Shared Use Revenues	\$ 1,317	\$ 2,249	\$ 2,339	\$ 2,433	\$ 2,530	\$ 2,631	\$ 2,737
US Customs Fees	1,425	1,639	1,885	2,167	2,492	4,919	5,320
Less: Airline Incentive Credits							
Subtotal Other Airline Revenues	\$ 2,742	\$ 3,888	\$ 4,224	\$ 4,600	\$ 5,022	\$ 7,551	\$ 8,057
Terminal Equipment Revenues							
Loading Bridge and MUFD Fees	\$ 3,222	\$ 3,352	\$ 3,688	\$ 4,324	\$ 4,639	\$ 4,761	\$ 4,966
Baggage Makeup Equipment Fees	516	301	312	2,574	3,037	3,051	3,066
Subtotal Terminal Equipment Revenues	\$ 3,738	\$ 3,653	\$ 4,000	\$ 6,898	\$ 7,677	\$ 7,812	\$ 8,032
Airline Payments per Enplaned Passenger							
Total Airline Payments Made to City	\$ 89,538	\$ 97,332	\$ 100,468	\$ 120,447	\$ 127,645	\$ 150,041	\$ 207,842
Less: Landing Fees Paid by All-cargo Airlines	(2,057)	(2,189)	(2,239)	(2,639)	(2,542)	(2,539)	(2,672)
Net Airline Payments	\$ 87,481	\$ 95,142	\$ 98,228	\$ 117,808	\$ 125,103	\$ 147,502	\$ 205,170
Enplaned Passengers	9,950	10,575	11,025	11,400	11,725	12,050	12,375
Airline Payments per Enplaned Passenger (e)	\$ 8.79	\$ 9.00	\$ 8.91	\$ 10.33	\$ 10.67	\$ 12.24	\$ 16.58

Source: City of Austin, Department of Aviation, April 2022 for estimated; LeighFisher for projections.

- (a) Rate per 1,000 lbs.
- (b) Rate per square foot per year.
- (c) Total square footage.
- (d) Calculated as average terminal rental rate times airline leased conditioned space.
- (e) Rate per Enplaned Passenger.

Exhibit F

SOURCES AND USES OF PFC REVENUES

Austin-Bergstrom International Airport
(for the fiscal years ending September 30; in thousands)

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

	Historical			Estimated			Projected				
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
PFC Revenues											
Enplaned Passengers	8,465	4,724	5,208	9,950	10,575	11,025	11,400	11,725	12,050	12,375	
Percent Eligible Passengers Paying PFC	89.3%	83.8%	97.8%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	
Net PFC per Passenger (a)	\$ 4.39	\$ 4.39	\$ 4.39	\$ 4.39	\$ 4.39	\$ 4.39	\$ 4.39	\$ 4.39	\$ 4.39	\$ 4.39	
PFC collections	\$ 33,168	\$ 17,373	\$ 22,366	\$ 38,002	\$ 40,389	\$ 42,108	\$ 43,540	\$ 44,781	\$ 46,023	\$ 47,264	
Investment earnings (b)	2,009	1,404	138	633	1,193	1,481	1,200	1,441	1,740	1,998	
Total PFC Revenues	\$ 35,176	\$ 18,776	\$ 22,504	\$ 38,635	\$ 41,582	\$ 43,589	\$ 44,740	\$ 46,223	\$ 47,762	\$ 49,262	
Uses of PFC Revenues											
Debt Service on Prior Revenue Bonds				\$ 22,448	\$ 22,388	\$ 22,320	\$ 22,253	\$ 17,523	\$ 16,578	\$ 16,583	
Debt Service on 2022 & Future Bonds				-	-	-	6,378	8,822	13,938	20,445	
Pay-As-You-Go Expenditures				-	-	40,000	-	-	-	-	
Total Uses of PFC Revenues				\$ 22,448	\$ 22,388	\$ 62,320	\$ 28,631	\$ 26,345	\$ 30,516	\$ 37,028	
PFC Revenues less Uses				\$ 16,187	\$ 19,194	\$ (18,732)	\$ 16,109	\$ 19,878	\$ 17,246	\$ 12,234	
PFC Fund Balance			\$ 63,336	\$ 79,523	\$ 98,718	\$ 79,986	\$ 96,095	\$ 115,973	\$ 133,219	\$ 145,453	
Required Set-Aside for Payment of PFC-Eligible Debt Service in Following Fiscal Year			\$ 22,448	\$ 22,388	\$ 22,320	\$ 28,631	\$ 26,345	\$ 30,516	\$ 37,028		

Source: City of Austin, Department of Aviation, Annual PFC Reports and CAFRs.

(a) \$4.50 less airline collection fee of \$0.11 per passenger.

(b) Assumes annual interest earnings rate of 1%

Exhibit G

APPLICATION OF REVENUES AND DEBT SERVICE COVERAGE
 Austin-Bergstrom International Airport
 (for the fiscal years ending September 30, in thousands)

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

	Estimated		Projected				
	2022	2023	2024	2025	2026	2027	2028
Gross Revenues and Other Available Funds							
Airline Revenues	\$ 89,791	\$ 97,415	\$ 100,731	\$ 120,904	\$ 128,310	\$ 150,927	\$ 208,965
Nonairline Revenues	117,047	127,985	133,732	138,736	143,255	147,828	152,455
Covid Relief Grants	36,940	19,575	19,575	-	-	-	-
Interest Income	2,052	2,646	3,107	2,843	1,877	2,422	3,048
Gross Revenues (a)	\$ 245,830	\$ 247,620	\$ 257,145	\$ 262,483	\$ 273,441	\$ 301,177	\$ 364,469
Other Available Funds (b)	13,827	14,018	13,999	17,698	18,662	24,035	29,877
Gross Revenues and Other Available Funds	\$ 259,657	\$ 261,638	\$ 271,145	\$ 280,181	\$ 292,103	\$ 325,212	\$ 394,346
Application of Gross Revenues and Other Available Funds							
Operation and Maintenance Expenses (c)	\$ 119,133	\$ 131,046	\$ 134,709	\$ 140,097	\$ 145,701	\$ 151,529	\$ 184,449
Revenue Bond Debt Service Requirements (d)	55,306	56,071	55,998	70,792	74,647	96,138	119,507
Administrative Expenses (e)	-	-	-	-	-	-	-
Debt Service Reserve Fund	-	-	-	-	-	-	-
General Obligation Airport Bonds	-	-	-	-	-	-	-
Operation and Maintenance Reserve Fund	-	1,776	580	853	887	922	5,209
Renewal and Replacement Fund	-	-	-	-	-	-	-
Capital Fund	85,218	72,744	79,858	68,439	70,868	76,622	85,181
Total Application	\$ 259,657	\$ 261,638	\$ 271,145	\$ 280,181	\$ 292,103	\$ 325,212	\$ 394,346
Calculation of Debt Service Coverage							
Gross Revenues	\$ 245,830	\$ 247,620	\$ 257,145	\$ 262,483	\$ 273,441	\$ 301,177	\$ 364,469
Less: Operation and Maintenance Expenses (c)	(119,133)	(131,046)	(134,709)	(140,097)	(145,701)	(151,529)	(184,449)
Net Revenues	\$ 126,697	\$ 116,574	\$ 122,436	\$ 122,386	\$ 127,740	\$ 149,648	\$ 180,020
Other Available Funds (b)	13,827	14,018	13,999	17,698	18,662	24,035	29,877
Net Revenues plus Other Available Funds	\$ 140,524	\$ 130,592	\$ 136,436	\$ 140,084	\$ 146,402	\$ 173,683	\$ 209,897
Less: Administrative Expenses (e)	-	-	-	-	-	-	-
Subtotal Funds Available to Calculate Debt Service Coverage	\$ 140,524	\$ 130,592	\$ 136,436	\$ 140,084	\$ 146,402	\$ 173,683	\$ 209,897
Revenue Bond Debt Service Requirements (d)	\$ 55,306	\$ 56,071	\$ 55,998	\$ 70,792	\$ 74,647	\$ 96,138	\$ 119,507
Debt service coverage	2.54	2.33	2.44	1.98	1.96	1.81	1.76
Debt service coverage requirement	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x

(a) See Exhibit E.
 (b) Amounts, up to a maximum of 25% of Revenue Bond Debt Service Requirements, transferred from the Capital Fund as permitted under the Rate Covenant of the Revenue Bond Ordinances.
 (c) See Exhibit D-1.
 (d) See Exhibit C.
 (e) Administrative Expenses primarily consist of paying agent and rebate analyst fees and are anticipated to be de minimis.

Exhibit H

SUMMARY OF FORECAST FINANCIAL RESULTS: BASE CASE PASSENGER PROJECTION

Austin-Bergstrom International Airport
(for the fiscal years ending September 30; in thousands)

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

	Projected						
	Estimated 2022	2023	2024	2025	2026	2027	2028
Gross Revenues and Other Available Funds							
Airline Revenues	\$ 89,791	\$ 97,415	\$ 100,731	\$ 120,904	\$ 128,310	\$ 150,927	\$ 208,965
Terminal Concession Revenues	23,482	28,986	30,673	32,192	33,606	35,056	36,541
Parking and Ground Transportation Revenues	76,814	81,639	85,113	88,008	90,517	93,026	95,535
Covid Relief Grants	36,940	19,575	19,575	-	-	-	-
Other Revenues	18,803	20,005	21,053	21,379	21,008	22,168	23,427
Gross Revenues	\$ 245,830	\$ 247,620	\$ 257,145	\$ 262,483	\$ 273,441	\$ 301,177	\$ 364,469
Other Available Funds	13,827	14,018	13,999	17,698	18,662	24,035	29,877
Gross Revenues and Other Available Funds	\$ 259,657	\$ 261,638	\$ 271,145	\$ 280,181	\$ 292,103	\$ 325,212	\$ 394,346
Enplaned Passengers	9,950	10,575	11,025	11,400	11,725	12,050	12,375
Airline Payments per Enplaned Passenger	\$ 8.79	\$ 9.00	\$ 8.91	\$ 10.33	\$ 10.67	\$ 12.24	\$ 16.58
Application of Gross Revenues and Other Available Funds							
Operation and Maintenance Expenses	\$ 119,133	\$ 131,046	\$ 134,709	\$ 140,097	\$ 145,701	\$ 151,529	\$ 184,449
Revenue Bond Debt Service	77,754	78,459	78,318	99,422	100,992	126,654	156,535
Other Applications	-	1,776	580	853	887	922	5,209
Capital Fund	85,218	72,744	79,858	68,439	70,868	76,622	85,181
Gross Revenues	\$ 282,105	\$ 284,025	\$ 293,465	\$ 308,812	\$ 318,448	\$ 355,728	\$ 431,374
Less: Paid from PFC Revenues	(22,448)	(22,388)	(22,320)	(28,631)	(26,345)	(30,516)	(37,028)
Total Application	\$ 259,657	\$ 261,638	\$ 271,145	\$ 280,181	\$ 292,103	\$ 325,212	\$ 394,346
Passenger Facility Charges							
PFC Revenues	\$ 38,635	\$ 41,582	\$ 43,589	\$ 44,740	\$ 46,223	\$ 47,762	\$ 49,262
Less: PFC Revenues Used to Pay Debt Service	(22,448)	(22,388)	(22,320)	(28,631)	(26,345)	(30,516)	(37,028)
Less: Pay-as-you-go Expenditures	-	-	(40,000)	-	-	-	-
Net PFC Deposit	\$ 16,187	\$ 19,194	\$ (18,732)	\$ 16,109	\$ 19,878	\$ 17,246	\$ 12,234
PFC Fund Balance	79,523	98,718	79,986	96,095	115,973	133,219	145,453
Debt Service Coverage							
Debt service coverage	2.54	2.33	2.44	1.98	1.96	1.81	1.76
Debt service coverage requirement	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x

Source: Preceding Exhibits and accompanying text.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS

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CITY OF AUSTIN, TEXAS
ANNUAL COMPREHENSIVE FINANCIAL REPORT
Year Ended September 30, 2021

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
FINANCIAL SECTION		
Independent Auditors' Report	--	1
Management's Discussion and Analysis	--	4
Basic Financial Statements		
Government-wide Financial Statements:		
Statement of Net Position	A-1	18
Statement of Activities	A-2	20
Fund Financial Statements:		
Governmental Funds Balance Sheet	B-1	22
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	B-1.1	23
Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances	B-2	24
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	B-2.1	25
Proprietary Funds Statement of Net Position	C-1	26
Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position	C-2	32
Proprietary Funds Statement of Cash Flows	C-3	34
Fiduciary Funds Statement of Fiduciary Net Position	D-1	38
Fiduciary Funds Statement of Changes in Fiduciary Net Position	D-2	39
Notes to Basic Financial Statements:		
Note 1 Summary of Significant Accounting Policies	--	40
Note 2 Pooled Investments and Cash	--	57
Note 3 Investments and Deposits	--	57
Note 4 Property Taxes	--	63
Note 5 Capital Assets and Infrastructure	--	64
Note 6 Debt and Non-Debt Liabilities	--	71
Note 7 Retirement Plans	--	89
Note 8 Other Postemployment Benefits	--	97
Note 9 Derivative Instruments	--	100
Note 10 Deficits in Fund Balances and Net Position	--	105
Note 11 Interfund Balances and Transfers	--	106
Note 12 Selected Revenues	--	107
Note 13 Tax Abatements	--	108
Note 14 Commitments and Contingencies	--	108
Note 15 Litigation	--	115
Note 16 Conduit Debt	--	115
Note 17 Public-Private Partnership Arrangements	--	115
Note 18 Segment Information - Convention Center	--	116
Note 19 Restatement	--	117
Note 20 Subsequent Events	--	118
Required Supplementary Information (RSI)		
General Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual-Budget Basis	RSI	122
Notes to Schedule of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual-Budget Basis	RSI	123
Retirement Plans-Trend Information	RSI	124
Other Postemployment Benefits-Trend Information	RSI	132

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Deloitte & Touche LLP
500 West Second Street
Suite 1600
Austin, TX 78701-4671
USA

Tel: +1 512 691 2330
Fax: +1 512 708 1035
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council
City of Austin, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Austin, Texas (the "City"), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Austin-Bergstrom Landhost Enterprises Inc. (ABLE), Austin Convention Enterprises Inc. (ACE), Austin Economic Development Corporation (AEDC), and Austin Transit Partnership Local Government Corporation (ATP), which represent 99.9%, 99.8%, and 99.2%, respectively, of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports, one of which (ABLE) contains an emphasis of matter paragraph related to a going concern issue, have been furnished to us, and our opinion, insofar as it relates to the amounts included for ABLE, ACE, AEDC, and ATP, is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Austin, Texas, as of September 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 19 to the basic financial statements, the City adjusted its beginning net position and fund balance as of October 1, 2020, to reflect the impact of the implementation of Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this change.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis, the Retirement Plans – Trend Information, and the Other Postemployment Benefits – Trend Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte & Touche LLP

March 14, 2022



Management's Discussion and Analysis
September 30, 2021

City of Austin, Texas

The Management's Discussion and Analysis (MD&A) section of the City of Austin's (the City) Annual Comprehensive Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2021.

The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 86, No. 88 through No. 90, No. 92 and No. 93, No. 95, No. 97 and No. 98.

FINANCIAL HIGHLIGHTS

Government-wide financial statements

The City's assets and deferred outflows exceeded its liabilities and deferred inflows in fiscal year 2021, resulting in \$3.2 billion of net position. Net position associated with governmental activities is a deficit of approximately \$792.5 million, while the net position associated with business-type activities is approximately \$4.0 billion, or 124.5% of the total net position of the City. The largest portion of net position consists of net investment in capital assets, which is \$4.6 billion, or 142.8% of total net position.

The City's unrestricted net position is a deficit of \$2.8 billion. Unrestricted net position for governmental activities is a deficit of \$3.3 billion, while unrestricted net position for business-type activities is approximately \$509.3 million, or 12.7% of total business-type net position. The deficit in governmental unrestricted net position is largely due to the net pension liability of \$1.3 billion and other postemployment benefits (OPEB) liability of \$2.6 billion.

During fiscal year 2021, total net position for the City of Austin decreased \$191.4 million or 5.6%. Of this amount, governmental activities decreased \$198.9 million, or 33.5% from the previous year and business-type activities increased \$7.5 million, or 0.2%.

Total revenues for the City increased \$190.0 million; revenues for governmental activities increased \$279.7 million; revenues for business-type activities decreased \$89.7 million. Total expenses for the City increased \$47.7 million; expenses for governmental activities increased \$210.1 million; expenses for business-type activities decreased \$162.4 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, consisting of three components:

- government-wide financial statements,
- fund financial statements, and
- notes to the financial statements.

This report also contains required supplementary information in addition to the basic financial statements.

a -- Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner comparable to a private-sector business. The two government-wide financial statements are as follows:

- The **Statement of Net Position** presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The **Statement of Activities** presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues for uncollected taxes and expenses for future general obligation debt payments. The statement includes annual depreciation for infrastructure and governmental assets.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include: general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; and urban growth management. The business-type activities include: electric; water; wastewater; airport; convention; environmental and health services; public recreation; and urban growth management.

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

a -- Government-wide financial statements, continued

The government-wide financial statements include the City as well as blended component units: Austin Housing Finance Corporation (AHFC), Urban Renewal Agency (URA), Austin Industrial Development Corporation (AIDC), Mueller Local Government Corporation (MLGC), Austin-Bergstrom International Airport (ABIA) Development Corporation, and Nacogdoches Power, LLC (NP). The operations of AHFC, URA, AIDC, MLGC, and ABIA are included within the governmental activities of the government-wide financial statements. The operations of NP are reported in the business-type activities of the government-wide financial statements. Although legally separate from the City, these component units are blended with the City because of their governance or financial relationships to the City.

The government-wide financial statements also include six discretely presented component units: Austin-Bergstrom Landhost Enterprises, Inc. (ABLE), Austin Convention Enterprises, Inc. (ACE), Austin Economic Development Corporation (AEDC), Austin Transit Partnership Local Government Corporation (ATP), Austin Travis County Sobriety Center Local Government Corporation (SCLGC), and Waller Creek Local Government Corporation (WCLGC). These entities are legally separate entities that do not meet the GASB reporting requirements for inclusion as part of the City's operations; therefore, data from these units are shown separately from data of the City. More information on these entities can be found in Note 1, including how to get a copy of separately audited financial statements for ABLE, ACE, AEDC, ATP, and SCLGC. WCLGC activities are recorded in the City's financial system and City staff prepares the financial reports for this entity. There was no WCLGC activity in fiscal year 2021.

b -- Fund financial statements

The fund financial statements are designed to report information about groupings of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental, proprietary, and fiduciary funds. Within the governmental and proprietary categories, the emphasis is on the major funds.

Governmental funds -- Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds. These funds focus on current sources and uses of liquid resources and on the balances of available resources at the end of the fiscal year. This information may be useful in determining what financial resources are available in the near term to finance the City's future obligations.

Because the focus of governmental fund level statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide statements. In addition to the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances, separate statements are provided that reconcile between the government-wide and fund level financial statements.

The City's General Fund is reported as a major fund and information is presented separately in the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances. In addition, the City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects, and permanent funds). Data from these governmental funds are combined into a single column labeled nonmajor governmental funds. Individual fund data for the funds is provided in the form of combining statements in the supplementary section of this report.

Proprietary funds -- Proprietary funds are generally used to account for services for which the City charges customers – either outside customers or internal units or departments of the City. Proprietary fund statements provide the same type of information shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of three of the City's major funds, Austin Energy™, Austin Water, and Austin-Bergstrom International Airport (Airport), as well as the nonmajor enterprise funds.
- Internal Service funds are used to report activities that provide supplies and services for many City programs and activities. The City's internal service funds include: Capital Projects Management; Combined Transportation, Emergency and Communications Center (CTECC); Employee Benefits; Fleet Maintenance; Information and Technology; Liability Reserve; Support Services; Wireless Communication; and Workers' Compensation. Because these services predominantly benefit governmental operations rather than business-type functions, they have been included in governmental activities in the government-wide financial statements.

Management's Discussion and Analysis
September 30, 2021

City of Austin, Texas
(Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

b -- Fund financial statements, continued

The nonmajor enterprise funds and the internal service funds are combined into separately aggregated presentations in the proprietary fund financial statements. Individual fund data for the funds are provided in the form of combining statements following the Required Supplementary Information section of this report.

Fiduciary funds -- Fiduciary funds are used to account for resources held for the benefit of parties outside City government. Since the resources of fiduciary funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting policies applied to fiduciary funds are much like those used for proprietary funds.

Comparison of government-wide and fund financial components -- The following chart compares how the City's funds are included in the government-wide and fund financial statements:

<u>Fund Types/Other</u>	<u>Government-wide</u>	<u>Fund Financials</u>
General Fund	Governmental	Governmental - Major
Special revenue funds	Governmental	Governmental - Nonmajor
Debt service funds	Governmental	Governmental - Nonmajor
Capital projects funds	Governmental	Governmental - Nonmajor
Permanent funds	Governmental	Governmental - Nonmajor
Internal service funds	Governmental	Proprietary
Governmental capital assets, including infrastructure assets	Governmental	Excluded
Governmental liabilities not expected to be liquidated with available expendable financial resources	Governmental	Excluded
Austin Energy	Business-type	Proprietary - Major
Austin Water	Business-type	Proprietary - Major
Airport	Business-type	Proprietary - Major
Convention	Business-type	Proprietary - Nonmajor
Environmental and health services	Business-type	Proprietary - Nonmajor
Public recreation	Business-type	Proprietary - Nonmajor
Urban growth management	Business-type	Proprietary - Nonmajor
Fiduciary funds	Excluded	Fiduciary
Discrete component units	Component units	Discretely Presented Component Units

Basis of reporting -- The government-wide statements and fund-level proprietary statements are reported using the flow of economic resources measurement focus and the full accrual basis of accounting. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

c -- Notes to the financial statements

The notes to the financial statements provide additional information that is essential to fully understanding the data provided in the government-wide and fund financial statements.

d -- Other information

The Required Supplementary Information (RSI) section immediately follows the basic financial statements and related notes section of this report. The City adopts an annual appropriated budget for the General Fund plus sixteen separately budgeted activities, all of which comprise the General Fund for GAAP reporting. RSI provides a comparison of revenues, expenditures and other financing sources and uses to budget and demonstrates budgetary compliance. In addition, trend information related to the City's retirement and other postemployment benefits plans is presented in RSI. Following the RSI are other statements and schedules, including the combining statements for nonmajor governmental and enterprise funds, internal service funds, and fiduciary funds.

Management's Discussion and Analysis
September 30, 2021
City of Austin, Texas
(Continued)
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS
a -- Net position

The City restated the beginning net position for governmental activities as a result of the implementation of GASB Statement No. 84, "Fiduciary Activities." For more information, see Note 19.

The following table reflects a summary statement of net position compared to prior year, as restated:

Condensed Statement of Net Position						
as of September 30						
(in thousands)						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2021	2020	2021	2020	2021	2020
Current assets	\$ 798,949	779,982	1,839,337	1,867,245	2,638,286	2,647,227
Capital assets	3,534,103	3,305,902	9,233,077	8,974,945	12,767,180	12,280,847
Other noncurrent assets	393,899	246,952	3,102,554	2,854,365	3,496,453	3,101,317
Total assets	4,726,951	4,332,836	14,174,968	13,696,555	18,901,919	18,029,391
Deferred outflows of resources	1,682,325	1,576,856	1,126,855	1,021,150	2,809,180	2,598,006
Current liabilities	631,759	503,997	627,429	582,656	1,259,188	1,086,653
Noncurrent liabilities	5,425,174	5,712,633	8,832,303	8,403,024	14,257,477	14,115,657
Total liabilities	6,056,933	6,216,630	9,459,732	8,985,680	15,516,665	15,202,310
Deferred inflows of resources	1,144,823	286,661	1,816,505	1,713,928	2,961,328	2,000,589
Net position:						
Net investment in capital assets	2,208,451	1,999,355	2,408,833	2,303,795	4,617,284	4,303,150
Restricted	265,681	242,516	1,107,411	1,085,723	1,373,092	1,328,239
Unrestricted (deficit)	(3,266,612)	(2,835,470)	509,342	628,579	(2,757,270)	(2,206,891)
Total net position	\$ (792,480)	(593,599)	4,025,586	4,018,097	3,233,106	3,424,498

In the current fiscal year, total assets increased \$872.5 million and deferred outflows of the City increased by \$211.2 million. Total liabilities increased \$314.4 million and deferred inflows increased by \$960.7 million. Governmental-type total assets increased by \$394.1 million and business-type increased by \$478.4 million, while governmental-type liabilities decreased by \$159.7 million and business-type increased by \$474.1 million.

The most significant increase in governmental total assets resulted from an increase in capital assets of \$228.2 million as the City continues to build out projects from the 2012, 2016, and 2018 bond programs. Factors in the decrease of governmental-type liabilities of \$159.7 million include a decrease in net pension liability of \$797.2 million offset by an increase in OPEB liability of \$482.4 million, bonds payable of \$40.6 million, and other liabilities of \$74.4 million. A 3.15% increase in the discount rate used in calculating the Police Officers' fund net pension liability resulted in a decrease of \$711.4 million. The discount rate changed as the result of legislative changes to both the City and Police Officer contributions to the system. The increase in OPEB liability is primarily due to the change in discount rate assumption from 2.74% to 2.12%.

The most significant factor in the increase of business-type total assets is related to the \$258.1 million in capital assets, of which approximately \$106.6 million is related to various water and wastewater treatment plant improvements including installation of advanced metering infrastructure, construction of the North Austin Reservoir, and pump station improvements. Another factor is an increase in regulatory assets, which consists of a \$111.6 million increase in Austin Energy deferred depreciation and a combined increase of \$97.6 million in deferred pension and OPEB expenses for Austin Energy and Austin Water. The primary factors in the increase in business-type total liabilities of \$474.1 million include an increase in both the OPEB liability of \$359.5 million and bonds payable of \$249.2 million offset by a decrease in commercial paper of \$187.9 million.

As noted earlier, net position may serve as a useful indicator of a government's financial position. For the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$3.2 billion at the end of the current fiscal year. However, the largest portion of the City's net position is represented in the net investment in capital assets (e.g. land, buildings, and equipment offset by related debt), which is \$4.6 billion, or 142.8% of the total amount of the City's net position. The City uses these capital assets to provide services to citizens. Capital assets are generally not highly liquid; consequently, they are not considered future available resources. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion, \$1.4 billion of the City's net position, represents resources that are subject to external restrictions on how they may be used in the future. The remaining balance is a deficit of \$2.8 billion of unrestricted net position. Unrestricted net position decreased \$550.4 million in the current fiscal year.

Management's Discussion and Analysis
September 30, 2021
City of Austin, Texas
(Continued)
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued
a—Net position, continued

At the end of the current fiscal year, the City reported positive balances in all three categories of net position for business-type activities. However, both governmental activities and the government as a whole, reported deficits of \$3.3 billion and \$2.8 billion for unrestricted net position, respectively.

b -- Changes in net position
Condensed Statement of Changes in Net Position
September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Program revenues:						
Charges for services	\$ 126,643	119,052	2,461,429	2,527,607	2,588,072	2,646,659
Operating grants and contributions	182,566	190,534	32,377	24,383	214,943	214,917
Capital grants and contributions	99,864	60,724	150,385	147,545	250,249	208,269
General revenues:						
Property tax	937,352	732,336	--	--	937,352	732,336
Sales tax	281,784	246,658	--	--	281,784	246,658
Franchise fees and gross receipts tax	120,085	117,810	--	--	120,085	117,810
Interest and other	40,374	41,862	3,187	37,553	43,561	79,415
Special item - land sale	--	--	--	--	--	--
Total revenues	1,788,668	1,508,976	2,647,378	2,737,088	4,436,046	4,246,064
Program expenses:						
General government	327,126	283,532	--	--	327,126	283,532
Public safety	853,434	842,450	--	--	853,434	842,450
Transportation, planning, and sustainability	232,056	88,948	--	--	232,056	88,948
Public health	204,819	278,340	--	--	204,819	278,340
Public recreation and culture	185,110	178,481	--	--	185,110	178,481
Urban growth management	242,225	162,677	--	--	242,225	162,677
Interest on debt	68,724	69,002	--	--	68,724	69,002
Electric	--	--	1,256,788	1,345,003	1,256,788	1,345,003
Water	--	--	245,336	318,889	245,336	318,889
Wastewater	--	--	232,053	263,230	232,053	263,230
Airport	--	--	213,129	216,183	213,129	216,183
Convention	--	--	65,938	76,382	65,938	76,382
Environmental and health services	--	--	155,957	134,680	155,957	134,680
Public recreation	--	--	10,293	9,681	10,293	9,681
Urban growth management	--	--	334,450	312,267	334,450	312,267
Total expenses	2,113,494	1,903,430	2,513,944	2,676,315	4,627,438	4,579,745
Excess (deficiency) before transfers	(324,826)	(394,454)	133,434	60,773	(191,392)	(333,681)
Transfers	125,945	70,698	(125,945)	(70,698)	--	--
Increase (decrease) in net position	(198,881)	(323,756)	7,489	(9,925)	(191,392)	(333,681)
Beginning net position, as previously reported	(600,610)	(276,854)	4,018,097	4,028,022	3,417,487	3,751,168
Restatement adjustment	7,011	--	--	--	7,011	--
Beginning net position, as restated (see Note 19)	(593,599)	(276,854)	4,018,097	4,028,022	3,424,498	3,751,168
Ending net position	\$ (792,480)	\$ (600,610)	4,025,586	4,018,097	3,233,106	3,417,487

Total net position of the City decreased by \$191.4 million in the current fiscal year. Governmental net position decreased by \$198.9 million. The decrease is attributable to expenses exceeding revenues by \$324.8 million before transfers from other funds of \$125.9 million. Business-type net position increased by \$7.5 million due to revenues exceeding expenses of \$133.4 million before transfers of \$125.9 to other funds.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

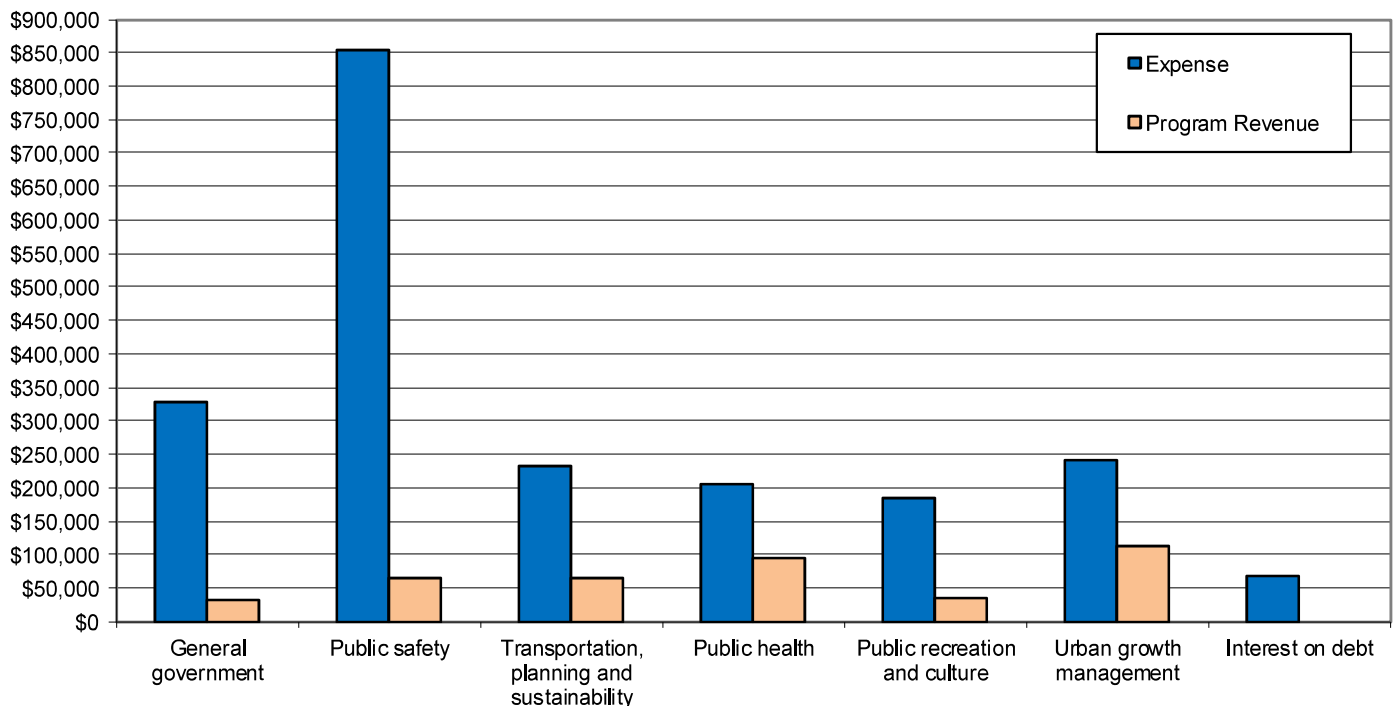
c -- Program revenues and expenses -- governmental activities

Governmental activities decreased the City’s net position by \$198.9 million in fiscal year 2021, a 33.5% decrease of governmental net position from the previous year. The primary reason for the decrease in net position is due to expenses related to the ongoing COVID-19 response effort, which the City anticipates to recover through the Federal Emergency Management Agency (FEMA) Public Assistance program in subsequent fiscal years. Additional factors that contributed to the change from fiscal year 2020 to 2021 are as follows:

- Property taxes increased \$205.0 million due to an increase in assessed property values of \$8.1 billion as well as a property tax rate increase from \$0.4431 to \$0.5335 per \$100 of valuation. Approximately \$150 million of this amount, or \$0.0875 of the \$0.0904 total tax rate increase, was approved by voters in November 2020 to fund the Project Connect System Plan (Project Connect). On the expense side, transportation, planning, and sustainability expenses increased by \$143.1 million as a result of the payment of these tax collections to ATP for the implementation of Project Connect.
- General government expenses increased by \$43.6 million due to a \$21.2 million transfer of support service functions from the Police Department to the Support Service fund and an increase of \$17.3 million related to pandemic response for various emergency relief programs.
- Public health expenses decreased by \$73.5 million due to the decrease in expenses funded by the Federal Coronavirus Aid, Relief, and Economic Security Act (CARES) Coronavirus Relief Fund (CRF). Additionally, the City’s grants and contributions also decreased by \$95.2 million due to the decrease in CARES–CRF federal assistance, which supported emergency management, public safety costs, quarantine facilities, rental assistance, and various economic support programs.
- Urban growth management expenses increased by \$79.5 million primarily due to expenses funded by the Emergency Rental Assistance program in the amount of \$55.9 million. In addition, AHFC purchased \$20.6 million of land for use towards housing assistance and housing projects.

The chart below illustrates the City’s governmental expense and revenues by function: general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; urban growth management; and interest on debt.

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

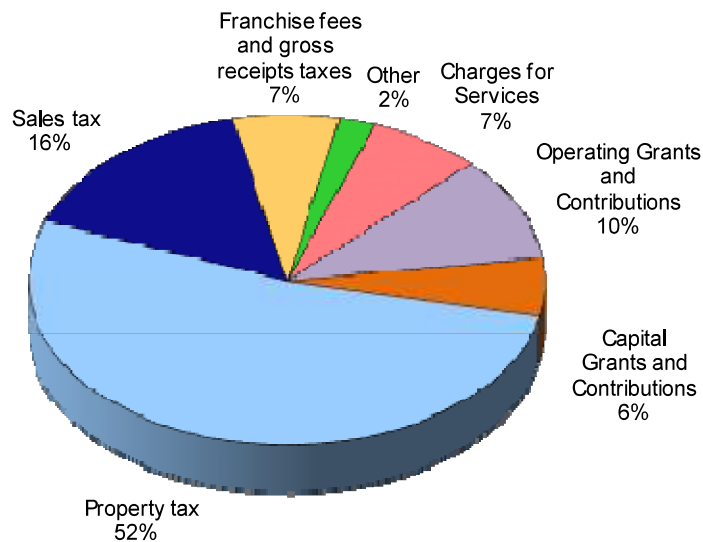


FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

c -- Program revenues and expenses -- governmental activities, continued

General revenues such as property taxes, sales taxes, and franchise fees are not shown by program, but are used to support all governmental activities. Property taxes are the largest source of governmental revenues, followed by sales taxes, and operating grants and contributions.

Government-wide Revenues by Source -- Governmental Activities



d -- Program revenues and expenses -- business-type activities

Business-type activities increased the City's net position by approximately \$7.5 million, accounting for a 0.2% increase in the City's total net position. Key factors include:

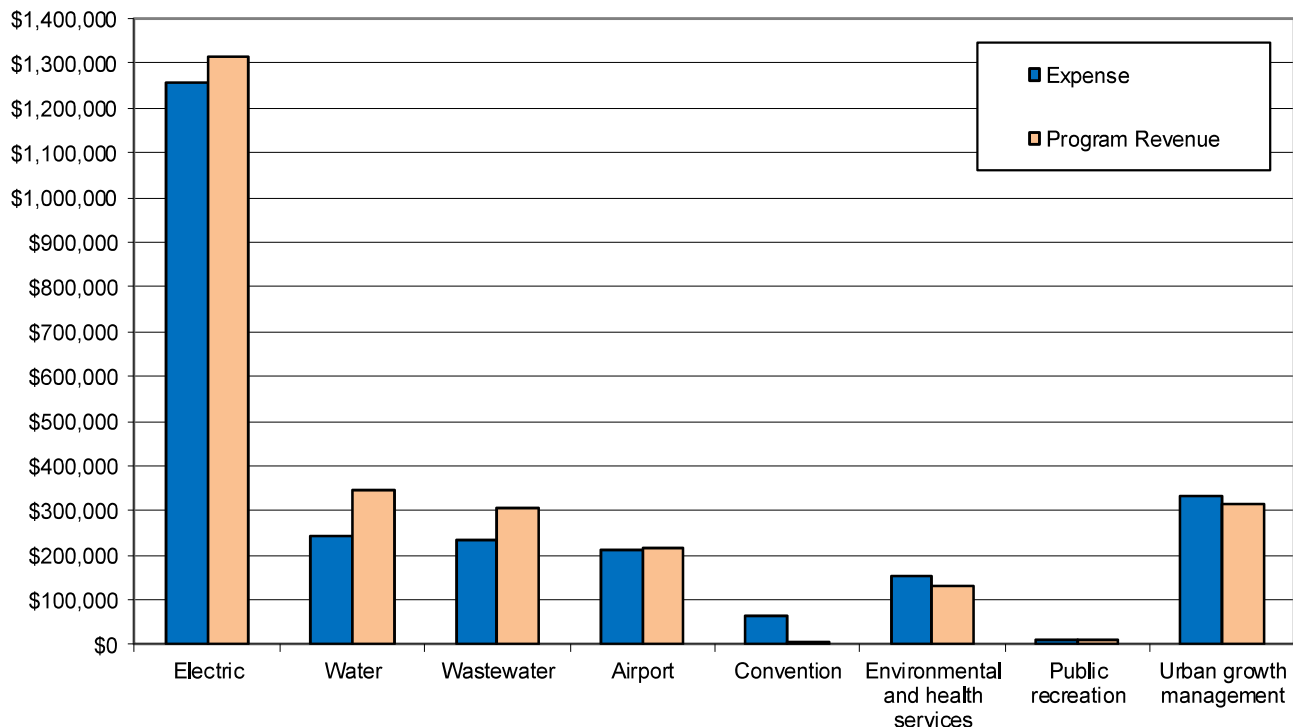
- Austin Energy net position decreased \$56.2 million. This decrease can be attributed to lower base revenue and interest income due to lower utility usage and lower interest rates on investments.
- Austin Water net position increased approximately \$116.4 million. Revenues remained constant from the previous year. Expenses decreased by 18% mainly due to a regulatory accounting adjustment to deferred depreciation.
- Airport net position increased approximately \$5.4 million. Revenue increased 13.3% due to a steady increase in passenger traffic, resulting in an increase of rental revenue, landing fees, and parking revenue. In addition, Airport received \$8.4 million more in CARES-CRF grant funds than the prior year. Expenses decreased 1.4%, due to a decrease in operating and maintenance expenses.
- Convention Center net position decreased approximately \$16.4 million. Revenues decreased 63.9% due to the cancellation of events because of COVID-19. As a result of the decrease in events, revenues from facility, food and beverage concessions decreased. Parking revenues also saw a decrease due to the loss of contract, daily, and event parking. Cost containment measures, such as a hiring freeze, were put in place to help mitigate the decrease in revenues. These measures allowed for operating expenses in personnel, contractual, and commodities to decrease, which aided in overall expenses decreasing by 13.7%.
- Environmental and health services is comprised of the Austin Resource Recovery nonmajor enterprise fund. Net position decreased approximately \$24.9 million. Revenues increased 9.7% due mainly to an increase in the base fee for residential accounts and an increase in revenue from the Clean Community Fee. Expenses increased by 15.8% primarily due to an increase in the OPEB liability and an increase in the landfill post closure liability estimate.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued
d -- Program revenues and expenses -- business-type activities, continued

- Urban growth management activities are comprised of the following nonmajor enterprise funds: Development Services, Drainage, and Transportation. Net position for the urban growth management activities decreased by approximately \$18.1 million.
 - Development Services revenues increased by 12.2%, primarily as a result of increased revenues generated from review, permitting, and inspections associated with residential and commercial development. Expenditures increased 1.3% overall, with the primary drivers being an increase in employee wages, fleet maintenance and fuel allocations, and other overhead costs. Although revenues increased by a greater amount than expenses, the fund still experienced a \$6.6 million loss in net position.
 - Drainage revenues decreased 14.1% primarily due to a decrease in contributions of \$26.0 million from prior year related to phase two of the home buyout program. Expenses increased 11.4% due to the addition of 34 positions, administrative support, interdepartmental charges, and services related to the homelessness encampment cleanup.
 - Transportation revenues increased 3.6%, because of a \$0.25 increase in the monthly Transportation User Fee coupled with the effects of population growth. Expenditures increased 7.6% overall with the primary drivers being an increase in service contracts and an increase in the OPEB liability estimate.

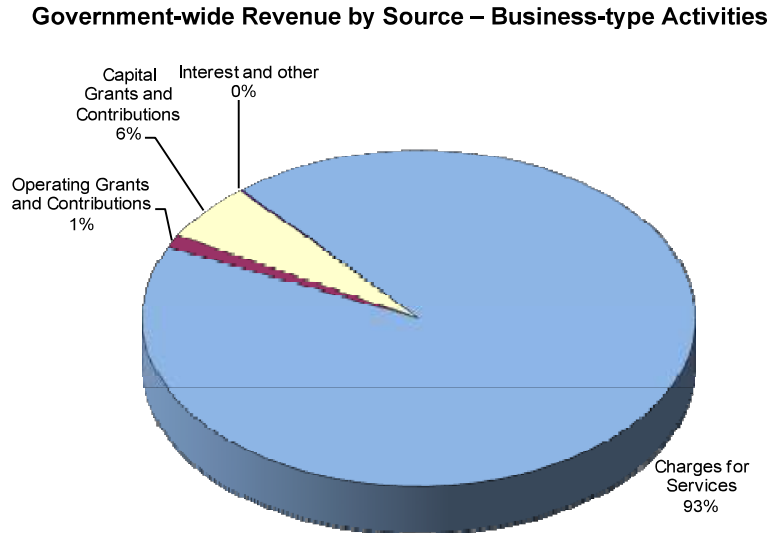
As shown in the following chart, Austin Energy (electric), with expenses of \$1.3 billion is the City’s largest business-type activity, followed by urban growth management with \$334.5 million, water with \$245.3 million, wastewater with \$232.1 million, airport with \$213.1 million, environmental and health services with \$156.0 million, convention with \$65.9 million, and public recreation with \$10.3 million. For the fiscal year, expenses exceeded revenues for convention, environmental and health services, and urban growth management activities.

Government-wide Expenses and Program Revenues -- Business-type Activities
(Excludes General Revenues and Transfers)
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued
d -- Program revenues and expenses -- business-type activities, continued

For all business-type activities, charges for services provide the largest percentage of revenues, followed by capital grants and contributions, operating grants and contributions, and interest and other revenues.



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

In comparison to the government-wide statements, the fund-level statements focus on the key funds of the City. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

a -- Governmental funds

The City reports the following types of governmental funds: the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and available resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year.

At the end of the fiscal year, the City's governmental funds reported combined ending fund balances of \$559.4 million, a decrease of \$25.9 million from the previous year. Approximately \$4.4 million is nonspendable, \$300.0 million is restricted, \$59.1 million is committed, \$244.0 million is assigned, and a deficit of \$48.3 million is unassigned.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the General Fund reported nonspendable fund balance of \$3.4 million, assigned fund balance of \$116.4 million, and unassigned fund balance of \$153.3 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 13.5% of total General Fund expenditures of \$1.1 billion, and total fund balance represents 24.0% of expenditures. The City's financial policies provide that surplus fund balance be identified for budget stabilization. This amount is a component of unassigned fund balance. The fund balance identified for budget stabilization was \$68.8 million. The balance identified for budget stabilization may be appropriated to fund capital or other one-time expenditures in the subsequent fiscal year, if the reserve exceeds six percent of total General Fund requirements, but such appropriation should not exceed one-third of the total amount in the reserve.

The fund balance of the General Fund increased \$1.0 million during the fiscal year. Significant differences from the previous year include:

- Property tax revenues increased \$34.8 million due primarily to an increase in assessed property values.
- Sales tax revenue increased \$35.1 million due to economic growth and revival of activity from the pandemic.
- General government expenditures increased by \$38.3 million due to the City's ongoing COVID-19 response activities.
- Public Safety expenditures increased by \$78.9 million as a result of the decrease in CARES-CRF funded reimbursements.
- Transfers in increased by \$14 million to help fund various iconic venue, business preservation, and COVID-19 response programs.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

b -- Proprietary funds

The City's proprietary funds provide the same type of information found in the business-type activities of the government-wide financial statements, but in more detail. Overall, net position of the City's enterprise funds increased by \$10.2 million before consolidation of the internal service funds activities.

Factors that contributed to the increase in net position are discussed in the business-type activities section of the government-wide section.

OTHER INFORMATION

a -- General Fund budgetary highlights

There were several budget amendments during fiscal year 2021:

- The Police Department expense budget, transfers in and transfers out decreased by \$27,994,537 for the creation of two new departments: Emergency Communications (\$16,085,640) and Forensic Science (\$11,908,897). In addition, the Police Department expense budget decreased and transfers out increased due to the Alarm Permitting Unit moving to the Development Services Fund (\$551,790). There was an additional decrease to transfers in and transfers out of \$17,309,632 due to the movement of support functions to the Support Services Fund.
- Other Urban Growth Management expenses and transfers in increased by \$2,400,000 due to the creation of the new Iconic Venue Fund.
- Neighborhood Housing - Housing Trust Fund transfers out increased \$13,250,000 and Housing and Planning expenses decreased by \$900,000 to support the Capital-Housing Trust Fund.
- General City Responsibilities expense budget increased by \$18,800,000 and transfers in increased by \$8,800,000 due to the following ongoing COVID-19 response activities:
 - \$15,000,000 for Save Austin's Vital Economic Sectors (SAVES) program to support COVID-19 emergency relief.
 - \$1,500,000 to provide economic recovery support to local businesses impacted by COVID-19 and to support emergency food access
 - \$2,300,000 for business preservation

During the year, actual-budget basis revenues were \$37.2 million more than budgeted. Property taxes were \$17.2 million more than budgeted due to an increase in overall property values. Sales taxes were \$36.5 million more than budgeted due to ongoing COVID-19 economic recovery. Traffic and other fines were \$2.3 million less than budgeted due to a combination of less tickets issued as well as Municipal Court closures when COVID-19 risk levels were high. Recreation and culture revenues were \$5.2 million less than budgeted due to reduced services as part of the COVID-19 response. Interest was \$2.2 million lower than budgeted due to significantly lower interest rates than expected.

Actual-budget basis expenditures were \$5.1 million less than budgeted. Most departments were under budget except for Austin Public Health, which was over budget by \$0.7 million. General City Responsibilities was over budget by \$31.6 million, due to ongoing COVID-19 response. In addition, the City realized less reimbursements related to CARES-CRF in fiscal year 2021 which lead to expense refunds being under budget. EMS was under budget \$1.8 million due to fewer events requiring EMS services and less travel due to COVID-19 restrictions. Fire was under budget \$2.6 million due to higher than expected FEMA and Travis County reimbursements and lower than expected contractual costs due to COVID-19 restrictions. Police was under budget by \$1.2 million due to the Reimagining Public Safety initiative. Library was under budget \$3.9 million due to a high employment vacancy rate from higher than expected turnover and retirements. Parks and Recreation was under budget \$7.3 million due to reduced services as part of the COVID-19 response. Housing and Planning was under budget \$13.2 million due to lack of projects which met the criteria specified in the ordinance, projects in the early development stage for which funds were budgeted but not encumbered or spent, and the prioritization of federally funded COVID-19 relief programs related to displacement prevention. Other Urban Growth Management was under budget \$6.2 million due to federal funding reimbursements from CARES-CRF and SAVES for COVID-19 response activities. The total budget-basis fund balance at year-end was \$208.6 million.

