Austin-Bergstrom International Airport

ANNUAL FINANCIAL REPORT (Unaudited)

CITY OF AUSTIN
DEPARTMENT OF AVIATION

AUSTIN-BERGSTROM INTERNATIONAL AIRPORT

For the year ended
September 30, 2018
(Unaudited)

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DEPARTMENT OF AVIATION
AUSTIN-BERGSTOM INTERNATIONAL AIRPORT

ANNUAL FINANCIAL REPORT (Unaudited)
Year Ended September 30, 2018

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Statement of Net Position (unaudited)
September 30, 2018 and 2017
(In thousands)

ASSETS	**2018**	**2017**
Current assets:		
Cash	$ 3	$ 3
Pooled investments and cash	12,038	7,514
Pooled investments and cash - restricted	17,341	19,172
Total pooled investments and cash	29,382	26,689
Investments - restricted	32,843	32,494
Accounts receivable, net of allowance	3,982	5,462
Receivables from other governments	--	1
Receivables from other governments - restricted	1,976	867
Inventories, at cost	1,931	1,835
Prepaid expenses	