Management's Discussion and Analysis
September 30, 2021
City of Austin, Texas
(Continued)
OTHER INFORMATION, continued
b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2021, total \$12.8 billion (net of accumulated depreciation and amortization). Capital assets include buildings and improvements, plant and equipment, vehicles, electric plant, non-electric plant, nuclear fuel, water rights, infrastructure, land and improvements, construction in progress, and plant held for future use. The total increase in the City's capital assets for the current fiscal year was \$486.3 million, with an increase of 6.9% for governmental activities and an increase of 2.9% for business-type activities. Additional information regarding the City's capital assets can be found in Note 5. Capital asset balances are as follows:

	Capital Assets, Net of Accumulated Depreciation and Amortization (in millions)					
	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Building and improvements	\$ 917	828	2,261	2,250	3,178	3,078
Plant and equipment	88	98	2,557	2,446	2,645	2,544
Vehicles	77	62	103	86	180	148
Electric plant	--	--	2,429	2,434	2,429	2,434
Non-electric plant	--	--	167	175	167	175
Nuclear fuel	--	--	51	47	51	47
Water rights	--	--	78	79	78	79
Infrastructure	1,717	1,711	--	--	1,717	1,711
Land and improvements	483	409	811	787	1,294	1,196
Construction in progress	222	168	747	644	969	812
Plant held for future use	--	--	23	23	23	23
Other assets not depreciated	30	30	6	4	36	34
Total net capital assets	\$ 3,534	3,306	9,233	8,975	12,767	12,281

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

- Governmental capital assets increased \$228.2 million primarily due to additions of new facilities and improvements to existing facilities. Significant additions and improvements include acquisitions of parkland, pedestrian and cycling facility improvements, and street reconstructions funded by 2012, 2016, and 2018 bond programs. During the fiscal year, construction was completed at Waterloo Park and the City of Austin FIRE51 and EMS40 station in Southwest Austin. Additionally, the City closed on the purchase of two additional hotels to continue to meet future needs of people experiencing homelessness in the community.
- Business-type activities purchased, constructed, or received capital asset contributions of \$258.1 million. Asset additions included ongoing construction of an updated data center for IT services and completion of a consolidated maintenance facility at the Airport, installation of advanced water metering infrastructure, and construction of the North Austin Reservoir and pump station improvements. Additionally, Austin Energy closed on the purchase of their new corporate headquarters, the Mueller Office Building.

Management's Discussion and Analysis
September 30, 2021
City of Austin, Texas
(Continued)
OTHER INFORMATION, continued
c -- Debt administration

At the end of the current fiscal year, the City reported \$7.5 billion in outstanding debt. The table below reflects the outstanding debt at September 30. Additional information can be found in Note 6.

	Outstanding Debt					
	General Obligation and Revenue Debt					
	(in millions)					
	Governmental		Business-Type		Total	
Activities		Activities				
2021	2020	2021	2020	2021	2020	
General obligation bonds and other tax supported debt, net	\$ 1,527	1,487	71	80	1,598	1,567
Commercial paper notes, net	--	--	179	366	179	366
Revenue bonds, net	--	--	5,461	5,228	5,461	5,228
Revenue notes from direct placements, net	--	--	198	173	198	173
Capital lease obligations	21	26	1	1	22	27
Total	\$ 1,548	1,513	5,910	5,848	7,458	7,361

During fiscal year 2021, the City's total outstanding debt increased by \$96.8 million. The City issued new debt and refinanced portions of existing debt to achieve lower borrowing costs. Debt issues include the following:

- Outstanding debt for governmental activities increased by \$35.5 million. The resulting net increase is a combination of the issuance of \$268.1 million in new debt to be used primarily for facility improvements, water quality protection, streets and mobility, new fire stations, a planning and development center, capital equipment, curbside composting expansion, and affordable housing, offset by the refunding portion of the issuance of \$98.8 million and debt payments during the year.
- Outstanding debt for business-type activities increased by \$61.3 million. The City issued \$227.5 million of Electric Utility System Revenue Refunding and Improvement bonds for the construction and acquisition of Austin Energy's new headquarters complex and to refund commercial paper and revenue bond debt. Additionally, the City issued \$203.5 million in Water and Wastewater System revenue refunding bonds to refund commercial paper and revenue bond debt, and \$36.8 of Water and Wastewater System revenue bonds to improve and extend the water and wastewater system. These issuances were offset by debt payments during the year.

During the year, the rating for the City's General Obligation bonds was revised by Fitch Ratings, Inc. from AAA to AA+, and the rating for the City's Taxable Commercial Paper Notes was revised by Fitch Ratings, Inc. from F1+ to F1. The City's commercial paper ratings are related to the ratings of the liquidity providers associated with those obligations. All other bond ratings were unchanged. Ratings of the City's obligations for various debt instruments at September 30, 2021 and 2020 were as follows:

Debt	Moody's Investors		Standard		Fitch Ratings, Inc.	
	Service, Inc.		& Poor's			
	2021	2020	2021	2020	2021	2020
General obligation bonds and other tax supported debt	Aa1	Aa1	AAA	AAA	AA+	AAA
Commercial paper notes - tax exempt	P-1	P-1	A-1+	A-1+	F1+	F1+
Commercial paper notes - taxable	P-1	P-1	A-1+	A-1+	F1	F1+
Utility revenue bonds - subordinate lien	Aa2	Aa2	AA	AA	AA-	AA-
Utility revenue bonds - separate lien:						
Austin Energy	Aa3	Aa3	AA	AA	AA	AA
Austin Water Utility	Aa2	Aa2	AA	AA	AA-	AA-
Airport system revenue bonds	A1	A1	A	A	NUR (1)	NUR (1)
Convention Center revenue bonds	Aa3	Aa3	AA	AA	NUR (1)	NUR (1)

(1) No underlying rating

OTHER INFORMATION, continued**d -- Economic factors and next year's budget and rates**

Recovery from the COVID-19 pandemic continued to be the most significant economic factor of this past year for Austin and the nation, with the focus shifting from stay-at-home orders and capacity restrictions to vaccinations and variant response activities. With Austin's economy strong prior to the pandemic, and doing unexpectedly well during the pandemic, many metrics continue to show improvement, proving Austin's resilience.

Austin's growing and diverse economic base and national reputation continues to attract new employers and talented individuals to the area. In fact, Austin has not had a decade of growth under double digits since its population first started being tracked in 1840. The Austin economy is expected to continue to expand at rates above the national economy. The Austin area gained over 80,000 jobs from December 2020 through December 2021 driven primarily by gains in the professional and business services and hospitality sector, which shed the most jobs in 2020. As of December 2021, the unemployment rate for the Austin-Round Rock MSA was 2.9%, while the state unemployment rate was 5.0% and the national unemployment rate was 3.9%.

A record-breaking number of companies announced plans to relocate or expand operations in the Austin Metro area in 2021. These businesses, which range from technology to manufacturing to financial services anticipate creating nearly 27,000 new jobs. This naturally creates higher demand for real estate which continues to see an increase in both sales and prices, particularly in the residential and industrial sectors. In 2021 the Austin metro residential market experienced a 2.5% increase in sales compared with the same period in 2020. Sales tax revenue increased 14.2% from the previous year, another indicator of the economic rebound. Overall, Austin proved to be less exposed to the industries most affected by COVID-19 and economic recovery continues to strengthen.

While development of the City's fiscal year 2022 budget remained primarily remote and on-line, it also remained a process true to City Management's unwavering commitment to openness, transparency, and public engagement. The overriding goal of the 2022 budget process was to maintain City operations with no furloughs or layoffs and to support the community through the uncertainty of the pandemic. The budget is projected to increase General Fund reserves to 14% (from 12%) without any significant increases to taxes or fees. Each year during the budget process, the Austin City Council adopts a comprehensive set of financial policies that provide the foundation for long-range financial sustainability. These financial policies are directly aligned with the City Council's underlying goals of budget stability, maintaining affordability, investing in future economic development, infrastructure needs, and quality of life. These policies are also crucial in maintaining the City's favorable bond ratings. Fitch Ratings, Inc. downgraded their rating on the City's general obligation bonds to AA+ around their continued concerns over pension liabilities and new provisions for binding arbitration on labor contract negotiations with the Austin Fire Association. The City has taken corrective action to improve the financial condition of both the City of Austin Employees' Retirement System (COAERS) and the Austin Police Retirement System, reducing amortization periods to 32 and 31 years, respectively. In addition, further steps to improve the financial condition of the COAERS are expected to be addressed during the next State legislative session.

Taxable property values within the City increased by 3.87% in 2021 for fiscal year 2022. The property tax rate for fiscal year 2022 is 54.10 cents per \$100 valuation, up from 53.35 cents per \$100 valuation in 2021. The tax rate consists of 42.80 cents for the General Fund and Project Connect, and 11.30 cents for debt service. The change in property tax for the median valued home for 2022 is (\$17.12) based on the increase of the homestead exemption from 10% to 20% which was approved by City Council in June. This decrease in property tax will partially offset increases to fees for Austin Resource Recovery and the Transportation User Fee. There are no changes to the Drainage Utility Fee, Austin Energy rates or Austin Water rates.

e -- Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Controller's Office of the City of Austin, P.O. Box 2920, Austin, Texas 78768, or (512) 974-2600 or on the web at: <https://www.austintexas.gov>.



BASIC FINANCIAL STATEMENTS



Statement of Net Position
September 30, 2021
(In thousands)

City of Austin, Texas
Exhibit A-1

	Governmental Activities	Business-type Activities	Total (†)	Component Units
ASSETS				
Current assets:				
Cash	\$ 45	65	110	219,805
Pooled investments and cash	631,084	926,660	1,557,744	--
Pooled investments and cash - restricted	--	157,000	157,000	--
Total pooled investments and cash	631,084	1,083,660	1,714,744	--
Investments - restricted	30,488	223,188	253,676	--
Cash held by trustee	--	463	463	--
Cash held by trustee - restricted	9,389	857	10,246	--
Working capital advances	--	2,687	2,687	--
Property taxes receivable, net of allowance \$8,070	10,289	--	10,289	--
Accounts receivable, net of allowance \$406,810	123,900	271,115	395,015	1,340
Interest receivable	2,164	1,492	3,656	--
Receivables from other governments	28,263	59	28,322	--
Receivables from other governments - restricted	--	4,883	4,883	1,561
Notes receivable, net of allowance \$26,718	42,092	--	42,092	--
Inventories, at cost	2,967	97,246	100,213	173
Internal balances	(99,410)	99,410	--	--
Real property held for resale	4,177	--	4,177	--
Regulatory assets, net of accumulated amortization	--	21,133	21,133	--
Prepaid expenses	11,717	24,407	36,124	2,263
Other receivables - restricted	--	4,080	4,080	--
Other assets	1,784	4,592	6,376	--
Total current assets	798,949	1,839,337	2,638,286	225,142
Noncurrent assets:				
Cash - restricted	--	4,790	4,790	--
Pooled investments and cash - restricted	273,155	771,487	1,044,642	--
Due from component units - restricted	--	1,350	1,350	--
Investments - restricted	--	417,815	417,815	43,804
Investments held by trustee - restricted	9,038	283,538	292,576	--
Cash held by trustee - restricted	963	--	963	5,686
Interest receivable - restricted	--	546	546	--
Depreciable capital assets, net	2,798,893	7,645,495	10,444,388	194,193
Nondepreciable capital assets	735,210	1,587,582	2,322,792	46,500
Derivative instruments - energy risk management	--	2,330	2,330	--
Regulatory assets, net of accumulated amortization	--	1,531,350	1,531,350	--
Other receivables - restricted	--	7,789	7,789	--
Other long-term assets	110,743	59,946	170,689	144
Other long-term assets - restricted	--	21,613	21,613	--
Total noncurrent assets	3,928,002	12,335,631	16,263,633	290,327
Total assets	4,726,951	14,174,968	18,901,919	515,469
DEFERRED OUTFLOWS OF RESOURCES	\$ 1,682,325	1,126,855	2,809,180	12,605

(†) After internal receivables and payables have been eliminated.

(Continued)

The accompanying notes are an integral part of the financial statements.

Statement of Net Position
September 30, 2021
(In thousands)

City of Austin, Texas
Exhibit A-1
(Continued)

	Governmental Activities	Business-type Activities	Total (†)	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 72,963	119,337	192,300	6,454
Accounts and retainage payable from restricted assets	18,775	45,343	64,118	--
Accrued payroll	46,711	31,550	78,261	217
Accrued compensated absences	73,900	33,765	107,665	--
Claims payable	49,100	263	49,363	--
Due to other governments	--	4,092	4,092	--
Due to component units	--	2,189	2,189	--
Accrued interest payable from restricted assets	5	86,358	86,363	4,923
Interest payable on other debt	5,963	555	6,518	--
Bonds payable	83,441	8,434	91,875	58,042
Bonds payable from restricted assets	33,255	183,364	216,619	--
Other postemployment benefits liability	37,488	25,915	63,403	--
Capital lease obligations payable	5,264	66	5,330	--
Customer and escrow deposits payable from restricted assets	83,166	76,015	159,181	--
Accrued landfill closure and postclosure costs	--	855	855	--
Other liabilities	121,728	8,795	130,523	51,337
Other liabilities payable from restricted assets	--	533	533	--
Total current liabilities	631,759	627,429	1,259,188	120,973
Noncurrent liabilities, net of current portion:				
Accrued compensated absences	67,133	5,702	72,835	--
Claims payable	37,286	1,246	38,532	--
Commercial paper notes payable, net of discount	--	178,600	178,600	--
Bonds payable, net of discount and inclusive of premium	1,410,421	5,538,147	6,948,568	182,592
Net pension liability	1,346,529	831,474	2,178,003	--
Other postemployment benefits liability	2,532,517	1,750,447	4,282,964	--
Capital lease obligations payable	15,823	690	16,513	--
Accrued landfill closure and postclosure costs	--	18,944	18,944	--
Asset retirement obligations	518	437,881	438,399	--
Derivative instruments - interest rate swaps	--	21,490	21,490	--
Other liabilities	14,947	46,423	61,370	265
Other liabilities payable from restricted assets	--	1,259	1,259	--
Total noncurrent liabilities	5,425,174	8,832,303	14,257,477	182,857
Total liabilities	6,056,933	9,459,732	15,516,665	303,830
DEFERRED INFLOWS OF RESOURCES	1,144,823	1,816,505	2,961,328	911
NET POSITION				
Net investment in capital assets	2,208,451	2,408,833	4,617,284	41,750
Restricted for:				
Bond reserve	--	53,022	53,022	--
Capital projects	103,448	474,268	577,716	--
Debt service	29,799	136,872	166,671	19,209
Housing activities	44,660	--	44,660	23,000
Operating reserve	--	77,082	77,082	--
Passenger facility charges	--	67,468	67,468	--
Perpetual care:				
Nonexpendable	1,070	--	1,070	--
Public safety activities	12,838	--	12,838	--
Renewal and replacement	--	80,931	80,931	--
Strategic reserve	--	217,768	217,768	--
Tourism	36,611	--	36,611	--
Urban growth programs	30,361	--	30,361	--
Other purposes	6,894	--	6,894	--
Unrestricted (deficit)	(3,266,612)	509,342	(2,757,270)	139,374
Total net position	\$ (792,480)	4,025,586	3,233,106	223,333

(†) After internal receivables and payables have been eliminated.

The accompanying notes are an integral part of the financial statements.



**Governmental Funds
Balance Sheet
September 30, 2021
(In thousands)**

**City of Austin, Texas
Exhibit B-1**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 37	1	38
Pooled investments and cash	266,115	367,196	633,311
Investments - restricted	--	30,488	30,488
Cash held by trustee - restricted	--	6,269	6,269
Investments held by trustee - restricted	--	9,038	9,038
Property taxes receivable, net of allowance	7,782	2,507	10,289
Accounts receivable, net of allowance	85,215	34,530	119,745
Interest receivable	1,746	359	2,105
Receivables from other governments	3	27,810	27,813
Notes receivable, net of allowance	157	41,935	42,092
Due from other funds	--	128,441	128,441
Advances to other funds	--	70,176	70,176
Real property held for resale	--	4,177	4,177
Prepaid items	3,369	--	3,369
Other assets	--	1,784	1,784
Total assets	<u>364,424</u>	<u>724,711</u>	<u>1,089,135</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts payable	33,086	39,520	72,606
Accrued payroll	35,871	948	36,819
Accrued compensated absences	1,597	--	1,597
Due to other funds	5	128,436	128,441
Unearned revenue	--	95,949	95,949
Advances from other funds	--	70,021	70,021
Deposits and other liabilities	4,359	98,623	102,982
Total liabilities	<u>74,918</u>	<u>433,497</u>	<u>508,415</u>
DEFERRED INFLOWS OF RESOURCES	<u>16,404</u>	<u>4,944</u>	<u>21,348</u>
FUND BALANCES			
Nonspendable:			
Prepaid items	3,369	--	3,369
Permanent funds	--	1,070	1,070
Restricted	--	300,032	300,032
Committed	--	59,131	59,131
Assigned	116,428	127,620	244,048
Unassigned	153,305	(201,583)	(48,278)
Total fund balances	<u>273,102</u>	<u>286,270</u>	<u>559,372</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 364,424</u>	<u>724,711</u>	<u>1,089,135</u>

The accompanying notes are an integral part of the financial statements.

Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2021
(In thousands)

City of Austin, Texas
Exhibit B-1.1

Total fund balances - Governmental funds \$ 559,372

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.

Governmental capital assets	5,692,441	
Less: accumulated depreciation	<u>(2,226,209)</u>	3,466,232

Other long-term assets and certain revenues are not available as current-period resources and are not reported in the funds.

Other assets		110,743
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Deferred outflows represent the consumption of net position that are applicable to a future reporting period.

Pensions	807,297	
Other postemployment benefits	863,452	
Loss on debt refundings	<u>11,426</u>	1,682,175

Long-term liabilities are not payable in the current period and are not reported in the funds.

Compensated absences	(126,731)	
Interest payable	(5,963)	
Bonds and other tax supported debt payable, net	(1,525,731)	
Net pension liability	(1,346,529)	
Other postemployment benefits	(2,570,005)	
Capital lease obligations payable	(16,929)	
Other liabilities	<u>(15,525)</u>	(5,607,413)

Deferred inflows represent an acquisition of net position that is applicable to a future reporting period.

Unavailable revenue		
Property taxes and interest	10,160	
Accounts and other taxes receivable	11,188	
Pensions	(885,633)	
Other postemployment benefits	(124,609)	
Deferred gain on service concession agreement	(28,060)	
Deferred gain on public-private partnership arrangement	<u>(106,521)</u>	(1,123,475)

Internal service funds are used by management to charge the costs of capital project management, combined emergency communication center, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds.

Certain assets, deferred outflows of resources, liabilities and deferred inflows of resources of the internal service funds are included in governmental activities in the statement of net position.

119,886

Total net position - Governmental activities		<u>\$ (792,480)</u>
--	--	---------------------

The accompanying notes are an integral part of the financial statements.

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended September 30, 2021
(In thousands)

City of Austin, Texas
Exhibit B-2

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 567,041	375,328	942,369
Sales taxes	281,784	--	281,784
Franchise fees and other taxes	38,062	82,023	120,085
Fines, forfeitures and penalties	4,607	921	5,528
Licenses, permits and inspections	16,612	3,453	20,065
Charges for services/goods	57,278	21,692	78,970
Intergovernmental	--	186,511	186,511
Property owners' participation and contributions	--	36,992	36,992
Interest and other	17,246	22,938	40,184
Total revenues	<u>982,630</u>	<u>729,858</u>	<u>1,712,488</u>
EXPENDITURES			
Current:			
General government	251,070	773	251,843
Public safety	619,373	21,012	640,385
Transportation, planning, and sustainability	--	152,070	152,070
Public health	100,234	76,519	176,753
Public recreation and culture	127,716	2,389	130,105
Urban growth management	40,851	230,654	271,505
Debt service:			
Principal	--	150,825	150,825
Interest	--	67,710	67,710
Fees and commissions	--	33	33
Capital outlay-capital project funds	--	255,277	255,277
Total expenditures	<u>1,139,244</u>	<u>957,262</u>	<u>2,096,506</u>
Deficiency of revenues under expenditures	(156,614)	(227,404)	(384,018)
OTHER FINANCING SOURCES (USES)			
Issuance of tax supported debt	--	180,366	180,366
Issuance of refunding bonds	--	78,949	78,949
Bond premiums	--	50,545	50,545
Payment to refunding bond escrow agent	--	(93,417)	(93,417)
Transfers in	186,441	175,403	361,844
Transfers out	(28,863)	(191,355)	(220,218)
Total other financing sources (uses)	<u>157,578</u>	<u>200,491</u>	<u>358,069</u>
Net change in fund balances	964	(26,913)	(25,949)
Fund balances at beginning of year, as restated (see Note 19)	272,138	313,183	585,321
Fund balances at end of year	<u>\$ 273,102</u>	<u>286,270</u>	<u>559,372</u>

The accompanying notes are an integral part of the financial statements.

Governmental Funds
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
For the year ended September 30, 2021
(In thousands)

City of Austin, Texas
Exhibit B-2.1

Net change in fund balances - Governmental funds \$ (25,949)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay-capital project funds	255,277	
Capital outlay-other funds	56,637	
Depreciation expense	(145,278)	
Loss on disposal of capital assets	(3,597)	
Capital asset transfers to business-type activities, net	(4,413)	
Other asset adjustments	(27,863)	
	<u>130,763</u>	130,763

Revenues and transfers in the statement of activities that do not provide current available financial resources are not reported as revenues or transfers in the funds.

Property taxes	(5,017)	
Charges for services	3,529	
Capital asset contributions	72,129	
	<u>70,641</u>	70,641

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of long-term debt	(180,366)	
Principal repayment on long-term debt	150,825	
Issuance of refunding bonds	(78,949)	
Bond premiums	(50,545)	
Payment to refunding bond escrow agent	93,417	
	<u>(65,618)</u>	(65,618)

Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.

Compensated absences	4,939	
Pensions	(47,254)	
Other postemployment benefits	(254,838)	
Interest and other	32,903	
	<u>(264,250)</u>	(264,250)

A portion of the net revenue (expense) of the internal service funds is reported with the governmental activities.

(44,468)

Change in net position - Governmental activities

\$ (198,881)

The accompanying notes are an integral part of the financial statements.

Proprietary Funds
Statement of Net Position
September 30, 2021
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water	Airport
ASSETS			
Current assets:			
Cash	\$ 26	5	3
Pooled investments and cash	328,847	201,225	18,455
Pooled investments and cash - restricted	57,507	63,054	20,376
Total pooled investments and cash	386,354	264,279	38,831
Investments - restricted	85,454	88,532	40,959
Cash held by trustee	--	463	--
Cash held by trustee - restricted	--	857	--
Working capital advances	2,687	--	--
Accounts receivable, net of allowance	153,016	74,255	12,933
Interest receivable	850	237	57
Receivables from other governments	--	59	--
Receivables from other governments - restricted	1,163	--	3,720
Due from other funds	--	301	--
Inventories, at cost	88,940	1,750	1,908
Regulatory assets, net of accumulated amortization	21,133	--	--
Prepaid expenses	21,575	1,073	694
Other receivables - restricted	--	--	4,080
Other assets	3,500	102	990
Total current assets	764,698	431,913	104,175
Noncurrent assets:			
Cash - restricted	4,790	--	--
Pooled investments and cash - restricted	107,150	90,890	438,715
Advances to other funds	5,952	902	--
Advances to other funds - restricted	--	--	1
Due from component units - restricted	--	--	1,350
Investments - restricted	296,388	49,497	61,667
Investments held by trustee - restricted	240,598	42,940	--
Interest receivable - restricted	64	62	337
Depreciable capital assets, net	2,665,044	3,332,491	1,296,965
Nondepreciable capital assets	382,221	570,464	155,295
Derivative instruments - energy risk management	2,330	--	--
Regulatory assets, net of accumulated amortization	1,106,632	424,718	--
Other receivables - restricted	7,789	--	--
Other long-term assets	44,348	570	15,028
Other long-term assets - restricted	515	21,098	--
Total noncurrent assets	4,863,821	4,533,632	1,969,358
Total assets	5,628,519	4,965,545	2,073,533
DEFERRED OUTFLOWS OF RESOURCES	\$ 473,033	215,070	84,935

The accompanying notes are an integral part of the financial statements.

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
ASSETS			
Current assets:			
Cash	31	65	7
Pooled investments and cash	378,133	926,660	264,973
Pooled investments and cash - restricted	16,063	157,000	--
Total pooled investments and cash	394,196	1,083,660	264,973
Investments - restricted	8,243	223,188	--
Cash held by trustee	--	463	--
Cash held by trustee - restricted	--	857	4,083
Working capital advances	--	2,687	--
Accounts receivable, net of allowance	30,911	271,115	4,155
Interest receivable	348	1,492	59
Receivables from other governments	--	59	450
Receivables from other governments - restricted	--	4,883	--
Due from other funds	--	301	--
Inventories, at cost	4,648	97,246	2,967
Regulatory assets, net of accumulated amortization	--	21,133	--
Prepaid expenses	1,065	24,407	8,348
Other receivables - restricted	--	4,080	--
Other assets	--	4,592	--
Total current assets	439,442	1,740,228	285,042
Noncurrent assets:			
Cash - restricted	--	4,790	--
Pooled investments and cash - restricted	134,732	771,487	5,955
Advances to other funds	79	6,933	--
Advances to other funds - restricted	31	32	--
Due from component units - restricted	--	1,350	--
Investments - restricted	10,263	417,815	--
Investments held by trustee - restricted	--	283,538	--
Interest receivable - restricted	83	546	--
Depreciable capital assets, net	350,995	7,645,495	66,478
Nondepreciable capital assets	479,602	1,587,582	1,393
Derivative instruments - energy risk management	--	2,330	--
Regulatory assets, net of accumulated amortization	--	1,531,350	--
Other receivables - restricted	--	7,789	--
Other long-term assets	--	59,946	--
Other long-term assets - restricted	--	21,613	--
Total noncurrent assets	975,785	12,342,596	73,826
Total assets	1,415,227	14,082,824	358,868
DEFERRED OUTFLOWS OF RESOURCES	353,817	1,126,855	150

The accompanying notes are an integral part of the financial statements.

(Continued)

Proprietary Funds
Statement of Net Position
September 30, 2021
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water	Airport
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 98,036	4,917	2,686
Accounts and retainage payable from restricted assets	7,858	27,230	3,965
Accrued payroll	11,482	6,083	2,053
Accrued compensated absences	12,365	6,516	2,826
Claims payable	242	21	--
Due to other funds	--	--	--
Due to other governments	4,088	--	4
Due to component units	--	--	2,189
Accrued interest payable from restricted assets	30,325	36,993	18,574
Interest payable on other debt	38	36	--
Bonds payable	--	--	1
Bonds payable from restricted assets	86,427	61,102	26,225
Other postemployment benefits liability	7,735	5,269	2,340
Capital lease obligations payable	66	--	--
Customer and escrow deposits payable from restricted assets	54,553	10,359	1,415
Accrued landfill closure and postclosure costs	--	--	--
Other liabilities	2,285	860	4,276
Other liabilities payable from restricted assets	533	--	--
Total current liabilities	316,033	159,386	66,554
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	2,362	845	145
Claims payable	987	259	--
Advances from other funds	--	75	--
Advances from other funds payable from restricted assets	--	5,952	--
Commercial paper notes payable, net of discount	76,600	102,000	--
Bonds payable, net of discount and inclusive of premium	1,971,799	2,354,092	1,065,661
Net pension liability	307,542	160,979	61,118
Other postemployment benefits liability	522,522	355,914	158,041
Capital lease obligations payable	690	--	--
Accrued landfill closure and postclosure costs	--	--	--
Asset retirement obligations	436,599	1,282	--
Derivative instruments - interest rate swaps	--	14,383	--
Other liabilities	45,306	--	1,117
Other liabilities payable from restricted assets	1,259	--	--
Total noncurrent liabilities	3,365,666	2,995,781	1,286,082
Total liabilities	3,681,699	3,155,167	1,352,636
DEFERRED INFLOWS OF RESOURCES	\$ 603,191	967,295	178,020

The accompanying notes are an integral part of the financial statements.

(Continued)

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
LIABILITIES			
Current liabilities:			
Accounts payable	13,698	119,337	19,132
Accounts and retainage payable from restricted assets	6,290	45,343	--
Accrued payroll	11,932	31,550	9,892
Accrued compensated absences	12,058	33,765	10,100
Claims payable	--	263	49,100
Due to other funds	301	301	--
Due to other governments	--	4,092	--
Due to component units	--	2,189	--
Accrued interest payable from restricted assets	466	86,358	5
Interest payable on other debt	481	555	--
Bonds payable	8,433	8,434	269
Bonds payable from restricted assets	9,610	183,364	--
Other postemployment benefits liability	10,571	25,915	--
Capital lease obligations payable	--	66	2,043
Customer and escrow deposits payable from restricted assets	9,688	76,015	698
Accrued landfill closure and postclosure costs	855	855	--
Other liabilities	1,374	8,795	4,687
Other liabilities payable from restricted assets	--	533	--
Total current liabilities	85,757	627,730	95,926
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	2,350	5,702	2,605
Claims payable	--	1,246	37,286
Advances from other funds	1,093	1,168	--
Advances from other funds payable from restricted assets	--	5,952	--
Commercial paper notes payable, net of discount	--	178,600	--
Bonds payable, net of discount and inclusive of premium	146,595	5,538,147	1,117
Net pension liability	301,835	831,474	--
Other postemployment benefits liability	713,970	1,750,447	--
Capital lease obligations payable	--	690	2,115
Accrued landfill closure and postclosure costs	18,944	18,944	--
Asset retirement obligations	--	437,881	518
Derivative instruments - interest rate swaps	7,107	21,490	--
Other liabilities	--	46,423	--
Other liabilities payable from restricted assets	--	1,259	--
Total noncurrent liabilities	1,191,894	8,839,423	43,641
Total liabilities	1,277,651	9,467,153	139,567
DEFERRED INFLOWS OF RESOURCES	67,999	1,816,505	--

The accompanying notes are an integral part of the financial statements.

(Continued)

Proprietary Funds
Statement of Net Position
September 30, 2021
(In thousands)

	<u>Business-Type Activities</u>		
	<u>Austin Energy</u>	<u>Austin Water</u>	<u>Airport</u>
NET POSITION			
Net investment in capital assets	\$ 612,273	724,823	402,850
Restricted for:			
Bond reserve	30,242	10,550	4,961
Capital projects	50,557	45,608	243,591
Debt service	55,129	51,539	22,385
Operating reserve	--	52,701	18,961
Passenger facility charges	--	--	67,468
Renewal and replacement	70,391	--	10,000
Strategic reserve	217,768	--	--
Unrestricted	780,302	172,932	(142,404)
Total net position	<u>\$ 1,816,662</u>	<u>1,058,153</u>	<u>627,812</u>
Reconciliation to government-wide Statement of Net Position			
Adjustment to consolidate internal service activities	38,440	21,033	7,943
Total net position - Business-type activities	<u>\$ 1,855,102</u>	<u>1,079,186</u>	<u>635,755</u>

The accompanying notes are an integral part of the financial statements.

(Continued)

	<u>Business-Type Activities</u>		<u>Governmental Activities- Internal Service Funds</u>
	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	
NET POSITION			
Net investment in capital assets	668,887	2,408,833	62,327
Restricted for:			
Bond reserve	7,269	53,022	--
Capital projects	134,512	474,268	5,955
Debt service	7,819	136,872	--
Operating reserve	5,420	77,082	--
Passenger facility charges	--	67,468	--
Renewal and replacement	540	80,931	--
Strategic reserve	--	217,768	--
Unrestricted	(401,053)	409,777	151,169
Total net position	<u>423,394</u>	<u>3,926,021</u>	<u>219,451</u>
Reconciliation to government-wide Statement of Net Position			
Adjustment to consolidate internal service activities	32,149	99,565	
Total net position - Business-type activities	<u>455,543</u>	<u>4,025,586</u>	

The accompanying notes are an integral part of the financial statements.

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the year ended September 30, 2021
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water	Airport
OPERATING REVENUES			
Utility services	\$ 1,271,808	567,222	--
User fees and rentals	--	--	155,711
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	1,271,808	567,222	155,711
OPERATING EXPENSES			
Operating expenses before depreciation	1,055,984	311,047	121,776
Depreciation and amortization	280,815	132,572	44,155
Total operating expenses	1,336,799	443,619	165,931
Operating income (loss)	(64,991)	123,603	(10,220)
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	2,967	119	--
Interest on revenue bonds and other debt	(69,207)	(83,545)	(39,973)
Passenger facility charges	--	--	22,366
Cost (recovered) to be recovered in future years	148,814	53,668	--
Other nonoperating revenue (expense)	(712)	(2,949)	25,161
Total nonoperating revenues (expenses)	81,862	(32,707)	7,554
Income (loss) before contributions and transfers	16,871	90,896	(2,666)
Capital contributions	41,399	83,605	8,272
Transfers in	6,762	75	--
Transfers out	(122,367)	(57,230)	(41)
Change in net position	(57,335)	117,346	5,565
Beginning net position	1,873,997	940,807	622,247
Ending net position	\$ 1,816,662	1,058,153	627,812
Reconciliation to government-wide Statement of Activities			
Change in net position	(57,335)	117,346	5,565
Adjustment to consolidate internal service activities	1,135	(944)	(193)
Change in net position - Business-type activities	\$ (56,200)	116,402	5,372

The accompanying notes are an integral part of the financial statements.

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	Total	Activities- Internal Service Funds
OPERATING REVENUES			
Utility services	--	1,839,030	--
User fees and rentals	444,322	600,033	--
Billings to departments	--	--	507,362
Employee contributions	--	--	45,323
Operating revenues from other governments	--	--	5,400
Other operating revenues	--	--	13,151
Total operating revenues	444,322	2,439,063	571,236
OPERATING EXPENSES			
Operating expenses before depreciation	522,656	2,011,463	592,055
Depreciation and amortization	29,779	487,321	13,773
Total operating expenses	552,435	2,498,784	605,828
Operating income (loss)	(108,113)	(59,721)	(34,592)
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	101	3,187	137
Interest on revenue bonds and other debt	(5,473)	(198,198)	(77)
Passenger facility charges	--	22,366	--
Cost (recovered) to be recovered in future years	--	202,482	--
Other nonoperating revenue (expense)	(6,354)	15,146	(1,360)
Total nonoperating revenues (expenses)	(11,726)	44,983	(1,300)
Income (loss) before contributions and transfers	(119,839)	(14,738)	(35,892)
Capital contributions	17,217	150,493	4,784
Transfers in	61,805	68,642	349
Transfers out	(14,579)	(194,217)	(16,400)
Change in net position	(55,396)	10,180	(47,159)
Beginning net position	478,790	3,915,841	266,610
Ending net position	423,394	3,926,021	219,451
Reconciliation to government-wide Statement of Activities			
Change in net position	(55,396)	10,180	
Adjustment to consolidate internal service activities	(2,689)	(2,691)	
Change in net position - Business-type activities	(58,085)	7,489	

The accompanying notes are an integral part of the financial statements.

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2021
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 1,292,178	552,984	149,492
Cash received from other funds	28,359	9,181	--
Cash payments to suppliers for goods and services	(582,907)	(66,676)	(20,369)
Cash payments to other funds	(66,483)	(75,715)	(35,588)
Cash payments to employees for services	(234,256)	(128,102)	(45,360)
Cash payments to claimants/beneficiaries	(120)	(120)	--
Taxes collected and remitted to other governments	(41,021)	--	(1)
Net cash provided by operating activities	395,750	291,552	48,174
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	6,762	75	--
Transfers out	(122,367)	(57,083)	(41)
Collections from other sources	151	485	--
Loans from other funds	--	--	--
Loan repayments to other funds	--	(196)	(174)
Loan repayments from other funds	546	300	1
Payments to component units	--	--	(3,995)
Collections from other governments	2,210	2,461	30,072
Net cash provided (used) by noncapital financing activities	(112,698)	(53,958)	25,863
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	76,600	102,000	--
Proceeds from the sale of general obligation bonds and other tax supported debt	--	--	--
Proceeds from the sale of revenue bonds	186,883	36,795	--
Principal paid on long-term debt	(79,656)	(74,610)	(26,877)
Proceeds from the sale of capital assets	--	--	--
Interest paid on revenue bonds and other debt	(78,663)	(99,202)	(48,643)
Passenger facility charges	--	--	19,795
Acquisition and construction of capital assets	(315,448)	(192,065)	(71,126)
Contributions from state and federal governments	--	75	8,272
Contributions in aid of construction	43,245	44,262	--
Bond issuance costs	(1,774)	(1,990)	--
Bond premiums	65,383	60,413	--
Bonds issued for advanced refundings of debt	90,482	203,505	--
Cash paid for bond refunding escrow	(90,482)	(59,839)	--
Cash paid to payoff commercial paper	(162,480)	(204,000)	--
Cash paid for nuclear fuel inventory	(23,513)	--	--
Net cash provided (used) by capital and related financing activities	(289,423)	(184,656)	(118,579)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(483,970)	(224,327)	(74,491)
Proceeds from sale and maturities of investment securities	476,585	190,280	75,518
Interest on investments	1,088	258	414
Net cash provided (used) by investing activities	(6,297)	(33,789)	1,441
Net increase (decrease) in cash and cash equivalents	(12,668)	19,149	(43,101)
Cash and cash equivalents, beginning	510,988	337,345	520,650
Cash and cash equivalents, ending	\$ 498,320	356,494	477,549

The accompanying notes are an integral part of the financial statements.

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	Total	Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	438,213	2,432,867	62,298
Cash received from other funds	3,920	41,460	507,362
Cash payments to suppliers for goods and services	(94,230)	(764,182)	(118,021)
Cash payments to other funds	(87,176)	(264,962)	(48,644)
Cash payments to employees for services	(243,898)	(651,616)	(201,186)
Cash payments to claimants/beneficiaries	--	(240)	(182,660)
Taxes collected and remitted to other governments	--	(41,022)	--
Net cash provided by operating activities	16,829	752,305	19,149
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	61,805	68,642	--
Transfers out	(14,398)	(193,889)	(16,400)
Collections from other sources	7,111	7,747	--
Loans from other funds	3	3	--
Loan repayments to other funds	(1,807)	(2,177)	--
Loan repayments from other funds	1,685	2,532	--
Payments to component units	--	(3,995)	--
Collections from other governments	276	35,019	--
Net cash provided (used) by noncapital financing activities	54,675	(86,118)	(16,400)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	178,600	--
Proceeds from the sale of general obligation bonds and other tax supported debt	4,260	4,260	--
Proceeds from the sale of revenue bonds	--	223,678	--
Principal paid on long-term debt	(19,716)	(200,859)	(2,410)
Proceeds from the sale of capital assets	--	--	--
Interest paid on revenue bonds and other debt	(6,344)	(232,852)	(79)
Passenger facility charges	--	19,795	--
Acquisition and construction of capital assets	(73,956)	(652,595)	(2,148)
Contributions from state and federal governments	45	8,392	--
Contributions in aid of construction	5,042	92,549	--
Bond issuance costs	(8)	(3,772)	--
Bond premiums	1,886	127,682	--
Bonds issued for advanced refundings of debt	4,524	298,511	--
Cash paid for bond refunding escrow	(5,646)	(155,967)	--
Cash paid to payoff commercial paper	--	(366,480)	--
Cash paid for nuclear fuel inventory	--	(23,513)	--
Net cash provided (used) by capital and related financing activities	(89,913)	(682,571)	(4,637)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(13,322)	(796,110)	--
Proceeds from sale and maturities of investment securities	13,396	755,779	--
Interest on investments	533	2,293	(385)
Net cash provided (used) by investing activities	607	(38,038)	(385)
Net increase (decrease) in cash and cash equivalents	(17,802)	(54,422)	(2,273)
Cash and cash equivalents, beginning	546,761	1,915,744	277,291
Cash and cash equivalents, ending	528,959	1,861,322	275,018

The accompanying notes are an integral part of the financial statements.

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2021
(In thousands)

	Business-Type Activities		
	Austin Energy	Austin Water	Airport
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (64,991)	123,603	(10,220)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	280,815	132,572	44,155
Change in assets and liabilities:			
Decrease in working capital advances	37	--	--
Increase in accounts receivable	(19,784)	(7,049)	(1,140)
Increase in allowance for doubtful accounts	10,191	823	62
Increase in receivables from other governments	--	--	--
(Increase) decrease in inventory	9,280	330	61
(Increase) decrease in prepaid expenses and other assets	(21,142)	(167)	96
Decrease in advances to other funds	--	--	--
(Increase) decrease in other long-term assets	(26,679)	--	980
Increase in deferred outflows	(22,290)	(31,548)	(9,091)
Increase (decrease) in accounts payable	11,855	1,760	118
Increase in accrued payroll and compensated absences	2,565	1,269	361
Increase (decrease) in claims payable	977	(30)	--
Increase in customer deposits	17,562	248	331
Decrease in net pension liability	(17,688)	(1,869)	(1,744)
Increase in other postemployment benefits liability	106,213	71,711	30,014
Increase (decrease) in other liabilities	32,959	(1,045)	9
Increase (decrease) in deferred inflows	95,870	944	(5,818)
Total adjustments	460,741	167,949	58,394
Net cash provided by operating activities	\$ 395,750	291,552	48,174
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:			
Capital assets contributed from other funds	\$ --	28	--
Capital assets contributed to other funds	--	--	--
Contributed facilities	--	39,240	--
Increase in the fair value of investments	(512)	--	--
Amortization of bond (discounts) premiums	13,856	23,240	11,117
Amortization of deferred loss on refundings	(2,351)	(4,726)	(2,902)
Gain (loss) on disposal of assets	(1,050)	(4,014)	(405)
Costs (recovered) to be recovered	148,813	53,668	--
Transfers from other funds	--	--	--
Transfers to other funds	--	(147)	--

The accompanying notes are an integral part of the financial statements.

(Continued)

	<u>Business-Type Activities</u>		<u>Governmental</u>
	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	<u>Activities- Internal Service Funds</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	(108,113)	(59,721)	(34,592)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	29,779	487,321	13,773
Change in assets and liabilities:			
Decrease in working capital advances	--	37	--
Increase in accounts receivable	(5,957)	(33,930)	(1,383)
Increase in allowance for doubtful accounts	870	11,946	--
Increase in receivables from other governments	--	--	(193)
(Increase) decrease in inventory	(1,654)	8,017	(712)
(Increase) decrease in prepaid expenses and other assets	434	(20,779)	(879)
Decrease in advances to other funds	--	--	2
(Increase) decrease in other long-term assets	--	(25,699)	--
Increase in deferred outflows	(62,335)	(125,264)	--
Increase (decrease) in accounts payable	(44)	13,689	1,773
Increase in accrued payroll and compensated absences	3,271	7,466	2,148
Increase (decrease) in claims payable	--	947	37,264
Increase in customer deposits	1,667	19,808	11
Decrease in net pension liability	(6,859)	(28,160)	--
Increase in other postemployment benefits liability	151,556	359,494	--
Increase (decrease) in other liabilities	10,096	42,019	1,937
Increase (decrease) in deferred inflows	4,118	95,114	--
Total adjustments	124,942	812,026	53,741
Net cash provided by operating activities	16,829	752,305	19,149
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:			
Capital assets contributed from other funds	12,130	12,158	4,784
Capital assets contributed to other funds	(12,512)	(12,512)	--
Contributed facilities	--	39,240	--
Increase in the fair value of investments	--	(512)	--
Amortization of bond (discounts) premiums	1,492	49,705	23
Amortization of deferred loss on refundings	(678)	(10,657)	(22)
Gain (loss) on disposal of assets	(1,126)	(6,595)	(846)
Costs (recovered) to be recovered	--	202,481	--
Transfers from other funds	--	--	349
Transfers to other funds	(181)	(328)	--

The accompanying notes are an integral part of the financial statements.

Fiduciary Funds
Statement of Fiduciary Net Position
September 30, 2021
(In thousands)

City of Austin, Texas
Exhibit D-1

	<u>Custodial</u>
ASSETS	
Pooled investments and cash	\$ 2,662
Total assets	<u>2,662</u>
LIABILITIES	
Accounts payable	19
Due to other governments	<u>522</u>
Total liabilities	<u>541</u>
NET POSITION	
Restricted for:	
Individuals, organizations and other governments	2,121
Total net position	<u>\$ 2,121</u>

The accompanying notes are an integral part of the financial statements.

Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the year ended September 30, 2021
(In thousands)

City of Austin, Texas
Exhibit D-2

	<u>Custodial</u>
ADDITIONS	
Contributions	\$ 28
Interest and other	4
Fees collected for other governments	1,724
Miscellaneous	88
Total additions	<u>1,844</u>
DEDUCTIONS	
Beneficiary payments	29
Payment of fees to other governments	1,725
Administrative expenses	1
Total deductions	<u>1,755</u>
Change in net position	89
Beginning net position, as restated (see Note 19)	<u>2,032</u>
Ending net position	<u>\$ 2,121</u>

The accompanying notes are an integral part of the financial statements.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Austin, Texas (the City) is a municipal corporation incorporated under Article XI, Section 5 of the Constitution of the State of Texas (Home Rule Amendment). The City operates under a Council-Manager form of government. The City Council is composed of a Mayor who is elected at large and ten Council members who are elected by geographic district, all of whom serve four-year staggered terms subject to a maximum of two consecutive terms. A petition signed by 5% of the registered voters waives the term limit for a member of the City Council.

The City's major activities or programs include: general government; public safety; transportation, planning, and sustainability; public health; public recreation and culture; and urban growth management. In addition, the City owns and operates certain major enterprise activities including an electric utility, water and wastewater utility, airport, and nonmajor enterprise activities including convention, environmental and health services, public recreation, and urban growth management activities. These activities are included in the accompanying financial statements.

The City of Austin's charter requires an annual audit by an independent certified public accountant. These financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 86, No. 88 through No. 90, No. 92 and No. 93, No. 95, No. 97 and No. 98. In fiscal year 2021, the City implemented the following GASB Statements:

GASB Statement	Impact
84 – <i>"Fiduciary Activities"</i>	This statement enhances guidance for identifying fiduciary activities and financial reporting of those activities, which allows for increased consistency and comparability between reporting entities. The adoption of GASB Statement No. 84 required restatement of beginning net position (see Note 19).
90 – <i>"Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61"</i>	This statement is an amendment of GASB statements No. 14 and No. 61. The objective of the statement is to clarify situations in which a government's purpose for holding a majority equity interest meets both the definition of an investment and the criteria to be reported as a component unit. The City has identified a single entity, Nacogdoches Power, LLC, in which the City is a holder of a major equity interest. It is currently reported as a blended component unit. The implementation of this standard had no impact on the financial statements.
92 – <i>"Omnibus 2020"</i>	This statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. The only portion applicable to the City's financial statements is the change of terminology used to refer to derivative instruments. The City made all required changes.
93 – <i>"Replacement of Interbank Offered Rates"</i>	This statement helps to preserve the consistency and comparability of reporting hedging derivative instruments and leases after a government amends or substitutes agreements to replace an Interbank Offered Rate. The City has identified one applicable hedging derivative instrument that utilizes a London Interbank Offered Rate (LIBOR) and is making updates to the language in the agreement which provides fallback protocol language to trigger a change to a new reference rate when the LIBOR tenor ceases to be published. No further action is needed at this time.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

GASB Statement	Impact
97 – “Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans”	This statement improves consistency in financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans. This statement also enhances the relevance, consistency, and comparability of the information related to Section 457 plans that meet the definition of a pension plan and the benefits provided through those plans, as well as investment information for all Section 457 plans. The implementation of this standard had no impact on the financial statements.
98 – “The Annual Comprehensive Financial Report”	This statement replaces the terms comprehensive annual financial report and comprehensive annual financial reports with annual comprehensive financial report and annual comprehensive financial reports, respectively. The associated acronyms are replaced with ACFR and ACFRs. The implementation of this standard had no impact on the financial statements.

The more significant accounting and reporting policies and practices used by the City are described below.

As a local government, the City is not subject to federal income taxes, under the Internal Revenue Code Section 115. Furthermore, it is not subject to state sales tax.

a -- Reporting Entity

These financial statements present the City’s primary government, its component units, and other entities for which the City is considered financially accountable. Blended component units, although legally separate entities, are in substance, part of the City’s operations; therefore, data from these units are combined with data of the City. Discrete component units are legally separate entities that are not considered part of the City’s operations; therefore, data from these units are shown separately from data of the City.

Blended Component Units – Following are the City’s blended component units.

Blended Component Units

Austin Housing Finance Corporation (AHFC)

Brief Description of Activities, Relationship to City, and Key Inclusion Criteria

AHFC was created in 1979 as a public, nonprofit corporation and instrumentality of the City under the provisions of the Texas Housing Finance Corporation Act, Chapter 394, and Local Government Code. The mission of the AHFC is to generate and implement strategic housing solutions for the benefit of low- and moderate- income residents of the City. AHFC is governed by a board composed of the City Council. In addition, City management has operational responsibilities for this component unit.

Reporting Fund: Austin Housing Finance Corporation fund, a nonmajor special revenue fund

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
a -- Reporting Entity, continuedBlended Component Units

Urban Renewal Agency (URA)

Brief Description of Activities, Relationship to City, and Key Inclusion Criteria

URA was created by the City under Chapter 374 of the Texas Local Government Code. The Mayor, with consent of the City Council, appoints the board of commissioners for this agency, whose primary responsibility is to oversee the implementation and compliance of urban renewal plans adopted by the City Council. An urban renewal plan's primary purpose is to eliminate slum and blighting influence within a designated area of the city. City Council maintains the ability to impose its will on the organization. URA exclusively receives financial support/benefits from its relationship with the City. Additionally, the City is fiscally responsible for the obligations of URA, therefore URA is reported as a blended component unit of the City.

Reporting Fund: Urban Renewal Agency fund, a nonmajor special revenue fund

Austin Industrial Development Corporation (AIDC)

AIDC was created under the Texas Development Corporation Act of 1979 to provide a means of extending tax-exempt financing to projects that are deemed to have substantial social benefit through the creation of commercial, industrial, and manufacturing enterprises, in order to promote and encourage employment in the City. City Council acts as the board of directors of the corporation. In addition, City management has operational responsibilities for this component unit.

Reporting Fund: Austin Industrial Development Corporation fund, a nonmajor special revenue fund

Mueller Local Government Corporation (MLGC)

MLGC is a non-profit local government corporation created by the City under Subchapter D of Chapter 431 of the Texas Transportation Code. MLGC was created for the purpose of financing infrastructure projects required for the development of the former site of Mueller Airport. City Council acts as the board of directors of the corporation. Members of the City staff serve as officers of the corporation and have operational responsibilities for this component unit.

Reporting Fund: Mueller Local Government Corporation, a nonmajor special revenue fund

Austin-Bergstrom International Airport (ABIA) Development Corporation

ABIA Development Corporation is governed by a board composed of the City Council. The entity has no day-to-day operations. Its existence relates only to the authorization for issuance of industrial revenue bonds or to other similar financing arrangements in accordance with the Texas Development Corporation Act of 1979. To date, none of the bonds issued constitute a liability of ABIA Development Corporation or the City. In addition, City management has operational responsibilities for this component unit.

There is no financial activity to report related to this component unit.

Nacogdoches Power, LLC (NP)

Austin Energy acquired Nacogdoches Power, LLC on June 13, 2019, which included the purchase of a 115 MW biomass power plant that was transferred to Austin Energy. NP provides renewable energy exclusively for the benefit of Austin Energy customers and Austin Energy staff serve as officers of the corporation. Additionally, Austin Energy is fiscally responsible for the obligations of NP, therefore NP is reported as a blended component unit in the Austin Energy enterprise fund.

Reporting Fund: Austin Energy, a major proprietary fund.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
a -- Reporting Entity, continued

Discretely Presented Component Units – Following are the City's discretely presented component units. Financial statements for these entities can be requested from the addresses located below.

<u>Discretely Presented Component Units</u>	<u>Description of Activities, Relationship to City, and Key Inclusion Criteria</u>
Austin-Bergstrom Landhost Enterprises, Inc. (ABLE) 3600 Presidential Blvd, Suite 411 Austin, TX 78719	ABLE is a legally separate entity that issues revenue bonds for the purpose of financing the cost of acquiring, improving, and equipping a full-service hotel on airport property. City Council appoints this entity's Board and maintains a contractual ability to remove board members at will. Debt issued by ABLE does not constitute a debt or pledge of the faith and credit of the City.
Austin Convention Enterprises, Inc. (ACE) 500 East 4th Street Austin, TX 78701	ACE is a legally separate entity that owns, operates, and finances the Austin Convention Center Hotel. City Council appoints this entity's Board and maintains a contractual ability to remove board members at will. Debt issued by ACE does not constitute a debt or pledge of the faith and credit of the City.
Austin Economic Development Corporation (AEDC) 301 W. 2 nd Street, Ste 2030 Austin, TX 78701	AEDC is a legally separate entity created in October 2020 by the City under Subchapter D of Chapter 431 of the Texas Transportation Code. The purpose of AEDC is to engage in socially beneficial real estate and economic development within the City. City Council has appointed the entity's initial Board and maintains the ability to remove members of the Board. AEDC is fiscally dependent on the City and in a relationship of financial benefit/burden with the City.
Austin Transit Partnership Local Government Corporation (ATP) 203 Colorado Street Austin, TX 78701	ATP is a legally separate entity created in December 2020 by the City and the Capital Metropolitan Transportation Authority (Capital Metro) under Subchapter D of Chapter 431 of the Texas Transportation Code. The purpose of ATP is to serve as the independent entity responsible for the implementation of the Project Connect System Plan (Project Connect). The implementation of Project Connect is comprised of the financing, design, engineering, and construction of a fixed rail and bus transit system, including customer technology, park & ride hubs, on-demand neighborhood circulators, and associated improvements to roadways, bikeways, sidewalks, and street lighting. Project Connect also includes transit-supportive anti-displacement strategies for the purpose of preventing displacement and encouraging transit-oriented affordable housing along Project Connect transit corridors. ATP's Board is jointly appointed by the City and Capital Metro. ATP is fiscally dependent on the City and in a relationship of financial benefit/burden with the City. Additionally, the nature of ATP's relationship with the City is of significance, and exclusion from the City's financial statements would be misleading.
Austin Travis County Sobriety Center Local Government Corporation (SCLGC) 700 Lavaca Street Austin, TX 78701	SCLGC is a non-profit local government corporation created by the City and Travis County under Subchapter D of Chapter 431 of the Texas Transportation Code. The purpose of SCLGC is to operate a sobriety center located within the City of Austin and Travis County. The City Council and the County each appoint five members of the SCLGC board. The operations of the Sobriety Center are primarily funded by the City. The SCLGC is fiscally dependent on the City and in a relationship of financial benefit/burden with the City.
Waller Creek Local Government Corporation (WCLGC) 124 W. 8 th Street Austin, TX 78701	WCLGC is a non-profit local government corporation created by the City under Subchapter D of Chapter 431 of the Texas Transportation Code. The purpose of WCLGC is implementing the financing, design, construction, maintenance and operation of certain public improvements located within or around the Waller Creek Redevelopment Project district. The WCLGC is fiscally dependent on the City and in a relationship of financial benefit/burden with the City.

There is no financial activity to report related to this component unit.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
a -- Reporting Entity, continued

Related Organizations -- The City Council appoints the voting majority of the board members, but the City has no significant financial accountability for the Austin Housing Authority. The Mayor appoints the persons to serve as commissioners of this organization; however, this entity is separate from the operating activities of the City.

The City of Austin retirement plans (described in Note 7) and the City of Austin Deferred Compensation Plan are not included in the City's reporting entity since the City does not exercise substantial control over these plans.

Related organizations are not included in the City's reporting entity.

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all governmental and business-type activities of the primary government and its component units. Fiduciary activities are not included in the government-wide statements. Internal service fund asset, deferred outflow of resources, liability, and deferred inflow of resources balances that are not eliminated in the statement of net position are primarily reported in the governmental activities' column on the government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers.

b -- Government-wide and Fund Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

The accounts of the City are organized on the basis of funds. The fund level statements focus on the governmental, proprietary, and fiduciary funds. Each fund was established to account for specific activities in accordance with applicable regulations, restrictions, or limitations. Major funds are determined by criteria specified by GAAP. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other funds are aggregated into nonmajor governmental, nonmajor enterprise, or internal service fund groupings. A reconciliation of the fund financial statements to the government-wide statements is provided in the financial statements to explain the differences between the two different reporting approaches.

The City's fiduciary funds are presented in the fund financial statements by type (custodial). By definition, fiduciary fund assets are held for the benefit of a third party and cannot be used to address activities or obligations of the primary government; therefore, they are not included in the government-wide statements.

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

c -- Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual (i.e. both measurable and available). Revenues, other than grants, are considered available when they are collectible within the current period or soon enough thereafter to liquidate liabilities of the current period (defined by the City as collected within 60 days of the end of the fiscal year). Revenues billed under a contractual agreement with another governmental entity, including federal and state grants, are recognized when billed or when all eligibility requirements of the provider have been met, and they are considered to be available if expected to be collected within one year. Expenditures generally are recorded when incurred. However, expenditures related to compensated absences and arbitrage are recorded when payment is due. Debt service expenditures are recognized when payment is due. The reported fund balance of governmental funds is considered a measure of available spendable resources.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
c -- Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

Property taxes, sales taxes, franchise taxes, hotel occupancy taxes, vehicle rental taxes, municipal court fines, public health charges, emergency medical service charges, and interest associated with the current fiscal period are all considered to be susceptible to accrual and, to the extent they are considered available, have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available in the fiscal period the City receives cash.

Governmental Funds: Consist of the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.

The City reports the following major governmental fund:

General Fund: The primary operating fund of the City. It is used to account for all financial resources that are not required to be accounted for in another fund. It includes the following activities: general government; public safety; public health; public recreation and culture; and urban growth management.

In addition, the City reports the following nonmajor governmental funds:

Special Revenue Funds: Account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds: Account for and report financial resources, and the accumulation of those financial resources, that are restricted, committed, or assigned to expenditure for principal and interest of general long-term debt and HUD Section 108 loans.

Capital Projects Funds: Account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those reported within proprietary funds). It is primarily funded by general obligation debt, other tax supported debt, interest income, and other intergovernmental revenues. A 1981 ordinance requires the establishment of a separate fund for each bond proposition approved in each bond election.

Permanent Funds: Account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs.

Proprietary Funds: Consist of enterprise funds and internal service funds. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as providing electric or water-wastewater services. Other revenues or expenses are nonoperating items.

Enterprise Funds: Account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges.

The City reports the following major enterprise funds:

Austin Energy™: Accounts for the activities of the City-owned electric utility.
Austin Water: Accounts for the activities of the City-owned water and wastewater utility.
Airport: Accounts for the operations of the Austin-Bergstrom International Airport.

The City reports the following nonmajor business-type activities in Exhibit A-2:

Convention: Accounts for convention center and public event activities.
Environmental and health services: Accounts for solid waste services activities.
Public recreation: Accounts for golf activities.
Urban growth management: Accounts for development, drainage, and transportation activities.

Internal Service Funds: Account for the financing of goods or services provided by one City department or agency to other City departments or to other governmental units on a cost-reimbursement basis. These activities include, but are not limited to, capital projects management, combined emergency center operations, employee health benefits, fleet services, information services, liability reserve (City-wide self-insurance) services, support services, wireless communication services, and workers' compensation coverage.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**c -- Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued**

Fiduciary Funds: Account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, or other governments:

Custodial Funds: Account for assets held by the City as an agent for individuals, private organizations, and other governmental units. Municipal Court service fees and unclaimed property make up the majority of assets accounted for in these funds.

d -- Budget

The City Manager is required by the City Charter to present proposed operating and capital budgets to the City Council at least 30 days prior to October 1st, the beginning of the City's fiscal year. In addition, the City of Austin Charter mandates that a budget be adopted no later than September 27th for the next fiscal year. During the final adoption process, the City Council passes an appropriation ordinance and a tax-levying ordinance.

Annual budgets are legally adopted for the General Fund, certain special revenue funds, and debt service funds. Annual budgets are also adopted for enterprise and internal service funds, although they are not legally required. Multi-year budgets are adopted for capital projects and grant funds, where appropriations remain authorized for the life of the projects, irrespective of fiscal year. Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders are treated as expenditures in the year of commitment. Certain employee training and other fund-level expenditures are budgeted as general city responsibilities.

Formal budgetary control is employed during the year at the fund and department level as a management control device for annual budgeted funds.

Budgets are modified throughout the year. The City Manager is authorized to transfer appropriation balances within a department of the City. The City Council approves amendments to the budget and transfers of appropriations from one department to another. The original and final budgets for the General Fund are reported in the required supplementary information. Unencumbered appropriations for annual budgets lapse at fiscal year end.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**
e -- Financial Statement Elements

Pooled Investments and Cash -- Cash balances of all City funds (except for certain funds shown in Note 3 as having non-pooled investments) are pooled and invested. Interest earned on investments purchased with pooled cash is allocated monthly to each participating fund based upon the fund's average daily balance. Funds that carry a negative balance in pooled cash and investments are not allocated interest earnings nor charged interest expense.

Investments -- Investments can be reported at either fair value or amortized cost. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities at fair value and money market mutual funds at amortized cost. Investments in local government investment pools are carried at either net asset value (NAV) or at amortized cost.

Accounts Receivable -- Balances of accounts receivable, reported on the government-wide statement of net position, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2021 (in thousands):

Governmental activities	General Fund	Nonmajor Governmental Funds	Internal Service Funds	Total
Charges for Services	\$ 387,396	--	4,431	391,827
Fines	10,539	--	--	10,539
Taxes	60,333	28,582	--	88,915
Other Governments	--	3,295	--	3,295
Other	131	4,758	--	4,889
Allowance for doubtful accounts	(373,184)	(2,105)	(276)	(375,565)
Total	\$ 85,215	34,530	4,155	123,900

Receivables reported in business-type activities are primarily comprised of charges for services.

Business-type activities	Austin Energy	Austin Water	Airport	Nonmajor Enterprise	Total
Accounts Receivable	\$ 175,080	77,761	14,926	34,593	302,360
Allowance for doubtful accounts	(22,064)	(3,506)	(1,993)	(3,682)	(31,245)
Total	\$ 153,016	74,255	12,933	30,911	271,115

Elimination of Internal Activities -- The elimination of internal service fund activity is needed in order to eliminate duplicate activity in making the transition from the fund level financial statements to the government-wide financial statements. In addition, the elimination of internal service fund activity requires the City to "look back" and adjust the internal service funds' internal charges. A positive change in net position derived from internal service fund activity results in a pro-rata reduction in the charges made to the participatory funds. A deficit change in net position of internal service funds requires a pro-rata increase in the amounts charged to the participatory funds.

Internal Balances -- In the government-wide statement of net position, internal balances are the receivables and payables between the governmental and business-type activities.

Interfund Receivables and Payables -- During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund-level statements when they are expected to be liquidated within one year. If receivables or payables are not expected to be liquidated within one year, they are classified as "advances to other funds" or "advances from other funds".

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**
e -- Financial Statement Elements, continued**Inventories** -- Inventories are valued at cost, which is determined as follows:

Fund	Inventory Valuation Method
Austin Energy	
Fuel oil – Distillate #2	Last-in, first-out
Other inventories	Average cost
All others	Average cost

Inventories for all funds are accounted for using the consumption method and expenditures are recorded when issued.

Restricted Assets -- Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Since Austin Energy and Austin Water report in accordance with accounting for regulated operations, enabling legislation also includes restrictions on asset use established by its governing board which is the City Council. Restricted assets used to repay maturing debt and other current liabilities are classified as current.

The balances of restricted assets are as follows (in thousands):

	<u>Business-Type Activities</u>					Total Restricted Assets
	Governmental Activities	Austin Energy	Austin Water	Airport	Nonmajor Enterprise	
Capital projects	\$ 43,513	55,098	150,330	366,022	134,815	749,778
Customer and escrow deposits	83,166	54,553	10,353	1,415	9,386	158,873
Debt service	33,255	85,454	88,532	41,951	8,243	257,435
Federal receivables	--	1,510	--	3,720	--	5,230
Housing activities	15,614	--	--	--	--	15,614
Operating reserve account	--	--	52,701	18,961	6,137	77,799
Passenger facility charge account	--	--	--	67,468	--	67,468
Perpetual care	1,070	--	--	--	--	1,070
Plant decommissioning	--	279,736	--	--	--	279,736
Public health activities	86,538	--	--	--	--	86,538
Public safety activities	12,838	--	--	--	--	12,838
Renewal and replacement account	--	70,391	--	10,000	540	80,931
Revenue bond reserve	--	30,242	55,014	61,667	10,263	157,186
Revolving loan reserve	--	4,790	--	--	--	4,790
Strategic reserve	--	217,768	--	--	--	217,768
Tourism	12,484	--	--	--	--	12,484
Urban growth programs	16,857	--	--	--	--	16,857
Other purposes	17,698	1,876	--	--	--	19,574
Total	\$ 323,033	801,418	356,930	571,204	169,384	2,221,969

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Capital Assets -- Capital assets, which primarily include land and improvements, buildings and improvements, plant and equipment, vehicles, water rights, and infrastructure assets, are reported in the proprietary funds and the applicable governmental or business-type activity columns of the government-wide statement of net position; related depreciation or amortization is allocated to programs in the statement of activities. Capital assets are defined as assets with an initial individual cost of \$5,000 or more and an estimated useful life of greater than one year. Assets purchased, internally generated, or constructed are capitalized at historical cost. Contributed or annexed capital assets are recorded at estimated fair value at the time received. Donated capital assets and assets received in service concession arrangements are reported at estimated acquisition value on the date of receipt. Capital outlay is recorded as an expenditure in the General Fund and other governmental funds and as an asset in the government-wide financial statements and proprietary funds. Maintenance and repairs are charged to operations as incurred. Improvements and betterments that extend the useful lives of capital assets or increase their value are capitalized in the government-wide and proprietary statement of net position and expended in governmental funds.

The City obtains public domain capital assets (infrastructure) through capital improvement projects (CIP) construction or through annexation or developer contribution. Infrastructure assets include streets and roads, bridges, pedestrian facilities, drainage systems, and traffic signal systems acquired after September 30, 1980.

Capital assets, except for nuclear fuel, are depreciated or amortized using the straight-line method over the following estimated useful lives (in years):

Assets	Business-type Activities				
	Governmental Activities	Austin Energy	Austin Water	Airport	Nonmajor Enterprise
Buildings and improvements	5-40	--	15-50	15-40	12-40
Plant and equipment	5-50	--	5-60	4-50	5-40
Vehicles	3-20	3-15	3-20	3-20	3-30
Electric plant	--	3-50	--	--	--
Non-electric plant	--	3-30	--	--	--
Communication equipment	7-15	--	7	7	7
Furniture and fixtures	12	--	12	12	12
Computers and EDP equipment	3-7	--	3-7	3-7	3-7
Nuclear fuel (1)	--	Other	--	--	--
Water rights	--	--	101	--	--
Infrastructure					
Streets and roads	30	--	--	--	--
Bridges	50	--	--	--	--
Drainage systems	50	--	--	--	--
Pedestrian facilities	20	--	--	--	--
Traffic signals	25	--	--	--	--

(1) Nuclear fuel is amortized over units of production

Depreciation of assets is classified by functional component. The City considers land, arts and treasures, and library collections to be inexhaustible; therefore, these assets are reported as nondepreciable. The true value of arts and treasures is expected to be maintained over time and, thus, is not depreciated. The initial investment of library collections for each library is capitalized. All subsequent expenditures related to the maintenance of the collection (replacement of individual items) are expensed, with the overall value of the collection being maintained, and therefore, not depreciated.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

In the government-wide and proprietary fund statements, the City recognizes a gain or loss on the disposal of assets when it retires or otherwise disposes of capital assets.

Water rights represent the amortized cost of a \$100 million contract, net of accumulated amortization of \$21.7 million, between the City and the Lower Colorado River Authority (LCRA) for a fifty-one year assured water supply agreement, with an option to extend another fifty years. The City and the LCRA entered into the contract in 1999. The asset amortization period is 101.25 years.

Regulatory Assets -- In accordance with accounting for regulated operations, certain utility expenses that do not currently require funding are recorded as assets and amortized over future periods if they are intended to be recovered through future rates. These expenses include unrealized gain/loss on investments, debt issuance costs, pension, other postemployment benefits, interest, decommissioning, and pass-through rates, such as the Power Supply Adjustment charge, Community Benefit charge, and Regulatory charge. Regulatory Assets will be recovered in these future periods by setting rates sufficient to provide funds for the requirements. If regulatory assets are not recoverable in future rates, the regulatory asset will be subject to write off. Retail deregulation of electric rates in the future may affect the City's current accounting treatment of its electric utility revenues and expenses.

Other Assets -- Other assets include amounts deposited in pre-closing escrow accounts and payments made as part of advance funding agreements for Austin Water and governmental activities construction projects. In addition, the receivable related to service concession arrangements for the Airport, a major enterprise fund, is recorded as other assets.

Deferred Outflows (Inflows) of Resources -- Deferred outflows of resources represent the consumption of net position that are applicable to a future reporting period. Deferred outflows have a positive effect on net position, similar to assets. Deferred inflows of resources represent the acquisition of net position that have a negative effect on net position, similar to liabilities.

The following chart reflects the activities included in deferred outflows and inflows (in thousands).

Funds	Deferred Outflows		Deferred Inflows	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Asset Retirement Obligations (ARO) -- When an ARO is recognized, a corresponding deferred outflow of resources is recognized and amortized over the remaining life of the corresponding tangible asset.				
Governmental Activities	\$ 116	--	--	--
Austin Energy	--	199,924	--	--
Austin Water	--	501	--	--
Derivative Instruments -- Derivative instruments are reported in the statement of net position at fair value. Changes in fair value of hedging derivative instruments are recognized through the application of hedge accounting as either deferred outflows or inflows in the statement of net position, as an offset to the related hedging derivative instrument.				
Austin Energy	--	-	--	2,330
Austin Water	--	14,383	--	--
Nonmajor enterprise	--	7,107	--	--
Excess consideration -- When a government acquires another entity in exchange for significant consideration, the amount of consideration that exceeds the net position acquired should be reported as a deferred outflow of resources and amortized over future periods.				
Austin Energy	--	20,553	--	--
Gain/loss on debt refundings -- When debt is refunded, the associated gains (deferred inflows) or losses (deferred outflows) are recognized as deferred outflows or inflows of resources and amortized over future periods.				
Governmental Activities	11,460	--	--	--
Austin Energy	--	9,584	--	--
Austin Water	--	41,426	--	578
Airport	--	12,092	--	--
Nonmajor enterprise	--	5,520	--	146

(Continued)

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Funds	Deferred Outflows		Deferred Inflows	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Other postemployment benefits -- Changes in actuarial assumptions, differences between projected and actual actuarial experience, and changes in proportionate share (between funds) may be treated as either deferred outflows or inflows. City benefit payments made between the measurement date (December 31) and the City's fiscal year end (September 30) are recognized as deferred outflows.				
Governmental Activities	863,452	--	124,609	--
Austin Energy	--	180,024	--	26,524
Austin Water	--	122,436	--	17,293
Airport	--	58,541	--	6,305
Nonmajor enterprise	--	267,468	--	31,329
Pensions -- Differences between estimated and actual investment earnings, changes in actuarial assumptions, differences between projected and actual actuarial experience, and changes in proportionate share (between funds), may be treated as either deferred outflows or inflows. Contributions made to the pension systems between the Plans' measurement date (December 31) and the City's fiscal year end (September 30) are recognized as deferred outflows.				
Governmental Activities	807,297	--	885,633	--
Austin Energy	--	62,948	--	41,484
Austin Water	--	36,324	--	24,629
Airport	--	14,302	--	7,396
Nonmajor enterprise	--	73,722	--	36,524
Public-Private Partnership Arrangements -- The resources related to the public-private partnership arrangements that will be recognized as revenue in future years over the terms of arrangements between the City and the operators are reported as deferred inflows of resources.				
Governmental Activities	--	--	106,521	--
Regulated operations. In accordance with accounting for regulated operations, certain credits to income are held as deferred inflows of resources until the anticipated matched charge is incurred. These credits include unrealized gain/loss on investments, contributions, interest, decommissioning, and pass-through rates. Deferred outflows or inflows.				
Austin Energy	--	--	--	532,853
Austin Water	--	--	--	924,795
Service concession arrangements -- The resources related to the service concession arrangements that will be recognized as revenue in future years over the terms of arrangements between the City and the operators are reported as deferred inflows of resources.				
Governmental Activities	--	--	28,060	--
Airport	--	--	--	164,319
Total	\$ 1,682,325	1,126,855	1,144,823	1,816,505
Totals by Fund				
Governmental Activities	\$ 1,682,325	--	1,144,823	--
Austin Energy	--	473,033	--	603,191
Austin Water	--	215,070	--	967,295
Airport	--	84,935	--	178,020
Nonmajor Enterprise	--	353,817	--	67,999
Grand Total	\$ 1,682,325	1,126,855	1,144,823	1,816,505

The governmental funds' statements include amounts recognized as deferred inflows of resources as a result of property taxes, other taxes, and certain revenues (\$21.3 million) that are not available to liquidate current liabilities in the funds. These amounts will be recognized in the period these amounts become available.

Notes to Basic Financial Statements
September 30, 2021

City of Austin, Texas
(Continued)

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Compensated Absences -- The amounts owed to employees for unpaid vacation, exception vacation, and sick leave liabilities, including the City's share of employment-related taxes, are reported on the accrual basis of accounting in the government-wide statements and in the proprietary activities of the fund financials statements. The liabilities and expenditures are reported on the modified accrual basis in the governmental fund financial statements; the estimated liability in governmental funds is the amount of unused vacation, exception vacation, and sick leave eligible for payout upon termination for employees that terminated by the fiscal year end.

Accumulated leave payouts are limited to the lower of actual accumulated hours or the hours listed below:

	Work- week	Non-Sworn Employees (1)	Sworn Police (2)	Sworn Fire (3)	Sworn EMS (4)
Vacation	0-40	240	240	240	240
	42	N/A	N/A	N/A	240
	48	N/A	N/A	N/A	240
	53	N/A	N/A	360	N/A
Exception vacation (5)	0-40	160	160	176	160
	42	160	N/A	N/A	160
	48	160	N/A	N/A	160
	53	N/A	N/A	264	N/A
Sick leave	0-40	720	900	720	1080
	42	N/A	N/A	N/A	1080
	48	N/A	N/A	N/A	1080
	53	N/A	N/A	1,080	N/A
Compensatory time (6)		120	120	120	120

(1) Non-sworn employees are eligible for accumulated sick leave payout if hired before October 1, 1986.

(2) Sworn police employees with 16 years of actual service are eligible for accumulated sick leave payout. As of November 15, 2018, officers may be eligible to receive up to 1,700 hours of sick leave if certain criteria are met.

(3) Sworn fire employees are eligible for accumulated sick leave payout regardless of hire date.

(4) Sworn EMS employees with 12 years of actual service are eligible for accumulated sick leave payout if certain criteria are met.

(5) Exception vacation hours are hours accumulated by an employee when the employee works on a City holiday.

(6) Employees may earn compensatory time in lieu of paid overtime; maximum payout is 120 hours for all employees.

Other Postemployment Benefits (OPEB) -- The City provides certain health care benefits for its retired employees and their families as more fully described in Note 8. At September 30, 2021, the City's total OPEB liability for these retiree benefits was approximately \$4.3 billion. The City funds the costs of these benefits on a pay-as-you-go basis.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Long-Term Debt -- The debt service for general obligation bonds and other general obligation debt (including loans), issued to fund general government capital projects, is paid from tax revenues, interfund transfers, and intergovernmental revenues. Such general obligation debt is reported in the government-wide statements under governmental activities.

The debt service for general obligation bonds and other general obligation debt issued to finance proprietary fund capital projects is normally paid from net revenues of the applicable proprietary fund, although such debt will be repaid from tax revenues if necessary. Such general obligation debt is shown as a specific liability of the applicable proprietary fund, which is appropriate under generally accepted accounting principles and in view of the expectation that the proprietary fund will provide resources to service the debt.

Revenue bonds issued to finance capital projects of certain enterprise funds are to be repaid from select revenues of these funds. Note 6 contains more information about pledged revenues by fund. The corresponding debt is recorded in the applicable fund.

The City has certain contractual commitments with several municipal utility districts (MUDs) for the construction of additions and improvements to the City's water and wastewater system that serve the MUDs and surrounding areas. These additions and improvements are funded by other tax supported debt, whose principal and interest are payable primarily from the net revenues of Austin Water.

For proprietary funds and for governmental activities in the government-wide financial statements, the City defers and amortizes gains and losses realized on refundings of debt and reports both the new debt as a liability and the related deferred loss (gain) amount as deferred outflows (or deferred inflows) of resources on the statement of net position. Austin Energy and Austin Water recognize gains and losses on debt defeasance in accordance with accounting for regulated operations.

Landfill Closure and Postclosure Care Costs -- Municipal solid waste landfill costs and the liability for landfill closure and postclosure costs are reported in Austin Resource Recovery, a nonmajor enterprise fund.

Asset Retirement Obligations (AROs) -- Austin Energy is reporting AROs related to the South Texas Project and the Fayette Power Project, Austin Water is reporting AROs related to wastewater treatment plants, and Fleet is reporting AROs related to petroleum underground storage tanks.

Other Liabilities -- Other liabilities includes Austin Energy's ownership portion of the South Texas Project net pension liability and other postemployment benefits liability.

Operating Revenues -- Revenues are recorded net of allowances, including bad debt, in the government-wide and proprietary fund-level statements. The funds listed below report revenues net of bad debt expense, as follows (in thousands):

	Bad Debt Expense
Austin Energy	\$ 13,831
Austin Water	1,662
Airport	62
Nonmajor Enterprise	2,530

Electric, water, and wastewater revenue is recorded when earned. Customers' electric and water meters are read, and bills rendered on a cycle basis by billing district. Electric rate schedules include a fuel cost adjustment clause that permits recovery of fuel costs in the month incurred or in future months. The City reports fuel costs on the same basis as it recognizes revenue. Unbilled revenue is recorded in Austin Energy by estimating the daily power generation and allocating by each billing district meter read dates as of September 30, 2021. The amount of unbilled revenue reported in accounts receivable as of September 30, 2021 was \$31.4 million. Austin Water records unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2021. The amount of unbilled revenue reported in accounts receivable as of September 30, 2021 was \$19.3 million for water and \$15.2 million for wastewater.

Revenues are also recorded net of discounts in the government-wide and proprietary fund-level statements. Discounts are offered as incentives geared towards generating additional revenue in the form of new or expanded business, or to encourage events with a significant economic impact, as well as expedient event planning. The funds listed below report revenues net of discounts, as follows (in thousands):

	Discounts
Airport	\$ 5,736
Nonmajor Enterprise	2,108

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Interfund Revenues, Expenses, and Transfers -- Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved, such as billing for utility services. Transactions between funds that constitute reimbursements for expenditures or expenses are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. Transfers between funds are reported in the operations of governmental and proprietary funds. In the government-wide statement of activities, the effect of interfund activity has generally been removed from the statements. Exceptions include the chargeback of services, such as utilities or vehicle maintenance, and charges for central administrative costs. Elimination of these charges would distort the direct costs and program revenues of the various functions reported. The City recovers indirect costs that are incurred in the Support Services fund, which is reported as an internal service fund. Indirect costs are calculated in a citywide cost allocation plan or through indirect cost rates, which are based on the cost allocation plan.

Intergovernmental Revenues, Receivables, and Liabilities -- Intergovernmental revenues and related receivables arise primarily through funding received from Federal and State grants. Revenues are earned through expenditure of money for grant purposes. Intergovernmental liabilities arise primarily from funds held in an agency capacity for other local governmental units.

Federal and State Grants, Entitlements, and Shared Revenues -- Grants, entitlements, and shared revenues may be accounted for within any City fund. The purpose and requirements of each grant, entitlement, or shared revenue are analyzed to determine the appropriate fund statement and revenue category in which to report the related transactions. Grants, entitlements, and shared revenues received for activities normally recorded in a particular fund may be accounted for in that fund, provided that applicable legal restrictions can be satisfied.

Revenues received for activities normally accounted for within the nonmajor governmental fund groupings include: Federal grant funds, State grant funds, and other special revenue grant funds. Capital grants restricted for capital acquisitions or construction, other than those associated with proprietary type funds, are accounted for in the applicable capital projects funds. Revenues received for operating activities of proprietary funds or revenues that may be used for either operations or capital expenses are recognized in the applicable proprietary fund.

Fund Equity -- Fund balances for governmental funds are reported in classifications that demonstrate the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The governmental fund type classifications are as follows:

Nonspendable: The portion of fund balance that cannot be spent because it is either (a) not in spendable form, such as inventories and prepaid items, or (b) legally or contractually required to be maintained intact.

Restricted: The portion of fund balance that is restricted to specific purposes due to constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitution provisions or enabling legislation.

Committed: The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by an ordinance, the highest-level action taken, adopted by the City Council. An equal action (ordinance) must be enacted to rescind the commitment. The City Council is the highest level of decision-making authority.

Assigned: The portion of fund balance that is constrained by the City's intent to use for specific purposes but are neither restricted nor committed. Under the City charter, the City Manager is authorized to assign individual amounts up to \$62,000 in fiscal year 2021 to a specific purpose. This amount is updated annually based on the most recently published federal government, Bureau of Labor Statistics Indicator, Consumer Price Index (CPI-W U.S. City Average) U.S. City Average.

Unassigned: The portion of fund balance that is not restricted, committed, or assigned to specific purposes; only the General Fund reports a positive unassigned fund balance.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**
e -- Financial Statement Elements, continued

The constraints placed on the fund balances of the General Fund and the nonmajor governmental funds are presented below (in thousands):

	General Fund	Nonmajor Governmental			Total
		Special Revenue	Debt Service	Capital Projects	
Nonspendable					
Prepaid items	\$ 3,369	--	--	--	3,369
Permanent funds	--	--	--	--	1,070
Total Nonspendable	3,369	--	--	--	4,439
Restricted					
Municipal court services	--	959	--	--	959
General government services	--	21	--	--	21
Fire special purpose	--	58	--	--	58
Police special purpose	--	12,780	--	--	12,780
Transportation, planning, and sustainability	--	217	--	--	217
Public health services	--	483	--	--	483
Library services	--	4,736	--	--	4,736
Parks services	--	478	--	--	478
Tourism programs	--	39,444	--	--	39,444
Affordable housing programs	--	44,660	--	--	44,660
Urban growth programs	--	27,528	--	--	27,528
Capital construction	--	--	--	135,051	135,051
Debt service	--	--	33,617	--	33,617
Total Restricted	--	131,364	33,617	135,051	300,032
Committed					
Tourism programs	--	102	--	--	102
Affordable housing programs	--	678	--	--	678
Urban growth programs	--	58,351	--	--	58,351
Total Committed	--	59,131	--	--	59,131
Assigned					
Municipal court services	4,788	--	--	--	4,788
EMS activities	892	--	--	--	892
Fire activities	436	--	--	--	436
Police activities	8,815	--	--	--	8,815
Public health services	31,952	--	--	--	31,952
Library services	3,235	--	--	--	3,235
Parks services	3,909	--	--	--	3,909
Affordable housing programs	499	602	--	--	1,101
Urban growth programs	61,902	379	--	--	62,281
Capital construction	--	--	--	126,639	126,639
Total Assigned	116,428	981	--	126,639	244,048
Unassigned	153,305	(1,220)	--	(200,363)	(48,278)
Total Fund Balance	\$ 273,102	190,256	33,617	61,327	559,372

Restricted resources -- If both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and unrestricted resources as needed. In governmental funds, unrestricted resources would be utilized in order from committed to assigned and finally unassigned.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Budgetary Reserve Funds -- By formal action of City Council, the General Fund maintains two reserve funds: a budget stabilization reserve and an emergency reserve. These reserves are part of unassigned fund balance for the General Fund. As of September 30, 2021, the budget stabilization reserve reports a balance of \$68.8 million and the emergency reserve maintains a balance of eight percent of total General Fund requirements, or \$84 million. The funds in the budget stabilization reserve may be appropriated to fund capital or other one-time costs if the reserve exceeds six percent of total General Fund requirements, but such appropriation should not exceed one-third of the total amount in the reserve.

Cash and Cash Equivalents -- For purposes of the statement of cash flows, the City considers cash and cash equivalents to be currency on hand, cash held by trustee, demand deposits with banks, and all amounts included in pooled investments and cash accounts. The City considers the investment pool to be highly liquid, similar to a money market mutual fund.

Pensions -- For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's three pension plans and additions to/deductions from each plan's fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability, pension expenses, and long-term deferrals are allocated to funds based on actual contributions by fund during the corresponding measurement period with the exception of the internal service funds, which are presented in governmental activities in the government-wide statements (see Note 7).

Risk Management -- The City is exposed to employee-related risks for health benefits and workers' compensation, as well as to various risks of loss related to torts; theft of, damage to, or destruction of assets; fraud; and natural disasters. The City is self-insured for legal liabilities, workers' compensation claims, and employee health benefits.

The City does not participate in a risk pool but purchases commercial insurance coverage for property loss or damage, commercial crime, fidelity bonds, airport operations, and contractors working at selected capital improvement project sites (see Note 14).

Austin Energy has established an energy risk management program. This program was authorized by City Council and led by the risk oversight committee. Under this program, Austin Energy enters into futures contracts, options, and swaps to reduce exposure to natural gas and energy price fluctuations. For additional details see Note 9.

f -- COVID-19 Response Funding

CARES Act -- The City received \$170.8 million in federal funding from the Federal Coronavirus Aid, Relief, and Economic Security Act (CARES) Coronavirus Relief Fund (CRF) in April 2020 administered by the US Department of the Treasury. By the end of fiscal year 2021, the City expended the remaining \$33.8 million of the CARES CRF funding. The funds were used in direct response to the COVID-19 pandemic in relation to emergency management, public safety costs, quarantine facilities, rental assistance, and various economic support programs to assist the citizens of the City.

Emergency Rental Assistance Funding -- The City was awarded \$64.9 million from the US Department of the Treasury for the COVID-19 relief Emergency Rental Assistance Program grant. By the end of fiscal year 2021, the City expended \$55.9 million. The Housing and Planning Department oversees this grant which is being used to assist households that are unable to pay rent and utilities due to the COVID-19 pandemic.

American Rescue Plan Act- Coronavirus State and Local Fiscal Recovery Fund (SLFRF) -- The City was allocated \$188.5 million in federal funding from the Coronavirus State and Local Fiscal Recovery Fund (SLFRF) administered by the US Department of the Treasury. The City received the first tranche of funding in May 2021 totaling \$94.2 million and is expected to receive the remaining funding in May 2022. By the end of fiscal year 2021, the City expended \$7.4 million of the SLFRF funding. SLFRF will provide relief services and assistance to Austin residents, creatives, non-profits, and businesses to address the needs created by this public health emergency.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
g -- Comparative Data

Governments are required to present comparative data only in connection with Management’s Discussion and Analysis (MD&A). Comparative data has been utilized within the MD&A to help readers more fully understand the City’s financial statements for the current period.

h -- Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

2 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2021 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	Restricted
General Fund	\$ 266,115	--
Nonmajor governmental funds	367,196	--
Austin Energy	328,847	164,657
Austin Water	201,225	153,944
Airport	18,455	459,091
Nonmajor enterprise funds	378,133	150,795
Internal service funds	264,973	5,955
Fiduciary funds	2,662	--
Subtotal pooled investments and cash	<u>1,827,606</u>	<u>934,442</u>
Total pooled investments and cash	<u>\$ 2,762,048</u>	

3 – INVESTMENTS AND DEPOSITS**a -- Investments**

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under a written investment policy (the “Investment Policy”) that primarily emphasizes safety of principal and liquidity; addresses investment diversification, yield, and maturity; and addresses the quality and capability of investment personnel. The Investment Policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under Chapter 2256 of the Texas Government Code.

The City’s deposits and investments are invested pursuant to the Investment Policy, which is approved annually by the City Council. The Investment Policy includes a list of authorized investment instruments, a maximum allowable stated maturity of any individual investment, and the maximum average dollar weighted maturity allowed for pooled fund groups. In addition, it includes an “Investment Strategy Statement” that specifically addresses each fund’s investment options and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification, and yield. Additionally, the soundness of financial institutions in which the City will deposit funds is addressed.

The City Treasurer submits an investment report each quarter to the investment committee. Members of the Investment Committee include the Chief Financial Officer (as chair), the City Treasurer (as vice chair), Deputy Treasurer over Investment Management, Deputy Treasurer over Debt Management, representation from the Controller’s office, a public sector investment expert, a Financial Advisor’s representative, a representative from Austin Energy, a representative from the Austin Water, and a representative from the Law Department. The report details the investment position of the City and the compliance of the investment portfolio as it relates to both the adopted investment strategy statements and Texas state law.

3 – INVESTMENTS AND DEPOSITS, continued
a -- Investments, continued

The City is authorized to invest in the following investment instruments if they meet the guidelines of the investment policy:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of the State of Texas;
3. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities;
4. Obligations of other states, cities, counties, or other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent;
5. Bankers' acceptances, so long as each such acceptance has a stated maturity of 270 days or less from the date of its issuance, will be liquidated in full at maturity, are eligible collateral for borrowing from a Federal Reserve Bank, and are accepted by a domestic bank whose short-term obligations are rated at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency or which is the largest subsidiary of a bank holding company whose short-term obligations are so rated;
6. Commercial paper with a stated maturity of 365 days or less from the date of its issuance that is either rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies or is rated at least A-1, P-1, or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof;
7. Collateralized repurchase agreements having a defined termination date and described in more detail in the Investment Policy;
8. Certificates of deposit issued by depository institutions that have a main office or branch office in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or as further described in the Investment Policy;
9. Share certificates issued by a depository institution that has a main office or branch office in Texas;
10. Money market mutual funds;
11. Local government investment pools (LGIPs); and
12. Securities lending program.

The City did not participate in any reverse repurchase agreements or security lending arrangements during fiscal year 2021.

All City investments are insured, registered, or held by an agent in the City's name; therefore, the City is not exposed to custodial credit risk.

The City participates in TexPool/TexPool Prime, TexasDAILY, TexStar, and Texas CLASS (collectively referred to as the LGIPs). There is no federal regulatory oversight for any of the LGIPs but all must obtain and retain a AAAm or equivalent rating, each provides audited Annual Finance Reports with an opinion from an independent auditor, and each has a form of independent oversight. The State Comptroller oversees TexPool/TexPool Prime, with Federated Hermes managing the daily operations of the pool under a contract with the State Comptroller. The Texas Range Investment Program has an advisory board consisting of participants or their designees which maintains oversight responsibility for TexasDAILY. PFM Asset Management LLC manages the daily operations of TexasDAILY under a contract with the advisory board. JPMorgan Investment Management, Inc. and Hilltop Securities, Inc. serve as co-administrators for TexStar under an agreement with the TexStar board of directors. Public Trust Advisors, LLC serves as the program administrator of Texas CLASS under a Trust Agreement with the Board of Trustees.

The City invests in LGIPs to provide its liquidity needs. The LGIPs were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. The LGIPs are structured like money market mutual funds and allow shareholders the ability to deposit or withdraw funds on a daily basis. In addition, interest rates are adjusted on a daily basis, and the funds seek to maintain a constant NAV of \$1.00, although this cannot be fully guaranteed. The LGIPs are rated AAAm and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2021, TexPool, TexPool Prime, TexasDAILY, TexStar, and Texas CLASS had a weighted average maturity of 37 days, 48 days, 48 days, 39 days, and 53 days, respectively. The City's LGIP investments are not subject to limitations, penalties, or restrictions on withdrawals outside emergency conditions that make the sale of assets or determination of fund NAV not reasonably practical, and therefore, the City considers holdings in these funds to have an effective weighted average maturity of one day.

Certain external investment pools and pool participants have an option to measure these investment pools at amortized cost rather than fair value if certain criteria are met. All City LGIPs are qualifying pools for these purposes. TexPool, TexPool Prime, and TexasDAILY opted to report at amortized cost, while TexStar, and Texas CLASS measure their investments at fair value.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are other observable inputs; Level 3 inputs are unobservable inputs.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**3 – INVESTMENTS AND DEPOSITS, continued**
a -- Investments, continued

The City has the following recurring fair value measurements as of September 30, 2021:

- U.S. Treasury securities of \$1.8 billion are valued using quoted prices (unadjusted) in active markets for identical financial assets which the City can access at the measurement date (Level 1 inputs).
- U.S. Agency securities of \$774.9 million are valued using other observable inputs, including but not limited to, model processes, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing (Level 2 inputs).

As of September 30, 2021, the City presented Money Market Funds of \$64.6 million, LGIPs of \$1.05 billion valued using amortized cost, and LGIPs of \$26.8 million valued using NAV.

The following table includes the portfolio balances of all non-pooled and pooled investments of the City at September 30, 2021 (in thousands):

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Non-pooled investments:				
Local Government Investment Pools	\$ 30,488	380,542	--	411,030
Money Market Funds	9,038	55,542	--	64,580
US Treasury Notes	--	247,044	--	247,044
US Treasury Bills	--	41,494	--	41,494
US Agency Bonds	--	159,929	--	159,929
US Agency Discounts Notes	--	39,990	--	39,990
Total non-pooled investments	<u>39,526</u>	<u>924,541</u>	<u>--</u>	<u>964,067</u>
Pooled investments:				
Local Government Investment Pools	217,553	446,357	618	664,528
US Treasury Notes	315,801	647,901	930	964,632
US Treasury Bills	189,865	389,530	559	579,954
US Agency Bonds	114,580	235,074	338	349,992
US Agency Discount Notes	73,649	151,098	217	224,964
Total pooled investments	<u>911,448</u>	<u>1,869,960</u>	<u>2,662</u>	<u>2,784,070</u>
Total investments	<u>\$ 950,974</u>	<u>2,794,501</u>	<u>2,662</u>	<u>3,748,137</u>

Concentration of Credit Risk

At September 30, 2021, the City of Austin was exposed to concentration of credit risk since it held investments with more than five percent of the total investment portfolio balances of the City in securities of the following issuers (in millions): Federal Farm Credit Bank (\$519.9 or 14%), of which \$205.4 were discount notes maturing in less than one year.

The risk exposures for governmental and business-type activities, individual major funds, nonmajor funds in the aggregate, and fiduciary fund types of the City are not significantly greater than the deposit and investment risk of the primary government. The Investment Policy segregates the portfolios into strategic categories including:

1. Operating funds excluding special project funds,
2. Debt service funds,
3. Debt service reserve funds, and
4. Special project funds or special purpose funds.

The City's credit risk is controlled by complying with the Investment Policy, which includes qualification of the brokers and financial institutions with whom the City will transact, sufficient collateralization, portfolio diversification, and maturity limitations.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**3 – INVESTMENTS AND DEPOSITS, continued**
b -- Investment Categories

As of September 30, 2021, the City had the following investments in each of these strategic categories (in thousands):

Investment Type by Category	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	Weighted Average Maturity
Operating funds					
Local Government Investment Pools	\$ 217,553	446,357	618	664,528	1
US Treasury Notes	315,801	647,901	930	964,632	298
US Treasury Bills	189,865	389,530	559	579,954	69
US Agency Bonds	114,580	235,074	338	349,992	450
US Agency Discount Notes	73,649	151,098	217	224,964	141
Total Operating funds	911,448	1,869,960	2,662	2,784,070	
Debt service funds					
General Obligation Debt Service					
Local Government Investment Pools	30,488	--	--	30,488	1
Utility (1)					
Local Government Investment Pools	--	173,984	--	173,984	1
Airport					
Local Government Investment Pools	--	40,959	--	40,959	1
Nonmajor Enterprise-Convention Center					
Local Government Investment Pools	--	8,243	--	8,243	1
Total Debt service funds	30,488	223,186	--	253,674	
Debt service reserve funds					
Utility (1)					
Local Government Investment Pools	--	43,546	--	43,546	1
Money Market Funds	--	4,660	--	4,660	1
Airport					
Local Government Investment Pools	--	61,667	--	61,667	1
Nonmajor Enterprise-Convention Center					
Local Government Investment Pools	--	10,263	--	10,263	1
Total Debt service reserve funds	--	120,136	--	120,136	
Special projects/purpose funds					
Austin Energy Strategic Reserve					
Local Government Investment Pools	--	18,633	--	18,633	1
US Treasury Notes	--	85,533	--	85,533	395
US Treasury Bills	--	9,999	--	9,999	90
US Agency Bonds	--	139,931	--	139,931	812
US Agency Discount Notes	--	24,998	--	24,998	75
Total Austin Energy Strategic Reserve	--	279,094	--	279,094	
Austin Energy Nuclear Decommissioning					
Trust Funds (NDF)					
Money Market Funds	--	12,602	--	12,602	1
US Treasury Notes	--	161,511	--	161,511	424
US Treasury Bills	--	31,495	--	31,495	124
US Agency Bonds	--	19,998	--	19,998	74
US Agency Discount Notes	--	14,992	--	14,992	265
Total Austin Energy NDF	--	240,598	--	240,598	
Special Projects - Utility Reserve (1)					
Local Government Investment Pools	--	23,247	--	23,247	1
Special Projects - Other					
Money Market Funds	9,038	38,280	--	47,318	1
Total Special projects/purpose funds	9,038	581,219	--	590,257	
Total funds	\$ 950,974	2,794,501	2,662	3,748,137	

(1) Includes combined pledge debt service

3 – INVESTMENTS AND DEPOSITS, continued
b -- Investment Categories, continued**Credit Risk**

At September 30, 2021, City funds held investments in LGIPs and Money Market Funds rated AAAM by Standard & Poor's or AAAmmf by Fitch Ratings, Inc., short-to-medium term U.S. Agency bonds rated AA+ by Standard & Poor's, and the remaining investments in Treasury securities, which are direct obligations of the U.S. government.

Concentration of Credit Risk**Operating Funds**

At September 30, 2021, the operating funds held investments with more than five percent of the total portfolio in securities of the following issuers (in millions): Federal Farm Credit Bank (\$400 or 14%)

Special Projects or Special Purpose Funds

At September 30, 2021, the Austin Energy Strategic Reserve Fund held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Farm Credit Bank (\$104.9 or 37.6%), and Federal Home Loan Mortgage Corporation (\$40 or 14%).

At September 30, 2021, the NDTF held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Farm Credit Bank (\$15 or 6%) and Federal Home Loan Bank (\$20 or 8%).

Interest Rate Risk**Operating Funds**

As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the City's cash flow requirements. Three years is the maximum period before maturity.

At September 30, 2021, less than half of the Investment Pool was invested in AAAM rated LGIPs, with the remainder invested in short-to-medium term U.S. Agency and Treasury obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity of all securities was 186 days, which was less than the threshold of 365 days.

Debt Service Funds

Investment strategies for debt service funds have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. As a means of minimizing risk of loss due to interest rate fluctuations, securities purchased cannot have a stated final maturity date which exceeds the debt service payment date.

Debt Service Reserve Funds

Investment strategies for debt service reserve funds have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. Except as may be required by bond ordinance specific to an individual issue, securities should be of high quality, with short-term to intermediate-term maturities.

Special Projects or Special Purpose Funds

As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities in this category not exceed the anticipated cash flow requirements of the funds.

Special Purpose Funds - Austin Energy Strategic Reserve Fund

At September 30, 2021, the portfolios held investments in TexPool, U.S. Treasury, and U.S. Agency obligations with maturities that will meet anticipated cash flow requirements and an overall dollar weighted average maturity of 538 days.

Special Purpose Funds - Austin Energy Nuclear Decommissioning Trust Funds (NDTF)

As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy for the NDTF portfolios requires that the dollar weighted average maturity, using final stated maturity dates, shall not exceed seven years, although the portfolio's weighted average maturity may be substantially shorter if market conditions so dictate. At September 30, 2021, the dollar weighted average maturity was 324 days.

Special Purpose Funds - Investments Held by Trustee

Investment objectives for these special purpose funds have as the primary objective the safety of principal and assurance of liquidity adequate to cover construction expense draws. As a means of minimizing risk of loss due to interest rate fluctuations, funds are being held in overnight money market funds.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**3 – INVESTMENTS AND DEPOSITS, continued**
c -- Investment and Deposits

Investments and deposits portfolio balances at September 30, 2021, are as follows (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments and cash	\$ 49,923	930,716	--	980,639
Pooled investments and cash	912,345	1,871,854	2,662	2,786,861
Total investments and cash	<u>962,268</u>	<u>2,802,570</u>	<u>2,662</u>	<u>3,767,500</u>
Unrestricted cash	45	528	--	573
Restricted cash	10,352	5,647	--	15,999
Pooled investments and cash	912,345	1,871,854	2,662	2,786,861
Investments	39,526	924,541	--	964,067
Total	<u>\$ 962,268</u>	<u>2,802,570</u>	<u>2,662</u>	<u>3,767,500</u>

The bank balance of the portfolio exceeds the book balance by approximately \$25 million (net), which primarily consists of outstanding checks and deposits in transit. The outstanding checks decrease the book balance as compared to the bank, whereas the deposits in transit increase it. The difference eliminates once both the outstanding checks and deposits in transit clear the bank.

Deposits

The September 30, 2021 carrying amount of deposits at the bank and cash on hand are as follows (in thousands):

	Governmental Activities	Business-type Activities	Total
Cash			
Unrestricted	\$ 45	65	110
Restricted	--	4,790	4,790
Cash held by trustee			
Unrestricted	--	463	463
Restricted	10,352	857	11,209
Non-pooled cash	<u>10,397</u>	<u>6,175</u>	<u>16,572</u>
Pooled cash	915	1,876	2,791
Total deposits	<u>\$ 11,312</u>	<u>8,051</u>	<u>19,363</u>

All bank accounts were either insured or collateralized with securities held by the City or its agents in the City's name at September 30, 2021.

4 – PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The adjusted assessed value for the roll as of January 1, 2020, upon which the 2021 levy was based, was \$176,671,783,309.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2021, 99.28% of the current tax levy (October 1, 2020) was collected. The statutory lien date is January 1.

The methods of property assessment and tax collection are determined by Texas statutes. The statutes provide for a property tax code, countywide appraisal districts, a State property tax board, and certain exemptions from taxation, such as intangible personal property, household goods, and family-owned automobiles.

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District, the Williamson Central Appraisal District, and the Hays Central Appraisal District. The appraisal districts are required under the Property Tax Code to assess all real and personal property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every two years; however, the City may require more frequent reviews of appraised values at its own expense. The Travis Central Appraisal District and the Hays Central Appraisal District have chosen to review the value of property in their respective districts every two years, while the Williamson Central Appraisal District has chosen to review the value of property on an annual basis. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action.

The City is authorized to set tax rates on property within the city limits. State law governing municipalities' authority to increase property tax rates was changed during 2019. Effective for fiscal year 2021, any increase in the property tax rate for maintenance and operations of more than 3.5% above the no-new-revenue-property tax rate will require voter approval on the November general election ballot. The no-new-revenue rate is the rate at which the City would generate the same amount of property tax revenue for maintenance and operations as in the prior year from properties taxed in both years, net of certain adjustments. The City will continue to have the ability to set its debt service tax rate at the level necessary to generate sufficient revenue to make its payments on voter-approved bonds, certificates of obligation, and other contractual obligations.

The City is permitted by Article XI, Section 5 of the State of Texas Constitution to levy taxes up to \$2.50 per \$100 of assessed valuation for general governmental services, including the payment of principal and interest on general obligation long-term debt. Under the City charter, a limit on taxes levied for general governmental services, exclusive of payments of principal and interest on general obligation long-term debt, has been established at \$1.00 per \$100 assessed valuation. A practical limitation on taxes levied for debt service of \$1.50 per \$100 of assessed valuation is established by state statute and City charter limitations. Through contractual arrangements, Travis, Williamson, and Hays Counties bill and collect property taxes for the City.

The tax rate to finance general governmental functions and fund Project Connect, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2021, was \$0.4209 per \$100 assessed valuation. The tax rate for servicing the payment of principal and interest on general obligation long-term debt for the fiscal year ended September 30, 2021, was \$0.1126 per \$100 assessed valuation. The City has a tax margin for general governmental purposes of \$0.5791 per \$100 assessed valuation and could levy approximately \$1,023,106,297 in additional taxes from the assessed valuation of \$176,671,783,309 before the legislative limit is reached.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**5 – CAPITAL ASSETS AND INFRASTRUCTURE**

Governmental Activities

Capital asset activity for the year ended September 30, 2021, was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u> (1)	<u>Decreases</u> (1)	<u>Ending Balance</u>
Depreciable capital assets				
Building and improvements	\$ 1,284,422	129,843	(257)	1,414,008
Plant and equipment	309,784	10,604	(24,993)	295,395
Vehicles	166,991	30,577	(13,711)	183,857
Infrastructure	3,144,219	89,629	--	3,233,848
Total depreciable capital assets	<u>4,905,416</u>	<u>260,653</u>	<u>(38,961)</u>	<u>5,127,108</u>
Less accumulated depreciation for				
Building and improvements	(456,711)	(40,947)	214	(497,444)
Plant and equipment	(211,486)	(19,264)	23,745	(207,005)
Vehicles	(104,992)	(14,993)	13,288	(106,697)
Infrastructure	(1,433,061)	(84,008)	--	(1,517,069)
Total accumulated depreciation	<u>(2,206,250)</u>	<u>(159,212)</u> (2)	<u>37,247</u>	<u>(2,328,215)</u>
Depreciable capital assets, net	<u>2,699,166</u>	<u>101,441</u>	<u>(1,714)</u>	<u>2,798,893</u>
Nondepreciable capital assets				
Land and improvements	409,346	76,047	(2,777)	482,616
Arts and treasures	11,664	294	--	11,958
Library collections	18,167	--	--	18,167
Construction in progress	167,559	165,895	(110,985)	222,469
Total nondepreciable assets	<u>606,736</u>	<u>242,236</u>	<u>(113,762)</u>	<u>735,210</u>
Total capital assets	<u>\$ 3,305,902</u>	<u>343,677</u>	<u>(115,476)</u>	<u>3,534,103</u>

(1) Increases and decreases do not include transfers (at net book value) between Governmental Activities.

(2) Components of accumulated depreciation/amortization increases:

Governmental Activities:

General government	\$ 9,656
Public safety	17,991
Transportation, planning and sustainability	65,068
Public health	2,974
Public recreation and culture	25,273
Urban growth management	24,317
Internal service funds	13,751
Total increases in accumulated depreciation/amortization	<u>159,030</u>
Transferred accumulated depreciation	182
Total increases in accumulated depreciation/amortization	<u>\$ 159,212</u>

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued**

Business-type Activities: Total

Capital asset activity for the year ended September 30, 2021, was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u> (1)	<u>Decreases</u> (1)	<u>Ending Balance</u>
Depreciable capital assets				
Building and improvements	\$ 3,238,104	87,452	(7,058)	3,318,498
Plant and equipment	4,330,764	229,112	(17,001)	4,542,875
Vehicles	260,397	36,729	(20,758)	276,368
Electric plant	5,749,728	278,425	(22,400)	6,005,753
Non-electric plant	285,500	4,110	(21,549)	268,061
Nuclear fuel	435,752	23,513	--	459,265
Water rights	100,000	--	--	100,000
Total depreciable capital assets	<u>14,400,245</u>	<u>659,341</u>	<u>(88,766)</u>	<u>14,970,820</u>
Less accumulated depreciation/amortization for				
Building and improvements	(987,878)	(74,636)	4,810	(1,057,704)
Plant and equipment	(1,884,936)	(114,433)	13,196	(1,986,173)
Vehicles	(174,607)	(19,049)	20,209	(173,447)
Electric plant	(3,315,246)	(268,243)	6,899	(3,576,590)
Non-electric plant	(110,821)	(9,792)	19,532	(101,081)
Nuclear fuel	(389,199)	(19,403)	--	(408,602)
Water rights	(20,742)	(986)	--	(21,728)
Total accumulated depreciation/amortization	<u>(6,883,429)</u>	<u>(506,542)</u> (2)	<u>64,646</u>	<u>(7,325,325)</u>
Depreciable capital assets, net	<u>7,516,816</u>	<u>152,799</u>	<u>(24,120)</u>	<u>7,645,495</u>
Nondepreciable capital assets				
Land and improvements	787,394	23,615	--	811,009
Arts and treasures	4,113	2,062	--	6,175
Construction in progress	643,507	523,827	(420,051)	747,283
Plant held for future use	23,115	--	--	23,115
Total nondepreciable assets	<u>1,458,129</u>	<u>549,504</u>	<u>(420,051)</u>	<u>1,587,582</u>
Total capital assets	<u>\$ 8,974,945</u>	<u>702,303</u>	<u>(444,171)</u>	<u>9,233,077</u>

(1) Increases and decreases do not include transfers (at net book value) between Business-type Activities.

(2) Components of accumulated depreciation/amortization increases:

Business-type Activities:

Electric	\$ 280,815
Water	63,714
Wastewater	68,858
Airport	44,155
Convention	8,566
Environmental and health services	10,055
Public recreation	615
Urban growth management	10,543
Total business-type activities depreciation expense	<u>487,321</u>
Transferred accumulated depreciation	(182)
Current year amortization included in operating expense	19,403
Total increases in accumulated depreciation/amortization	<u>\$ 506,542</u>

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued**

Business-type Activities: Austin Energy

Capital asset activity for the year ended September 30, 2021, was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Depreciable capital assets				
Vehicles	\$ 38,757	7,294	(3,963)	42,088
Electric plant	5,749,728	278,425	(22,400)	6,005,753
Non-electric plant	285,500	4,110	(21,549)	268,061
Nuclear fuel	435,752	23,513	–	459,265
Total depreciable capital assets	<u>6,509,737</u>	<u>313,342</u>	<u>(47,912)</u>	<u>6,775,167</u>
Less accumulated depreciation/amortization for				
Vehicles	(25,029)	(2,780)	3,959	(23,850)
Electric plant	(3,315,246)	(268,243)	6,899	(3,576,590)
Non-electric plant	(110,821)	(9,792)	19,532	(101,081)
Nuclear fuel	(389,199)	(19,403)	–	(408,602)
Total accumulated depreciation/amortization	<u>(3,840,295)</u>	<u>(300,218) (1)</u>	<u>30,390</u>	<u>(4,110,123)</u>
Depreciable capital assets, net	<u>2,669,442</u>	<u>13,124</u>	<u>(17,522)</u>	<u>2,665,044</u>
Nondepreciable capital assets				
Land and improvements	71,037	5,417	–	76,454
Construction in progress (2)	204,243	209,098	(130,689)	282,652
Plant held for future use	23,115	–	–	23,115
Total nondepreciable assets	<u>298,395</u>	<u>214,515</u>	<u>(130,689)</u>	<u>382,221</u>
Total capital assets	<u>\$ 2,967,837</u>	<u>227,639</u>	<u>(148,211)</u>	<u>3,047,265</u>

(1) Components of accumulated depreciation/amortization increases:

Current year depreciation	\$ 280,815
Current year amortization included in operating expense	19,403
Total increases in accumulated depreciation/amortization	<u>\$ 300,218</u>

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued**

Business-type Activities: Austin Water

Capital asset activity for the year ended September 30, 2021, was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Depreciable capital assets				
Building and improvements	\$ 1,247,005	8,604	(6,360)	1,249,249
Plant and equipment	4,039,558	215,952	(10,981)	4,244,529
Vehicles	45,804	6,555	(4,848)	47,511
Water rights	100,000	--	--	100,000
Total depreciable capital assets	<u>5,432,367</u>	<u>231,111</u>	<u>(22,189)</u>	<u>5,641,289</u>
Less accumulated depreciation/amortization for				
Building and improvements	(383,024)	(26,675)	4,618	(405,081)
Plant and equipment	(1,756,343)	(102,328)	8,044	(1,850,627)
Vehicles	(33,606)	(2,583)	4,827	(31,362)
Water rights	(20,742)	(986)	--	(21,728)
Total accumulated depreciation/amortization	<u>(2,193,715)</u>	<u>(132,572) (1)</u>	<u>17,489</u>	<u>(2,308,798)</u>
Depreciable capital assets, net	<u>3,238,652</u>	<u>98,539</u>	<u>(4,700)</u>	<u>3,332,491</u>
Nondepreciable capital assets				
Land and improvements	231,286	220	--	231,506
Arts and treasures	111	--	--	111
Construction in progress	326,336	196,558	(184,047)	338,847
Total nondepreciable assets	<u>557,733</u>	<u>196,778</u>	<u>(184,047)</u>	<u>570,464</u>
Total capital assets	<u>\$ 3,796,385</u>	<u>295,317</u>	<u>(188,747)</u>	<u>3,902,955</u>

(1) Components of accumulated depreciation/amortization increases:

Current year depreciation	
Water	\$ 62,728
Wastewater	68,858
Current year amortization	
Water	986
Total increases in accumulated depreciation/amortization	<u>\$ 132,572</u>

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued**

Business-type Activities: Airport

Capital asset activity for the year ended September 30, 2021, was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Depreciable capital assets				
Building and improvements	\$ 1,642,188	76,623	(16)	1,718,795
Plant and equipment	51,191	1,175	(4,015)	48,351
Vehicles	19,283	385	(978)	18,690
Total depreciable capital assets	<u>1,712,662</u>	<u>78,183</u>	<u>(5,009)</u>	<u>1,785,836</u>
Less accumulated depreciation for				
Building and improvements	(415,584)	(39,710)	--	(455,294)
Plant and equipment	(22,607)	(2,814)	3,752	(21,669)
Vehicles	(11,114)	(1,631)	837	(11,908)
Total accumulated depreciation	<u>(449,305)</u>	<u>(44,155) (1)</u>	<u>4,589</u>	<u>(488,871)</u>
Depreciable capital assets, net	<u>1,263,357</u>	<u>34,028</u>	<u>(420)</u>	<u>1,296,965</u>
Nondepreciable capital assets				
Land and improvements	96,381	--	--	96,381
Arts and treasures	3,390	2,062	--	5,452
Construction in progress	66,338	66,889	(79,765)	53,462
Total nondepreciable assets	<u>166,109</u>	<u>68,951</u>	<u>(79,765)</u>	<u>155,295</u>
Total capital assets	<u>\$ 1,429,466</u>	<u>102,979</u>	<u>(80,185)</u>	<u>1,452,260</u>

(1) Components of accumulated depreciation/amortization increases:

Current year depreciation \$ 44,155

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued**

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2021, was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u> (1)	<u>Decreases</u> (1)	<u>Ending Balance</u>
Depreciable capital assets				
Building and improvements	\$ 348,911	2,225	(682)	350,454
Plant and equipment	240,015	11,985	(2,005)	249,995
Vehicles	156,553	22,495	(10,969)	168,079
Total depreciable capital assets	<u>745,479</u>	<u>36,705</u>	<u>(13,656)</u>	<u>768,528</u>
Less accumulated depreciation for				
Building and improvements	(189,270)	(8,251)	192	(197,329)
Plant and equipment	(105,986)	(9,291)	1,400	(113,877)
Vehicles	(104,858)	(12,055)	10,586	(106,327)
Total accumulated depreciation	<u>(400,114)</u>	<u>(29,597)</u> (2)	<u>12,178</u>	<u>(417,533)</u>
Depreciable capital assets, net	<u>345,365</u>	<u>7,108</u>	<u>(1,478)</u>	<u>350,995</u>
Nondepreciable capital assets				
Land and improvements	388,690	17,978	--	406,668
Arts and treasures	612	--	--	612
Construction in progress	46,590	51,282	(25,550)	72,322
Total nondepreciable assets	<u>435,892</u>	<u>69,260</u>	<u>(25,550)</u>	<u>479,602</u>
Total capital assets	<u>\$ 781,257</u>	<u>76,368</u>	<u>(27,028)</u>	<u>830,597</u>

(1) Increases and decreases do not include transfers (at net book value) between nonmajor enterprise funds.

(2) Components of accumulated depreciation/amortization increases:

Current year depreciation	
Convention	\$ 8,566
Environmental and health services	10,055
Public recreation	615
Urban growth management	10,543
Total nonmajor enterprise activities depreciation expense	<u>29,779</u>
Transferred accumulated depreciation	(182)
Total increases in accumulated depreciation/amortization	<u>\$ 29,597</u>

Service Concession Arrangements -- The City has recorded net capital assets of \$182.4 million, other assets of \$16 million and deferred inflows of \$192.4 million derived from five service concession arrangements (SCA) described below. An SCA is an arrangement in which the City conveys use of a capital asset to an operator in exchange for significant consideration; where the operator is compensated from third parties; where the City may determine what services are provided, to whom and for what price; where the City retains a significant residual interest in the asset after the SCA terminates.

The City has had an agreement with the Friends of Umlauf Garden, Inc. since 1991 to manage and operate the Umlauf Sculpture Garden and Museum. The agreement extended through November 2021 and is for the purpose of displaying the artistic works of Charles Umlauf for the public enjoyment and education. Structures, which are dedicated to the City, have been built on City-owned land and display City-owned artwork.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**5 – CAPITAL ASSETS AND INFRASTRUCTURE, continued**

In 2010, the City entered into an agreement with the Young Men’s Christian Association (YMCA) to develop and operate a new joint-use recreational facility for public use. The facility is owned by the City and operated by the YMCA under a 20-year agreement extending through 2032.

In 2014, the City entered a joint design, development, management and operation agreement with Waller Creek Local Government Corporation and the Waterloo Greenway Conservancy (WGC). The agreement established the roles and responsibilities of each entity regarding the development and operation of the Waller Creek District. The WGC contributed funding to Waller Creek District facilities that will be owned by the City. The WGC will operate the facilities for an initial term of 20 years, with options to extend through 2113.

In 2016, the City entered into a Master Lease Agreement with Austin CONRAC LLC, a corporation established to operate Austin’s consolidated rent-a-car facility (“CONRAC”). The master lease, with a 20-year initial term and a 10-year extension option, provides for construction, financing, and management of a joint use facility. CONRAC began operations October 1, 2015. The operator pays annual rent of \$900,000 to the Airport. The present value of the future rent payments was \$13 million at lease inception. As of September 30, 2021, the unamortized balance was \$8.5 million and is presented in other assets. The related deferred inflow balance is \$10.4 million. The CONRAC was financed with \$143 million in City issued Rental Car Special Facility Bonds, conduit debt secured by customer facilities charges (CFC). CFC funds are remitted by rental car concessionaires directly to the bond trustee. See Note 16 for conduit debt information. Construction costs totaled \$152.5 million and the City has recorded the asset with a corresponding deferred inflow of resources to be amortized over the 30-year term of the master lease agreement.

In 2017, the City entered into a Lease and Development Agreement with Scott Airport Parking, LLC (Scott) to develop and operate a 2,000-space covered parking facility and full-service pet boarding facility (Bark and Zoom). The lease has a 40-year term which began on October 2016. Scott pays a monthly square footage rate, a monthly percentage rate, and a fixed monthly rate in exchange for the right to operate the facilities, as defined in the lease and development agreement. The fixed monthly rate for the first five years is \$5,000. The present value of the future payments was \$9.2 million at lease inception. As of September 30, 2021, the unamortized balance was \$7.5 million and is presented in other assets. The related deferred inflow balance is \$8.1 million. Construction costs totaled \$27.1 million and the City has recorded the asset with a corresponding deferred inflow of resources to be amortized over the 40-year term of the master lease agreement.

As of September 30, 2021, the City reported the following SCA activities (in thousands):

	Beginning Asset Construction		Beginning Accumulated		Ending Accumulated		Net Book Value
	Cost	Current Year Additions	Depreciation	Current Year Depreciation	Depreciation	Depreciation	
Service Concession Arrangement							
Governmental Activities:							
Umlauf Sculpture Garden	\$ 2,337	--	1,689	59	1,748	589	
YMCA Northeast Recreation Center	1,333	--	260	34	294	1,039	
Waterloo Park and Amphitheater	--	27,515	--	151	151	27,364	
Total Governmental Activities	3,670	27,515	1,949	244	2,193	28,992	
Business-type Activities:							
CONRAC facility	152,496	--	19,000	3,811	22,811	129,685	
Bark and Zoom facility	27,098	--	2,643	702	3,345	23,753	
Total Business-type Activities	179,594	--	21,643	4,513	26,156	153,438	
	Beginning Deferred Inflows	Current Year Additions	Beginning Accumulated Amortization	Current Year Amortization	Ending Accumulated Amortization	Ending Deferred Inflows	
Governmental Activities:							
Umlauf Sculpture Garden	84	--	2,253	78	2,331	6	
YMCA Northeast Recreation Center	655	--	678	66	744	589	
Waterloo Park and Amphitheater	--	27,515	--	50	50	27,465	
Total Governmental Activities	739	27,515	2,931	194	3,125	28,060	
Business-type Activities:							
CONRAC facility	127,112	--	25,384	5,084	30,468	122,028	
CONRAC base rent agreement	10,867	--	2,174	435	2,609	10,432	
Bark and Zoom facility	24,455	--	2,643	702	3,345	23,753	
Bark and Zoom base rent agreement	8,338	--	926	232	1,158	8,106	
Total Business-type Activities	\$ 170,772	--	31,127	6,453	37,580	164,319	

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**6 – DEBT AND NON-DEBT LIABILITIES**
a -- Long-Term Liabilities

Payments on bonds for governmental activities will be made from the general obligation debt service funds. Accrued compensated absences that pertain to governmental activities will be liquidated by the General Fund, special revenue funds, and internal service funds. Claims payable will be liquidated by Austin Energy, Austin Water, Airport, and internal service funds. Other liabilities that pertain to governmental activities will be liquidated by the General Fund, special revenue funds, general governmental capital improvement projects funds, and internal service funds.

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all limitations and restrictions.

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for these funds are included in governmental activities.

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2021, were as follows (in thousands):

Description	October 1, 2020	Increases	Decreases	September 30, 2021	Amounts Due Within One Year
Governmental activities					
General obligation bonds, net	\$ 1,143,341	152,991	(198,029)	1,098,303	87,072
Certificates of obligation, net	244,725	134,558	(50,940)	328,343	13,121
Contractual obligations, net	98,448	22,311	(20,288)	100,471	16,503
General obligation bonds and other tax supported debt total	1,486,514	309,860	(269,257)	1,527,117	116,696
Capital lease obligations	26,203	--	(5,116)	21,087	5,264
Net debt	1,512,717	309,860	(274,373)	1,548,204	121,960
Other long-term obligations					
Accrued compensated absences	143,994	7,760	(10,721)	141,033	73,900
Claims payable	49,122	219,924	(182,660)	86,386	49,100
Net pension liability	2,143,680	421,587	(1,218,738)	1,346,529	--
Other postemployment benefits	2,087,627	703,556	(221,178)	2,570,005	37,488
Asset retirement obligations	518	--	--	518	--
Other liabilities	147,354	73,291	(804)	219,841	204,894
Governmental activities total	6,085,012	1,735,978	(1,908,474)	5,912,516	487,342
Total business-type activities					
General obligation bonds, net	16,545	5,672	(4,349)	17,868	3,239
Certificates of obligation, net	39,786	--	(7,737)	32,049	1,733
Contractual obligations, net	17,925	5,025	(6,108)	16,842	3,866
Other tax supported debt, net	5,340	--	(820)	4,520	845
General obligation bonds and other tax supported debt total	79,596	10,697	(19,014)	71,279	9,683
Commercial paper notes, net	366,480	178,600	(366,480)	178,600	--
Revenue bonds, net	5,228,311	606,666	(374,461)	5,460,516	169,145
Revenue notes from direct placements, net	172,830	36,795	(11,475)	198,150	12,970
Capital lease obligations	819	--	(63)	756	66
Net debt	5,848,036	832,758	(771,493)	5,909,301	191,864
Other long-term obligations					
Accrued compensated absences	36,256	3,823	(612)	39,467	33,765
Claims payable	562	1,187	(240)	1,509	263
Net pension liability	859,634	213,235	(241,395)	831,474	--
Other postemployment benefits	1,416,867	511,473	(151,978)	1,776,362	25,915
Accrued landfill closure and postclosure costs	10,915	8,957	(73)	19,799	855
Decommissioning liability payable	1,194	--	(1,194)	--	--
Asset retirement obligations	417,962	20,421	(502)	437,881	--
Other liabilities	101,425	33,802	(2,202)	133,025	85,343
Business-type activities total	8,692,851	1,625,656	(1,169,689)	9,148,818	338,005
Total liabilities (1)	\$ 14,777,863	3,361,634	(3,078,163)	15,061,334	825,347

(1) This schedule excludes select short-term liabilities of \$144,417 for governmental activities. For business-type activities, it excludes select short-term liabilities of \$289,424, and derivative instruments of \$21,490.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)6 – DEBT AND NON-DEBT LIABILITIES, continued
a -- Long-Term Liabilities, continued

Description	October 1, 2020	Increases	Decreases	September 30, 2021	Amounts Due Within One Year
Business-type activities:					
Electric activities					
General obligation bonds, net	\$ 4	--	(4)	--	--
General obligation bonds and other tax supported debt total	4	--	(4)	--	--
Commercial paper notes, net	162,480	76,600	(162,480)	76,600	--
Revenue bonds, net	1,899,988	342,748	(184,510)	2,058,226	86,427
Capital lease obligations	819	--	(63)	756	66
Net debt	2,063,291	419,348	(347,057)	2,135,582	86,493
Other long-term obligations					
Accrued compensated absences	13,500	1,227	--	14,727	12,365
Claims payable	252	1,097	(120)	1,229	242
Net pension liability	325,229	66,461	(84,148)	307,542	--
Other postemployment benefits	424,044	149,439	(43,226)	530,257	7,735
Decommissioning liability payable	1,194	--	(1,194)	--	--
Asset retirement obligations	416,680	20,421	(502)	436,599	--
Other liabilities	74,541	29,928	(533)	103,936	57,371
Electric activities total	3,318,731	687,921	(476,780)	3,529,872	164,206
Water and Wastewater activities					
General obligation bonds, net	744	--	(197)	547	187
Certificates of obligation bonds, net	1,400	--	(103)	1,297	102
Contractual obligations, net	1,298	--	(694)	604	419
Other tax supported debt, net	3,419	--	(525)	2,894	541
General obligation bonds and other tax supported debt total	6,861	--	(1,519)	5,342	1,249
Commercial paper notes, net	204,000	102,000	(204,000)	102,000	--
Revenue bonds, net	2,156,947	263,918	(149,073)	2,271,792	53,573
Revenue notes from direct placements, net	106,195	36,795	(4,930)	138,060	6,280
Net debt	2,474,003	402,713	(359,522)	2,517,194	61,102
Other long-term obligations					
Accrued compensated absences	6,812	697	(148)	7,361	6,516
Claims payable	310	90	(120)	280	21
Net pension liability	162,848	46,524	(48,393)	160,979	--
Other postemployment benefits	289,472	101,233	(29,522)	361,183	5,269
Asset retirement obligations	1,282	--	--	1,282	--
Other liabilities	12,234	30	(1,045)	11,219	11,219
Water and Wastewater activities total	2,946,961	551,287	(438,750)	3,059,498	84,127
Airport activities					
General obligation bonds, net	3	--	(2)	1	1
General obligation bonds and other tax supported debt total	3	--	(2)	1	1
Revenue bonds, net	1,086,183	--	(33,567)	1,052,616	21,695
Revenue notes from direct placements, net	43,695	--	(4,425)	39,270	4,530
Net debt	1,129,881	--	(37,994)	1,091,887	26,226
Other long-term obligations					
Accrued compensated absences	2,798	173	--	2,971	2,826
Claims payable	--	--	--	--	--
Net pension liability	62,862	15,667	(17,411)	61,118	--
Other postemployment benefits	130,367	44,381	(14,367)	160,381	2,340
Other liabilities	6,467	964	(623)	6,808	5,691
Airport activities total	1,332,375	61,185	(70,395)	1,323,165	37,083
Nonmajor enterprise activities					
General obligation bonds, net	15,794	5,672	(4,146)	17,320	3,051
Certificates of obligation, net	38,386	--	(7,634)	30,752	1,631
Contractual obligations	16,627	5,025	(5,414)	16,238	3,447
Other tax supported debt, net	1,921	--	(295)	1,626	304
General obligation bonds and other tax supported debt total	72,728	10,697	(17,489)	65,936	8,433
Revenue bonds, net	85,193	--	(7,311)	77,882	7,450
Revenue notes from direct placements, net	22,940	--	(2,120)	20,820	2,160
Net debt	180,861	10,697	(26,920)	164,638	18,043
Other long-term obligations					
Accrued compensated absences	13,146	1,726	(464)	14,408	12,058
Net pension liability	308,695	84,583	(91,443)	301,835	--
Other postemployment benefits	572,984	216,420	(64,863)	724,541	10,571
Accrued landfill closure and postclosure costs	10,915	8,957	(73)	19,799	855
Other liabilities	8,183	2,880	(1)	11,062	11,062
Nonmajor enterprise activities total	\$ 1,094,784	325,263	(183,764)	1,236,283	52,589

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**6 – DEBT AND NON-DEBT LIABILITIES, continued**
b -- Governmental Activities Long-Term Liabilities

General Obligation Bonds -- General obligation debt is collateralized by the full faith and credit of the City. The City intends to retire its general obligation debt, plus interest, from future ad valorem tax levies and is required by ordinance to create from such tax revenues a sinking fund sufficient to pay the current interest due thereon and each installment of principal as it becomes due. General obligation debt issued to finance capital assets of enterprise funds is reported as an obligation of these enterprise funds, although the funds are not obligated by the applicable bond indentures to repay any portion of principal and interest on outstanding general obligation debt. However, the City intends for the enterprise funds to meet the debt service requirements from program revenues.

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and assumed municipal utility district (MUD) bonds outstanding at September 30, 2021, including those reported in certain proprietary funds (in thousands):

Series	Fiscal Year	Original Amount Issue	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
NW Austin MUD - 2006	2006	\$ 7,995	4,520	584 (1)(3)	4.20 - 4.25%	9/1/2022-2026
Mueller Contractual Obligation - 2006	2006	12,000	4,355	611 (1)(4)	4.00 - 5.00%	9/1/2022-2026
Public Improvement - 2009B	2009	78,460	52,710	12,328 (1)	4.75 - 5.31%	9/1/2022-2029
Mueller Contractual Obligation - 2009	2010	15,000	7,565	1,497 (1)(4)	4.00 - 4.25%	9/1/2022-2029
Public Improvement Refunding - 2010	2011	91,560	19,070	1,089 (1)	4.34 - 4.92%	9/1/2022-2023
Public Improvement - 2011A	2012	78,090	62,090	15,490 (1)	3.00 - 4.00%	9/1/2022-2031
Public Improvement - 2011B	2012	8,450	6,550	1,578 (1)	3.50 - 4.50%	9/1/2022-2031
Certificates of Obligation - 2011	2012	51,150	39,290	17,262 (1)	3.13 - 5.00%	9/1/2022-2041
Public Improvement Refunding - 2011A	2012	68,285	8,890	532 (1)	5.00%	9/1/2022-2023
Public Improvement - 2012A	2013	74,280	70,945	14,848 (1)	3.00 - 5.00%	9/1/2023-2032
Public Improvement - 2012B	2013	6,640	3,940	830 (1)	2.50 - 3.50%	9/1/2022-2032
Certificates of Obligation - 2012	2013	24,645	16,330	3,630 (1)	3.00 - 4.00%	9/1/2022-2037
Mueller Contractual Obligation - 2012	2013	16,735	11,790	2,828 (1)(4)	2.63 - 3.38%	9/1/2022-2032
Public Improvement - 2013	2014	104,665	85,965	26,572 (1)	4.00 - 5.00%	9/1/2022-2033
Certificates of Obligation - 2013	2014	25,355	20,320	8,503 (1)	3.25 - 5.00%	9/1/2022-2038
Public Improvement Refunding - 2013A	2014	43,250	11,725	1,520 (1)	5.00%	9/1/2022-2024
Public Improvement - 2014	2015	89,915	86,810	39,945 (1)	3.00 - 5.00%	9/1/2022-2034
Public Improvement - 2014	2015	10,000	9,280	3,294 (1)	2.80 - 4.02%	9/1/2022-2034
Certificates of Obligation - 2014	2015	35,490	26,485	10,215 (1)	3.00 - 5.00%	9/1/2022-2034
Certificates of Obligation - 2014	2015	9,600	6,995	2,018 (1)	2.80 - 3.92%	9/1/2022-2034
Contractual Obligation - 2014	2015	14,100	1,445	36 (2)	5.00%	11/1/2021
Mueller Contractual Obligation - 2014	2015	15,845	13,130	3,288 (1)(4)	3.00 - 5.00%	9/1/2022-2029
Public Improvement and Refunding - 2015	2016	236,905	179,455	42,283 (1)	2.95 - 5.00%	9/1/2022-2035
Public Improvement - 2015	2016	10,000	7,970	2,545 (1)	2.89 - 4.27%	9/1/2022-2035
Certificates of Obligation - 2015	2016	43,710	34,410	14,076 (1)	3.25 - 5.00%	9/1/2022-2035
Contractual Obligation - 2015	2016	14,450	3,500	176 (2)	5.00%	11/1/2021-2022
Public Improvement and Refunding - 2016	2017	98,365	73,760	22,021 (1)	3.00 - 5.00%	9/1/2022-2036
Certificates of Obligation - 2016	2017	44,015	36,440	15,479 (1)	3.00 - 5.00%	9/1/2022-2036
Contractual Obligation - 2016	2017	22,555	7,795	493 (2)	3.00 - 5.00%	11/1/2021-2023
Public Improvement - 2016	2017	12,000	9,585	2,353 (1)	1.81 - 3.16%	9/1/2022-2036
Certificates of Obligation - 2016	2017	8,700	6,950	1,704 (1)	1.81 - 3.16%	9/1/2022-2036
Public Improvement - 2017	2018	63,580	43,740	18,859 (1)	5.00%	9/1/2022-2037
Certificates of Obligation - 2017	2018	29,635	25,575	12,120 (1)	5.00%	9/1/2022-2037
Contractual Obligation - 2017	2018	5,075	2,645	217 (2)	2.00 - 5.00%	11/1/2021-2024
Public Improvement - 2017	2018	25,000	22,315	6,786 (1)	2.35 - 5.00%	9/1/2022-2037
Public Improvement - 2018	2019	65,595	24,625	7,081 (1)	3.00 - 5.00%	9/1/2022-2038
Certificates of Obligation - 2018	2019	7,140	6,410	2,313 (1)	3.00 - 5.00%	9/1/2022-2038
Contractual Obligation - 2018	2019	21,215	14,540	1,735 (2)	4.00 - 5.00%	11/1/2021-2025
Public Improvement - 2018	2019	6,980	6,270	2,377 (1)	3.38 - 5.00%	9/1/2022-2038
Public Improvement and Refunding - 2019	2020	146,090	86,950	38,866 (1)	4.00 - 5.00%	9/1/2022-2039
Certificates of Obligation - 2019	2020	5,055	4,720	2,504 (1)	4.00 - 5.00%	9/1/2022-2039
Contractual Obligation - 2019	2020	25,780	21,120	3,295 (2)	5.00%	11/1/2021-2026
Public Improvement - 2019	2020	40,535	37,385	10,451 (1)	1.92 - 5.00%	9/1/2022-2039
Certificates of Obligation - 2019	2020	14,935	13,775	3,851 (1)	1.92 - 5.00%	9/1/2022-2039
Public Improvement and Refunding - 2020	2021	86,440	76,500	26,611 (1)	5.00%	9/1/2022-2040
Certificates of Obligation - 2020	2021	109,080	81,330	49,925 (1)	5.00%	9/1/2022-2040
Contractual Obligation - 2020	2021	23,205	21,555	3,888 (2)	5.00%	11/1/2021-2027
Public Improvement and Refunding - 2020	2021	49,410	41,730	7,094 (1)	0.27 - 4.00%	9/1/2022-2040
			<u>\$ 1,461,250</u>			

(1) Interest is paid semiannually on March 1 and September 1.

(2) Interest is paid semiannually on May 1 and November 1.

(3) Includes Austin Water principal of \$2,894 and interest of \$374 and Drainage fund principal of \$1,626 and interest of \$210.

(4) Included with contractual obligations are Mueller Local Government Corporation contract revenue bonds.

6 – DEBT AND NON-DEBT LIABILITIES, continued
b -- Governmental Activities Long-Term Liabilities, continued

In October 2020, the City issued \$86,440,000 of Public Improvement and Refunding Bonds, Series 2020. The net proceeds of \$30,865,000 (after issue costs, discounts, and premiums) from the issue will be used as follows: streets and mobility (\$17,360,000), water quality protection (\$12,955,000), and facility improvements (\$550,000). The net proceeds of the refunding portion of \$76,639,463 were used to refund \$62,380,000 Public Improvement Bonds, Series 2010A and \$13,815,000 Certificates of Obligation, Series 2010. Principal payments are due on September 1 of each year from 2021 to 2040. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2021. Total interest requirements for these bonds, at a rate of 5.0%, are \$30,513,056. An economic gain of \$11,871,153 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of \$13,326,230. An accounting loss of \$584,358, which will be deferred and amortized, was recorded on this refunding.

In October 2020, the City issued \$109,080,000 of Certificates of Obligation, Series 2020. The net proceeds of \$133,800,000 (after issue costs, discounts, and premiums) from this issue will be used for new fire stations and a planning and development center. Principal payments are due on September 1 of each year from 2021 to 2040. Interest is payable on March 1 and September 1 of each year, commencing on March 1, 2021. Total interest requirements for these obligations, at a rate of 5.0%, are \$54,848,250.

In October 2020, the City issued \$23,205,000 of Public Property Finance Contractual Obligations, Series 2020. The net proceeds of \$27,175,000 (after issue costs, discounts, and premiums) from this issue will be used for capital equipment and curbside composting expansion. Principal payments are due on May 1 and November 1 of each year from 2021 to 2027. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2021. Total interest requirements for these obligations, at a rate of 5.0%, are \$4,548,698.

In October 2020, the City issued \$49,410,000 of Public Improvement and Refunding Taxable Bonds, Series 2020. The new money net proceeds of \$27,735,000 (after issue costs, discounts, and premiums) from the issuance will be used for affordable housing. The net proceeds of the refunding portion of \$22,787,646 were used to refund \$22,620,000 Public Improvement Bonds, Taxable Series 2010B. Principal payments are due September 1 of each year from 2021 to 2040. Interest is payable March 1 and September 1 of each year from 2021 to 2040, commencing on March 1, 2021. Total interest requirements for this obligation, at rates ranging from 0.17% to 4.0%, are \$7,844,582. An economic gain of \$3,755,606 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of \$4,077,182. An accounting gain of \$184, which will be deferred and amortized, was recorded on this refunding.

General obligation bonds authorized and unissued amounted to \$1,829,395,000 at September 30, 2021. Bond ratings at September 30, 2021 were Aa1 (Moody's Investors Service, Inc.), AAA (Standard & Poor's), and AA+ (Fitch Ratings, Inc.).

c -- Business-Type Activities Long-Term Liabilities

Utility Debt -- The City has previously issued combined debt for the Austin Energy and Austin Water. The City began issuing separate debt for electric and water and wastewater activities in 2000. The following paragraphs describe both combined and separate debt.

Combined Utility Systems Debt -- General - Austin Energy and Austin Water comprise the combined utility systems, which issue combined utility systems revenue bonds to finance capital projects. Principal and interest on these bonds are payable solely from the combined net revenues of Austin Energy and Austin Water. Revenue bonds authorized and unissued amount to \$1,492,642,660. Bond ratings at September 30, 2021, were Aa2 (Moody's Investors Service, Inc.), AA (Standard & Poor's), and AA- (Fitch Ratings, Inc.).

Combined Utility Systems Debt -- Revenue Bond Refunding Issues - The combined utility systems have refunded various issues of revenue bonds, notes, and certificates of obligation through refunding revenue bonds. Principal and interest on these refunding bonds are payable solely from the combined net revenues of Austin Energy and Austin Water. The subordinate lien bonds are subordinate to prior lien revenue bonds, which have been paid in full, and to subordinate lien revenue bonds outstanding at the time of issuance.

Some of these bonds are callable prior to maturity at the option of the City. The term bonds are subject to a mandatory redemption prior to the maturity dates as defined in the respective official statements.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**6 – DEBT AND NON-DEBT LIABILITIES, continued**
c -- Business-Type Activities Long-Term Liabilities, continued

The net proceeds of each of the refunding bond issuances were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service. As a result, the refunded bonds are considered to be legally defeased and the liability for the refunded bonds has been removed from the financial statements. The accounting gains and losses due to the advance refunding of debt have been deferred and are being amortized over the life of the refunding bonds by the straight-line method. However, a gain or loss on refunded bonds is recognized when funds from current operations are used.

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following table shows the refunding revenue bonds outstanding at September 30, 2021 (in thousands):

<u>Series</u>	<u>Fiscal Year</u>	<u>Original Amount Issued</u>	<u>Principal Outstanding</u>	<u>Aggregate Interest Requirements Outstanding</u>	<u>Interest Rates of Debt Outstanding</u>	<u>Maturity Dates of Serial Debt</u>
1998 Refunding	1999	\$ 139,965	\$ 67,700	8,716 (1)	5.25%	5/15/2022-2025

(1) Interest is paid semiannually on May 15 and November 15.

Combined Utility Systems Debt -- Tax Exempt Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed \$400,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2021, were P-1 (Moody's Investors Service, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch Ratings, Inc.). The notes are in denominations of \$100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of Austin Energy and Austin Water.

At September 30, 2021, Austin Energy had tax exempt commercial paper notes of \$66,200,000 outstanding and Austin Water had \$102,000,000 of commercial paper notes outstanding with interest ranging from 0.05% to 0.08%, which are adjusted daily. Subsequent issues cannot exceed the maximum rate of 12%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt. The associated letter of credit agreements have the following terms (in thousands):

<u>Note Series</u>	<u>Liquidity Provider</u>	<u>Commitment Fee Rate</u>	<u>Remarketing</u>	<u>Remarketing Fee Rate</u>	<u>Outstanding</u>	<u>Expiration</u>
Various	JP Morgan Chase Bank NA	0.70%	Goldman Sachs	0.05%	\$ 168,200	9/30/2022

These notes are payable at maturity to the holder at a price equal to principal plus accrued interest. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by the respective liquidity providers and become bank notes with principal to be paid in 12 equal, quarterly installments. Bank notes bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate. In the event of a default, at the discretion of the bank and with written notice to the City, the outstanding amount of both principal and interest may become immediately due and payable.

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes (the "taxable notes") in an aggregate principal amount not to exceed \$100,000,000 outstanding at any time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2021, were P-1 (Moody's Investors Service, Inc.), A-1+ (Standard & Poor's), and F1 (Fitch Ratings, Inc.).

Notes to Basic Financial Statements
September 30, 2021

City of Austin, Texas
(Continued)

6 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

The taxable notes are issued in denominations of \$100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the taxable notes are payable from the combined net revenues of Austin Energy and Austin Water.

At September 30, 2021, Austin Energy had outstanding taxable commercial paper notes of \$10,400,000 with interest rates ranging from 0.10% to 0.11%. The City intends to refinance maturing commercial paper notes by issuing long-term debt. The associated letter of credit agreement has the following terms (in thousands):

<u>Note Series</u>	<u>Liquidity Provider</u>	<u>Commitment Fee Rate</u>	<u>Remarketing</u>	<u>Remarketing Fee Rate</u>	<u>Outstanding</u>	<u>Expiration</u>
Various	Barclays Bank PLC	0.68%	Goldman Sachs	0.05%	<u>\$ 10,400</u>	9/30/2022

These taxable notes are payable at maturity to the holder at a price equal to the par value of the note. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by JP Morgan Chase Bank and become bank notes with principal due immediately. Bank notes bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess note interest or the maximum rate. In the event of a default, at the discretion of the bank and with written notice to the City, the outstanding amount of both principal and interest may become immediately due and payable.

The taxable notes are secured by a direct-pay Letter of Credit issued by JP Morgan Chase Bank, which permits draws for the payment of the Notes. Draws made under the Letter of Credit are immediately due and payable by the City from the resources more fully described in the ordinance. A 36-month term loan feature is provided by this agreement.

Electric Utility System Revenue Debt -- General - The City is authorized by ordinance to issue electric utility system revenue obligations. Proceeds from these obligations are used only to fund electric capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of Austin Energy. Bond ratings at September 30, 2021, were Aa3 (Moody's Investors Service, Inc.), AA (Standard & Poor's), and AA (Fitch Ratings, Inc.).

Electric Utility System Revenue Debt -- Revenue Bond Refunding Issues - In November 2020, the City issued \$227,495,000 of Electric Utility System Revenue Refunding and Improvement Bonds, Series 2020A. The net proceeds of \$291,482,361 (after issue costs, premium and discounts) from the issuance were used to refund \$113,000,000 in tax-exempt commercial paper, \$90,090,000 in Electric Utility System Revenue Refunding Bonds, Series 2010A, and \$88,000,000 will be used to fund the construction and acquisition of Austin Energy's new headquarters complex. Principal payments are due November 15 of each year from 2023 to 2050. Interest payments are due May 15 and November 15 of each year from 2021 to 2050. Total interest requirements for the bonds, at a rate of 5.0%, are \$200,466,807. An economic gain of \$22,199,538 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of \$24,424,053. An accounting loss of \$526,962 was recorded on this refunding. This loss will be deferred and amortized.

In November 2020, the City issued \$49,870,000 of Electric Utility System Revenue Refunding Bonds, Taxable Series 2020B. The net proceeds of \$49,480,000 (after issue costs, discounts and premiums) from the issuance were used to refund \$49,480,000 of taxable commercial paper notes. Principal payments are due November 15 of each year from 2024 to 2050. Interest payments are due May 15 and November 15 of each year from 2021 to 2050. Total interest requirements for the bonds, at rates ranging from 0.73% to 2.93%, are \$27,142,046. This issuance only encompassed a commercial paper refunding; therefore, there was no real economic gain achieved with this transaction, nor was an accounting loss or gain recorded. The refunding issuances enabled the City to restore the available capacity under its tax-exempt and taxable commercial paper notes.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**6 – DEBT AND NON-DEBT LIABILITIES, continued**
c -- Business-Type Activities Long-Term Liabilities, continued**Electric Utility System Revenue Debt -- Bonds Issued and Outstanding** - The following table summarizes all electric system refunding revenue bonds outstanding at September 30, 2021 (in thousands):

Series	Fiscal Year	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2008 Refunding	2008	\$ 50,000	33,345	14,072 (1)	6.26%	11/15/2021-2032
2010B Refunding	2010	100,990	94,595	59,924 (1)	5.09 - 5.72%	11/15/2021-2040
2012A Refunding	2013	267,770	229,725	120,784 (1)	2.50 - 5.00%	11/15/2021-2040
2012B Refunding	2013	107,715	77,780	10,355 (1)	2.36 - 3.16%	11/15/2021-2027
2015A Refunding	2015	327,845	327,845	217,978 (1)	5.00%	11/15/2021-2045
2015B Refunding	2015	81,045	36,820	17,624 (1)	2.79 - 4.66%	11/15/2021-2037
2017 Refunding	2017	101,570	96,850	59,646 (1)	4.00 - 5.00%	11/15/2021-2038
2019A	2019	464,540	402,060	67,358 (1)	2.43 - 3.09%	11/15/2021-2031
2019B Refunding	2019	169,850	169,850	164,534 (1)	5.00%	11/15/2022-2049
2019C Refunding	2019	104,775	104,120	62,721 (1)	2.05 - 3.57%	11/15/2021-2049
2020A Refunding	2021	227,495	227,495	194,843 (1)	5.00%	11/15/2023-2050
2020B Refunding	2021	49,870	49,870	26,507 (1)	0.73 - 2.93%	11/15/2024-2050
			<u>\$ 1,850,355</u>			

(1) Interest is paid semiannually on May 15 and November 15.

Electric Utility System Revenue Debt -- Pledged Revenues - The net revenue of Austin Energy was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2021 (in thousands):

Gross Revenue (1)	Operating Expense (2)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
\$ 1,276,554	980,277	296,277	157,131	1.89

(1) Gross revenue includes revenues from operations and interest income.

(2) Excludes depreciation, amortization of excess consideration,
other postemployment benefits and net pension liability accruals.**Water and Wastewater System Revenue Debt -- General** - The City is authorized by ordinance to issue Austin Water revenue obligations. Proceeds from these obligations are used only to fund water and wastewater capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of Austin Water. Bond ratings at September 30, 2021, were Aa2 (Moody's Investors Service, Inc.), AA (Standard & Poor's), and AA- (Fitch Ratings, Inc.).**Water and Wastewater System Revenue Debt -- Revenue Bond Refunding Issue** - In November 2020, the City issued \$203,505,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2020C. The net proceeds of \$262,492,469 (after issue costs, premium and discounts) from the issuance were used to refund \$204,000,000 in tax-exempt commercial paper, and \$58,170,000 in separate lien revenue refunding bonds, Series 2010A. Principal payments are due November 15 of each year from 2022 to 2050. Interest is payable May 15 and November 15 of each year from 2021 to 2050. Total interest requirements for this obligation, at a rate of 5.0%, are \$194,835,823. An economic gain of \$18,769,390 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of \$22,271,726. An accounting loss of \$821,493, which will be deferred and amortized, was recorded on this refunding.**Water and Wastewater System Revenue Debt -- Revenue Bond Issues** - In November 2020, the City issued \$16,995,000 of Water and Wastewater System Revenue Bonds, Series 2020D. This is a private placement structured through a memorandum with the Texas Water Development Board (TWDB). Project funds of \$15,942,362 will be used to improve and extend the water and wastewater system. Principal payments are due November 15 of each year from 2021 to 2040. Interest payments are due May 15 and November 15 of each year from 2021 to 2040. Total interest requirements for the bonds, at rates ranging from 0.10% to 1.55%, are \$2,093,534.

In January 2021, the City issued \$10,400,000 of Water and Wastewater System Revenue Bonds, Series 2021A. This is a private placement structured through a memorandum with the Texas Water Development Board (TWDB). Project funds of \$9,859,049 will be used to improve and extend the water and wastewater system. Principal payments are due November 15 of each year from 2021 to 2050. These bonds are interest-free.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**6 – DEBT AND NON-DEBT LIABILITIES, continued**
c -- Business-Type Activities Long-Term Liabilities, continued

In January 2021, the City issued \$9,400,000 of Water and Wastewater System Revenue Bonds, Series 2021B. This is a private placement structured through a memorandum with the Texas Water Development Board (TWDB). Project funds of \$8,886,854 will be used to improve and extend the water and wastewater system. Principal payments are due November 15 of each year from 2021 to 2050. Interest payments are due May 15 and November 15 of each year from 2021 to 2050. Total interest requirements for the bonds, at rates ranging from 0.00% to 0.06%, are \$18,877.

Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2021 (in thousands):

Series	Fiscal Year	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2008 Refunding	2008	\$ 170,605	94,030	20,122 (2)	0.03 - 0.14%	11/15/2021-2031 (3)
2010	2010	31,815	22,265	-- (4)	0.00%	11/15/2021-2041
2010B Refunding	2011	100,970	84,760	56,589 (1)	4.45 - 6.02%	11/15/2021-2040
2011 Refunding	2012	237,530	189,970	104,281 (1)	3.13 - 5.00%	11/15/2022-2041
2012 Refunding	2012	336,820	222,220	115,445 (1)	2.50 - 5.00%	11/15/2021-2042
2013A Refunding	2013	282,460	241,165	128,247 (1)	3.70 - 5.00%	11/15/2021-2043
2014 Refunding	2014	282,205	255,680	153,033 (1)	5.00%	11/15/2021-2043
2015A Refunding	2015	249,145	208,770	63,260 (1)	2.85 - 5.00%	11/15/2021-2036
2016 Refunding	2016	247,770	243,210	173,238 (1)	5.00%	11/15/2021-2045
2016A	2017	20,430	16,750	2,507 (1)	0.76 - 2.12%	11/15/2021-2036
2017 Refunding	2017	311,100	296,805	162,445 (1)	2.50 - 5.00%	11/15/2021-2046
2017A	2018	45,175	39,080	6,784 (1)	0.78 - 2.29%	11/15/2021-2037
2018	2019	3,000	2,745	595 (1)	1.37 - 2.61%	11/15/2021-2038
2019	2020	6,200	5,920	918 (1)	0.84 - 1.94%	11/15/2021-2039
2020A	2020	11,200	10,830	472 (1)	0.00 - 0.50%	11/15/2021-2049
2020B	2020	3,800	3,675	307 (1)	0.00 - 0.80%	11/15/2021-2049
2020C Refunding	2021	203,505	203,505	189,607 (1)	5.00%	11/15/2022-2050
2020D	2021	16,995	16,995	2,021 (1)	0.10 - 1.55%	11/15/2021-2040
2021A	2021	10,400	10,400	-- (4)	0.00%	11/15/2021-2050
2021B	2021	9,400	9,400	19 (1)	0.00 - 0.06%	11/15/2021-2050
			<u>\$ 2,178,175</u>			

(1) Interest is paid semiannually on May 15 and November 15.

(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate of 3.60% in effect at the end of the fiscal year.

(3) Series matures on May 15 of the final year.

(4) Zero interest bond placed with Texas Water Development Board.

Series 2008 refunding bonds are variable rate demand bonds. The associated letter of credit agreement has the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
2008	Barclays Bank PLC	0.25%	Goldman Sachs	0.05%	<u>\$ 94,030</u>	10/28/2022

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by the respective liquidity providers and become bank bonds with principal to be paid in equal semi-annual installments over a 5-year amortization period. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate. The remarketing agent takes the variable debt to auction on a weekly basis; the winning bid determines the weekly rate paid. The City currently has an Irrevocable Letter of Credit Reimbursement Agreement, which has provisions within the agreement that, in the event of a default, the bank has the ability to declare the principal and accrued interest immediately due and payable.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**6 – DEBT AND NON-DEBT LIABILITIES, continued**
c -- Business-Type Activities Long-Term Liabilities, continued

Water and Wastewater System Revenue Debt -- Pledged Revenues - The net revenue of Austin Water was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2021 (in thousands):

	Gross Revenue (1)	Operating Expense (2)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage (3)
\$	568,031	272,750	295,281	173,000	1.71

(1) Gross revenue includes revenues from operations and interest income.

(2) Excludes depreciation, other postemployment benefits and net pension liability accruals.

(3) The coverage calculation presented considers all Water and Wastewater debt service obligations, regardless of type or designation. This methodology closely approximates but does not follow exactly the coverage calculation required by the master ordinance.

Airport System Revenue Debt -- General - The City's Airport issues airport system revenue bonds to fund Airport capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport fund. Revenue bonds authorized and unissued amount to \$735,795,000. Bond ratings at September 30, 2021, for the revenue bonds were A1 (Moody's Investors Service, Inc.) and A (Standard & Poor's).

Airport System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2021 (in thousands):

Series	Fiscal Year	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2013 Revenue	2013	\$ 60,000	39,270	3,582 (1)	2.25%	11/15/2021-2028 (2)
2014 Revenue	2015	244,495	244,495	194,899 (1)	5.00%	11/15/2026-2044
2017A Revenue	2017	185,300	185,300	159,900 (1)	5.00%	11/15/2026-2046
2017B Revenue	2017	129,665	129,665	111,889 (1)	5.00%	11/15/2026-2046
2019 Revenue	2019	151,720	118,370	15,302 (1)	5.00%	11/15/2021-2025
2019A Revenue	2019	16,975	16,975	24,189 (1)	5.00%	11/15/2049
2019B Revenue	2019	248,170	248,170	216,461 (1)	5.00%	11/15/2022-2048
			<u>\$ 982,245</u>			

(1) Interest is paid semiannually on May 15 and November 15.

(2) Series matures on May 15 of the final year.

Airport System Revenue Debt -- Pledged Revenues - The net revenue of the Airport fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding (including revenue bonds and revenue notes). The table below represents the pledged amounts at September 30, 2021 (in thousands):

Gross Revenue (1) (5)	Other Available Funds (2)	Operating Expense (3)	Net Revenue and Other Available Funds	Debt Service Requirement (4)	Revenue Bond Coverage
\$ 186,715	11,178	101,963	95,930	44,710	2.15

(1) Gross revenue includes revenues from operations and interest income.

(2) Pursuant to the bond ordinance, in addition to gross revenue, the Airport is authorized to use "other available funds" in the calculation of revenue bond coverage not to exceed 25% of the debt service requirements.

(3) Excludes depreciation, other postemployment benefits and net pension liability accruals.

(4) Excludes debt service amounts paid with passenger facility charge revenues and restricted bond proceeds applied to current interest payments.

(5) Gross revenue includes funds from the CARES Act of \$29.9 million.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**6 – DEBT AND NON-DEBT LIABILITIES, continued**
c -- Business-Type Activities Long-Term Liabilities, continued**Nonmajor Enterprise Fund Debt:**

Convention Center Revenue Debt -- General - The City's Convention Center fund issues convention center revenue bonds and hotel occupancy tax revenue bonds to fund Convention Center fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues and the special motor vehicle rental tax revenues. Revenue bonds authorized and unissued amount to \$760,000. Bond ratings at September 30, 2021, for the revenue bonds were Aa3 (Moody's Investors Service, Inc.), and AA (Standard & Poor's).

Convention Center Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all Convention Center refunding revenue bonds outstanding at September 30, 2021 (in thousands):

Series	Fiscal Year	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2008AB Refunding	2008	\$ 125,280	64,690	9,240 (2)	0.02 - 0.16%	11/15/2021-2029
2012 Refunding	2012	20,185	12,830	2,888 (1)	3.63 - 5.00%	11/15/2021-2029
2016 Refunding	2017	29,080	20,820	1,800 (1)	1.88%	11/15/2021-2029
			<u>\$ 98,340</u>			

(1) Interest is paid semiannually on May 15 and November 15.

(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate of 3.25% in effect at the end of the fiscal year.

The Series 2008 A and B refunding bonds are variable rate demand bonds. The associated letter of credit agreements have the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
2008-A	Citibank	0.28%	Raymond James	0.06%	\$ 32,345	10/7/2021 (1)
2008-B	Sumitomo Mitsui Banking Corporation	0.33%	BofA Securities, Inc.	0.05%	32,345	10/7/2022
					<u>\$ 64,690</u>	

(1) In October 2021, the City extended the letter of credit agreement. The new agreement expires October 2, 2024, thus the City has classified this debt as long-term at the end of the fiscal year.

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds or if the agreement expires with no new agreement in place, the bonds will be purchased by the respective liquidity provider and become bank bonds with principal to be paid in equal semi-annual installments over a 5-year amortization period beginning six months from the triggering repayment event. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate. The remarketing agent takes the variable debt to auction on a weekly basis; the winning bid determines the weekly rate paid. The City currently has an Irrevocable Letter of Credit Reimbursement Agreement, which has provisions within the agreement that, in the event of a default, the bank has the ability to declare the principal and accrued interest immediately due and payable.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)6 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements

Fiscal Year Ended September 30	Governmental Activities (in thousands)					
	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 87,072	43,825	13,121	12,995	16,503	4,113
2023	85,005	39,746	13,727	12,414	15,118	3,351
2024	85,886	36,041	14,336	11,813	13,520	2,662
2025	84,326	32,275	14,979	11,189	12,655	2,057
2026	83,301	28,386	15,670	10,523	11,895	1,486
2027-2031	355,937	91,493	71,836	43,540	22,115	2,305
2032-2036	198,365	27,113	96,112	24,516	2,085	70
2037-2041	32,705	2,409	49,460	5,677	--	--
2042-2046	--	--	--	--	--	--
Total debt service requirements	1,012,597	301,288	289,241	132,667	93,891	16,044
Less: Unamortized bond discounts	(352)	--	(467)	--	(143)	--
Add: Unamortized bond premiums	86,058	--	39,569	--	6,723	--
Net debt	1,098,303	301,288	328,343	132,667	100,471	16,044

Fiscal Year Ended September 30	Capital Lease Obligations		Total Governmental Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
	2022	5,264	567	121,960	61,500
2023	5,416	416	119,266	55,927	175,193
2024	3,384	259	117,126	50,775	167,901
2025	3,468	175	115,428	45,696	161,124
2026	3,555	89	114,421	40,484	154,905
2027-2031	--	--	449,888	137,338	587,226
2032-2036	--	--	296,562	51,699	348,261
2037-2041	--	--	82,165	8,086	90,251
2042-2046	--	--	--	--	--
Total debt service requirements	21,087	1,506	1,416,816	451,505	1,868,321
Less: Unamortized bond discounts	--	--	(962)	--	(962)
Add: Unamortized bond premiums	--	--	132,350	--	132,350
Net debt	\$ 21,087	1,506	1,548,204	451,505	1,999,709

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)6 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continued

Fiscal Year Ended	Business-type Activities (in thousands)					
	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
September 30						
2022	\$ 3,239	780	1,733	1,389	3,866	687
2023	2,369	620	1,818	1,322	3,118	516
2024	2,479	500	1,909	1,245	2,810	378
2025	814	377	2,002	1,160	2,515	246
2026	879	336	2,085	1,081	1,830	132
2027-2031	3,888	983	12,144	3,788	1,410	61
2032-2036	1,145	383	8,098	948	--	--
2037-2041	850	86	--	--	--	--
2042-2046	--	--	--	--	--	--
2047-2051	--	--	--	--	--	--
Total debt service requirements	15,663	4,065	29,789	10,933	15,549	2,020
Less: Unamortized bond discounts	--	--	(15)	--	--	--
Add: Unamortized bond premiums	2,205	--	2,275	--	1,293	--
Net debt	17,868	4,065	32,049	10,933	16,842	2,020

Fiscal Year Ended	Business-type Activities (in thousands)					
	Other Tax Supported Debt		Commercial Paper Notes (1)		Revenue Bonds (2)	
	Principal	Interest	Principal	Interest	Principal	Interest
September 30						
2022	845	191	178,600	11	169,145	228,145
2023	885	156	--	--	198,559	220,154
2024	920	119	--	--	228,220	210,889
2025	965	79	--	--	239,250	200,557
2026	905	39	--	--	234,330	189,753
2027-2031	--	--	--	--	1,194,840	791,440
2032-2036	--	--	--	--	851,120	562,010
2037-2041	--	--	--	--	874,285	346,441
2042-2046	--	--	--	--	710,510	148,657
2047-2051	--	--	--	--	278,406	28,049
Total debt service requirements	4,520	584	178,600	11	4,978,665	2,926,095
Less: Unamortized bond discounts	--	--	--	--	(424)	--
Add: Unamortized bond premiums	--	--	--	--	482,275	--
Net debt	\$ 4,520	584	178,600	11	5,460,516	2,926,095

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

(Continued)

(2) A portion of these bonds are variable rate bonds with rates ranging from 0.02% - 0.16%.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)6 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continuedBusiness-type Activities, continued
(in thousands)

Fiscal Year Ended September 30	Revenue Notes from		Capital Lease		Total Business-Type Activities		
	Direct Placements		Obligations		Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2022	\$ 12,970	2,420	66	72	370,464	233,695	604,159
2023	13,320	2,246	70	69	220,139	225,083	445,222
2024	13,480	2,065	74	65	249,892	215,261	465,153
2025	13,665	1,878	77	61	259,288	204,358	463,646
2026	13,835	1,682	81	57	253,945	193,080	447,025
2027-2031	58,910	5,420	388	191	1,271,580	801,883	2,073,463
2032-2036	35,645	2,649	--	--	896,008	565,990	1,461,998
2037-2041	24,005	527	--	--	899,140	347,054	1,246,194
2042-2046	6,905	94	--	--	717,415	148,751	866,166
2047-2051	5,415	26	--	--	283,821	28,075	311,896
Total debt service requirements	198,150	19,007	756	515	5,421,692	2,963,230	8,384,922
Less: Unamortized bond discounts	--	--	--	--	(439)	--	(439)
Add: Unamortized bond premiums	--	--	--	--	488,048	--	488,048
Net debt	\$ 198,150	19,007	756	515	5,909,301	2,963,230	8,872,531

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)6 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continuedBusiness-type Activities: Austin Energy
(in thousands)

Fiscal Year Ended September 30	Commercial Paper Notes (1)		Revenue Bonds		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
	2022	\$ 76,600	3	86,427	79,609	66
2023	--	--	80,233	76,490	70	69
2024	--	--	88,717	73,255	74	65
2025	--	--	93,327	69,654	77	61
2026	--	--	87,875	65,890	81	57
2027-2031	--	--	493,200	272,640	388	191
2032-2036	--	--	308,290	188,564	--	--
2037-2041	--	--	276,100	120,880	--	--
2042-2046	--	--	252,115	61,605	--	--
2047-2051	--	--	134,321	14,228	--	--
Total debt service requirements	76,600	3	1,900,605	1,022,815	756	515
Less: Unamortized bond discounts	--	--	(121)	--	--	--
Add: Unamortized bond premiums	--	--	157,742	--	--	--
Net debt	76,600	3	2,058,226	1,022,815	756	515

Fiscal Year Ended September 30	Total Austin Energy Debt Service Requirements		
	Principal	Interest	Total
	2022	163,093	79,684
2023	80,303	76,559	156,862
2024	88,791	73,320	162,111
2025	93,404	69,715	163,119
2026	87,956	65,947	153,903
2027-2031	493,588	272,831	766,419
2032-2036	308,290	188,564	496,854
2037-2041	276,100	120,880	396,980
2042-2046	252,115	61,605	313,720
2047-2051	134,321	14,228	148,549
2052-2056	--	--	--
Total debt service requirements	1,977,961	1,023,333	3,001,294
Less: Unamortized bond discounts	(121)	--	(121)
Add: Unamortized bond premiums	157,742	--	157,742
Net debt	\$ 2,135,582	1,023,333	3,158,915

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)6 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continuedBusiness-type Activities: Austin Water
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations		Other Tax Supported Debt	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 187	27	102	50	419	23	541	122
2023	155	17	109	47	175	4	567	100
2024	188	9	114	43	--	--	589	76
2025	--	--	119	38	--	--	618	51
2026	--	--	121	34	--	--	579	25
2027-2031	--	--	686	87	--	--	--	--
2032-2036	--	--	35	1	--	--	--	--
2037-2041	--	--	--	--	--	--	--	--
2042-2046	--	--	--	--	--	--	--	--
2047-2051	--	--	--	--	--	--	--	--
Total debt service requirements	530	53	1,286	300	594	27	2,894	374
Less: Unamortized bond discounts	--	--	(3)	--	--	--	--	--
Add: Unamortized bond premiums	17	--	14	--	10	--	--	--
Net debt	547	53	1,297	300	604	27	2,894	374

Fiscal Year Ended September 30	Commercial Paper Notes (1)		Revenue Bonds (2)		Revenue Notes from Direct Placements		Total Austin Water Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2022	102,000	8	53,573	99,408	6,280	1,217	163,102	100,855	263,957
2023	--	--	83,556	96,025	6,495	1,187	91,057	97,380	188,437
2024	--	--	103,223	91,658	6,515	1,153	110,629	92,939	203,568
2025	--	--	108,078	86,665	6,545	1,115	115,360	87,869	203,229
2026	--	--	106,965	81,436	6,570	1,074	114,235	82,569	196,804
2027-2031	--	--	540,960	329,932	33,685	4,583	575,331	334,602	909,933
2032-2036	--	--	385,485	221,771	35,645	2,649	421,165	224,421	645,586
2037-2041	--	--	397,100	118,476	24,005	527	421,105	119,003	540,108
2042-2046	--	--	221,575	36,453	6,905	94	228,480	36,547	265,027
2047-2051	--	--	57,050	6,688	5,415	26	62,465	6,714	69,179
Total debt service requirements	102,000	8	2,057,565	1,168,512	138,060	13,625	2,302,929	1,182,899	3,485,828
Less: Unamortized bond discounts	--	--	(262)	--	--	--	(265)	--	(265)
Add: Unamortized bond premiums	--	--	214,489	--	--	--	214,530	--	214,530
Net debt	\$ 102,000	8	2,271,792	1,168,512	138,060	13,625	2,517,194	1,182,899	3,700,093

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

(2) Portions of these bonds are variable rate bonds with rates of 0.03% - 0.14%.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)6 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continuedBusiness-type Activities: Airport
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Revenue Bonds		Revenue Notes from Direct Placements	
	Principal	Interest	Principal	Interest	Principal	Interest
	2022	\$ 1	--	21,695	46,606	4,530
2023	--	--	27,095	45,386	4,630	730
2024	--	--	28,320	44,002	4,730	624
2025	--	--	29,585	42,553	4,845	517
2026	--	--	30,910	41,042	4,950	406
2027-2031	--	--	123,085	186,559	15,585	472
2032-2036	--	--	157,345	151,675	--	--
2037-2041	--	--	201,085	107,085	--	--
2042-2046	--	--	236,820	50,599	--	--
2047-2051	--	--	87,035	7,133	--	--
2052-2056	--	--	--	--	--	--
Total debt service requirements	1	--	942,975	722,640	39,270	3,582
Add: Unamortized bond premiums	--	--	109,641	--	--	--
Net debt	1	--	1,052,616	722,640	39,270	3,582

Fiscal Year Ended September 30	Total Airport Debt Service Requirements		
	Principal	Interest	Total
	2022	26,226	47,439
2023	31,725	46,116	77,841
2024	33,050	44,626	77,676
2025	34,430	43,070	77,500
2026	35,860	41,448	77,308
2027-2031	138,670	187,031	325,701
2032-2036	157,345	151,675	309,020
2037-2041	201,085	107,085	308,170
2042-2046	236,820	50,599	287,419
2047-2051	87,035	7,133	94,168
Total debt service requirements	982,246	726,222	1,708,468
Add: Unamortized bond premiums	109,641	--	109,641
Net debt	\$ 1,091,887	726,222	1,818,109

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)6 – DEBT AND NON-DEBT LIABILITIES, continued
d -- Debt Service Requirements, continuedBusiness-type Activities: Nonmajor Enterprise
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations		Other Tax Supported Debt	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 3,051	753	1,631	1,339	3,447	664	304	69
2023	2,214	603	1,709	1,275	2,943	512	318	56
2024	2,291	491	1,795	1,202	2,810	378	331	43
2025	814	377	1,883	1,122	2,515	246	347	28
2026	879	336	1,964	1,047	1,830	132	326	14
2027-2031	3,888	983	11,458	3,701	1,410	61	--	--
2032-2036	1,145	383	8,063	947	--	--	--	--
2037-2041	850	86	--	--	--	--	--	--
Total debt service requirements	15,132	4,012	28,503	10,633	14,955	1,993	1,626	210
Less: Unamortized bond discounts	--	--	(12)	--	--	--	--	--
Add: Unamortized bond premiums	2,188	--	2,261	--	1,283	--	--	--
Net debt	17,320	4,012	30,752	10,633	16,238	1,993	1,626	210

Fiscal Year Ended September 30	Revenue Bonds (1)		Revenue Notes from Direct Placements		Total Nonmajor Enterprise Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2022	7,450	2,522	2,160	370	18,043	5,717	23,760
2023	7,675	2,253	2,195	329	17,054	5,028	22,082
2024	7,960	1,974	2,235	288	17,422	4,376	21,798
2025	8,260	1,685	2,275	246	16,094	3,704	19,798
2026	8,580	1,385	2,315	202	15,894	3,116	19,010
2027-2031	37,595	2,309	9,640	365	63,991	7,419	71,410
2032-2036	--	--	--	--	9,208	1,330	10,538
2037-2041	--	--	--	--	850	86	936
Total debt service requirements	77,520	12,128	20,820	1,800	158,556	30,776	189,332
Less: Unamortized bond discounts	(41)	--	--	--	(53)	--	(53)
Add: Unamortized bond premiums	403	--	--	--	6,135	--	6,135
Net debt	\$ 77,882	12,128	20,820	1,800	164,638	30,776	195,414

(1) A portion of these bonds are variable rate bonds with rates ranging from 0.02% - 0.16%.

Notes to Basic Financial Statements
September 30, 2021

City of Austin, Texas
(Continued)

6 – DEBT AND NON-DEBT LIABILITIES, continued
e -- Defeased Bonds

Over time, the City has issued refunding bonds to advance refund certain public improvement bonds, certificates of obligation, and enterprise revenue bonds. The proceeds of the sale of the refunding bonds were deposited with an escrow agent in an amount necessary to accomplish the discharge and final payment of the refunded obligations. These funds are held by the escrow agent in an escrow fund and used to purchase direct obligations of the United States of America to be held in the escrow fund. The escrow fund is irrevocably pledged to the payment of the principal and interest on the refunded obligations.

On September 30, 2021, defeased bonds remaining unredeemed or unmatured are provided below (in thousands):

Refunded Bonds	Escrow Maturity Dates	Balance (1)
Austin Water		
Series 2011	11/15/2021	\$ 29,440
Series 2012	11/15/2021 - 11/15/2022	16,595
Series 2013A	11/15/2021	9,425
Series 2014	11/15/2021 - 5/15/2022	5,880
Series 2015A	11/15/2021 - 5/15/2022	7,675
		\$ 69,015

(1) The balances shown have been escrowed to their respective call dates.

7 – RETIREMENT PLANS**a -- General Information**

Plan Description -- The City participates in funding three contributory, defined benefit retirement plans: the City of Austin Employees' Retirement and Pension Fund (City Employees), the City of Austin Police Officers' Retirement and Pension Fund (Police Officers), and the Fire Fighters' Relief and Retirement Fund of Austin, Texas (Fire Fighters). An Independent Board of Trustees administers each plan. These plans are City-wide single employer funded plans each with a fiscal year end of December 31.

All three plans were created by state law and can be found in Vernon's Texas Civil Statutes as follows:

City Employees' Fund	Article 6243n
Police Officers' Fund	Article 6243n-1
Fire Fighters' Fund	Article 6243e.1

State law governs the three pension systems including benefit and contribution provisions. Amendments may be made by the Legislature of the State of Texas. During fiscal year 2021, the Legislature passed, and Governor signed, House Bill 4368 (HB 4368) that enacted substantial reforms to the Police Officers' pension system. These changes which become effective January 1, 2022, are intended to place the fund on an actuarially sound path and reduce the projected funding period to 30 years. A new tier was established for officers hired after December 31, 2021, contribution levels and methodologies were changed, the governance structure was revised, and certain roles previously delegated to the board were revoked or revised. Further information regarding these changes is disclosed in the relevant sections of this footnote.

Plan Financial Statements -- The most recently available financial statements of the pension funds are for the year ended December 31, 2020. Stand-alone financial reports that include financial statements and supplementary information for each plan are publicly available at the locations and internet addresses shown below.

Plan	Address	Telephone
City of Austin Employees' Retirement and Pension Fund	6836 Austin Center Blvd, Suite 190 Austin, TX 78731 www.coaers.org	(512)458-2551
City of Austin Police Officers' Retirement and Pension Fund	2520 S. IH 35, Ste. 100 Austin, Texas 78704 www.ausprs.org	(512)416-7672
Fire Fighters' Relief and Retirement Fund of Austin, Texas	4101 Parkstone Heights Dr., Ste. 270 Austin, Texas 78746 www.afrs.org	(512)454-9567

Classes of Employees Covered -- The three pension plans cover substantially all full-time employees. The City Employees' fund covers all regular, full-time employees working 30 hours or more except for civil service police officers and fire fighters. Membership in this fund is comprised of two tiers. Group A includes all employees hired before January 1, 2012. Group B includes all employees hired on or after this date. The Police Officers' fund covers all commissioned law enforcement officers and cadets upon enrollment in the Austin Police Academy. Effective January 1, 2022, membership in this fund will be comprised of two tiers. Group A includes all Police Officers hired before the effective date, and Group B includes those hired on or after that date. The Fire Fighters' fund covers all commissioned civil service and Texas state-certified fire fighters with at least six months of service employed by the Austin Fire Department.

Benefits Provided -- Each plan provides service retirement, death, and disability benefits as shown in the following chart. For the City Employees' fund, vesting occurs after 5 years of creditable service. For the other two systems, vesting occurs after 10 years of creditable service. For all three systems, creditable service includes employment at the City plus purchases of certain types of service where applicable. Withdrawals from the systems include actual contributions plus interest at varying rates depending on the system. This applies to both non-vested employees who leave the City as well as vested employees who leave the City and wish to withdraw their contributions. In addition, each plan offers various Deferred Retirement Option Programs (DROP). These are not included in the discussion of benefits provided.

7 – RETIREMENT PLANS, continued
a -- General Information, continued

	City Employees	Police Officers	Fire Fighters
Eligibility	Group A members qualify for retirement benefits at age 62; age 55 with 20 years creditable service; or any age with 23 years creditable service. No reduced benefits are available. Group B members qualify for normal retirement benefits at age 65 with 5 years creditable service or at age 62 with 30 years creditable service. Reduced benefits are available at age 55 with 10 years of creditable service.	Group A members are eligible for retirement benefits at any age with 23 years creditable service or at age 55 with 20 years creditable service (both excluding pre-membership military service). Group B members are eligible for retirement benefits at age 50 with 25 years creditable service (excluding pre-membership military service.) Any member is eligible for retirement at age 62 and any number of years of creditable service.	Members are eligible for normal retirement benefits upon the earlier of age 50 with 10 years of service or 25 years of service regardless of age. Members are eligible for early retirement at 45 with 10 years of service or with 20 years of service regardless of age.
Calculation	Average of 36 highest months of base pay multiplied by years and months of creditable service multiplied by 3% for Group A and 2.5% for Group B.	For Group A, the average of 36 highest months of base salary plus longevity pay multiplied by years and months of service multiplied by 3.2%. For Group B, 60 months and 2.5% are substituted for 36 months and 3.2%, respectively.	Average of 36 highest months of base salary plus longevity pay multiplied by years of service multiplied by 3.3% with a \$2,000 monthly minimum.
Death Benefits	Retiree or active member eligible for retirement, \$10,000 lump sum and continuation of benefits to beneficiary if this option was selected. If not eligible for retirement, refund of accumulated deposits plus death benefit from COAERS equal to those deposits excluding purchases of time.	For retirees and members eligible for retirement, \$10,000 lump sum and the member's accrued benefit as of the date of death based on annuity selected. Non-vested members receive the greater of \$10,000 or twice the amount of the member's accumulated contributions.	Surviving spouse receives 75% of retiree benefits based on the greater of 20 years or years of service at time of death. If surviving spouse exists, each dependent receives 15% of the payment paid to the surviving spouse. If no surviving spouse exists, dependents split equally the amount that would have been paid to surviving spouse.
Disability Benefits	After approved for disability benefits, active members may choose from several different disability retirement options. Must have 5 years of service if disability is not job related.	After approved for disability benefits, if disability is the result of employment duties, benefit is based on the greater of 20 years for Group A and 25 years for Group B or normal retirement calculation. Must have 10 years of service if disability is not job related and calculation is based on actual years of service.	For the first 30 months, eligible for retiree benefits based on the greater of service at time of disability or 20 years. After 30 months, continuance of annuity may be reevaluated.
Cost of Living Adjustments (COLA)	The plan does not require automatic COLAs. Such increases must be deemed sustainable by the actuary and approved by the City Council and Board of Trustees of the fund. The most recent COLA went into effect in 2002.	The most recent COLA went into effect in 2007. Effective September 1, 2021, State law no longer allows the board to approve COLAs. Any such future adjustments require legislative approval.	The plan does not require automatic COLAs. Such increases must be approved by the Board of Trustees and the actuary of the fund. The most recent COLA went into effect for 2021.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)7 – RETIREMENT PLANS, continued
a -- General Information, continued

Employees Covered by Benefit Terms -- Membership in the plans as of December 31, 2020, is as follows:

	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>
Inactive employees or beneficiaries:			
Currently receiving benefits	6,963	1,045	888
Entitled to but not yet receiving benefits	1,264	49	24
Nonvested terminated due refunds	1,854	66	0
Active employees	<u>10,138</u>	<u>1,775</u>	<u>1,154</u>
Total	<u><u>20,219</u></u>	<u><u>2,935</u></u>	<u><u>2,066</u></u>

Contributions -- For all three systems, minimum contributions are determined by the enabling legislation cited above. In certain cases, the City may contribute at a level greater than that stated in the law. While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted.

	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>
Employee contribution (percent of earnings)	8%	13% (2)	18.7%
City contribution (percent of earnings)	19% (1)	21.737% (3)	22.05%
City contributions year ended			
September 30, 2021 (in thousands)	\$137,068	35,431	21,851

(1) A rate of 19% was effective January 1, 2021. Prior to that change, the rate was 18%.

(2) A rate of 15% will be effective January 1, 2022.

(3) The new rate of 21.737% was effective October 1, 2020. An actuarially determined contribution of 10.1% will be effective January 1, 2022. The City will also contribute according to a fixed payment plan established to eliminate the legacy unfunded liability existing as of December 31, 2020 over a 30-year period.

b -- Net Pension Liability

The City's net pension liability was measured as of December 31, 2020 for all three systems. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date for the City Employees' and Police Officers' funds. For the Fire Fighters fund, the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019 using the final 2020 assumptions and then was rolled forward to the plan's year ending December 31, 2020.

Actuarial Assumptions -- Actuarial assumptions used in the most recent actuarial valuations include:

	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>
Inflation rate	2.5%	2.5%	2.5%
Projected annual salary increases	3.5% to 5.75%	3% to 15.2% Service based (1)	3.25% to 10% Service based
Investment rate of return	7%	7.25%	7.3%
Ad hoc postemployment benefit changes including COLAs	None	None	None
Experience study period	Data collected through December 31, 2018	January 1, 2013 – December 31, 2017	January 1, 2010 – December 31, 2019
Source for mortality assumptions	PubG-2010 Mortality Tables with full generational projection assuming immediate convergence of rates in the mortality projection scale MP-2018, 2D for male and female. Mortality improvement is projected from the mortality table's base year of 2010.	PubS-2010 Mortality Tables for males and females. Generational mortality improvements projected from the year 2010 using the ultimate mortality improvement rates in the MP tables.	PubS-2010(A) Mortality Tables sex distinct with mortality improvement projected five years beyond the valuation date using scale MP-2020 and a base year of 2010.

(1) This includes the classification status change upon graduation from the academy.

7 – RETIREMENT PLANS, continued
b -- Net Pension Liability, continued

Development of Long-Term Rate of Return on Investments -- Each pension plan utilizes different asset allocations and assumed rates of return in developing the long-term rate of return on investments. However, all three use the same methodology as follows:

The long-term rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The following provides asset allocations and long-term expected real rate of return for each asset class for the three funds.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
City Employees:		
US equity	32%	6.25 to 6.75%
Developed markets equities	15%	7.75% to 8.25%
Emerging markets equities	8%	10%
Fixed income	20%	3%
Alternative investments	15%	2.25% to 5.5%
Real estate	10%	6%
Total	<u>100.0%</u>	
Police Officers:		
Domestic equity	42.5%	7.5%
International equity	15%	8.5%
Other equity	7.5%	7.5%
US and non-US fixed income	10%	3%
Other fixed income	5%	3.5%
Real estate	15%	4.5%
Multi asset class	5%	5%
Total	<u>100.0%</u>	
Fire Fighters:		
Public domestic equity	20%	4.8%
Public foreign equity	22%	6%
Private equity fund of funds	15%	5.6%
Investment grade bonds	13%	0.4%
Treasury inflation protected securities	5%	0.3%
High yield/bank loans	5%	2.5%
Emerging market debt	7%	2.1%
Core real estate	5%	3.7%
Non-core real estate	5%	5.8%
Natural resources	3%	6.2%
Total	<u>100.0%</u>	

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**7 – RETIREMENT PLANS, continued**
b -- Net Pension Liability, continued

Discount Rate -- The following provides information on the discount rate used to measure the City's total pension liability. Based on the assumptions presented below, the fiduciary net position for all three funds was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The increase in the Police Officers' Fund discount rate is attributable to the assumption that City and employee contributions will increase in accordance with HB 4368 beginning January 1, 2022. The result is that a blended discount rate that incorporates the municipal bond rate is no longer required.

	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>
Discount rate	7.0%	7.25%	7.3%
Change since last measurement date	0%	3.15%	(0.2%)
Long-term expected rate of return on pension plan investments	7.0%	7.25%	7.3%
Cash flow assumptions	Plan member contributions will be made at the current rate. City contributions will be made at the current rate for 28 years and then will decrease to 8%.	Plan member contributions and City contributions will be made in accordance with HB 4368.	Plan member contributions will be made at current contribution rates. City contributions will be continued at the currently negotiated rate of 22.05%.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate -- The following presents the net pension liability of each of the pension funds of the City calculated using the long-term expected rate of return on pension plan investments, as well as what the net pension liability (in thousands) would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher than the current rate.

	<u>1% Decrease</u>		<u>Current Discount Rate</u>		<u>1% Increase</u>	
	<u>Rate</u>	<u>Net Pension Liability</u>	<u>Rate</u>	<u>Net Pension Liability</u>	<u>Rate</u>	<u>Net Pension Liability (Asset)</u>
City Employees	6.0%	\$ 2,094,328	7.0%	\$ 1,501,669	8.0%	\$ 1,011,716
Police Officers	6.25%	788,429	7.25%	605,927	8.25%	441,307
Fire Fighters	6.3%	188,243	7.3%	70,407	8.3%	(29,135)

Pension Plan Fiduciary Net Position -- Detailed information about the pension plans' fiduciary net position is available in the separately issued financial report of each of the pension systems.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)7 – RETIREMENT PLANS, continued
b -- Net Pension Liability, continued

Schedule of Changes in Net Pension Liability -- Changes in net pension liability for all three funds and the City for the measurement period ended December 31, 2020 are as follows (in thousands):

	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>	<u>Total</u>
Total pension liability at December 31, 2019	\$ 4,487,884	2,175,170	1,156,025	7,819,079
Changes for the year:				
Service cost	121,881	84,469	26,170	232,520
Interest	310,319	89,376	86,821	486,516
Benefit changes	--	--	7,159	7,159
Differences between expected and actual experience	12,524	10,320	(1,671)	21,173
Assumption changes	--	(740,167)	21,411	(718,756)
Contribution buy back	--	1,941	--	1,941
Benefit payments including refunds	(231,393)	(76,956)	(63,484)	(371,833)
Net change in total pension liability	213,331	(631,017)	76,406	(341,280)
Total pension liability at December 31, 2020	4,701,215	1,544,153	1,232,431	7,477,799
Total plan fiduciary net position at December 31, 2019	2,928,033	857,839	1,029,893	4,815,765
Changes for the year:				
Employer contributions	130,743	36,577	21,311	188,631
Employee contributions	71,470	22,181	18,073	111,724
Contribution buy back	--	1,941	--	1,941
Pension plan net investment income (loss)	307,289	98,573	157,323	563,185
Benefits payments and refunds	(231,393)	(76,956)	(63,484)	(371,833)
Pension plan administrative expense	(6,596)	(1,929)	(1,092)	(9,617)
Net change in total plan fiduciary net position	271,513	80,387	132,131	484,031
Total plan fiduciary net position at December 31, 2020	3,199,546	938,226	1,162,024	5,299,796
Net pension liability at December 31, 2019	1,559,851	1,317,331	126,132	3,003,314
Net pension liability at December 31, 2020	\$ 1,501,669	605,927	70,407	2,178,003

7 – RETIREMENT PLANS, continued
b -- Net Pension Liability, continued

The City Employees' fund had no significant changes to benefit terms or assumptions that affected the total pension liability for the measurement period.

The Police Officers' fund had no significant changes to benefit terms that affected the total pension liability for the measurement period. The only assumption change is an increase in the investment rate of return from 4.1% to 7.25% resulting from a revised cash flow assumption that future contributions will be increased in accordance with HB 4368.

The Fire Fighters' fund had changes of assumptions and benefit terms that affected the pension liability. Effective January 1, 2021 a cost-of-living adjustment increase of 1.4% went into effect.

Changes of assumptions for the Fire Fighters' fund included:

- The investment rate of return was decreased from 7.5% to 7.3%.
- The payroll growth rate increased from 2.0% to 2.5%.
- Although the mortality tables used, PubS-2010(A), remained the same, scale MP-2020 was used to project mortality improvement five years beyond the valuation date replacing scale MP-2019 which was used in the previous year.

c -- Pension Expense

Total pension expense recognized by the City for the fiscal year ended September 30, 2021, was comprised of the following (in thousands):

	Pension Expense
City Employees	\$ 176,955
Police Officers	90,811
Fire Fighters	(2,015)
Total	\$ 265,751

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**7 – RETIREMENT PLANS, continued****d -- Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At September 30, 2021, the City reported deferred outflows and inflows of resources related to pensions from the following sources (in thousands):

Source	City Employees	Police Officers	Fire Fighters	Total
Deferred Outflows of Resources				
Contributions to the plans subsequent to the measurement date	\$ 101,751	25,941	15,988	143,680
Differences between expected and actual experience	33,122	22,135	7,002	62,259
Changes in assumptions	172,362	570,198	29,350	771,910
Changes in proportionate share (between funds)	16,744	--	--	16,744
Total	323,979	618,274	52,340	994,593
Deferred Inflows of Resources				
Differences between expected and actual experience	--	14,355	9,298	23,653
Changes in assumptions	--	642,520	2,987	645,507
Net difference between projected and actual earnings on pension plan investments	181,710	51,447	76,605	309,762
Changes in proportionate share (between funds)	16,744	--	--	16,744
Total	\$ 198,454	708,322	88,890	995,666

The portion of deferred outflows and inflows of resources that will be recognized as an increase (decrease) in pension expense is as follows (in thousands):

Fiscal Year Ended September 30	City Employees	Police Officers	Fire Fighters	Total
2022	\$ 9,460	(3,242)	(19,482)	(13,264)
2023	46,600	2,273	(3,738)	45,135
2024	(26,415)	(18,494)	(24,741)	(69,650)
2025	(6,302)	(629)	(12,008)	(18,939)
2026	431	6,727	2,138	9,296
Thereafter	--	(102,624)	5,293	(97,331)
Total	\$ 23,774	(115,989)	(52,538)	(144,753)

8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**a -- General Information**

Plan Description -- In addition to the contributions made to the three pension systems, the City provides certain other postemployment benefits to its retirees. The City of Austin OPEB Plan is a defined-benefit single-employer plan. Allocation of City funds to pay postemployment benefits other than pensions is determined on an annual basis by the City Council as part of the budget approval process on a pay-as-you-go basis. The City is under no obligation to pay any portion of the cost of other postemployment benefits for retirees or their dependents. The City does not accumulate assets in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

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

Unlike pensions, State law does not provide specific requirements or authority for OPEB. Instead, the City relies on its status as a municipal corporation under Article XI, Section 5 of the Constitution of the State of Texas, the Home Rule Amendment, as the authority under which OPEB is provided to retirees. Any amendments to the OPEB Plan are approved by City Council through the annual budget approval process.

Benefits Provided -- Other postemployment benefits include access to medical, dental, and vision insurance for the retiree and the retiree's family and \$1,000 of life insurance on the retiree only. All retirees who are eligible to receive pension benefits under any of the City's three pension systems as described in Note 7 are eligible for other postemployment benefits. Retirees may also enroll eligible dependents under the medical, dental, and vision plan(s) in which they participate.

Plan members do not pay into the OPEB plan while in active employment nor does the City pay on behalf of active employees. The City pays actual claims for medical and prescription drug coverage as a primary provider for non-Medicare eligible, and as a secondary provider for Medicare eligible retirees through either a PPO, HMO, or CDHP, (Consumer Driven Health Plan), medical plan as selected by the retiree. The City subsidizes a maximum of 80% of the projected medical premium for retirees, 50% for dependents, and 70% (75% if pre-Medicare) for surviving spouses. Subsidies are based on years of service at retirement as displayed in the table below and are applied to the corresponding maximum reflected above. For example, a retiree with less than five years of service would be eligible for a subsidy of 16% (20% of 80%). Retirees must pay the unsubsidized portion of the premium.

For the 2021 plan year, (January 1 to December 31), the percentage of the maximum subsidy paid by the City was as follows:

<u>Years of Service at Retirement</u>	<u>Percent of Maximum Subsidy Paid by the City</u>
<5	20%
5-9	30%
10-14	50%
15-19	70%
20 and over	100%

The City pays 100% of the retiree's basic life insurance premium. The cost of coverage above the \$1,000 level 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. If excise tax is payable in the future, it is assumed that these costs will also be paid by the retirees.

Employees Covered by Benefit Terms -- The City has elected to do biennial actuarial valuations of its other postemployment benefits liability with a roll forward in the off years. The current year is a roll forward year and as a result membership in the plan is presented as of December 31, 2019:

Inactive employees or beneficiaries currently receiving benefits	7,756
Inactive employees entitled to but not yet receiving benefits	3,179
Active employees	<u>13,187</u>
Total	<u><u>24,122</u></u>

8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued
b -- Total OPEB Liability

The City's total OPEB liability of \$4.3 billion was determined by an actuarial valuation as of December 31, 2019 that was rolled forward to December 31, 2020, the measurement date. Of the total liability, \$63.4 million is considered to be due within one year.

Actuarial Assumptions and Other Inputs -- Actuarial assumptions used in the most recent actuarial valuations are shown below. The majority of the demographic assumptions used in the OPEB valuation are identical to those used in the pension valuations from the previous reporting period. As a result, experience studies performed by the pension systems as described in Note 7a and Required Supplementary Information were also relied upon.

General Assumptions	
Inflation rate	<ul style="list-style-type: none"> • NA
Salary increases	<ul style="list-style-type: none"> • Vary by retirement group, age, and years of service
Discount rate	<ul style="list-style-type: none"> • 2.12%
Healthcare cost trend rates	
Medical (pre-65)	<ul style="list-style-type: none"> • 6.75% graded to 4.5% over 9 years
Medical (post-65)	<ul style="list-style-type: none"> • 5.75% graded to 4.5% over 5 years
Prescription drug	<ul style="list-style-type: none"> • 7.75% graded to 4.5% over 13 years
Dental	<ul style="list-style-type: none"> • 3%
Administrative costs	<ul style="list-style-type: none"> • 2.5%
Experience studies	<ul style="list-style-type: none"> • Experience for healthcare cost trend rates was based on activity from January 1, 2017 to December 31, 2019 for medical costs and prescriptions.
Sources for mortality rate assumptions	
General (Actives)	<ul style="list-style-type: none"> • PubG-2010 Employee Mortality Table projected generationally using the ultimate mortality improvement rate in the MP tables
General (Healthy retirees)	<ul style="list-style-type: none"> • PubG-2010 Healthy Retiree Mortality Table projected generationally using the ultimate mortality improvement rate in the MP tables
General (Disabled retirees)	<ul style="list-style-type: none"> • PubG-2010 Healthy Retiree Mortality Table, set forward three years, projected generationally using the ultimate mortality improvement rate in the MP tables
Police (Actives)	<ul style="list-style-type: none"> • PubS-2010 Employee Mortality Table projected generationally using the ultimate mortality improvement rates in the MP tables
Police (Healthy Retirees)	<ul style="list-style-type: none"> • PubS-2010 Healthy Retiree Mortality Table projected generationally using the ultimate mortality improvement rates in the MP tables
Police (Disabled Retirees)	<ul style="list-style-type: none"> • PubS-2010 Disabled Mortality Table projected generationally using the ultimate mortality improvement rates in the MP tables
Fire (Actives)	<ul style="list-style-type: none"> • PubS-2010(A) Employee Mortality Table projected from 2010 to 5 years beyond the valuation date using scale MP-2019
Fire (Healthy Retirees)	<ul style="list-style-type: none"> • PubS-2010(A) Healthy Retiree Mortality Table projected from 2010 to 5 years beyond the valuation date using scale MP-2019
Fire (Disabled retirees)	<ul style="list-style-type: none"> • PubS-2010(A) Disabled Mortality Table projected from 2010 to 5 years beyond the valuation date using scale MP-2019

Discount Rate -- The discount rate for OPEB, which is funded entirely on a pay-as-you-go basis, is the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). For the OPEB measurement at December 31, 2020, the City's actuaries used the Bond Buyer US Weekly Yields 20 General Obligation Bond Index of 2.12%. The decrease in the discount rate from 2.74% in the prior year to 2.12% in the current year resulted in a significant increase in the total OPEB liability. Approximately 60% of the increase from the prior year, or \$504 million, is attributable to the change in the discount rate assumption.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued****b -- Total OPEB Liability, continued**

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate -- The following presents the City's total OPEB liability calculated using the discount rate discussed above, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher than the current rate (in thousands).

<u>1% Decrease</u>		<u>Current Discount Rate</u>		<u>1% Increase</u>	
<u>Rate</u>	<u>Total OPEB Liability</u>	<u>Rate</u>	<u>Total OPEB Liability</u>	<u>Rate</u>	<u>Total OPEB Liability</u>
1.12%	\$ 5,391,838	2.12%	\$ 4,346,367	3.12%	\$ 3,559,000

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates -- The following presents the City's total OPEB liability calculated using the healthcare cost trend rates displayed above, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower and 1-percentage point higher than the current rates (in thousands).

<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
<u>Total OPEB Liability</u>	<u>Total OPEB Liability</u>	<u>Total OPEB Liability</u>
\$ 3,491,620	\$ 4,346,367	\$ 5,506,954

Schedule of Changes in Total OPEB Liability -- Changes in the total OPEB liability for the measurement period ended December 31, 2020 are as follows (in thousands):

Total OPEB liability at December 31, 2019	<u>\$ 3,504,494</u>
Changes for the year:	
Service cost	167,027
Interest	99,915
Benefit changes	--
Differences between expected and actual experience	(6,103)
Assumption changes	631,360
Benefit payments	<u>(50,326)</u>
Net change in total OPEB liability	<u>841,873</u>
Total OPEB liability at December 31, 2020	<u>\$ 4,346,367</u>

The OPEB plan changes included:

- Effective January 1, 2021, the fully insured Cigna dental PPO option was replaced with the self-insured BlueCross BlueShield BlueCare dental PPO. Retiree contribution rates for both the prior fully-insured option and the new self-insured option are expected to cover the full cost of the benefits, thus the net OPEB liability associated with dental benefits remain \$0 after the plan change.

The OPEB plan assumption changes included:

- Decreasing the discount rate from 2.74% to 2.12% based on the Bond Buyer US Weekly Yields 20 General Obligation Bond Index as of the measurement date,
- Assuming level rather than increasing premium rates from the prior year,
- Adjusting demographic assumptions to mirror any changes in the pension plan demographic assumptions for the previous plan year. See pension plan Note 7a and Required Supplementary Information for additional information on these changes.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued****c -- Other Postemployment Benefits Expense**

Total OPEB expenses recognized by the City for the fiscal year ended September 30, 2021 were \$492.2 million.

d -- Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2021, the City reported deferred outflows and inflows of resources related to OPEB from the following sources (in thousands):

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Benefit payments subsequent to the measurement date	\$ 40,468	--
Differences between expected and actual experience	39,223	5,284
Changes in assumptions	1,377,037	165,583
Changes in proportionate share (between funds)	<u>35,193</u>	<u>35,193</u>
Total	<u>\$ 1,491,921</u>	<u>206,060</u>

The portion of deferred outflows and inflows of resources that will be recognized in OPEB expense is as follows (in thousands):

Fiscal Year Ended September 30	
2022	\$ 223,141
2023	223,141
2024	223,141
2025	202,440
2026	193,514
Thereafter	<u>180,016</u>
Total	<u>\$ 1,245,393</u>

9 -- DERIVATIVE INSTRUMENTS

The City has derivatives in two hedging programs: Energy Risk Management Program and Variable Rate Debt Management Program.

In accordance with GAAP, the City is required to report the fair value of all derivative instruments on the statement of net position. All derivatives must be categorized into two basis types – (1) hedging derivative instruments and (2) investment derivative instruments. Hedging derivative instruments significantly reduce an identified financial risk by substantially offsetting changes in cash flows or fair values of an associated hedgeable item. Investment derivative instruments are entered into primarily for income or profit purposes or they are derivative instruments that do not meet the criteria of an effective hedging derivative instrument. Changes in fair value of hedging derivative instruments are deferred on the statement of net position, and changes in fair value of investment derivative instruments are recognized as gains or losses on the statement of activities.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, which is the City's fiscal year end date of September 30. This requires consideration of nonperformance risk when measuring the fair value of a liability and considers the effect of the government's own credit quality and any other factors that might affect the likelihood that the obligation will or will not be fulfilled.

a -- Energy Risk Management Program

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

9 – DERIVATIVE INSTRUMENTS, continued
a -- Energy Risk Management Program, continued

Hedging Derivative Instruments

Natural Gas Derivative Instruments

Austin Energy purchases financial contracts on the New York Mercantile Exchange (NYMEX) to provide a hedge against the physical delivery price of natural gas from its various hubs. Austin Energy enters into basis swaps to protect delivery price differences between Henry Hub and its natural gas delivery points, Katy, and the Houston Ship Channel (HSC).

The fair value of futures, swaps, and basis swap contracts is determined using the NYMEX closing settlement prices as of the last day of the reporting period, using a hierarchy level 2 market approach. The fair value is calculated by deriving the difference between the closing futures price on the last day of the reporting period and purchase price at the time the positions were established. The fair value of the options is categorized as hierarchy level 2, calculated using the Black/Scholes valuation method utilizing implied volatility based on the NYMEX closing settlement prices of the options as of the last day of the reporting period, including any necessary price analysis adjustments, risk free interest rate, time to maturity, and the NYMEX forward price of the underlier as of the last day of the reporting period.

Premiums paid for options are deferred until the contract is settled. As of September 30, 2021, no premiums were deferred. As of September 30, 2021, the fair value of Austin Energy's futures, options, and swaps was an unrealized gain of \$2.3 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 statement of net position using deferred outflows and deferred inflows.

Congestion Revenue Rights Derivative Instruments

Preassigned Congestion Revenue Rights (PCRRs) and Congestion Revenue Rights (CRRs) function as financial hedges against the cost of resolving congestion in the Electric Reliability Council of Texas (ERCOT) market. These instruments allow Austin Energy to hedge expected future congestion that may arise during a certain period. CRRs are purchased at auction, annually and monthly at market value. Municipally owned utilities are granted the right to purchase PCRRs annually at 10-20% of the cost of CRRs. While the instruments exhibit all three characteristics - settlement, leverage, and net settlement - to classify them as derivative instruments, they are generally used by Austin Energy as factors in the cost of transmission, and therefore meet the Normal Purchases and Normal Sales scope exception allowing them to be reported at cost.

In fiscal year 2021, Austin Energy did not sell PCRRs. At September 30, 2021, \$222 thousand remained deferred under the accounting requirements for regulated operations.

On September 30, 2021, Austin Energy had the following outstanding hedging derivative instruments (in thousands):

Type of Transaction	Reference Index	Fair Value at September 30, 2021			Change in Fair Value	Premiums Deferred
		Maturity Dates	Notional Volumes	Fair Value		
Long OTC Call Options	Henry Hub	Dec 2021 - Sept 2022	2,130,000 (1)	\$ 2,330	2,233	--
		Derivative instruments (assets)		2,330	2,233	--
Short OTC Put Options	Henry Hub	Dec 2021 - Sept 2022	(2,130,000) (1)	--	76	--
		Derivative instruments (liabilities)		--	76	--
			Total	\$ 2,330	2,309	--

(1) Volume in MMBTUs

Austin Energy routinely purchases derivative instruments. The outstanding hedging derivative instruments were purchased at various dates.

The realized gains and losses related to the hedging activity derivative instruments are netted to Power Supply Adjustment expense in the period realized.

Risks

Credit Risk. Credit risk is the risk of loss due to a counterparty defaulting on its obligations. Austin Energy's fuel derivative instrument contracts expose Austin Energy to custodial credit risk on exchange-traded derivative instrument positions. In the event of default or nonperformance by brokers or the exchange, Austin Energy's operations will not be materially affected.

9 – DERIVATIVE INSTRUMENTS, continued
a -- Energy Risk Management Program, continued

The over-the-counter agreements expose Austin Energy to credit risk. However, Austin Energy does not expect the counterparties to fail to meet their obligations given their high credit ratings and strict oversight by federal regulators. The contractual provisions applied to these contracts under the International Swaps and Derivatives Association (ISDA) agreement include collateral provisions at specified thresholds. At September 30, 2021, no collateral was required under these provisions.

The congestion revenue rights expose Austin Energy to custodial credit risk in the event of default or nonperformance by ERCOT, a regulatory entity of the State of Texas. In the event of default of nonperformance, Austin Energy's operations will not be materially affected.

Termination Risk. Termination risk is the risk that a derivative instrument will terminate prior to its scheduled maturity due to a contractual event. Contractual events include illegality, tax and credit events upon merger and other events. Termination risk for exchange-traded instruments is greatly reduced by the strict rules and guidelines set up by the exchange, which is governed by the Commodity Futures Trade Commission. Austin Energy's exposure to termination risk for over-the-counter agreements is mitigated due to the high credit rating of the counterparties and the contractual provisions under the ISDA agreement applied to these contracts. Termination risk is associated with all of Austin Energy's derivative instruments up to the fair value of the instrument.

Netting Arrangements. Austin Energy enters into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by or owed to the non-defaulting party.

Basis Risk. Austin Energy is exposed to basis risk on its fuel hedges because the expected commodity purchases being hedged will price based on a delivery point (Katy/HSC) different than that at which the financial hedging contracts are expected to settle i.e. NYMEX (Henry Hub). As of September 30, 2021, the NYMEX price was \$5.84 per MMBTU (one million British thermal unit, a measurement of heating value), Katy was \$5.85 per MMBTU, and the HSC Hub price was \$5.87 per MMBTU.

b -- Variable Rate Debt Management Program**Hedging Derivative Instruments**

The intention of each of the City's swaps is to provide a cash flow hedge for its variable interest rate bonds by providing synthetic fixed rate bonds. As a means to lower its borrowing costs when compared against fixed rate bonds at the time of issuance, the City executed pay-fixed, receive-variable swaps in connection with its issuance of variable rate bonds.

As of September 30, 2021, the City has two outstanding swap transactions with initial and outstanding notional amounts totaling \$295.9 million and \$159 million, respectively. The fair values of the interest rate derivative instrument transactions were estimated based on an independent pricing service. The valuations provided were derived from proprietary models based upon well-recognized principles and estimates about relevant future market conditions. The expected transaction cash flows are calculated using the zero-coupon discounting method which takes into consideration the prevailing benchmark interest rate environment, the specific terms and conditions of a given transaction, and assumes that the current forward rates implied by the benchmark yield curve are the market's best estimate of future spot interest rates. The income approach is then used to obtain the fair value of the transactions, where future amounts (the expected transaction cash flows) are converted to a single current amount, discounted using a rate of return that takes into account the relative risk of nonperformance associated with the cash flows. Where applicable under the income approach an option pricing model is applied such as the Black-Scholes-Merton model, the Black-Derman-Toy model, one of the short-rate models, or other market standard models consistent with accepted practices in the market for interest rate option products. The option models consider probabilities, volatilities, time, settlement prices, and other variables pertinent to the transactions. This valuation technique is applied consistently across all the transactions. Given the observability of inputs significant to the measurements, the fair values of the transactions are categorized as Level 2.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**9 – DERIVATIVE INSTRUMENTS, continued**
b -- Variable Rate Debt Management Program, continued

On September 30, 2021, the City had the following outstanding interest rate swap hedging derivative instruments (in thousands):

Item	Related Variable Rate Bonds	Terms	Effective Date	Maturity Date	Notional Amount	Fair Value
Business-Type Activities:						
Hedging derivatives:						
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	Pay 3.600%, receive SIFMA swap index	5/15/2008	5/15/2031	\$ 94,030	(14,383)
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Pay 3.251%, receive 67% of LIBOR	8/14/2008	11/15/2029	64,690	(7,107)
					<u>\$ 158,720</u>	<u>(21,490)</u>

All swaps are pay-fixed interest rate swaps. All were entered into with the objective of hedging changes in the cash flows on the related variable rate debt.

The fair value of the City's interest rate swap hedging derivative instruments is reported as derivative instruments in liabilities with an offsetting adjustment to deferred outflow of resources. The table below provides for the fair value and changes in fair value of the City's interest rate swap agreements as of September 30, 2021 (in thousands):

Item	Outstanding Notional Amount	Fair Value and Classification		Change in fair value	
		Amount	Classification	Deferred Outflows	Deferred Inflows
Business-Type Activities:					
Hedging derivative instruments (cash flow hedges):					
WW2	\$ 94,030	(14,383)	Non-current liability	(5,650)	--
HOT1	64,690	(7,107)	Non-current liability	(3,274)	--
<u>\$ 158,720</u>		<u>(21,490)</u>		<u>(8,924)</u>	<u>--</u>

Due to the continued low interest rate levels during fiscal year 2021, the City's interest rate swap hedging derivative instruments had negative fair values as of September 30, 2021. The fair value takes into consideration nonperformance risk, the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received.

Risks

Credit risk. As of September 30, 2021, the City was not exposed to credit risk on any of its outstanding swap agreements because each swap had a negative fair value. However, should interest rates change and the fair value of a swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value.

The counterparty credit ratings for the City's interest rate swap hedging derivative instruments at September 30, 2021, are included in the table below:

Item	Related Variable Rate Bonds	Counterparty	Counterparty Ratings		
			Moody's Investors Service, Inc	Standard & Poor's	Fitch Ratings, Inc
Business-Type Activities:					
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	Goldman Sachs Bank USA	A1	A+	A+
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Morgan Keegan Financial Products (MKFP)	A2	BBB+	A-

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**9 – DERIVATIVE INSTRUMENTS, continued**
b -- Variable Rate Debt Management Program, continued

Swap agreements for both swaps contain collateral agreements with the counterparties. These swap agreements require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreements. For Swap HOT1, the credit support provider of MKFP is Deutsche Bank AG, New York Branch (DBAG). This swap requires collateralization of the fair value of the swap should DBAG's credit rating fall below the applicable thresholds in the agreement.

Swap payments and associated debt. The net cash flows for the City's interest rate swap hedging derivative instruments for the year ended September 30, 2021, are included in the table below (in thousands):

Item	Related Variable Rate Bonds	Counterparty Swap Interest			Interest to Bondholders	Net Interest Payments
		Pay	Receive	Net		
Business-Type Activities:						
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	\$ (3,404)	57	(3,347)	(66)	(3,413)
	HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	(2,136)	51	(2,085)	(47)
		<u>\$ (5,540)</u>	<u>108</u>	<u>(5,432)</u>	<u>(113)</u>	<u>(5,545)</u>

Basis and interest rate risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City does not bear basis risk on Swap WW2. At September 30, 2021, the City bears basis risk on the Swap HOT1. This swap has basis risk since the City receives a percentage of LIBOR to offset the actual variable rate the City pays on the related bond. The City is exposed to basis risk should the floating rate that it receives on a swap drop below the actual variable rate the City pays on the bond. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is the risk of a permanent mismatch occurring between the interest rate paid on the City's underlying variable rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds. For example, a grandfathering of the elimination of federal tax-exemption on existing tax-exempt bonds, or a tax cut, would result in the yields required by investors on the City's bonds coming close to or being equal to taxable yields. This would result in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 67% of LIBOR on Swap HOT1 and would experience a shortfall relative to the rate paid on its bond if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Nonperformance/Termination risk. The City or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable rate bonds would no longer be hedged to a fixed rate. If at the time of termination, the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of the City.

Rollover risk. The City is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the City will be re-exposed to the risks being hedged by the hedging derivative instrument. The City is currently not exposed to rollover risk on its hedging derivative instruments.

Investment Derivative Instruments

At September 30, 2021, the City did not have any investment derivative instruments related to interest rate swaps.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**9 – DERIVATIVE INSTRUMENTS, continued**
c -- Swap Payments and Associated Debt

As of September 30, 2021, debt service requirement of the City's variable rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows (as rates vary, variable rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Variable Rate Bonds (in thousands)		Interest Rate Swaps, Net	Total Interest
	Principal	Interest (1)		
2022	\$ 6,810	1,678	3,624	5,302
2023	17,385	1,502	3,446	4,948
2024	17,350	1,314	3,038	4,352
2025	17,945	1,121	2,619	3,740
2026	14,960	921	2,230	3,151
2027-2031	84,270	1,575	6,294	7,869
Total	<u>\$ 158,720</u>	<u>8,111</u>	<u>21,251</u>	<u>29,362</u>

- (1) The net effect of the reference rate projected to be paid to the City versus the variable rate projected to be paid to bondholders utilizing rates in effect at the end of the fiscal year.

10 – DEFICITS IN FUND BALANCES AND NET POSITION

At September 30, 2021, the following funds reported deficits in fund balances/net position (in thousands). Management intends to recover these deficits through future operating revenues, transfers, or debt issuances.

<u>Nonmajor Governmental</u>	<u>Deficit</u>
Special Revenue Funds:	
Project Connect	\$ 2
Neighborhood Revitalization	19
Cultural Arts	1,199
Capital Projects Funds:	
2016 fund	
Mobility	49,036
2018 fund	
Affordable Housing	60,377
Parks	17,692
Open Space	22,420
Transportation	4,282
2020 fund	
Transportation	686
Other funds	
Build Austin	108
Fire - General	30,397
Public Works	82
Waller Creek District	15,283
Nonmajor Enterprise	
Austin Resource Recovery	135,107
Development Services	103,677
Transportation	148,487
Internal Service	
Liability Reserve	14,677
Workers' Compensation	5,047

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**11 – INTERFUND BALANCES AND TRANSFERS****a -- Interfund receivables, payables, and advances**

Interfund receivables, payables, and advances at September 30, 2021, are as follows (in thousands):

Due To	Due From		
	Nonmajor Governmental	Austin Water	Total
General Fund	\$ 5	--	5
Nonmajor governmental	128,436	--	128,436
Nonmajor enterprise	--	301	301
Total	\$ 128,441	301	128,742

Interfund receivables (due from) and payables (due to) reflect short term loans between funds, mainly the result of short-term deficits in pooled investments and cash (\$124.8 million), the majority of which is related to capital project funds (\$113.1 million). Deficits in grant funds awaiting reimbursement from grantors (\$14.4 million) was borrowed from the Fiscal Surety - Land Development Fund.

Advances From	Advances To					Total
	Nonmajor Governmental	Austin Energy	Austin Water	Airport	Nonmajor Enterprise	
Nonmajor governmental	\$ 69,910	--	--	1	110	70,021
Austin Water	75	5,952	--	--	--	6,027
Nonmajor enterprise	191	--	902	--	--	1,093
Total	\$ 70,176	5,952	902	1	110	77,141

Advances to and advances from reflect borrowings that will not be liquidated within one year. The advances to Nonmajor Governmental was for the purchase of two hotels that will be converted to house the homeless, and the purchase of land for affordable housing projects. The advance to Austin Water Utility from Austin Energy funded the Combined Utility System Revenue Bond Retirement Reserve Account. Austin Energy funded the entire reserve, which replaced an insurance policy previously held for combined lien reserve, on behalf of both enterprise funds.

b -- Transfers

Transfers at September 30, 2021, are as follows (in thousands):

Transfers Out	Transfers In						Total
	General Fund	Nonmajor Governmental	Austin Energy	Austin Water	Nonmajor Enterprise	Internal Service	
General Fund	\$ --	17,945	--	--	10,918	--	28,863
Nonmajor governmental	8,548	131,140	1,060	--	50,607	--	191,355
Austin Energy	122,367	--	--	--	--	--	122,367
Austin Water	50,271	1,152	5,661	--	--	146	57,230
Airport	--	--	41	--	--	--	41
Nonmajor enterprise	5,255	9,068	--	75	--	181	14,579
Internal service	--	16,098	--	--	280	22	16,400
Total	\$ 186,441	175,403	6,762	75	61,805	349	430,835

Interfund transfers are authorized through City council approval. Significant transfers include:

- Austin Energy and Austin Water transfer funds to the General Fund (\$172.6 million), which are comparable to a return on investment to owners.
- The Hotel-Motel Occupancy Tax (\$42 million) and the Vehicle Rental Tax (\$7.2 million), both special revenue funds, transfer funds to the Convention Center in support of convention operations and debt services.
- Affordable Housing (\$78.5 million), a capital projects fund, transferred funds to Austin Housing Finance Corporation, a special revenue fund, in support of affordable housing.

12 – SELECTED REVENUES**a -- Major Enterprise Funds****Austin Energy and Austin Water**

The Public Utility Commission (PUCT) has jurisdiction over electric utility wholesale transmission rates. On July 2, 2018, the PUCT approved the City's most recent wholesale transmission rate of \$1.187214/KW. Transmission revenues totaled approximately \$84 million in fiscal year 2021. The City Council has jurisdiction over all other electric utility rates and over all water and wastewater utility rates and other services. The Council determines electric utility and water and wastewater utility rates based on the cost of operations.

Under a bill passed by the Texas Legislature in 1999, municipally-owned electric utilities such as the City's utility system have the option of offering retail competition after January 1, 2002. As of September 30, 2021, the City has elected not to enter the retail market, as allowed by state law.

Electric rates include a fixed-rate component and cost-adjustment factors that allow for recovery of power supply, regulatory, and community benefit costs. If actual costs differ from amounts billed to customers, then regulatory assets or deferred inflows are recorded by Austin Energy. Pass-through rates are set annually, and the power supply adjustment charge can be adjusted when over- or under-recovery is more than 10% of expected power supply costs. Any over- or under-collections of the power supply, regulatory, or community benefit costs are applied to the respective cost-adjustment factor.

Airport

The City has entered into certain lease agreements as the lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In the fiscal year 2021, the Airport fund revenues included minimum concession guarantees of \$25,579,317.

The following is a schedule by year of minimum future rentals on non-cancelable operating leases with remaining terms of up to 80 years for the Airport fund as of September 30, 2021 (in thousands):

Fiscal Year Ended September 30	Airport Lease Receipts
2022	\$ 34,813
2023	31,821
2024	31,451
2025	31,329
2026	31,325
2027-2031	38,062
2032-2036	9,636
2037-2041	6,719
2042-2046	2,085
Thereafter	695
Totals	\$ 217,936

b -- Operating Lease Revenue

The City has entered into various lease agreements as the lessor of office space, antenna space and ground leases. Minimum guaranteed income on these non-cancelable operating leases is as follows (in thousands):

Fiscal Year Ended September 30	Future Lease Receivables
2022	\$ 2,434
2023	2,405
2024	2,346
2025	2,271
2026	2,208
2027-2031	10,287
2032-2036	9,810
2037-2041	9,118
2042-2046	7,602
Thereafter	53,418
Totals	\$ 101,899

13 – TAX ABATEMENTS

The City grants tax abatements under one of two programs, the Chapter 380 Performance Based Economic Development Incentive Program under which sales and property taxes may be rebated if the entity meets performance criteria, and the Media Production and Development Zone program under which sales and use taxes may be abated.

a -- Performance Based Rebate Program

To promote local economic development and stimulate business and commercial activity in the municipality, the City has granted tax rebate agreements under the authority of Chapter 380 of the Texas Local Government Code through the City's Chapter 380 Performance Based Economic Development Incentive Program. All or a portion of property tax, sales tax, or a combination of the two were abated as a part of these agreements. To be eligible to participate in the program an entity must make a commitment to move or expand its business in the City through investments in real and/or personal property or leasehold improvements as well as commitments about the number of new jobs it will create. Some agreements also require the participants in this program to meet other City requirements such as average compensation and local business participation. Each agreement is negotiated individually, and the terms vary depending on the type of development and the economic benefits to the City.

Sales taxes abated may either be all or a portion of those generated by the entity or its actions. The amount of property taxes abated may be all or a portion of property taxes on the entity's real and personal property or leasehold investment. Agreements generally run for a certain number of years and may be subject to a not-to-exceed maximum of taxes to be abated. All taxes are collected and then refunded if the entity meets commitments made under the agreement. If criteria are not met, no taxes are refunded.

During fiscal year 2021, the City had four active agreements under this program. Two agreements satisfied the compliance requirements in fiscal year 2021 which resulted in rebates of tax abatements of approximately \$6.9 million. The City had no commitments related to these agreements other than the timeframe during which a compliance review will occur.

b -- Exemption Program

There were no active agreements under the Media Production Development and Zone Program during fiscal year 2021.

The City is not subject to any tax abatement agreements entered into by other governmental entities.

14 – COMMITMENTS AND CONTINGENCIES**a -- Fayette Power Project**

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with LCRA. Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. A management committee of four members governs FPP; each participant administratively appoints two members. As managing partner, LCRA is responsible for the operation of the project and appoints project management.

Austin Energy's investment is financed through operations, revenue bonds, or commercial paper, which are repaid by Austin Energy (see Note 6), and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's pro-rata interest in FPP was \$24.2 million as of September 30, 2021. The pro-rata interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements. The original cost of Austin Energy's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of the City in accordance with its accounting policies.

b -- South Texas Project

Austin Energy is one of three participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are NRG South Texas LP and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2021, Austin Energy's investment in the STP was approximately \$362.7 million, net of accumulated depreciation.

Effective November 17, 1997, the participation agreement among the owners of STP was amended and restated, and the STP Nuclear Operating Company (STPNOC), a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. Each participant is responsible for its STP funding. The City's portion is financed through operations, revenue bonds, or commercial paper, which are repaid by Austin Energy (see Note 6). In addition, each participant has the obligation to finance any deficits that may occur.

14 – COMMITMENTS AND CONTINGENCIES, continued**b -- South Texas Project, continued**

Each participant appoints one member to the board of directors of STPNOC, as well as one other member to the management committee. A member of the management committee may serve on the board of directors in the absence of a board member. The City's portion of STP is classified as plant in service, construction in progress, and nuclear fuel inventory. Nuclear fuel includes fuel in the reactor as well as nuclear fuel in process.

STP was issued a 20-year license renewal by the Nuclear Regulatory Commission (NRC) in September 2017. Unit 1 and 2 are currently licensed through 2047 and 2048, respectively.

c -- South Texas Project Decommissioning

Austin Energy began collecting in rates and accumulating funds for decommissioning STP in 1989 in an external trust. The Decommissioning Trust assets are reported as restricted investments held by trustee. The related liability is reported as an asset retirement obligation. Excess or unfunded liabilities related to decommissioning STP will be adjusted in future rates so that there are sufficient funds in place to pay for decommissioning. At September 30, 2021, the trust's assets exceeded the total expenses amortized over the pro-rata useful life of the asset by \$6.9 million which is reported as part of deferred inflows of resources (in thousands).

Decommissioning Trust Assets	\$ 240,709
Pro Rata Decommissioning Expense	(233,808)
	<u>\$ 6,901</u>

STP is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit a certificate of financial assurance to the NRC for plant decommissioning every two years or upon transfer of ownership. The certificate provides reasonable assurance that sufficient funds are being accumulated to provide the minimum requirement for decommissioning mandated by the NRC. The most recent annual calculation of financial assurance filed on December 31, 2020 showed that the trust assets exceeded the minimum required assurance by \$83.7 million.

d -- Purchased Power

Austin Energy has commitments totaling \$4.7 billion to purchase energy and capacity through purchase power agreements. This amount includes provisions for wind power through 2041 and solar through 2046.

e -- Decommissioning and Environmental/Pollution Remediation Contingencies

Austin Energy may incur costs for environmental/pollution remediation of certain sites including the Holly and Fayette Power Plants and Austin Energy's system control center. At September 30, 2021, the financial statements include a \$1.7 million short term environmental liability classified as other liabilities. The amount is based on 2021 cost estimates to perform remediation and decommissioning. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

f -- Airport grant agreement

In October 2017, the Airport entered into a grant agreement with ABLE to provide support for ABLE's \$45,600,000 Series 2017 Airport Hotel Senior Revenue Refunding and Improvement Bonds issuance. The bonds are special limited obligations of ABLE and are payable by ABLE from revenues generated from the hotel located adjacent to the airport. Pursuant to the agreement, the Airport agreed to provide financial assistance to restore deficiencies in ABLE's Senior Debt Service Reserve Fund, to the extent that Surplus Airport System Revenues, as defined in the grant agreement, are available. The Airport has no obligation under this agreement to fund a deficiency if the hotel ceases operations nor does the agreement constitute a commitment, conditional or otherwise, to pay the debt service on the bonds. The terms of the agreement end on the date when the bonds are no longer outstanding. As of September 30, 2021, the Airport has provided \$2.6 million in financial assistance to restore deficiencies in ABLE's Senior Debt Service Reserve Fund.

14 – COMMITMENTS AND CONTINGENCIES, continued**g -- Arbitrage Rebate Payable**

The City's arbitrage consultant has determined that the City has not earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. Therefore, the City will not be required to rebate any amounts to the federal government. There are no estimated payables at September 30, 2021.

h -- Federal and State Financial Assistance Programs

The City participates in a number of federally assisted and state grant programs, financed primarily by the U.S. Department of Treasury, U.S. Department of Transportation, and U.S. Environmental Protection Agency. The City's programs are subject to program compliance audits by the grantor agencies. Management believes that no material liability will arise from any such audits.

i -- Capital Improvement Plan

As required by charter, the City has a *Capital Improvements Program* plan (capital budget) covering a five-year period which details anticipated spending for projects in the upcoming and future years. The City's 2021 Capital Budget has substantial contractual commitments relating to its capital improvement plan.

The key projects in progress include improvements to and development of the electric system, water and wastewater systems, airport, transportation infrastructure, public recreation and culture activities, and urban growth management activities. Remaining commitments represent current unspent budget and future costs required to complete projects.

<u>Project</u>	<u>Remaining Commitment (in thousands)</u>
Governmental activities:	
General government	\$ 61,286
Public safety	93,300
Transportation, planning, and sustainability	291,141
Public health	29,236
Public recreation and culture	157,288
Urban growth management	49,552
Business-type activities:	
Electric	103,337
Water	180,200
Wastewater	177,386
Airport	103,147
Convention	49,111
Environmental and health services	9,469
Public recreation and culture	62
Urban growth management	120,890
Total	<u>\$ 1,425,405</u>

j -- Encumbrances

The City utilizes encumbrances to track commitments against budget in governmental funds. The amount of outstanding encumbrances at September 30, 2021 is as follows (in thousands):

	<u>Encumbrances</u>
General Fund	\$ 58,976
Nonmajor governmental	
Special Revenue	41,790
Capital Projects	190,152
	<u>\$ 290,918</u>

Significant encumbrances include reservations for COVID-19 contracts (\$11,146), 2012 General government projects (\$13,488), Communications and Technology Management (\$14,738), 2018 transportation bond programs (\$14,748), General government projects (\$17,443), and the 2016 mobility transportation bond program (\$68,827).

14 – COMMITMENTS AND CONTINGENCIES, continued
k -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, a portion of these future closure and postclosure care costs are reported as an operating expense in each period as incurred in the Austin Resource Recovery fund, a nonmajor enterprise fund. Substantial closure occurred in fiscal year 2011. Flooding in fiscal year 2015 delayed repairs and final landfill closure. Substantial repairs for damage sustained from flooding have since been completed, and closure with TCEQ occurred in May 2021. While the landfill only reached 99.04% capacity, the City is no longer accepting waste. The amount of costs reported, based on landfill capacity of 100% as of September 30, 2021, is as follows (in thousands):

	<u>Closure</u>	<u>Postclosure</u>	<u>Total</u>
Total estimated costs	\$ 25,381	20,240	45,621
% capacity used	100%	100%	100%
Cumulative liability accrued	25,381	20,240	45,621
Costs incurred	(25,381)	(441)	(25,822)
Closure and postclosure liability	<u>\$ --</u>	<u>19,799</u>	<u>19,799</u>

These amounts are based on the 2021 cost estimates to perform closure and postclosure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

l -- Asset Retirement Obligations (ARO)

South Texas Project (STP) -- Federal regulations require Austin Energy to perform certain asset retirement obligations related to decommissioning STP, a nuclear power station located in Bay City, Texas. These regulations are provided by the Nuclear Regulatory Commission (NRC) and require licensed nuclear facilities to follow both technical and financial criteria for decommissioning activities. An external decommissioning cost study is performed every five years. The most recent cost study was completed in May 2018 by TLG Services, Inc. and included a total decommissioning cost estimate of \$2.5 billion. Austin Energy, holding a 16% ownership interest in STP, has included a total ARO estimate of \$418.7 million (adjusted to 2021 dollars) and an associated deferred outflow of resources of \$184.9 million. Austin Energy has restricted assets held in an irrevocable trust to cover the eventual decommissioning costs and as of September 30, 2021, trust assets totaled \$240.7 million.

Fayette Power Project (FPP) -- Federal and state regulations as well as contractual obligations require Austin Energy to perform certain asset retirement activities associated with our ownership of FPP, two coal-fired electric generating units. A cost study performed by the LCRA assessed the activities required for capital asset retirement and includes a best estimate of the current value of costs to be incurred related to legal or contractual obligations. Austin Energy, holding a 50% ownership in Units 1 and 2 with the LCRA, has included a total ARO estimate of \$17.9 million and an associated deferred outflow of resources of \$15 million. Austin Energy, as joint owner of the facility, will amortize the deferred outflow related to regulatory obligations over 20 years, the estimated remaining useful life of the plant. Austin Energy will amortize the deferred outflow related to the contractual obligation over the remaining leased period of 3 years.

Wastewater treatment plants -- Federal regulations require the City to perform certain asset retirement obligations related to its wastewater treatment plants. The City must close the wastewater treatment facilities in a manner that minimizes the need for further maintenance and minimizes or controls postclosure escape of hazardous waste, hazardous constituents, leachate, contaminated run-off, or hazardous waste decomposition products to the ground or surface waters. Based on historical vendor invoices to remove solids from wastewater treatment plants, the ARO for wastewater treatment plants was approximately \$1.3 million as of September 30, 2021 and is reported as asset retirement obligations in the Austin Water fund, a major enterprise fund. The associated deferred outflow of \$501 thousand will be amortized over the remaining useful lives of the City's wastewater treatment plants, which range from 5 to 40 years.

Petroleum underground storage tanks -- State regulations require the City to perform certain asset retirement obligations pertaining to its petroleum underground storage tanks. Upon retirement of the tanks, the City is required to either remove the tank from the ground, permanently fill the tank in place, or conduct a permanent change in service. The City is opting to remove the tanks from the ground upon retirement. Based on an estimate from a certified vendor, the ARO for petroleum underground storage tanks was approximately \$518 thousand as of September 30, 2021 and is reported as asset retirement obligations in the Fleet Maintenance fund, an internal service fund. The associated deferred outflow of \$116 thousand will be amortized over the remaining useful lives of the City's petroleum underground storage tanks, which range from 1 to 22 years.

14 – COMMITMENTS AND CONTINGENCIES, continued
m -- Risk-Related Contingencies

The City uses internal service funds to account for risks related to health benefits, third-party liability, and workers' compensation. The funds are as follows:

Fund Name	Description
Employee Benefits	City employees and retirees may choose a self-insured PPO, HMO, or CDHP with HSA for health coverage. Approximately 73% of City employees and 81% of retirees use the PPO option; approximately 10% of City employees and 17% of retirees use the HMO option; and approximately 17% of City employees and 2% of retirees use the CDHP with HSA option. Costs are charged to City funds through a charge per employee per pay period.
Liability Reserve	This self-insured program includes losses and claims related to liability for bodily injury, property damage, professional liability, and certain employment liability. Premiums are charged to other City funds each year based on historical costs. Third-party claims activities are also reported directly in the Austin Energy, Austin Water, and Airport enterprise funds.
Workers' Compensation	Premium charges for this self-insured program are assessed to other funds each year based on the number of full-time equivalent (FTE) employees per fund.

The City purchases stop-loss insurance for the City's PPO, HMO, and CDHP plans. Stop-loss insurance covers individual claims that exceed a stated threshold amount per calendar year. Beginning in 2019 the stated threshold amount is \$750,000 with an unlimited maximum. In fiscal year 2021, two claims exceeded the stop loss limit of \$750,000. In fiscal year 2020, four claims exceeded the stop loss limit of \$750,000. In fiscal year 2019, four claims exceeded the stop loss limit of \$500,000 related to calendar year 2018 claims and no claims exceeded the stop loss limit of \$750,000 related to 2019 claims. City coverage is unlimited for lifetime of benefits. The City does not purchase stop-loss insurance for workers' compensation claims.

The City is self-insured for much of its risk exposure; however, the City purchases commercial insurance coverage for loss or damage to real property, theft and other criminal acts committed by employees, and third-party liability associated with the airport, owned aircraft, and electric utility operations. There have been no claims settlements in excess of the purchased insurance coverage to date. The City also purchases insurance coverage through a program that provides workers' compensation, employer's liability, and third-party liability coverage to contractors working on designated capital improvement project sites.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The City utilizes actuarial information, which is based on historical claim settlement trends, to determine the claim liabilities for the Employee Benefits fund and Workers' Compensation fund. Claims liabilities for the Austin Energy, Austin Water, Airport, and Liability Reserve funds are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. Possible losses are estimated to range from \$87.9 to \$102.7 million. In accordance with GAAP, \$87.9 million is recognized as claims payable in the financial statements with \$49.4 million recognized as a current liability and \$38.5 million recognized as long term liability. For Employee Benefits and Workers Compensation, city funds contribute amounts to these internal service funds based on an estimate of anticipated costs for claims each year. Austin Energy, Austin Water, and Airport report their respective claims activities for third-party claims. All other funds contribute amounts to the Liability Reserve fund based on an estimate of anticipated costs for claims each year.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**14 – COMMITMENTS AND CONTINGENCIES, continued**
m -- Risk-Related Contingencies, continued

Changes in the balances of claims liability are as follows (in thousands):

	Austin Energy		Austin Water		Airport	
	2021	2020	2021	2020	2021	2020
Liability balances, beginning of year	\$ 252	232	310	310	--	--
Claims and changes in estimates	1,097	66	90	108	--	8
Claim payments	(120)	(46)	(120)	(108)	--	(8)
Liability balances, end of year	<u>1,229</u>	<u>252</u>	<u>280</u>	<u>310</u>	<u>--</u>	<u>--</u>

	Employee Benefits		Liability Reserve		Workers' Compensation	
	2021	2020	2021	2020	2021	2020
Liability balances, beginning of year	18,622	16,187	2,158	2,172	28,342	28,881
Claims and changes in estimates	170,960	165,241	28,368	999	20,596	3,693
Claim payments	(173,296)	(162,806)	(3,920)	(1,013)	(5,444)	(4,232)
Liability balances, end of year	<u>\$ 16,286</u>	<u>18,622</u>	<u>26,606</u>	<u>2,158</u>	<u>43,494</u>	<u>28,342</u>

The Austin Water claims liability balance at fiscal year-end included liabilities of \$284 thousand discounted at 2.44% in 2021 and \$250 thousand discounted at 2.46% in 2020. The claims liability balance for all other funds had no discounted liability in fiscal years 2021 and 2020.

n -- No-Commitment Special Assessment Debt

In November 2011, the City issued \$15,500,000 of Special Assessment Revenue Bonds, Senior Series 2011 related to the Whisper Valley Public Improvement District. The bonds are special obligations of the City payable solely from the assessments levied against parcels within the Public Improvement District and other pledged funds held under the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. The City is acting as an agent for the property owners within the district in collecting the future assessments, forwarding collections to trustees, approving bond proceed disbursements, and initiating any future foreclosures. In October 2020 a partial early redemption of \$185,000 occurred, reducing the outstanding bonds. \$2,246,619 in total assessments were levied in the year ended September 30, 2021. The aggregate principal outstanding at September 30, 2021 is \$9,850,000.

In November 2011, the City issued \$2,860,000 of Special Assessment Revenue Bonds, Senior Series 2011 related to the Indian Hills Public Improvement District. The bonds are special obligations of the City payable solely from the assessments levied against parcels within the Public Improvement District and other pledged funds held under the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. The City is acting as an agent for the property owners within the district in collecting the future assessments, forwarding collections to trustees, approving bond proceed disbursements, and initiating any future foreclosures. \$467,627 in total assessments were levied in the year ended September 30, 2021. The aggregate principal outstanding at September 30, 2021 is \$1,950,000.

In July 2013, the City issued \$12,590,000 of Special Assessment Revenue Bonds, Series 2013 related to the Estancia Hill Country Public Improvement District. The bonds are special obligations of the City payable solely from the assessments levied against parcels within the Public Improvement District and other pledged funds held under the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. The City is acting as an agent for the property owners within the district in collecting the future assessments, forwarding collections to trustees, approving bond proceed disbursements, and initiating any future foreclosures. In May 2021 a partial early redemption of \$155,000 occurred, reducing the outstanding bonds. \$1,837,991 in total assessments were levied during the fiscal year ended September 30, 2021. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2021 are \$8,195,000 and \$833, respectively.

14 – COMMITMENTS AND CONTINGENCIES, continued
n -- No-Commitment Special Assessment Debt, continued

In December 2018, the City issued \$4,265,000 and \$8,305,000 of Special Assessment Revenue Bonds, Series 2018 #1 and #2, respectively, related to the Estancia Hill Country Public Improvement District. The bonds are special obligations of the City payable solely from the assessments levied against parcels within the Public Improvement District and other pledged funds held under the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. In May 2021 a partial optional redemption of \$100,000 occurred, reducing the outstanding bonds. The City is acting as an agent for the property owners within the district in collecting the future assessments, forwarding collections to trustees, approving bond proceed disbursements, and initiating any future foreclosures. \$945,913 in total assessments were levied during the fiscal year ended September 30, 2021. The aggregate principal outstanding at September 30, 2021 is \$11,685,000.

In April 2019, the City issued \$4,500,000 of Special Assessment Revenue Bonds, Series 2019 related to the Whisper Valley Public Improvement District, Phase 1. The bonds are special obligations of the City payable solely from the assessments levied against parcels within the Public Improvement District and other pledged funds held under the indenture. The bonds do not give rise to a charge against the general credit or taxing powers of the City. The City is acting as an agent for the property owners within the district in collecting the future assessments, forwarding collections to trustees, approving bond proceed disbursements, and initiating any future foreclosures. \$267,108 in total assessments were levied during the fiscal year ended September 30, 2020. The aggregate principal outstanding and the balance of bond proceeds held by the trustee at September 30, 2021 are \$4,315,000 and \$4,973, respectively.

o -- Capital Leases

The City has entered into lease agreements to finance equipment for both governmental and business-type activities. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments at their inception date. The lease agreements end in 2023, 2025 and 2031. See Note 6 for the debt service requirements on these leases.

The following summarizes capital assets recorded at September 30, 2021, under capital lease obligations (in thousands):

Capital Assets	Governmental Activities	Austin Energy
Building and improvements	\$ --	1,405
Communication equipment	23,702	--
Equipment	14,257	--
Accumulated depreciation	(6,222)	(668)
Net capital assets	<u>\$ 31,737</u>	<u>737</u>

14 – COMMITMENTS AND CONTINGENCIES, continued
p -- Operating Leases

The City is committed under various leases for building and office space, tracts of land and rights-of-way, and certain equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2021, was \$29.6 million. Future minimum payments on these non-cancelable operating leases is as follows (in thousands):

Fiscal Year Ended September 30	Future Lease Payments
2022	\$ 29,819
2023	28,399
2024	20,697
2025	13,478
2026	7,392
2027-2031	11,929
2032-2036	1,989
2037-2041	1,718
2042-2046	1,718
Thereafter	11,680
Totals	\$ 128,819

15 – LITIGATION

A number of claims and lawsuits against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and City management are of the opinion that settlement of these claims and lawsuits will not have a material effect on the City's financial statements. The City has accrued liabilities in the Austin Energy, Austin Water, Airport, and Liability Reserve funds for claims payable at September 30, 2021. These liabilities, reported in the government-wide statement of net position, include amounts for claims and lawsuits settled subsequent to year end.

16 – CONDUIT DEBT

The City has issued several series of housing revenue bonds to provide for low-cost housing. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. As of September 30, 2021, \$210.8 million in housing revenue bonds were outstanding with an original issue value of \$217.8 million.

Revenue bonds have been issued by various related entities to provide for facilities located at the international airport. These bonds are special limited obligations payable solely from and secured by a pledge of revenue to be received from agreements between the entities and various third parties. As of September 30, 2021, \$147.3 million in revenue and revenue refunding bonds were outstanding with an original issue value of \$147.3 million.

The above bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements.

17 – PUBLIC-PRIVATE PARTNERSHIP ARRANGEMENTS

In 2018, the City entered into a Lease and Development agreement with Austin Stadco LLC, doing business as Austin FC, for the construction of the Q2 Stadium. As a result of this agreement, the City recognizes, in other long-term assets in the governmental activities' column of the statement of net position, a receivable for the estimated carrying value of stadium capital assets at the end of the contract term and the discounted value of future installment payments due to the City in the amounts of \$104 million and \$4.3 million, respectively. In 2021, a related deferred inflow of \$108.3 million was recorded and the City recognized \$1.8 million as revenue.

The City will use an imputed interest rate of 5% to discount the future payments. As the transferor in this arrangement, the City retains ownership rights to assets associated with the Q2 stadium which will be operated by Austin Stadco LLC, as Austin FC, for a minimum term of 20 years with options to extend through 2071.

Notes to Basic Financial Statements
September 30, 2021City of Austin, Texas
(Continued)**18 – SEGMENT INFORMATION – CONVENTION CENTER**

The Convention Center provides event facilities and services to its customers. Below are the condensed financial statements for this segment (in thousands):

Condensed Statement of Net Position

ASSETS	
Current assets	\$ 112,139
Advances to other funds	26
Capital assets	212,310
Other noncurrent assets	126,475
Total assets	450,950
Deferred outflows of resources	50,075
LIABILITIES	
Other current liabilities	25,373
Other noncurrent liabilities	225,129
Total liabilities	250,502
Deferred inflows of resources	7,798
NET POSITION	
Net investment in capital assets	113,846
Restricted	137,254
Unrestricted	(8,375)
Total net position	\$ 242,725

Condensed Statement of Revenues, Expenses, and Changes in Net Position

OPERATING REVENUES	
User fees and rentals	\$ 6,018
Total operating revenues	6,018
OPERATING EXPENSES	
Operating expenses before depreciation	53,022
Depreciation and amortization	8,566
Total operating expenses	61,588
Operating income (loss)	(55,570)
Nonoperating revenues (expenses)	(4,301)
Transfers	43,587
Change in net position	(16,284)
Beginning net position	259,009
Ending net position	\$ 242,725

Condensed Statement of Cash Flows

Net cash provided (used) by:	
Operating activities	\$ (37,783)
Noncapital financing activities	43,587
Capital and related financing activities	(31,293)
Investing activities	291
Net increase (decrease) in cash and cash equivalents	(25,198)
Cash and cash equivalents, beginning	244,505
Cash and cash equivalents, ending	\$ 219,307

19 – RESTATEMENT

During fiscal year 2021, the City implemented a new accounting standard, GASB Statement No. 84, "Fiduciary Activities." This Statement establishes criteria for identifying and reporting fiduciary activities. As a result of implementing this statement, certain funds previously classified as Private Purpose Trust funds have been reclassified and combined within the City's General Fund, Austin Energy, or Custodial funds. Additionally, several funds previously classified as Agency funds have been reclassified within the City's Special Revenue funds or Custodial funds. Amounts previously reported as liabilities within the remaining custodial funds have been reclassified as beginning net position. Any references to the term "Agency Fund" have been updated to "Custodial Fund". The format of the fiduciary fund financial statements has also been updated to comply with the new requirements of this statement. Net position and fund balances were restated at October 1, 2020.

The impact of these changes on the beginning balances reported in the financial statements is shown below (in thousands):

September 30, 2020	Government-wide	
	Governmental Activities	
Net position, as previously reported	\$	(600,610)
Adjustments to properly record:		
Implementation of GASB Statement No. 84		7,011
Net Position, as restated	\$	<u>(593,599)</u>

September 30, 2020	Governmental Funds	
	General Fund	Nonmajor Governmental Funds
Fund balances, as previously reported	\$ 271,515	306,795
Adjustments to properly record:		
Implementation of GASB Statement No. 84	623	6,388
Fund balances, as restated	\$ <u>272,138</u>	<u>313,183</u>

September 30, 2020	Fiduciary Funds	
	Private Purpose Trust	Custodial
Net position, as previously reported	\$ 4,781	--
Adjustments to properly record:		
Implementation of GASB Statement No. 84	(4,781)	2,032
Net Position, as restated	\$ <u>--</u>	<u>2,032</u>

The adjustments associated with the implementation of this standard were deferred in accordance with accounting for regulated operations for Austin Energy. The amount deferred is \$3.9 million; therefore, there was no restatement to net position in this fund.

20 – SUBSEQUENT EVENTS**a -- General Obligation Bond Issue**

In October 2021, the City issued \$153,685,000 of Public Improvement and Refunding Bonds, Series 2021. The net proceeds of \$81,895,000 (after issue costs, discounts, and premiums) from the issue will be used as follows: streets and mobility (\$38,980,000), water quality protection (\$22,880,000), park improvements (\$16,995,000) and facility improvements (\$3,040,000). The net proceeds of the refunding portion of \$102,566,092 were used to refund \$62,090,000 Public Improvement Bonds, Series 2011A and \$39,290,000 Certificates of Obligation, Series 2011. Principal payments are due on September 1 of each year from 2022 to 2041. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2022. Total interest requirements for these bonds, at rates ranging from 4.0% to 5.0%, are \$54,806,195.

In October 2021, the City issued \$35,670,000 of Certificates of Obligation, Series 2021. The net proceeds of \$43,930,000 (after issue costs, discounts, and premiums) from this issue will be used for constructing and remodeling multiple Austin Fire Department facilities. Principal payments are due on September 1 of each year from 2022 to 2041. Interest is payable on March 1 and September 1 of each year, commencing on March 1, 2022. Total interest requirements for these obligations, at rates ranging from 4.0% to 5.0%, are \$17,646,785.

In October 2021, the City issued \$27,110,000 of Public Property Finance Contractual Obligations, Series 2021. The net proceeds of \$31,930,000 (after issue costs, discounts, and premiums) from this issue will be used for capital equipment. Principal payments are due on May 1 and November 1 of each year from 2022 to 2028. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2022. Total interest requirements for these obligations, at a rate of 5.0%, are \$5,634,117.

In October 2021, the City issued \$81,880,000 of Public Improvement and Refunding Taxable Bonds, Series 2021. The new money net proceeds of \$77,655,000 (after issue costs, discounts, and premiums) from the issuance were used for affordable housing. The net proceeds of the refunding portion of \$6,690,260 were used to refund \$6,550,000 Public Improvement Bonds, Taxable Series 2011B. Interest is payable March 1 and September 1 of each year from 2022 to 2041, commencing on March 1, 2022. Principal payments are due September 1 of each year from 2022 to 2041. Total interest requirements for this obligation, at rates ranging from 1.65% to 3.00% are \$18,720,046.

In October 2021, the City issued \$20,300,000 of Certificates of Obligation, Taxable Series 2021. The new money net proceeds of \$20,525,000 (after issue costs, discounts, and premiums) from the issuance were used for Waller Creek Tunnel and Waller Creek District. Interest is payable March 1 and September 1 of each year from 2022 to 2041, commencing on March 1, 2022. Principal payments are due September 1 of each year from 2022 to 2041. Total interest requirements for this obligation, at rates ranging from 1.00% to 4.0% are \$4,610,025.

b -- Water and Wastewater – System Revenue Refunding Bond Issue

In November 2021 the City issued \$216,380,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2021. The net proceeds of \$275,507,030 (after issue costs, premium and discounts) from the issuance were used to refund \$102,000,000 in tax-exempt commercial paper, and \$173,507,030 in separate lien revenue bonds, Series 2011. Principal payments are due November 15 of each year from 2024 to 2051. Interest is payable May 15 and November 15 of each year from 2022 to 2051. Total interest requirements for this obligation, at rates of 4.0% to 5.0%, are \$140,771,574.

c -- Water and Wastewater System Revenue Debt -- Revenue Bond Refunding Issue

In November 2021, the City issued \$18,000,000 of Water and Wastewater System Revenue Bonds, Series 2021C. This is a private placement structured through a memorandum with the Texas Water Development Board (TWDB). Project funds of \$16,893,269 will be used to improve and extend the water and wastewater system. Principal payments are due November 15 of each year from 2022 to 2041. Interest payments are due May 15 and November 15 of each year from 2022 to 2041. Total interest requirements for the bonds are \$2,870,199, with interest rates ranging from 0.15% to 1.85%.

In November 2021, the City issued \$23,100,000 of Water and Wastewater System Revenue Bonds, Series 2021D. This is a private placement structured through a memorandum with the Texas Water Development Board (TWDB). Project funds of \$21,924,193 will be used to improve and extend the water and wastewater system. Principal payments are due November 15 of each year from 2022 to 2051. Interest payments are due May 15 and November 15 of each year from 2022 to 2051. Total interest requirements for the bonds are \$250,982, with interest rates ranging from 0.00% to 0.19%.

In November 2021, the City issued \$30,000,000 of Water and Wastewater System Revenue Bonds, Series 2021E. This is a private placement structured through a memorandum with the Texas Water Development Board (TWDB). Project funds of \$28,391,138 will be used to improve and extend the water and wastewater system. Principal payments are due November 15 of each year from 2022 to 2051. Interest payments are due May 15 and November 15 of each year from 2022 to 2051. Total interest requirements for the bonds are \$613,152, with interest rates ranging from 0.00% to 0.29%.

20 – SUBSEQUENT EVENTS, continued

d -- Water and Wastewater System Revenue Debt -- Revenue Bond In-Substance Defeasance

In December 2021, the City defeased \$17,310,000 of Separate Lien Revenue Refunding Bonds, Series 2011, \$35,815,000 of Separate Lien Revenue Refunding Bonds, Series 2012, \$9,190,000 of Separate Lien Revenue Refunding Bonds, Series 2013A, and \$11,350,000 of Separate Lien Revenue Refunding Bonds, Series 2017, with a \$76,832,078 cash payment. The funds were deposited in an irrevocable escrow account to provide for the future debt service payments on the defeased bonds. The City is legally released from the obligation for the defeased debt.





**REQUIRED
SUPPLEMENTARY
INFORMATION**



General Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2021
(In thousands)

City of Austin, Texas
RSI

General Fund	Actual	Adjustments (1) (2)	Actual- Budget Basis	Budget		Variance (3) Positive (Negative)
				Original	Final	
REVENUES						
Taxes	\$ 860,698	100	860,798	809,105	809,105	51,693
Franchise fees	26,189	14	26,203	27,488	27,488	(1,285)
Fines, forfeitures and penalties	4,607	--	4,607	7,482	7,482	(2,875)
Licenses, permits and inspections	16,612	(26)	16,586	16,591	16,591	(5)
Charges for services/goods	57,278	(3,160)	54,118	63,594	63,594	(9,476)
Interest and other	17,246	(9,807)	7,439	8,313	8,313	(874)
Total revenues	982,630	(12,879)	969,751	932,573	932,573	37,178
EXPENDITURES						
General government						
Municipal Court	31,343	1,494	32,837	33,253	33,253	416
Public safety						
Emergency Communications	16,084	--	16,084	--	16,087	3
Emergency Medical Services	87,794	12,419	100,213	102,002	102,002	1,789
Fire	189,247	23,333	212,580	215,186	215,186	2,606
Forensic Science	11,908	--	11,908	--	11,908	--
Police	314,340	70,495	384,835	414,583	386,037	1,202
Public health						
Animal Services	12,725	2,568	15,293	16,047	16,047	754
Public Health	47,010	5,368	52,378	51,636	51,636	(742)
Social Services	40,499	10,859	51,358	51,379	51,379	21
Public recreation and culture						
Austin Public Library	44,680	10,248	54,928	58,868	58,868	3,940
Parks and Recreation	83,036	11,303	94,339	101,626	101,626	7,287
Urban growth management						
Housing and Planning	14,352	2,451	16,803	30,939	30,039	13,236
Other urban growth management	26,499	1,404	27,903	31,675	34,075	6,172
General city responsibilities (4)	219,727	(158,458)	61,269	10,912	29,712	(31,557)
Total expenditures	1,139,244	(6,516)	1,132,728	1,118,106	1,137,855	5,127
Excess (deficiency) of revenues over expenditures	(156,614)	(6,363)	(162,977)	(185,533)	(205,282)	42,305
OTHER FINANCING SOURCES (USES)						
Transfers in	186,441	201,983	388,424	387,143	353,039	35,385
Transfers out	(28,863)	(208,664)	(237,527)	(206,707)	(175,204)	(62,323)
Total other financing sources (uses)	157,578	(6,681)	150,897	180,436	177,835	(26,938)
Excess (deficiency) of revenues and other sources over expenditures and other uses	964	(13,044)	(12,080)	(5,097)	(27,447)	15,367
Fund balance at beginning of year, as restated	272,138	(51,488)	220,650	153,938	166,295	54,355
Fund balance at end of year	\$ 273,102	(64,532)	208,570	148,841	138,848	69,722

(1) Includes adjustments to expenditures for current year encumbrances, payments against prior year encumbrances, compensated absences, and amounts budgeted as operating transfers. Additionally, this column includes adjustments between public safety and general city responsibilities related to public safety salaries reimbursed by the CARES - Coronavirus Relief special revenue fund.

(2) Includes adjustments to revenues/transfers required for adjusted budget basis presentation.

(3) Variance is actual-budget basis to final budget.

(4) Actual expenditures include employee training costs and amounts budgeted as fund-level expenditures or operating transfers. Actual-budget basis expenditures include employee training costs and amounts budgeted as fund-level expenditures.

Required Supplementary Information
Notes to Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual-Budget Basis
September 30, 2021

City of Austin, Texas

BUDGET BASIS REPORTING

a -- General

The City of Austin prepares its annual operating budget based on the modified accrual basis. Encumbrances constitute the equivalent of expenditures for budgetary purposes. In order to provide a meaningful comparison of actual results to the budget, the Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual-Budget Basis for the General Fund presents the actual and actual-budget basis amounts in comparison with original and final budgets.

The General Fund, as reported in the financial statements, is comprised of seventeen separately budgeted funds in the City's legally adopted budget: the Budgetary General Fund (represented as the General Fund in the City's budget document) plus APD Decouple, APD Re-imagine Safety, Barton Springs Conservation, Budget Stabilization Reserve, Community Development Incentives, Economic Development, Economic Incentives Reserve, Emergency Reserve, Housing and Planning Technology, Iconic Venue, Long Center Capital Improvements, Music Venue Assistance Program, Neighborhood Housing-Housing Trust, Pay for Success, Property Tax Reserve, and Seaholm Parking Garage Revenue. RSI reflects the budgetary comparison for the consolidated General Fund.

The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The expenditure budget for these general city requirements includes interdepartmental charges (\$650,118).

b -- Budget Amendments

There were several budget amendments during fiscal year 2021:

- The Police Department expense budget, transfers in and transfers out decreased by \$27,994,537 for the creation of two new departments: Emergency Communications (\$16,085,640) and Forensic Science (\$11,908,897). In addition, the Police Department expense budget decreased and transfers out increased due to the Alarm Permitting Unit moving to the Development Services Fund (\$551,790). There was an additional decrease to transfers in and transfers out of \$17,309,632 due to the movement of support functions to the Support Services Fund.
- Other Urban Growth Management expenses and transfers in increased by \$2,400,000 due to the creation of the new Iconic Venue Fund.
- Neighborhood Housing-Housing Trust Fund transfers out increased \$13,250,000 and Housing and Planning expenses decreased by \$900,000 to support the Capital-Housing Trust Fund.
- General City Responsibilities expense budget increased by \$18,800,000 and transfers in increased by \$8,800,000 due to the following ongoing COVID-19 response activities:
 - \$15,000,000 for Save Austin's Vital Economic Sectors program to support COVID-19 emergency relief
 - \$1,500,000 to provide economic recovery support to local businesses impacted by COVID-19 and to support emergency food access
 - \$2,300,000 for business preservation

c -- Reconciliation of GAAP Basis and Budget Basis Amounts

The primary differences between GAAP-basis and budget-basis reporting for the General Fund are the reporting of encumbrances and the reporting of certain transfers. General Fund accrued payroll is recorded at the department level on a GAAP basis and as an expenditure in the general city responsibilities activity on the budget basis. Additionally, this year there are adjustments between public safety and general city responsibilities related to public safety salaries reimbursed by the CARES – Coronavirus Relief special revenue fund. Adjustments necessary to convert the excess revenues and other sources over expenditures and other uses on a GAAP basis to a budget basis for the activities comprising the General Fund are provided, as follows (in thousands):

	<u>General Fund</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	\$ 964
Adjustments - increases (decreases) due to:	
Unbudgeted revenues	(7,159)
Net compensated absences accrual	(940)
Outstanding encumbrances established in current year	(48,810)
Payments against prior year encumbrances	44,895
Other	(1,030)
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	<u>\$ (12,080)</u>

Required Supplementary Information
Retirement Plans- Trend Information
September 30, 2021
(In thousands)

Schedule of Changes in the City Employees' Fund Net Pension Liability and Related Ratios
Measurement Period Ended December 31

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Beginning total pension liability	\$ 2,909,918	3,094,056	3,391,796	3,591,376
Changes for the year:				
Service cost	89,235	93,506	107,111	107,767
Interest	222,710	236,844	251,684	266,257
Differences between expected and actual experience	33,911	13,414	19,914	22,755
Assumption changes	--	123,493	--	--
Benefit payments including refunds	(161,718)	(169,517)	(179,129)	(190,332)
Net change in total pension liability	<u>184,138</u>	<u>297,740</u>	<u>199,580</u>	<u>206,447</u>
Ending total pension liability	<u>3,094,056</u>	<u>3,391,796</u>	<u>3,591,376</u>	<u>3,797,823</u>
Beginning total plan fiduciary net position	<u>2,130,624</u>	<u>2,209,800</u>	<u>2,144,804</u>	<u>2,299,688</u>
Changes for the year:				
Employer contributions	93,331	100,485	104,273	110,846
Employee contributions	50,490	54,066	60,801	56,194
Pension plan net investment income (loss)	99,704	(47,608)	171,640	376,820
Benefits payments and refunds	(161,718)	(169,517)	(179,129)	(190,332)
Pension plan administrative expense	(2,631)	(2,422)	(2,701)	(2,778)
Net change in plan fiduciary net position	<u>79,176</u>	<u>(64,996)</u>	<u>154,884</u>	<u>350,750</u>
Ending total plan fiduciary net position	<u>2,209,800</u>	<u>2,144,804</u>	<u>2,299,688</u>	<u>2,650,438</u>
Beginning net pension liability	<u>779,294</u>	<u>884,256</u>	<u>1,246,992</u>	<u>1,291,688</u>
Ending net pension liability	<u>\$ 884,256</u>	<u>1,246,992</u>	<u>1,291,688</u>	<u>1,147,385</u>
Plan fiduciary net position as a percentage of the total pension liability	71.42%	63.24%	64.03%	69.79%
Covered Payroll	\$ 514,787	546,058	573,308	609,553
City's net pension liability as a percentage of covered payroll	171.77%	228.36%	225.30%	188.23%

Notes to the Schedule of Changes in the City Employees' Net Pension Liability and Related Ratios

- Until a full 10-year trend is compiled, this schedule will present only those years for which information is available.
- This fund had no significant changes of benefit terms in any of the years presented.
- The inflation assumption was decreased from 3.25% to 2.75% in 2015 and to 2.5% in 2019.
- The investment rate of return was decreased from 7.75% to 7.5% in 2015 and to 7% in 2019.
- The salary increase assumption was decreased from 4.5% to 4% in 2015 and to 3.5% in 2019.
- The new hire wage growth assumption was increased from 3.75% to 4% in 2015 and decreased to 3.5% in 2019.
- The tables for rates of retirement were adjusted in 2015 and again in 2019 to be more consistent with experience.
- Termination rate assumptions were revised in 2015 and again in 2019 to be more consistent with actual experience.
- Mortality rates were changed from RP-2000 to RP-2014 in 2015 and to PubG-2010 in 2019.

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Beginning total pension liability	3,797,823	3,989,560	4,487,884
Changes for the year:			
Service cost	111,438	117,635	121,881
Interest	281,404	295,341	310,319
Differences between expected and actual experience	1,882	23,672	12,524
Assumption changes	--	279,897	--
Benefit payments including refunds	(202,987)	(218,221)	(231,393)
Net change in total pension liability	<u>191,737</u>	<u>498,324</u>	<u>213,331</u>
Ending total pension liability	<u><u>3,989,560</u></u>	<u><u>4,487,884</u></u>	<u><u>4,701,215</u></u>
Beginning total plan fiduciary net position	2,650,438	2,461,383	2,928,033
Changes for the year:			
Employer contributions	116,486	123,610	130,743
Employee contributions	58,713	63,626	71,470
Pension plan net investment income (loss)	(157,242)	503,853	307,289
Benefits payments and refunds	(202,987)	(218,221)	(231,393)
Pension plan administrative expense	(4,025)	(6,218)	(6,596)
Net change in plan fiduciary net position	<u>(189,055)</u>	<u>466,650</u>	<u>271,513</u>
Ending total plan fiduciary net position	<u><u>2,461,383</u></u>	<u><u>2,928,033</u></u>	<u><u>3,199,546</u></u>
Beginning net pension liability	<u>1,147,385</u>	<u>1,528,177</u>	<u>1,559,851</u>
Ending net pension liability	<u><u>1,528,177</u></u>	<u><u>1,559,851</u></u>	<u><u>1,501,669</u></u>
Plan fiduciary net position as a percentage of the total pension liability	61.70%	65.24%	68.06%
Covered Payroll	640,464	678,500	713,527
City's net pension liability as a percentage of covered payroll	238.60%	229.90%	210.46%

Required Supplementary Information
Retirement Plans- Trend Information
September 30, 2021
(In thousands)

Schedule of Changes in the Police Officers' Fund Net Pension Liability and Related Ratios
Measurement Period Ended December 31

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Beginning total pension liability	\$ 909,000	971,623	1,028,909	1,106,189
Changes for the year:				
Service cost	30,254	32,138	32,990	35,322
Interest	72,443	76,999	80,846	84,472
Benefit changes	(11,015)	(4,080)	--	--
Differences between expected and actual experience	--	(6,318)	7,455	17,241
Assumption changes	14,137	3,904	5,148	--
Contribution buy back	2,207	4,648	1,668	2,915
Benefit payments including refunds	(45,403)	(50,005)	(50,827)	(56,548)
Net change in total pension liability	<u>62,623</u>	<u>57,286</u>	<u>77,280</u>	<u>83,402</u>
Ending total pension liability	<u>971,623</u>	<u>1,028,909</u>	<u>1,106,189</u>	<u>1,189,591</u>
Beginning total plan fiduciary net position	595,110	638,019	644,174	686,020
Changes for the year:				
Employer contributions	32,400	33,239	33,814	35,141
Employee contributions	19,458	20,061	20,623	21,437
Contribution buy back	2,207	4,648	1,668	2,915
Pension plan net investment income (loss)	35,574	(322)	37,965	82,072
Benefits payments and refunds	(45,403)	(50,005)	(50,827)	(56,548)
Pension plan administrative expense	(1,327)	(1,466)	(1,397)	(1,562)
Net change in plan fiduciary net position	<u>42,909</u>	<u>6,155</u>	<u>41,846</u>	<u>83,455</u>
Ending total plan fiduciary net position	<u>638,019</u>	<u>644,174</u>	<u>686,020</u>	<u>769,475</u>
Beginning net pension liability	<u>313,890</u>	<u>333,604</u>	<u>384,735</u>	<u>420,169</u>
Ending net pension liability	<u>\$ 333,604</u>	<u>384,735</u>	<u>420,169</u>	<u>420,116</u>
Plan fiduciary net position as a percentage of the total pension liability	65.67%	62.61%	62.02%	64.68%
Covered Payroll	\$ 149,686	152,696	157,303	163,995
City's net pension liability as a percentage of covered payroll	222.87%	251.96%	267.11%	256.18%

Notes to the Schedule of Changes in the Police Officers' Net Pension Liability and Related Ratios

- Until a full 10-year trend is compiled, this schedule will present only those years for which information is available.
- This fund had no significant changes of benefit terms in any of the years presented.
- The investment return assumption was decreased annually from 2015 to 2018 from a high of 8% to the current 7.25%.
- The core inflation rate assumption was decreased from 3.25% to 3% in 2016 and to 2.5% in 2018.
- The discount rate decreased annually from 2015 to 2017 from 8% to 7.7% mirroring the investment rate of return. In 2018 and 2019 a blended discount rate was required resulting in rates of 4.7% and 4.1% respectively. As the result of legislative changes which increase future contribution rates, the discount rate was increased to 7.25% for 2020, again matching the investment rate of return.
- The general wage inflation rate assumption was decreased from 3.5% to 3.25% in 2016.
- In 2016 assumed rates of salary increase were amended at most service points, and in 2018 individual salary increase rates were modified to better reflect the current expectation for inflation and the current step schedule.
- The payroll growth assumption was increased from 3.5% to 4% in 2016 and decreased from 4% to 3% in 2018.
- An explicit administrative expense load of 0.9% of payroll was added to the normal cost in 2018.
- In 2018, mortality rate assumptions were changed to PubS-2010 fully generational mortality improvement using the ultimate mortality improvement rates in the MP tables. Previously RP2000 (fully generational using Scale AA) set back two years - sex distinct were used.
- In 2018, termination and retirement rates were modified to be more consistent with experience.

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Beginning total pension liability	1,189,591	1,904,954	2,175,170
Changes for the year:			
Service cost	33,757	71,334	84,469
Interest	90,479	89,680	89,376
Benefit changes	--	--	--
Differences between expected and actual experience	(12,905)	(4,743)	10,320
Assumption changes	666,873	179,003	(740,167)
Contribution buy back	1,142	1,261	1,941
Benefit payments including refunds	(63,983)	(66,319)	(76,956)
Net change in total pension liability	<u>715,363</u>	<u>270,216</u>	<u>(631,017)</u>
Ending total pension liability	<u>1,904,954</u>	<u>2,175,170</u>	<u>1,544,153</u>
Beginning total plan fiduciary net position	769,475	718,520	857,839
Changes for the year:			
Employer contributions	35,244	35,993	36,577
Employee contributions	21,461	21,942	22,181
Contribution buy back	1,142	1,261	1,941
Pension plan net investment income (loss)	(43,398)	148,163	98,573
Benefits payments and refunds	(63,983)	(66,319)	(76,956)
Pension plan administrative expense	(1,421)	(1,721)	(1,929)
Net change in plan fiduciary net position	<u>(50,955)</u>	<u>139,319</u>	<u>80,387</u>
Ending total plan fiduciary net position	<u>718,520</u>	<u>857,839</u>	<u>938,226</u>
Beginning net pension liability	<u>420,116</u>	<u>1,186,434</u>	<u>1,317,331</u>
Ending net pension liability	<u>1,186,434</u>	<u>1,317,331</u>	<u>605,927</u>
Plan fiduciary net position as a percentage of the total pension liability	37.72%	39.44%	60.76%
Covered Payroll	164,112	167,835	169,308
City's net pension liability as a percentage of covered payroll	722.94%	784.90%	357.88%

Required Supplementary Information
Retirement Plans- Trend Information
September 30, 2021
(In thousands)

Schedule of Changes in the Fire Fighters' Fund Net Pension Liability and Related Ratios
Measurement Period Ended December 31

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Beginning total pension liability	\$ 806,282	861,468	913,618	977,723
Changes for the year:				
Service cost	25,319	23,309	24,323	23,830
Interest	62,977	66,405	70,893	75,812
Benefit changes	--	--	5,491	8,964
Differences between expected and actual experience	--	7,193	8,893	4,360
Assumption changes	4,883	--	--	--
Benefit payments including refunds	(37,993)	(44,757)	(45,495)	(51,888)
Net change in total pension liability	<u>55,186</u>	<u>52,150</u>	<u>64,105</u>	<u>61,078</u>
Ending total pension liability	<u>861,468</u>	<u>913,618</u>	<u>977,723</u>	<u>1,038,801</u>
Beginning total plan fiduciary net position	<u>752,622</u>	<u>789,433</u>	<u>785,211</u>	<u>829,610</u>
Changes for the year:				
Employer contributions	18,670	19,222	19,104	19,242
Employee contributions	14,660	15,547	15,884	16,319
Pension plan net investment income (loss)	42,005	6,328	55,569	141,915
Benefits payments and refunds	(37,993)	(44,757)	(45,496)	(51,888)
Pension plan administrative expense	(531)	(562)	(662)	(1,400)
Net change in plan fiduciary net position	<u>36,811</u>	<u>(4,222)</u>	<u>44,399</u>	<u>124,188</u>
Ending total plan fiduciary net position	<u>789,433</u>	<u>785,211</u>	<u>829,610</u>	<u>953,798</u>
Beginning net pension liability	<u>53,660</u>	<u>72,035</u>	<u>128,407</u>	<u>148,113</u>
Ending net pension liability	<u>\$ 72,035</u>	<u>128,407</u>	<u>148,113</u>	<u>85,003</u>
Plan fiduciary net position as a percentage of the total pension liability	91.64%	85.95%	84.85%	91.82%
Covered Payroll	\$ 84,589	83,979	86,632	87,266
City's net pension liability as a percentage of covered payroll	85.16%	152.90%	170.97%	97.41%

Notes to the Schedule of Changes in the Fire Fighters' Net Pension Liability and Related Ratios

- Until a full 10-year trend is compiled, this schedule will present only those years for which information is available.
- Changes of benefit terms in the form of cost-of-living adjustments were granted on January 1st of each of the following years in the following amounts: 2015 - 1.3%; 2017 - 1.5%; 2018 - 2.2%; 2019 - 2.3%; 2020 - 1.7%; 2021 - 1.4%.
- The inflation assumption was decreased from 3.5% to 2.75% in 2018 and to 2.5% in 2019.
- The investment rate of return was decreased from 7.7% to 7.5% in 2019 and from 7.5% to 7.3% in 2020.
- The payroll growth rate was increased from 2% to 2.5% in 2020.
- Since 2018 the PubS-2010 mortality tables were used with mortality improvement project using the MP-2018 tables in 2018, the MP-2019 tables in 2019, and the MP-2020 tables in 2020. Prior to that the RP-2000 (Fully Generational using Scale AA) tables were used.
- Assumptions related to salary increases, retirement rates, retro-drop elections, withdrawal rates and disability rates were all adjusted in 2019 to be more consistent with experience.

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Beginning total pension liability	1,038,801	1,093,179	1,156,025
Changes for the year:			
Service cost	25,131	26,192	26,170
Interest	80,552	84,547	86,821
Benefit changes	10,188	8,059	7,159
Differences between expected and actual experience	(735)	(9,835)	(1,671)
Assumption changes	(4,779)	12,707	21,411
Benefit payments including refunds	(55,979)	(58,824)	(63,484)
Net change in total pension liability	<u>54,378</u>	<u>62,846</u>	<u>76,406</u>
Ending total pension liability	<u><u>1,093,179</u></u>	<u><u>1,156,025</u></u>	<u><u>1,232,431</u></u>
Beginning total plan fiduciary net position	953,798	909,118	1,029,893
Changes for the year:			
Employer contributions	20,085	21,058	21,311
Employee contributions	17,033	17,858	18,073
Pension plan net investment income (loss)	(25,114)	141,535	157,323
Benefits payments and refunds	(55,979)	(58,824)	(63,484)
Pension plan administrative expense	(705)	(852)	(1,092)
Net change in plan fiduciary net position	<u>(44,680)</u>	<u>120,775</u>	<u>132,131</u>
Ending total plan fiduciary net position	<u><u>909,118</u></u>	<u><u>1,029,893</u></u>	<u><u>1,162,024</u></u>
Beginning net pension liability	<u>85,003</u>	<u>184,061</u>	<u>126,132</u>
Ending net pension liability	<u><u>184,061</u></u>	<u><u>126,132</u></u>	<u><u>70,407</u></u>
Plan fiduciary net position as a percentage of the total pension liability	83.16%	89.09%	94.29%
Covered Payroll	91,087	95,499	96,649
City's net pension liability as a percentage of covered payroll	202.07%	132.08%	72.85%

Required Supplementary Information
Retirement Plans-Trend Information
September 30, 2021

City of Austin, Texas

RETIREMENT PLANS-TREND INFORMATION, continued

Information pertaining to City contributions to the retirement systems is shown in the following two tables (in thousands). An actuarially determined contribution was calculated for the City Employees' fund but was not calculated for the other two funds.

**Schedule of Actuarially Determined City Contributions to the City Employees' Fund
(in thousands)**

Fiscal Year Ended September 30	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
	\$	\$	\$	\$	
2015	96,554	97,655	(1,101)	540,110	18.08%
2016	109,725	102,609	7,116	566,227	18.12%
2017	119,038	108,929	10,109	600,726	18.13%
2018	123,058	114,149	8,909	630,631	18.10%
2019	129,910	120,795	9,115	667,256	18.10%
2020	149,110	127,990	21,120	706,471	18.12%
2021	156,682	137,068	19,614	727,280	18.85%

Notes to Schedule of Actuarially Determined City Contributions to the City Employees' Fund

Valuation Date	
Date	<ul style="list-style-type: none"> December 31 of each calendar year occurring during the fiscal year.
Notes	<ul style="list-style-type: none"> Members and employers contribute based on statutorily fixed or negotiated rates. A funding period is solved for through open group projections.
Methods and Assumptions Used to Determine Contribution Rates	
Actuarial Cost Method	<ul style="list-style-type: none"> Entry Age Normal (all years)
Asset Valuation Method	<ul style="list-style-type: none"> 2017 forward - Expected actuarial value plus 20% recognition of prior years' differences between expected and actual investment income 2016 and 2015 - 20% of market plus 80% of expected actuarial value
Inflation	<ul style="list-style-type: none"> 2.5% for 2020 and 2021, 2.75% for 2016 through 2019, 3.25% for 2015
Salary Increases	<ul style="list-style-type: none"> 3.5% to 5.75% for 2020 and 2021, 4% to 6.25% for 2016 through 2019, 4.5% to 6% for 2015
Investment Rate of Return	<ul style="list-style-type: none"> 7% for 2020 and 2021, 7.5% for 2016 through 2019, 7.75% for 2015
Retirement Age	<ul style="list-style-type: none"> Experience-based table of rates that are gender specific. 2020 and 2021 - Last updated for December 31, 2019 valuation pursuant to an experience study of the period ending December 31, 2018 2016 - 2019 - Last updated for December 31, 2015 valuation pursuant to an experience study of the 5-year period ending December 31, 2015. 2015 - Last updated for December 31, 2012 valuation pursuant to an experience study of the 5-year period ending December 31, 2011.
Mortality	<ul style="list-style-type: none"> 2020 and 2021 - PubG-2010 Healthy Retiree Mortality Table (for General employees) for males and females with full generational projection assuming immediate convergence of rates in the mortality projection scale MP- 2018, 2D for male and female. 2016 through 2019 - RP-2014 Mortality Table with Blue Collar adjustment. Generational mortality improvements in accordance with Scale BB are projected from the year 2014. For 2015 RP-2000 Mortality Table with White Collar adjustment and multipliers of 110% for males and 120% for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.
Other Information	
Notes	<ul style="list-style-type: none"> There were no benefit changes during the periods displayed. City contributions increased from 18% to 19% as of January 1, 2021.

Required Supplementary Information
Retirement Plans-Trend Information
September 30, 2021

City of Austin, Texas

RETIREMENT PLANS-TREND INFORMATION, continued

Schedule of Statutorily Required City Contributions to the Police Officers' Fund and the Fire Fighters' Fund
(in thousands)

Fiscal Year Ended September 30	Statutorily Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll (1)
	\$	\$	\$	\$	
Police Officers					
2015	32,942	32,942	--	152,229	21.64%
2016	33,141	33,141	--	155,476	21.32%
2017	34,717	34,717	--	162,891	21.31%
2018	34,944	34,944	--	163,956	21.31%
2019	35,603	35,617	(14)	167,048	21.32%
2020	36,261	36,268	(7)	170,135	21.32%
2021	35,617	35,619	(2)	163,856	21.74%
Fire Fighters					
2015	18,327	18,327	--	83,118	22.05%
2016	19,145	19,145	--	86,826	22.05%
2017	19,104	19,104	--	86,642	22.05%
2018	19,809	19,809	--	89,834	22.05%
2019	20,890	20,890	--	94,740	22.05%
2020	21,141	21,141	--	95,877	22.05%
2021	21,851	21,851	--	99,099	22.05%

(1) Statutorily required contribution for Police Officers decreased from 21.63% in 2015 to 21.313% in 2016 and increased to 21.737% in 2021.

Required Supplementary Information
Other Postemployment Benefits- Trend Information
September 30, 2021

City of Austin, Texas

OTHER POSTEMPLOYMENT BENEFITS-TREND INFORMATION

The other postemployment benefits plan information for the City's plan provided below represents four years of trend information. Additional years will be added each year until ten years of trend data is available. Changes in other postemployment benefits liability for the other postemployment benefits plan for each of the four years ended December 31, 2017 through 2020 (measurement periods) are presented below:

Schedule of Changes in the City of Austin OPEB Liability and Related Ratios (in thousands)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Beginning total OPEB liability	\$ 2,055,627	2,524,897	2,395,447	3,504,494
Changes for the year:				
Service cost	86,687	108,478	88,486	167,027
Interest	80,132	89,675	100,978	99,915
Benefit changes	--	231	(3,829)	--
Differences between expected and actual experience	64,227	--	12,335	(6,103)
Assumption changes	283,099	(274,758)	953,202	631,360
Benefit payments	(44,875)	(53,076)	(42,125)	(50,326)
Net change in total OPEB liability	<u>469,270</u>	<u>(129,450)</u>	<u>1,109,047</u>	<u>841,873</u>
Ending total OPEB liability	<u>\$ 2,524,897</u>	<u>2,395,447</u>	<u>3,504,494</u>	<u>4,346,367</u>
Covered-employee payroll	\$ 968,403	1,000,536	1,051,771	1,103,927
City's total OPEB liability as a percentage of covered-employee payroll	260.73%	239.42%	333.20%	393.72%

Allocation of City funds to pay postemployment benefits other than pensions is determined on an annual basis by the City Council as part of the budget approval process on a pay-as-you-go basis. The City does not accumulate assets in a trust that meets the criteria in paragraph 4 of GASB statement No. 75. For the years ended December 31, 2018 and 2019 there were changes to benefit terms that affected the measurement of the total OPEB liability. There were no significant changes in benefit terms for year ended December 31, 2020. For all years presented there were assumption changes.

The OPEB plan benefit term changes included:

- Increasing the maximum value of the Health Reimbursement Account (HRA) for retirees in the Consumer Driven Health Plan (CDHP) from \$500 to \$1,000 for individuals and \$1,000 to \$1,500 for families effective January 1, 2019, and decreasing the maximum value of the HRA for retirees in the CDHP from \$1,000 to \$500 for individuals and from \$1,500 to \$1,000 for families effective January 1, 2020.
- Switching health benefit providers from United Healthcare to BlueCross BlueShield effective January 1, 2019. However, the plan of benefits was unchanged and plan costs were not projected to change materially as a result of this change.
- The fully insured Cigna dental PPO option was replaced with the self-insured BlueCross BlueShield BlueCare dental PPO, effective January 1, 2021. Retiree contribution rates for both the prior fully-insured option and the new self-insured option are expected to cover the full cost of the benefits, thus the net OPEB liability associated with dental benefits remain \$0 after the plan change.

The OPEB plan assumption changes included:

- Adjusting the discount rate based on the Bond Buyer US Weekly Yields 20 General Obligation Bond Index as of the measurement date as follows: 2017 - 3.44% (decreased from 3.78%), 2018 - 4.1%, 2019 - 2.74%, and 2020 - 2.12%.
- Updating medical and prescription drug claim costs each year to reflect the most recent experience.
- Modifying medical and prescriptions drug trend rates in 2017 by splitting the single category from the previous valuation into three categories, grading these categories for different periods, and lowering the ultimate trend rate from 5% to 4.5%; and in 2019 by adjusting 2020 assumed trend rates from 6.5% to 7% for pre-65 and 5.5% to 6% for post-65 and trending rates down at 0.25% rather than 0.5% annually.
- Updating third-party administrator and vendor administrative expenses to reflect the most recent contracts and assumed trends on such costs, (currently \$437 per covered individual).
- Adjusting retiree enrollment and plan election assumptions in 2019 to be more consistent with actual experience, and
- Adjusting demographic assumptions each year to mirror changes in the pension plan demographic assumptions for the previous plan year. See Required Supplementary Information, Retirement Plans-Trend Information for additional information on these changes.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

General

The following constitutes a summary of certain portions of the Ordinance. This summary should be qualified by reference to other provisions of the Ordinance referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Ordinance in this Official Statement are, separately and in whole, qualified by reference to the exact terms of the Ordinance, copies of which may be obtained from the City.

Amendments to the Revenue Bond Ordinances

The Ordinance authorizing the issuance of the Bonds includes amendments to the Ordinance and the existing Revenue Bond Ordinances. By acceptance of the Bonds, each Owner of a Bond (i) irrevocably and specifically consents to and approves the amendments to the Ordinance and the existing Revenue Bond Ordinances described below, (ii) irrevocably appoints the Aviation Director as its true and lawful attorney-in-fact to evidence such Owner's specific consent to and approval of the amendments described below, and (iii) confirms all actions taken by the Aviation Director as attorney-in-fact for such Owner. The amendments are described in this APPENDIX C in the definition of "Debt Service Reserve Fund Surety Bond" under "Selected Definitions"; deletions to the ordinance provisions are shown as strikethrough and additions to the ordinance provisions are underlined. These amendments require the consent of the Owners of not less than a majority of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding. For additional information regarding these amendments, see "INTRODUCTION – Amendments to Revenue Bond Ordinances" in this document.

Selected Definitions

"Additional Revenue Bonds" means the additional parity revenue bonds permitted to be issued by the City pursuant to the Ordinance.

"Administrative Expense Fund" means the fund so designated in the Ordinance.

"Administrative Expenses" means the fees, expenses, and indemnification liabilities payable to the Persons to whom fees and expenses are due and owing in connection with the Revenue Bonds and Credit Agreement Obligations incurred in connection with a related series of Revenue Bonds, including, but not limited to the fees and expenses of the Paying Agent/Registrars, the Credit Providers, the rebate analysts, the remarketing agents and the tender agents, and of which the City is given actual notice at least thirty (30) days prior to the date payment of these amounts is due.

"Airport" means the air carrier airport developed, constructed and operated by the City pursuant to the city-wide election held within the City on May 1, 1993, and designated as the Austin-Bergstrom International Airport (ABIA).

"Airport Consultant" means a nationally recognized independent firm, person or corporation having a widely known and favorable reputation for special skill, knowledge and experience in methods of developing, operating and financing of airports of approximately the same size as the properties constituting the Airport System.

"Airport System" means all airport, heliport and aviation facilities, now or from time to time owned, operated or controlled in whole or in part by the City, including the Airport, together with all properties, facilities and services of the Airport, and all additions, extensions, replacements and improvements to the Airport, and all services currently provided, or to be provided, by the City in connection with the Airport, but expressly excluding (i) any heliport or heliports operated by City Departments other than the Department of Aviation, (ii) the Austin consolidated rental car facility, initially financed by the issuance of City of Austin, Texas Rental Car Special Facility Revenue Bonds, Taxable Series 2013 and refinanced by the issuance of City of Austin, Texas Rental Car Special Facility Revenue Refunding Bonds, Taxable Series 2021, as Special Facilities, and (iii) the Mueller Airport Property.

"Aviation Director" means the Executive Director of the City's Department of Aviation, or any successor or person acting in that capacity.

"Bonds" means the City of Austin, Texas, Airport System Revenue Bonds, Series 2022 (AMT), authorized by the Ordinance.

"Business Day" means any day other than a Saturday, Sunday or legal holiday or other day on which banking institutions in the City, or in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are generally authorized or obligated by law or executive order to close.

"Capital Fund" means the fund so designated in the Ordinance.

"Capitalized Interest Account" means the applicable account so designated in the Ordinance and the existing Revenue Bond Ordinances.

“Code” means the Internal Revenue Code of 1986, as amended, and, with respect to a specific section thereof, such reference shall be deemed to include (a) the Regulations promulgated under such section, (b) any successor provision of similar import hereafter enacted, (c) any corresponding provision of any subsequent Internal Revenue Code and (d) the regulations promulgated under the provisions described in (b) and (c).

“Construction Fund” means the fund so designated in the Ordinance.

“Credit Agreement” means (i) any agreement of the City entered into in connection with and for the purpose of (A) enhancing or supporting the creditworthiness of a series of Revenue Bonds or (B) providing liquidity with respect to Revenue Bonds which by their terms are subject to tender for purchase, and which, by its terms, creates a liability on the part of the City on a parity with the Revenue Bonds to which it relates, and (ii) a Swap Agreement.

“Credit Agreement Obligations” means any amounts payable by the City under and pursuant to a Credit Agreement other than amounts payable as an Administrative Expense.

“Credit Provider” means the issuer or provider of a Credit Agreement.

“Currently Outstanding Revenue Bonds” means the Series 2013 Bonds, the Series 2014 Bonds, the Series 2017A Bonds, the Series 2017B Bonds, the Series 2019 Bonds, the Series 2019A Bonds and the Series 2019B Bonds.

“Debt Service” means (i) with respect to a series of Revenue Bonds, an amount equal to the Principal Installment, redemption premium, if any, and interest on such Revenue Bonds, (ii) with respect to a Credit Agreement other than a Swap Agreement, amounts payable as Credit Agreement Obligations, and (iii) with respect to a Swap Agreement, regularly scheduled amounts payable by the City under a Swap Agreement, so long as the counterparty is not in default (specifically excluding Termination Payments, which shall constitute Subordinate Obligations).

“Debt Service Fund” means the fund so designated in the Ordinance.

“Debt Service Requirements” means for any particular period of time, an amount equal to the sum of the following for such period with respect to all or any portion of Revenue Bonds or Credit Agreement Obligations, as applicable, then Outstanding:

A. That portion of interest which would accrue with respect to Revenue Bonds during such period if interest were deemed to accrue only during the 6 month period prior to its payment (12 month period in the case of capital appreciation or compound interest bonds), plus

B. That portion of the principal amount of Revenue Bonds which would accrue during such period if principal was deemed to accrue only during the 12 month period prior to its scheduled payment date (either at maturity or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory Revenue Bond redemptions),

less and except any such interest or principal for the payment of which provision has been made by: (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest or principal either from proceeds of bonds, from interest earned or to be earned thereon, from Airport System funds other than Net Revenues, or from any combination of such sources; and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a dedicated fund or account (including, without limitation, the Capitalized Interest Account), the proceeds of which are required to be transferred as needed into the Debt Service Fund or directly to the Paying Agent/Registrar for the Revenue Bonds.

“Debt Service Reserve Fund” means the fund so designated in the Ordinance.

“Debt Service Reserve Fund Requirement” means the amount required to be maintained in the Debt Service Reserve Fund. This amount shall be computed and recomputed annually as a part of the City’s budget process and upon the issuance of each series of Revenue Bonds to be the arithmetic average of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Revenue Bonds then Outstanding including the series of Revenue Bonds then being issued. In no event, however, will the amount deposited in the Debt Service Reserve Fund that is allocable to the Revenue Bonds or Additional Revenue Bonds, in accordance with section 1.148-6 of the regulations promulgated under the Code, exceed the least of: (a) 10% of the stated principal amount of each issue of which such Revenue Bonds or Additional Revenue Bonds are a part; (b) the maximum annual principal and interest requirements of the issue; or (c) 125% of the average annual principal and interest requirements of the issue, unless there is received an opinion of nationally recognized bond counsel to the effect that such additional amount will not cause the Revenue Bonds and any Additional Revenue Bonds to be “arbitrage bonds” within the meaning of section 148 of the Code and the related regulations promulgated from time to time.

“Debt Service Reserve Fund Surety Bond” means any surety bond, letter of credit, line of credit or insurance policy ~~having a rating in the highest respective rating categories by Moody’s and Standard & Poor’s~~ issued to the City for the benefit of the Owners of the Revenue Bonds to satisfy any part of the Debt Service Reserve Fund Requirement as provided in Section 5.07 of this Ordinance; provided that, at the time of delivery to the City, either the long-term unsecured debt of the issuer of the Debt Service Reserve Fund Surety Bond or the obligations insured, secured or guaranteed by such issuer are rated “Aa3” or higher by Moody’s or “AA-” or higher by Standard & Poor’s.

“Defeasance Obligations” means: (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States; (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their purchase, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent; (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date council adopts or approves the proceedings authorizing the financial arrangements, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent; and (iv) any other then authorized securities or obligations under applicable Texas law in existence on the date the City adopts or approves any proceedings authorizing the issuance of Refunding Revenue Bonds that may be used to defease obligations such as the Bonds.

“Favorable Opinion of Bond Counsel” means, with respect to any action, or omission of an action, the taking or omission of which requires such an opinion, an unqualified written opinion of nationally recognized bond counsel to the effect that, under existing law, such action or omission does not adversely affect the excludability of interest payable on the Bonds from gross income for federal income tax purposes (subject to the inclusion of any exceptions contained in the opinion of bond counsel delivered upon original issuance of the Bonds or other customary exceptions acceptable to the recipient thereof).

“Federal Payments” means those funds received by the Airport System from the federal government or any agency of the federal government as payments for the use of any facilities or services of the Airport System.

“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 a debt obligation or any such derivative instrument; 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.

“Fiscal Year” means the City’s fiscal year as from time to time designated by the City, which is currently October 1 to September 30.

“General Obligation Airport Bonds” means those bonds or other obligations of the City secured by a levy of ad valorem taxes from time to time issued or to be issued by the City for Airport System purposes.

“Gross Revenues” means all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to all or any part of the Airport System, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport System, or otherwise, and includes, except to the extent expressly excluded below, all revenues received by the City from the Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport System, or for any service rendered by the City in the operation of the Airport System, interest and other income realized from the investment or deposit of amounts required to be transferred or credited to the Revenue Fund. Gross Revenues **expressly excludes**:

- (a) proceeds of any Revenue Bonds and Subordinate Obligations;
- (b) interest or other investment income derived from Revenue Bonds and Subordinate Obligation proceeds deposited to the credit of a construction fund, and all other interest or investment income not required to be transferred or credited to the Revenue Fund;
- (c) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport System facilities, except to the extent any such monies shall be received as payments for the use of the Airport System facilities;
- (d) any revenues derived from any Special Facilities (e.g. customer facility charges) which are pledged to the payment of Special Facilities Bonds;
- (e) insurance proceeds other than loss of use or business interruption insurance proceeds;
- (f) the proceeds of the passenger facility charge (PFC) currently imposed by the City and any other per-passenger charge as may be lawfully authorized;
- (g) sales and other taxes collected by the Airport System on behalf of the State of Texas and any other taxing entities;
- (h) Federal Payments received by the Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Bonds to be includable within the gross income of the Owners thereof for federal income tax purposes;
- (i) the proceeds received by the City from the sale or other disposition of Airport System property, except amounts representing interest or finance charges in a deferred sale or other similar method of conveyance where a portion of the sale price is payable on a deferred basis, in which case any interest or finance charges shall be considered Gross Revenues; and
- (j) Other Available Funds transferred to the Revenue Fund as provided in the Ordinance.

“Interest Payment Date” means each May 15 and November 15, commencing November 15, 2022, until maturity or prior redemption of the Bonds.

“Minimum Capital Reserve” means an amount, designated by the Aviation Director not less frequently than annually at the end of each Fiscal Year, but in any event not more than \$100,000 each Fiscal Year, necessary to accumulate or to reaccumulate in the Capital Fund a reserve in an amount not less than \$1,000,000.

“Moody’s” means Moody’s Investors Service, Inc., its successors and assigns, and if this corporation shall for any reason no longer perform the functions of a securities rating agency, “Moody’s” shall refer to any other nationally recognized securities rating agency designated by the City.

“Mueller Airport Property” means the property and facilities that comprised the former Robert Mueller Municipal Airport, located within the City. The Mueller Airport Property is not part of the Airport System.

“Net Revenues” means that portion of the Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses of the Airport System.

“Operation and Maintenance Expenses” means all reasonable and necessary current expenses of the City, paid or accrued, of operating, maintaining and repairing the Airport System, including, without limitation, those reasonably allocated City overhead expenses relating to the administration, operation and maintenance of the Airport System; insurance and fidelity bond premiums; payments to pension and other funds and to any self-insurance fund; any general and excise taxes or other governmental charges imposed by entities other than the City; any required rebate of any portion of interest income to the federal government which is payable from Gross Revenues or the Revenue Fund; costs of contractual and professional services, labor, materials and supplies for current operations, including the costs of direct City services rendered to the Airport System as are requested from the City by the Airport System and as are reasonably necessary for the operation of the Airport System; costs of issuance of Revenue Bonds and Subordinate Obligations for the Airport System (except to the extent paid from the proceeds); fiduciary costs; costs of collecting and refunding Gross Revenues; utility costs; any lawful refunds of any Gross Revenues; and all other administrative, general and commercial expenses, but **excluding**:

- (a) any allowance for depreciation;
- (b) costs of capital improvements;
- (c) reserves for major capital improvements, Airport System operations, maintenance or repair;
- (d) any allowance for redemption of, or payment of interest or premium on, Revenue Bonds and Subordinate Obligations;
- (e) any liabilities incurred in acquiring or improving properties of the Airport System;
- (f) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases;
- (g) any charges or obligations incurred in connection with any lawful Airport System purpose, including the lease, acquisition, operation or maintenance of any facility or property benefiting the Airport System, provided that the payment of such charges or obligations is expressly agreed by the payee to be payable solely from proceeds of the Capital Fund;
- (h) liabilities based upon the City’s negligence or other ground not based on contract; and
- (i) so long as Federal Payments are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

“Operation and Maintenance Reserve Fund” means the fund so designated and created within the Revenue Fund in the Ordinance.

“Other Available Funds” means any amount of unencumbered funds accumulated in the Capital Fund in excess of the Minimum Capital Reserve which, before the beginning of any Fiscal Year, are designated by the City as Other Available Funds and transferred at the beginning of such Fiscal Year to the Revenue Fund, but in no event may this amount exceed twenty-five percent (25%) of the Debt Service Requirements for the Revenue Bonds for such Fiscal Year for purposes of Sections 5.03 (Rate Covenant) and 6.01 (Additional Revenue Bonds) of the Ordinance.

“Outstanding” when used with reference to any Revenue Bonds or Subordinate Obligations means, as of a particular date, all those obligations Revenue Bonds or Subordinate Obligations delivered except: (a) any obligation paid, discharged or cancelled by or on behalf of the City at or before that date; (b) any obligation defeased pursuant to the defeasance provisions of the ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any obligation in lieu of or in substitution for which another obligation was delivered pursuant to the ordinance authorizing the issuance of the obligation.

“Owner” or “Registered Owner,” when used with respect to any Revenue Bond means the person or entity in whose name the Revenue Bond is registered in the Register. Any reference to a particular percentage or proportion of the Owners means the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Revenue Bonds then Outstanding under the Ordinance.

“Paying Agent/Registrar” means, for the Bonds, U.S. Bank Trust Company, National Association, and its successors in that capacity.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision of the government.

“Qualified Put” means any agreement, however denominated, provided by a qualifying financial institution (as described in the next sentence) which contractually commits to purchase, upon no more than seven days’ notice, for not less than a stated price any class or amount of investment securities or other authorized investments of the City at any time that such investment securities or investments must be liquidated in order to make cash transfers from the fund or account that holds such investments. A Qualified Put may be entered into only with a qualifying financial institution which is (a) a domestic bank the long-term debt of which is rated at least “AA” by Standard & Poor’s and “Aa” by Moody’s, or (b) a foreign bank the long-term debt of which is rated “AAA” by Standard & Poor’s and at least “Aa” by Moody’s, or at least “AA” by Standard & Poor’s and “Aaa” by Moody’s, or (c) a financial institution the long-term debt of which is rated at least “A” by both Standard & Poor’s and Moody’s and agrees to collateralize its obligations under such agreement by lodging with a third party trustee, escrow agent, custodian or other financial third party direct obligations of the United States of America or its agencies with a market value equal to 102% of the difference between the face amount of its purchase obligation under the agreement and the market value of the investment securities to which the agreement relates (based upon periodic market valuations at least monthly). A Qualified Put may be integrated into any investment authorized under Texas law, such as a repurchase agreement.

“Regulations” means the applicable proposed, temporary or final Treasury Regulations promulgated under the Code or, to the extent applicable to the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.

“Renewal and Replacement Fund” means the fund so designated in the Ordinance.

“Renewal and Replacement Fund Requirement” means the amount required to be maintained in the Renewal and Replacement Fund pursuant to the Ordinance, or any greater amount required by any ordinance authorizing any series of Additional Revenue Bonds.

“Revenue Bond Ordinances” means the ordinances authorizing the issuance of the Series 2013 Bonds, the Series 2014 Bonds, the Series 2017A Bonds, the Series 2017B Bonds, the Series 2019 Bonds, the Series 2019A Bonds, the Series 2019B Bonds, the Bonds, and any ordinances pursuant to which Additional Revenue Bonds are issued.

“Revenue Bonds” means the Currently Outstanding Revenue Bonds, the Bonds and each series of bonds, notes or other obligations, other than Credit Agreement Obligations, which the City has reserved the right to issue or incur from time to time pursuant to the Ordinance, payable from and secured by a first lien on and pledge of Net Revenues.

“Revenue Fund” means the fund so designated in the Ordinance.

“Rule” means Rule 15c2-12, promulgated by the United States Securities and Exchange Commission.

“Series 2013 Bonds” means the City of Austin, Texas, Airport System Revenue Bonds, Series 2013.

“Series 2014 Bonds” means the City of Austin, Texas, Airport System Revenue Bonds, Series 2014 (AMT).

“Series 2017A Bonds” means the City of Austin, Texas, Airport System Revenue Bonds, Series 2017A.

“Series 2017B Bonds” means the City of Austin, Texas, Airport System Revenue Bonds, Series 2017B (AMT).

“Series 2017 Hotel Bonds” means the Austin-Bergstrom Landhost Enterprises, Inc. Airport Hotel Senior Revenue Refunding and Improvement Bonds, Series 2017.

“Series 2017 Hotel Grant Agreement” means that certain Grant Agreement dated as of October 1, 2017, by and between the City and Austin-Bergstrom Landhost Enterprises, Inc.

“Series 2019 Bonds” means the City of Austin, Texas, Airport System Revenue Refunding Bonds, Series 2019 (AMT).

“Series 2019A Bonds” means the City of Austin, Texas, Airport System Revenue Bonds, Series 2019A.

“Series 2019B Bonds” means the City of Austin, Texas, Airport System Revenue Bonds, Series 2019B (AMT).

“Special Facilities” means structures, hangars, aircraft overhaul, maintenance or repair shops, heliports, hotels, storage facilities, garages, inflight kitchens, training facilities and any and all other facilities and appurtenances being a part of or related to the Airport System, the cost of the construction or other acquisition of which is financed with the proceeds of Special Facilities Bonds.

“Special Facilities Bonds” means those bonds from time to time hereafter issued by the City pursuant to the appropriate provisions of the Ordinance.

“Special Facilities Lease” means any lease or agreement pursuant to which a Special Facility is leased by the City to the lessee in consideration for which the lessee agrees to pay (i) all debt service on the Special Facilities Bonds issued to finance the Special Facility (which payments are pledged to secure the Special Facilities Bonds) and (ii) the operation and maintenance expenses of the Special Facility.

“Standard & Poor’s” or “S&P” means S&P Global Ratings, a division of S&P Global Inc., its successors and assigns, and if such entity shall for any reason no longer perform the functions of a securities rating agency, “Standard & Poor’s” and “S&P” shall refer to any other nationally recognized securities rating agency designated by the City.

“Subordinate Obligations” means each series of bonds, notes or other obligations, including reimbursement obligations and obligations pursuant to credit agreements and interest rate hedges, which the City has reserved the right to issue or incur from time to time pursuant to the Ordinance as Subordinate Obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Revenue Bonds. The City’s obligation to fund certain reserve fund deficiencies relating to the Series 2017 Hotel Bonds from “Surplus Airport System Revenues” pursuant to the Series 2017 Hotel Grant Agreement, subject in all respects to the terms of the Series 2017 Hotel Grant Agreement and the Revenue Bond Ordinances, constitutes a Subordinate Obligation.

“Swap Agreement” means a Credit Agreement with respect to a series of Revenue Bonds pursuant to which the City has entered into an interest rate exchange agreement or other interest rate hedge agreement for the purpose of converting in whole or in part the City’s fixed or variable interest rate liability on all or a portion of the Revenue Bonds to a fixed or variable rate liability (including converting a variable rate liability to a different variable rate liability). For the purpose of this definition, a counterparty is not qualified unless it holds, on the date of execution of a Swap Agreement, a current rating by at least two of the following three rating agencies: Moody’s, and by Standard & Poor’s, and by Fitch Ratings, or their respective successors, at least equal to the rating of each such rating agency assigned to the Revenue Bonds without reference to any Credit Agreement.

“Termination Payment” means an amount owed by the City to a counterparty pursuant to a Swap Agreement incurred in connection with the termination of the Swap Agreement and which, on the date of execution of the Swap Agreement, is not an amount representing a regularly scheduled payment under the Swap Agreement. “Termination Payment” shall not include any amount representing an Administrative Expense.

Funds and Flow of Funds

Funds. The Ordinance creates or confirms the Revenue Fund, including the Operation and Maintenance Reserve Fund therein, the Debt Service Fund, the Debt Service Reserve Fund, the Administrative Expense Fund, the Renewal and Replacement Fund, the Capital Fund, including a Capital Improvement Account therein, and the Construction Fund. The City may create additional accounts and subaccounts in any of the funds, including accounts or subaccounts for accumulating rebatable arbitrage payable to the federal government, so long as they are not inconsistent with the Ordinance.

The Revenue Fund, including the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund, the Capital Fund and the Construction Fund (other than any Capitalized Interest Account in the Construction Fund) shall be maintained as separate funds or accounts on the books of the City and all amounts credited to the Funds and Accounts shall be maintained in an official depository bank of the City. The Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund shall be maintained at an official depository bank of the City or in a trustee bank designated by the City separate and apart from all other funds and accounts of the City. The Debt Service Fund and the Debt Service Reserve Fund shall constitute trust funds which shall be held in trust for the owners of the Revenue Bonds and the proceeds of which shall be pledged, as herein provided, to the payment of the Revenue Bonds. The Administrative Expense Fund shall constitute trust funds which shall be held in trust for the payment of Administrative Expenses to Persons entitled to those Administrative Expenses.

Flow of Funds. Gross Revenues shall be deposited as received by the City into the Revenue Fund. In addition, the City may deposit into the Revenue Fund any Federal Payments not restricted for capital purposes, provided that, so long as the Federal Payments are excluded from the definition of Gross Revenues, the Federal Payments shall be applied solely to the payment of Operation and Maintenance Expenses or capital expenditures and never constitute Net Revenues. Other Available Funds may also be deposited into the Revenue Fund. Moneys from time to time credited to the Revenue Fund shall be applied as follows in the following order of priority:

- (a) First, to provide for all payments of Operation and Maintenance Expenses required by the Revenue Bond Ordinances.
- (b) Second, to transfer all amounts to the Debt Service Fund required by the Revenue Bond Ordinances and any related Credit Agreement Obligations.
- (c) Third, to transfer all amounts to the Administrative Expense Fund required to pay Administrative Expenses to the Persons entitled to payment when due.

- (d) Fourth, to transfer all amounts to the Debt Service Reserve Fund required by the Revenue Bond Ordinances.
- (e) Fifth, to transfer all amounts necessary to provide for the payment of Subordinate Obligations, or to provide reserves for payment, as may be required by any ordinance authorizing Subordinate Obligations and related credit agreement obligations.
- (f) Sixth, to transfer all amounts necessary to provide for the payment of principal of and interest on General Obligation Airport Bonds.
- (g) Seventh, to transfer all amounts to the Operation and Maintenance Reserve Fund required by the Revenue Bond Ordinances.
- (h) Eighth, to transfer all amounts to the Renewal and Replacement Fund required by the Revenue Bond Ordinances.
- (i) Ninth, the balance shall be transferred to the Capital Fund.

Debt Service Fund. To the extent moneys remain on deposit in any Capitalized Interest Account, there shall be transferred from the Capitalized Interest Account to the Debt Service Fund amounts available to pay the interest coming due on the applicable series of Revenue Bonds at the times provided in the Revenue Bond Ordinances.

On or before the last Business Day of each month so long as any Revenue Bonds remain Outstanding, after making all required payments of Operation and Maintenance Expenses, there shall be transferred into the Debt Service Fund from the Revenue Fund the amount to cause the balance in the Debt Service Fund to equal the Debt Service on all Revenue Bonds and Credit Agreement Obligations accrued, but unpaid, through the end of the current month on all Revenue Bonds and Credit Obligations reasonably expected to accrue and be payable on or before the last Business Day of the next succeeding month.

Debt Service Reserve Fund. The City shall establish and maintain a balance in the Debt Service Reserve Fund equal to the Debt Service Reserve Fund Requirement. Each increase in the Debt Service Reserve Fund Requirement resulting from the issuance of Additional Revenue Bonds shall be funded at the time of issuance and delivery of the series of Additional Revenue Bonds by depositing to the credit of the Debt Service Reserve Fund either: (A) proceeds of the Additional Revenue Bonds and/or other lawfully appropriated funds in not less than the amount which will be sufficient to fund fully the Debt Service Reserve Fund Requirement; or (B) a Debt Service Reserve Fund Surety Bond sufficient to provide that portion of the Debt Service Reserve Fund Requirement. The City further expressly reserves the right to substitute at any time a Debt Service Reserve Fund Surety Bond for any funded amounts in the Debt Service Reserve Fund and to apply the funds thereby released, to the greatest extent permitted by law, to any of the purposes for which the related Revenue Bonds. The City shall not employ any Debt Service Reserve Fund Surety Bond unless: (i) the City officially finds that the purchase of the Debt Service Reserve Fund Surety Bond is cost effective; (ii) the Debt Service Reserve Fund Surety Bond does not impose upon the City a repayment obligation (in the event the Debt Service Reserve Fund Surety Bond is drawn upon) greater than can be funded in 18 monthly installments as provided below, payable out of Net Revenues on a parity with the monthly deposits that are otherwise required to be made to the Debt Service Reserve Fund; and (iii) that any interest due in connection with the repayment obligations does not exceed the highest lawful rate of interest which may be paid by the City at the time of delivery of the Debt Service Reserve Fund Surety Bond.

In any month in which the Debt Service Reserve Fund contains less than the Debt Service Reserve Fund Requirement for the Revenue Bonds or in which the City is obligated to repay or reimburse any issuer of a Debt Service Reserve Fund Surety Bond (in the event such Debt Service Reserve Fund Surety Bond is drawn upon), then on or before the last Business Day of such month, after making all required transfers to the Debt Service Fund and the Administrative Expense Fund, the City shall transfer into the Debt Service Reserve Fund from the Revenue Fund, in approximately equal monthly installments, amounts sufficient to enable the City within an 18 month period to reestablish in the Debt Service Reserve Fund the Debt Service Reserve Fund Requirement for the Revenue Bonds and satisfy any repayment obligations to the issuer of any Debt Service Reserve Fund Surety Bond. After this amount has been accumulated in the Debt Service Reserve Fund and after satisfying any repayment obligation to any Debt Service Reserve Fund Surety Bond issuer and so long thereafter as the Debt Service Reserve Fund contains this amount and all repayment obligations have been satisfied, no further transfers shall be required to be made, and any excess amounts in such Fund shall be transferred to the Revenue Fund. But if and whenever the balance in the Debt Service Reserve Fund is reduced below such amount or any Debt Service Reserve Fund Surety Bond repayment obligations arise, monthly transfers to the Debt Service Reserve Fund shall be resumed and continued in such amounts as shall be required to restore the Debt Service Reserve Fund to this amount and to pay this reimbursement obligations within an 18 month period.

The City shall use the Debt Service Reserve Fund to pay the principal of and interest on the Revenue Bonds and the Credit Agreement Obligations at any time the amount available in the Debt Service Fund is insufficient for this purpose, and to make any payments required to satisfy repayment obligations to issuers of Debt Service Reserve Fund Surety Bonds. The City may use the Debt Service Reserve Fund to make the final payments for the retirement or defeasance of Revenue Bonds, related Credit Agreement Obligations and Administrative Expenses. See "Amendments to the Revenue Bond Ordinances" in this APPENDIX C for a description of the amendments to the definition of "Debt Service Reserve Fund Surety Bond" in the Ordinance and the Revenue Bond Ordinances.

Funds and Accounts for Subordinate Obligations. On or before the last Business Day of each month, after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund, the City shall transfer into the funds and accounts as the City may establish pursuant to an ordinance authorizing the issuance or incurrence of Subordinate Obligations, the amounts required pursuant to the ordinance authorizing the issuance or incurrence of Subordinate Obligations to provide for the payment, or to provide reserves for the payment, of the Subordinate Obligations.

Administrative Expense Fund. On or before the last Business Day of each month, after making all required transfers to the Debt Service Fund, the City shall transfer to the Administrative Expense Fund an amount equal to the Administrative Expenses expected to be paid to the Persons entitled to payment in the next succeeding month. Amounts on deposit in the Administrative Expense Fund shall be applied solely to the payment of Administrative Expenses.

General Obligation Airport Bonds. On or before the last Business Day of each month, so long as any General Obligation Airport Bond remains outstanding, after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund, the Administrative Expense Fund and any other fund and account established by ordinances authorizing the issuance of Revenue Bonds and Subordinate Obligations, the City shall transfer from the Revenue Fund, to the extent amounts are available, the amounts necessary to provide for the payment, when due, of principal of and interest on General Obligation Airport Bonds.

Operation and Maintenance Reserve Fund. The City shall fund and maintain a balance of money and investments in the Operation and Maintenance Reserve Fund at least equal to two months current Operation and Maintenance Expenses, which amount shall annually be re-determined by the Aviation Director at the time the recommended budget for the Airport System is submitted to Council, based upon either the Aviation Director's recommended budget for Operation and Maintenance Expenses or the Aviation Director's estimate of actual Operation and Maintenance Expenses for the then current Fiscal Year. On or before the last Business Day of each month, after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund, and any required transfers for Subordinate Obligations or General Obligation Airport Bonds as provided in the Ordinance, there shall be transferred from the Revenue Fund, to the extent amounts are available, to the Operation and Maintenance Reserve Fund an amount equal to 1/12th of the deficiency, if any, in the Operation and Maintenance Reserve Fund as of the last day of the previous Fiscal Year until the required balance in the Operation and Maintenance Reserve Fund is established or reestablished. Amounts from time to time credited to the Operation and Maintenance Reserve Fund may be used at any time: first, to pay for any Operation and Maintenance Expenses for which amounts are not otherwise available in the Revenue Fund; second, to pay any costs or expenses payable from the Renewal and Replacement Fund for which there are insufficient amounts in the Renewal and Replacement Fund; and third, to the extent any amounts are remaining, to be transferred to the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund or any similar fund created to provide for the payment, and reserves for the payment of Subordinate Obligations and General Obligation Airport Bonds to the extent of any deficiency in any of these funds.

Renewal and Replacement Fund. The City has established the Renewal and Replacement Fund Requirement to be \$5,000,000. On or before the last Business Day of each month, if the Renewal and Replacement Fund contains less than the Renewal and Replacement Fund Requirement, then after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund, the Administrative Expense Fund, and any required transfers for Subordinate Obligations or General Obligation Airport Bonds as hereinabove provided, and to the Operation and Maintenance Reserve Fund, the City shall transfer from the Revenue Fund, to the extent funds are available, to the Renewal and Replacement Fund an amount equal to 1/12th of the deficiency (being the amount by which the Renewal and Replacement Fund Requirement exceeded the unappropriated balance therein) as of the last day of the previous Fiscal Year and, at the discretion of the City, to pay directly from the Revenue Fund any other costs that could be paid from amounts on deposit in the Renewal and Replacement Fund. The City is required to make these transfers into the Renewal and Replacement Fund until such time as the Renewal and Replacement Fund Requirement has again been accumulated in the Renewal and Replacement Fund. Amounts from time to time credited to the Renewal and Replacement Fund may be used at any time: first, to pay for any costs of replacing depreciable property and equipment of the Airport System and making repairs, replacements or renovations of the Airport System; second, to pay any Operation and Maintenance Expenses for which insufficient amounts are available in the Revenue Fund; and third, to the extent any amounts are remaining, to be transferred to the Debt Service Fund, the Debt Service Reserve Fund, the Administrative Expense Fund or any similar fund created to provide for the payment, and reserves for the payment, of Subordinate Obligations and General Obligation Airport Bonds to the extent of any deficiency.

Capital Fund. After the City makes all payments and transfers required by the Ordinance, at least annually it shall also transfer all amounts remaining in the Revenue Fund to the Capital Fund; provided, however, that no transfers shall be made to the Capital Fund unless the Debt Service Reserve Fund contains the Debt Service Reserve Fund Requirement and all Administrative Expenses have been paid. Amounts credited to the Capital Improvement Account may be used only for lawful purposes relating to the Airport System, including without limitation, to pay for any capital expenditures or to pay costs of replacing any depreciable property or equipment of the Airport System, to make any major or extraordinary repairs, replacements or renewals of the Airport System, to acquire land or any interest in such land, to pay costs necessary or incident to the closing or disposition of any facility of the Airport System and, at the City's discretion, to be designated as Other Available Funds to be transferred to the Revenue Fund.

Construction Fund. From the proceeds of each series of Revenue Bonds (other than any refunding bonds) there shall be deposited into any Capitalized Interest Account established in the Construction Fund for that series the amount of capitalized interest required by the ordinance authorizing issuance of the series of Revenue Bonds. The amounts may be applied to pay interest on the series of Revenue Bonds as provided in the authorizing ordinance.

From the proceeds of each series of Revenue Bonds (other than any refunding bonds) there shall be deposited into the applicable Project Account established in the Construction Fund the amounts as shall be provided in the ordinance authorizing the series of Revenue Bonds. The amounts may be applied to pay costs of acquiring, establishing, improving, enlarging, extending, and repairing the Airport System or any project to become part of the Airport System, to reimburse advances made by the City for such costs, to pay costs of issuance of Revenue Bonds and to pay any other capital costs of the Airport System as provided in the ordinance authorizing the series of Revenue Bonds.

Mueller Airport Disposition Fund. The Robert Mueller Municipal Airport was closed for aviation purposes and the Mueller Airport Property was transferred out of the Airport System and is no longer part of the Airport System. In connection with the transfer of the Mueller Airport Property, the City deposited certain funds into the Mueller Disposition Fund. These funds, together with any other amounts deposited into the Mueller Disposition Fund, may be used for the payment or reimbursement of all costs and expenses incurred by the City necessary or incident

to the closing of Robert Mueller Municipal Airport to aviation purposes and the disposition of the Mueller Airport Property. Any amounts remaining will be transferred to the City's Department of Aviation.

Investment of Funds; Transfer of Investment Income. Money in all Funds and Accounts shall, at the option of the City, be invested in the manner provided by Texas law; provided, that all such deposits and investments shall be made in a manner that the money required to be expended from any Fund will be available at the proper time or times. Moneys in the Funds and Accounts may be subjected to further investment restrictions imposed from time to time by ordinances authorizing the issuance of Revenue Bonds and Subordinate Obligations. All such investments shall be valued no less frequently than once per Fiscal Year at market value, except that: (i) any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount, and (ii) any investments which are subject to a Qualified Put may continuously be valued at the amount at which they can be put or sold under the terms of such Qualified Put. For purposes of maximizing investment returns, money in the Funds may be invested, together with money in other Funds or with other money of the City, in common investments or in a common pool of such investments maintained by the City at an official depository of the City or in any fund or investment vehicle permitted by Texas law, which shall not be deemed to be a loss of the segregation of the money or Funds provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which the money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. If and to the extent necessary, such investments or participations therein shall be promptly sold to prevent any default.

All interest and income derived from deposits and investments credited to any of the following funds and accounts shall be applied as follows, except as provided in the following paragraph.

<u>Source of Interest or Income</u>	<u>Fund or Account to which such Interest or Income should be Credited</u>
Revenue Fund	Remains in Revenue Fund
Administrative Fund	Revenue Fund
Debt Service Reserve Fund	Remains in fund until the Debt Service Reserve Fund Requirement is satisfied; thereafter to the Revenue Fund
Operation and Maintenance Reserve Fund	Remains in fund until fully funded; thereafter, to the Revenue Fund
Renewal and Replacement Fund	Remains in fund until Renewal and Replacement Fund Requirement is met; thereafter, to the Revenue Fund
Capital Fund - Capital Improvement Account	Remains in the fund or in the appropriate fund or account therein

Any interest and income derived from deposits and investments of any amounts credited to any Fund or Account may be: (i) transferred into any rebate account or subaccount; and (ii) paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required to comply with any covenant contained in the Ordinance or required in order to prevent interest on any bonds payable from Net Revenues from being includable within the gross income of the Owners thereof for federal income tax purposes. Further, to the extent any interest or income in the Debt Service Reserve Fund is allocable to the proceeds of the Revenue Bonds, then such amounts shall be deposited into the Debt Service Fund unless the City receives a Favorable Opinion of Bond Counsel.

So long as any Revenue Bond remains Outstanding, all uninvested moneys on deposit in, or credited to, the Funds and Accounts established or confirmed in the Ordinance shall be secured by the pledge of security, as provided by Texas law.

Additional Bonds

Additional Revenue Bonds. The City reserves the right to issue, for any lawful Airport System purpose, one or more installments of Additional Revenue Bonds payable from and secured on a parity with the Outstanding Revenue Bonds; provided, however, that no series of Additional Revenue Bonds shall be issued unless:

- (a) No Default. The City Manager and the Aviation Director certify that, upon the issuance of such Additional Revenue Bonds, the City will not be in default under any term or provision of any Revenue Bonds then Outstanding or any ordinance pursuant to which any Revenue Bonds were issued unless the default will be cured by the issuance of the Additional Revenue Bonds.
- (b) Proper Fund Balances. The City's Chief Financial Officer or trustee, if one has been appointed, shall certify that, upon the issuance of Additional Revenue Bonds, the Debt Service Fund will have the required amounts on deposit and that the Debt Service Reserve Fund will contain the applicable Debt Service Reserve Fund Requirement or the amount as is required to be funded at that time.
- (c) Projected Coverage for Additional Revenue Bonds. An Airport Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues, together with the estimated Other Available Funds, of the Airport System for each of three consecutive Fiscal Years beginning in the earlier of

- (i) the first Fiscal Year following the estimated date of completion and initial use of all revenue producing facilities to be financed with Additional Revenue Bonds, based upon a certified written estimated completion date by the consulting engineer for the facility or facilities, or
- (ii) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the Additional Revenue Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of the Additional Revenue Bonds, investment income on such Additional Revenue Bonds or from other appropriated sources (other than Net Revenues),

are equal to at least 125% of the Debt Service Requirements on all Outstanding Revenue Bonds scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the Additional Revenue Bonds to be issued.

- (d) Alternate Coverage for Additional Revenue Bonds. In lieu of the certification described in (c) above, the City's Chief Financial Officer may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues, together with Other Available Funds, of the Airport System were equal to at least 125% of the maximum Debt Service Requirements on all Revenue Bonds scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Additional Revenue Bonds proposed to be issued.
- (e) Refunding Bonds. If Additional Revenue Bonds are being issued for the purpose of refunding less than all previously issued Revenue Bonds which are then Outstanding, neither of the certifications described in (c) or (d) above are required so long as the aggregate Debt Service Requirements after the issuance of the Additional Revenue Bonds do not exceed the aggregate Debt Service Requirements prior to the issuance of the Additional Revenue Bonds; provided, that the annual debt service on the refunding bonds in any Fiscal Year will not be more than 10% higher than it is in any other Fiscal Year.
- (f) Bond Ordinance Requirements. Provision is made in the Revenue Bond Ordinances authorizing the Additional Revenue Bonds proposed to be issued for (1) additional payments into the Debt Service Fund sufficient to provide for any principal and interest requirements resulting from the issuance of the Additional Revenue Bonds including, in the event that interest on the additional series of Revenue Bonds is capitalized and/or to be paid from investment earnings, a requirement for the transfer from the capitalized interest fund or account and/or from the construction fund to the Debt Service Fund of amounts fully sufficient to pay interest on such Additional Revenue Bonds during the period specified in the Revenue Bond Ordinance and (2) satisfaction of the Debt Service Reserve Fund Requirement by not later than the date required by the Ordinance or any other Revenue Bond Ordinance authorizing Additional Revenue Bonds.
- (g) Special Provisions for Completion Bonds. The provisions of paragraphs (c) and (d) above shall not apply to the issuance of Completion Bonds in accordance with the provisions of the Ordinance.

Completion Bonds. The City reserves the right to issue one or more series of Revenue Bonds to pay the cost of completing any Airport Project for which Revenue Bonds have previously been issued.

Prior to the issuance of any series of Completion Bonds the City must provide, in addition to all of the applicable certificates required above for the issuance of Additional Revenue Bonds, the following documents:

- (a) a certificate of the consulting engineer engaged by the City to design the Project for which the Completion Bonds are to be issued stating that the Airport Project has not materially changed in scope since the issuance of the most recent series of Revenue Bonds for such purpose (except as permitted in the applicable ordinance authorizing the Revenue Bonds) and setting forth the aggregate cost of the Airport Project which, in the opinion of such consulting engineer, has been or will be incurred; and
- (b) a certificate of the Aviation Director (i) stating that all amounts allocated to pay costs of the Airport Project from the proceeds of the most recent series of Revenue Bonds issued in connection with the Airport Project for which the Completion Bonds are being issued were used or are still available to be used to pay costs of the Airport Project; (ii) containing a calculation of the amount by which the aggregate cost of that Airport Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Airport Project paid to such date plus the moneys available at such date within any construction fund or other like account applicable to the Airport Project plus any other moneys which the Aviation Director, in his discretion, has determined are available to pay such costs in any other fund; and (iii) certifying that, in the opinion of the Aviation Director, the issuance of the Completion Bonds is necessary to provide funds for the completion of the Airport Project.

For purposes of this Section, the term "Airport Project" means the Airport or any other Airport System facility or project which shall be defined as an Airport Project in any ordinance authorizing the issuance of Additional Revenue Bonds for the purpose of financing the Airport Project. Any such ordinance may contain such further provisions as the City shall deem appropriate with regard to the use, completion, modification or abandonment of the Airport Project.

Subordinate Obligations. The City reserves the right to issue or incur, for any lawful Airport System purpose, Subordinate Obligations and credit agreement obligations related to the Subordinate Obligations, secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the liens on Net Revenues securing payment of the Revenue Bonds.

Special Facilities Bonds. The City reserves the right in the Ordinance to issue from time to time, in one or more series, Special Facilities Bonds to finance and refinance the cost of any Special Facilities, including all required reserves, all related costs of issuance and other reasonably related amounts, provided that such Special Facilities Bonds shall be payable solely from payments by lessees under Special Facilities Leases and/or other security not provided by the City. In no event shall Gross Revenues or any other amounts held in any other fund or account maintained by the City as security for the Revenue Bonds or for the construction, operation, maintenance or repair of the Airport System be pledged to the payment of Special Facilities Bonds. Unless expressly provided to the contrary in the Ordinance, no default with respect to a Special Facilities Bond shall constitute a default under the Ordinance.

Credit Agreements. To the fullest extent permitted by applicable law, the City expressly reserves the right to purchase and/or enter into Credit Agreements in connection with any series of Revenue Bonds and to pledge to and secure the payment of related Credit Agreement Obligations from Net Revenues and the various funds and accounts established or referred to in the Ordinance to the extent permitted by the Ordinance, and any of the City's other ordinances authorizing the issuance of Additional Revenue Bonds and to enter into credit agreements in connection with any series of Subordinate Obligations.

Particular Covenants

Annual Budget. So long as any Revenue Bond or Credit Agreement Obligation remains Outstanding, the Aviation Director shall, prior to the commencement of each Fiscal Year, prepare and delivery to the chief budget officer of the City, for submission to Council, a recommended annual budget for the Airport System for that Fiscal Year. The City shall adopt annual budgets for the Airport System for each Fiscal Year, containing an estimate of Gross Revenues and only those budgeted expenditures as will produce Net Revenues in an amount not less than the Debt Service and Administrative Expenses when due and make the required deposits to the Debt Service Reserve Fund. After the adoption of the annual Airport System budget by the City, the total expenditures for Operation and Maintenance Expenses will not exceed the total expenditures authorized for the purposes described in the budget, as the budget may from time to time be amended.

Rate Covenant. The City covenants that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year the Net Revenues will be at least sufficient to equal the larger of either:

- (i) all amounts required to be deposited in the Fiscal Year to the credit of the Debt Service Fund, the Debt Service Reserve Fund, and the Administrative Expense Fund and to any debt service or debt service reserve fund or account for Subordinate Obligations, or
- (ii) an amount, together with Other Available Funds, not less than 125% of the Debt Service Requirements for Revenue Bonds for such Fiscal Year plus an amount equal to 100% of anticipated and budgeted Administrative Expenses for the Fiscal Year.

If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for the Fiscal Year, must request an Airport Consultant to make any recommendations to revise the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Airport System in order to satisfy as quickly as practicable the foregoing requirements. Copies of the request and the recommendations of the Airport Consultant shall be filed with the City Clerk. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Ordinance even if the resulting Net Revenues plus Other Available Funds are not sufficient to be in compliance with the covenant set forth above, so long Debt Service is paid when due.

Sale or Encumbrance of Airport System. Except for the use of the Airport System or services pertaining to the Airport System in the normal course of business, the City covenants that neither all nor a substantial part of the Airport System will be sold, leased, mortgaged, pledged, encumbered, alienated, or otherwise disposed of until all Revenue Bonds, Credit Agreement Obligations and Administrative Expenses have been paid in full, or unless provision for payment has been made, and the City shall not dispose of its title to the Airport System or to any useful part thereof, including, without limitation, any property necessary to the operation and use of the Airport System, except for the execution of leases, licenses, easements, or other agreements in connection with the operation of the Airport System by the City, or in connection with any Special Facilities, except for any pledges of and liens on revenues derived from the operation and use of all or part of the Airport System, or any Special Facilities, for the payment of Revenue Bonds, Credit Agreement Obligations, Administrative Expenses, Special Facilities Bonds and any other obligations pertaining to the Airport System, and except as otherwise provided in the next two paragraphs.

The City may sell, exchange, lease, or otherwise dispose of, or exclude from the Airport System, any property constituting a part of the Airport System which the Aviation Director certifies: (i) to be no longer useful in the construction or operation of the Airport System; (ii) to be no longer necessary for the efficient operation of the Airport System; or (iii) to have been replaced by other property of at least equal value. The net proceeds of the sale or disposition of any Airport System property (or the fair market value of any property so excluded) pursuant to this paragraph shall be used for the purpose of replacing properties at the Airport System, shall be paid into the Capital Fund - Capital Improvement Account or shall be applied to retire or pay principal of or interest on Revenue Bonds.

Nothing in the Ordinance prevents any transfer of all or a substantial part of the Airport System to another body corporate and politic (including, but not necessarily limited to, a joint action agency or an airport authority) which assumes the City's obligations under the Ordinance and in any ordinance authorizing the issuance of Revenue Bonds, in whole or in part, if: (i) in the written opinion of the Airport Consultant, the

ability to meet the rate covenant and other covenants under the Ordinance and in any ordinance authorizing the issuance of Revenue Bonds, are not materially and adversely affected; and (ii) in the written opinion of nationally recognized bond counsel, the transfer and assumption will not cause the interest on any Revenue Bonds that were issued as "tax-exempt bonds" within the meaning of the regulations promulgated under the Code to be includable in gross income of the Owners of the Revenue Bonds for federal income tax purposes. Following the transfer and assumption, all references to the City, City officials, City ordinances, City budgetary procedures and any other officials, actions, powers or characteristics of the City shall be deemed references to the transferee entity and comparable officials, actions, powers or characteristics of the entity. In the event of any transfer and assumption, nothing in the Ordinance shall prevent the retention by the City of any facility of the Airport System if, in the written opinion of the Airport Consultant, the retention will not materially and adversely affect nor unreasonably restrict the transferee entity's ability to comply with the requirements of the rate covenant and the other covenants of the Ordinance and in any Revenue Bond Ordinance.

Insurance. The City covenants and agrees that it will keep the Airport System insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties, to the extent that the insurance is available; provided, however, that if any insurance is not commercially available or not available on more favorable economic terms, the City may elect to be self-insured in whole or in part against the risk or loss that would otherwise be covered by insurance, in which case the City will establish reserves for such risk or loss in amounts the City determines to be appropriate. All net proceeds of property or casualty insurance shall be applied to repair or replace the insured property that is damaged or destroyed or to make other capital improvements to the Airport System or to redeem Revenue Bonds. Proceeds of business interruption insurance may be credited to the Revenue Fund.

Accounts, Records, and Audits. The City covenants and agrees that it will maintain a proper and complete system of records and accounts pertaining to the Gross Revenues and the operation of the Airport System in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the Gross Revenues and the Airport System. After the close of each Fiscal Year, the City shall cause an audit report of the records and accounts described in the preceding sentence to be prepared by an independent certified public accountant or independent firm of certified public accountants, which may be part of an overall audit report of the City and/or other of its enterprise funds. All expenses of obtaining such reports shall constitute Operation and Maintenance Expenses of the Airport System.

Bondholders' Remedies. The Ordinance is a contract between the City and the Owners of the Revenue Bonds and the holders of related Credit Agreement Obligations from time to time outstanding and the Ordinance shall be and remain irrevocable until the Revenue Bonds, the related Credit Agreement Obligations and Administrative Expenses shall be fully paid or discharged or provision for their payment shall have been made as provided in the Ordinance. In the event of a default in the payment of Debt Service on any of the Revenue Bonds or Credit Agreement Obligations or a default in the performance of any duty or covenant provided by law or in the Ordinance, the Owner or Owners of any of the Revenue Bonds, and the holders of any Credit Agreement Obligations and the Persons to whom Administrative Expenses are owed may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Revenue Bonds or holder of Credit Agreement Obligations or Person to whom Administrative Expenses are owed, may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under the Ordinance, including the making of reasonably required rates and charges for the use and services of the Airport System, the deposit of the Gross Revenues into the special funds herein provided, and the application of such Gross Revenues in the manner required in the Ordinance.

Notwithstanding the provisions of the foregoing paragraph: (i) acceleration as a remedy is expressly denied; (ii) no grace period for a default in the performance of any duty or covenant shall exceed 30 days, nor shall any grace period be extended for more than 60 days; and (iii) no grace period is permitted with respect to a default in the payment of Debt Service or the payment of Administrative Expenses when due.

Legal Holidays. If any date on which a payment of Debt Service is due is not a Business Day, then such payment need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of scheduled payment of Debt Service.

Discharge By Deposit

The City may discharge its obligation to the Owners of any or all of the Bonds to pay Debt Service, or any portion by depositing with the Paying Agent/Registrar cash in an amount equal to the Debt Service of the Bonds to the date of maturity or redemption, or any portion of the Bonds to be discharged, or by depositing either with the Paying Agent/Registrar or with any national banking association with capital and surplus in excess of \$100,000,000, pursuant to an escrow or trust agreement, cash and/or Defeasance Obligations in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of Debt Service on the Bonds to the date of maturity or redemption or any portion thereof to be discharged. Upon such deposit, the Bonds, or any portion thereof, shall no longer be regarded to be Outstanding or unpaid. In case any Bonds are to be redeemed on any date prior to their maturity, the City shall give to the Paying Agent/Registrar irrevocable instructions to give notice of redemption of Bonds to be so redeemed in the manner required in the Ordinance. Any determination not to redeem Bonds that is made in conjunction with the payment arrangements described above shall not be irrevocable, provided that: (1) in the proceedings providing for the payment arrangements, the City expressly reserves the right to call the Bonds for redemption; (2) the City gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the payment arrangements; and (3) the City directs that notice of the reservation be included in any redemption notices that it authorizes.

Amendments

Alteration of Rights and Duties. The rights, duties, and obligations of the City and the Owners of the Bonds and the holders of Credit Agreement Obligations related to the Bonds, and Persons to whom Administrative Expenses are owed, are subject in all respects to all applicable

federal and state laws including, without limitation, the provisions of federal law regarding the composition of indebtedness of political subdivisions, as the same now exist or may hereafter be amended.

Amendment of the Ordinance Without Consent. The City may, without the consent of or notice to any of the Owners of the Bonds, amend the Ordinance for any one or more of the following purposes:

- (a) to cure any ambiguity, defect, omission or inconsistent provision in the Ordinance or in the ordinances authorizing the issuance of Revenue Bonds; or to comply with any applicable provision of law or regulation of Federal agencies, or to obtain the approving opinion of the Attorney General of Texas as required by law; provided, however, that such action shall not adversely affect the interests of the Owners of the Revenue Bonds;
- (b) to change the terms or provisions of the Ordinance to the extent necessary to prevent the interest on the Revenue Bonds from being includable within the gross income of the Owners thereof for federal income tax purposes;
- (c) to grant to or confer upon the Owners of the Revenue Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Revenue Bonds;
- (d) to add to the covenants and agreements of the City contained in the Ordinance other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City in the Ordinance;
- (e) to amend any provisions of the Ordinance relating to the issuance of Revenue Bonds and Subordinate Obligations, or the incurrence of and security for reimbursement obligations in connection therewith, so long as to do so does not cause any reduction in any rating assigned to the Outstanding Revenue Bonds by any major municipal securities evaluation service then rating any series of Revenue Bonds;
- (f) to subject to the lien and pledge of the Ordinance additional Net Revenues which may include revenues, properties or other collateral; and
- (g) to amend the undertaking relating to continuing disclosure of information in Article Twelve of the Ordinance to the extent permitted in Article Twelve.

Amendments of the Ordinance Requiring Consent. The City may at any time adopt one or more ordinances amending, modifying, adding to or eliminating any of the provisions of the Ordinance but, if the amendment is not of the character described above, only with the consent of the Owner or Owners given in accordance with the Ordinance of not less than a majority of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding and affected by such amendment, modification, addition, or elimination; provided, however, that nothing in this paragraph shall permit (a) an extension of the maturity of the principal of or interest on any Revenue Bond issued hereunder, or (b) a reduction in the principal amount of any Revenue Bond or the rate of interest on any Revenue Bond, or (c) a privilege or priority of any Revenue Bond or Revenue Bonds over any other Revenue Bond or Revenue Bonds, or (d) a reduction in the percentage of aggregate principal amount of the Revenue Bonds required for consent to such amendment.

Consent of Owners. Any consent required by the preceding paragraph hereof by any Owner shall be in writing, may be in any number of concurrent writings of similar tenor, and may be signed by the Owner or its duly authorized attorney. Proof of the execution of any consent or of the writing appointing any such attorney and of the ownership of Revenue Bonds, if made in the following manner, shall be sufficient for any of the purposes of the Ordinance, and shall be conclusive in favor of the City with regard to any action taken, suffered or omitted to be taken by the City under such instrument, namely:

- (a) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within that jurisdiction that the person signing the writing acknowledged its execution before him or her, or by affidavit of any witness to the execution.
- (b) The fact of the ownership by any person of any Revenue Bond and the date of the ownership of same may be proved by a certificate executed by an appropriate officer of the Paying Agent/Registrar, stating that on that date the Revenue Bond was registered in the name of that party in the Register.

In lieu of the foregoing the City may accept such other proofs of the foregoing as it shall deem appropriate.

Consents required pursuant to the subsection titled "Amendments of the Ordinance Requiring Consent" shall be valid only if given following the giving of notice by or on behalf of the City requesting the consent and setting forth the substance of the amendment of the Ordinance in respect of which such consent is sought and stating that copies thereof are available at the office of the City Clerk for inspection. Such notice shall be given by certified mail to each Registered Owner of the Revenue Bonds affected at the address shown on the Register.

Copies of all amendments and supplements to the Ordinance or to any Related Document shall be sent to S&P and Moody's at least 10 days before its effective date.

Revocation of Consent. Any consent by any Owner of a Revenue Bond shall be irrevocable for a period of 18 months from the date of mailing of the notice provided for in the Ordinance, and shall be conclusive and binding upon all future Owners of the same Revenue Bond and any Revenue Bond delivered on transfer thereof or in exchange for or replacement of the Revenue Bond during this period. The consent may be revoked at any time after 18 months from the date of the first mailing of the notice by the Owner who gave the consent or by a successor in title, by filing notice with the Paying Agent/Registrar, but the revocation shall not be effective if the Owners of a majority in aggregate principal amount of the Revenue Bonds Outstanding as in the Ordinance defined have, prior to the attempted revocation, consented to and approved the amendment.

Consent to Certain Amendments Given Through Ownership of Bonds. (a) By acceptance of the Bonds, each Owner of a Bond: (i) irrevocably and specifically consents to and approves the amendments described in subsection (b) below; (ii) irrevocably appoints the Aviation Director as its true and lawful attorney-in-fact for the limited purpose of executing the written instrument required by the Ordinance to evidence the Owner's specific consent to and approval of the amendments described in subsection (b) below; and (iii) confirms all actions taken by the Aviation Director as attorney-in-fact for the Owner, it being specifically provided that the Aviation Director need not consult with, or provide notice to, an Owner in connection with the actions taken by the Aviation Director under this Section. The power of attorney granted to the Aviation Director shall be limited to effecting the amendments described in subsection (b) below and is irrevocable for so long as any Bond remains Outstanding.

(b) The amendments are: amend the definition of "Debt Service Reserve Fund Surety Bond" in Section 2.01 of the Ordinance and the Revenue Bond Ordinances to read as follows:

"Debt Service Reserve Fund Surety Bond" means any surety bond, letter of credit, line of credit or insurance policy issued to the City for the benefit of the Owners of the Revenue Bonds to satisfy any part of the Debt Service Reserve Fund Requirement as provided in Section 5.07 of this Ordinance; provided that, at the time of delivery to the City, either the long-term unsecured debt of the issuer of the Debt Service Reserve Fund Surety Bond or the obligations insured, secured or guaranteed by such issuer are rated "Aa3" or higher by Moody's or "AA-" or higher by Standard & Poor's.

These amendments described in subsection (b) above require the consent of the Owners of not less than a majority of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding. For additional information regarding these amendments, see "INTRODUCTION – Amendments to Revenue Bond Ordinances" in this document.

Use of Passenger Facility Charges

Consistent with the definitions of Debt Service Requirements and Gross Revenues, the City acknowledges and agrees that debt service with respect to the Revenue Bonds paid or to be paid from passenger facility charges is not included in the calculation of Debt Service Requirements. The City covenants and agrees, for the benefit of the Owners of the Revenue Bonds, that during each Fiscal Year the City will set aside from any passenger facility charges imposed by the City on enplaned passengers the lesser of (i) such passenger facility charges imposed and collected by the City or (ii) \$4.50 derived from each passenger facility charge ("PFC") so imposed and collected by the City for the payment of PFC-eligible debt service on the Revenue Bonds in the following Fiscal Year, unless the City receives a report from an Airport Consultant showing that an alternative use of all or a portion of the passenger facility charges will not reduce the forecast coverage of Debt Service Requirements with respect to the Revenue Bonds by forecast Net Revenues during the following Fiscal Year (or such longer forecast period as may be covered in the Airport Consultant's Report) to less than 125%.

APPENDIX D

FORM OF BOND COUNSEL'S OPINION

[Date of Initial Delivery]

WE HAVE ACTED as bond counsel for the City of Austin, Texas (the "City") in connection with the issuance of the CITY OF AUSTIN, TEXAS, AIRPORT SYSTEM REVENUE BONDS, SERIES 2022 (AMT) in the original aggregate principal amount of \$416,060,000 (the "Bonds").

THE BONDS mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set forth in the Bonds, in the Ordinance adopted by the City Council of the City on April 7, 2022 authorizing the issuance of the Bonds (the "Bond Ordinance") and the Pricing Certificate executed by an authorized officer of the City pursuant thereto (the "Pricing Certificate"). The Bond Ordinance and the Pricing Certificate are referred to herein collectively as the "Ordinance." Capitalized terms used herein but not otherwise defined have the meaning assigned to them in the Ordinance.

WE HAVE ACTED as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the excludability of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City, including the Airport System, or the disclosure thereof in connection with the offer and sale of the Bonds. Our role in connection with the City's Official Statement prepared for use in connection with the offer and sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the authorization and issuance of the Bonds, which we have relied on in giving our opinion. The transcript contains certified copies of certain proceedings of the City Council of the City; customary certificates of officials, agents and representatives of the City and certain other persons; and other certified showings relating to the authorization and issuance of the Bonds. We also have analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein.

IN PROVIDING THE OPINIONS set forth herein, we have relied on representations of the City and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the City and such other parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Bond Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Bonds from gross income for federal income tax purposes.

BASED ON SUCH EXAMINATION, and in reliance on such representations, certificates and assumptions, it is our opinion that:

1. The transcript of certified proceedings referenced above evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and the laws of the State of Texas presently effective and that therefore the Bonds constitute legal, valid and binding special obligations of the City;

2. The Bonds, together with all outstanding Revenue Bonds and any Additional Revenue Bonds hereafter issued, are payable from and equally and ratably secured by a first lien on the Net Revenues of the Airport System. The Bonds are also secured by a lien on the Debt Service Fund and the Debt Service Reserve Fund, as provided in the Ordinance;
3. Interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), except with respect to interest on any Bond for any period during which such Bond is held by a person who is a "substantial user" of the facilities financed with the proceeds of the Bonds or a "related person" to such a "substantial user," each within the meaning of section 147(a) of the Code; and
4. Interest on the Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining a taxpayer's alternative minimum tax liability.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions, and may be limited by general principles of equity that permit the exercise of judicial discretion. The Bonds are secured solely by a first lien on and pledge of the Net Revenues of the Airport System as described above and certain funds as provided in the Ordinance and do not constitute an indebtedness or general obligation of the City. Owners of the Bonds shall never have the right to demand payment of principal or interest out of any funds raised or to be raised by taxation.

THE CITY HAS RESERVED the right to issue Additional Revenue Bonds and Subordinate Obligations, subject to the restrictions contained in the Ordinance, secured by liens on the Net Revenues of the Airport System that are on a parity with, or junior and subordinate to, respectively, the lien on the Net Revenues of the Airport System securing the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to the amount of interest on the Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of the Bonds. This opinion is specifically limited to the laws of the State of Texas and, to the extent applicable, the laws of the United States of America. Further, in the event that the representations of the City or any other parties upon which we have relied are determined to be inaccurate or incomplete, or the City fails to comply with the covenants in the Bond Ordinance, interest on the Bonds could become includable in gross income for federal income tax purposes from the date of the original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

OUR OPINIONS ARE BASED on existing law and our knowledge of facts as of the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update or supplement our opinions, and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

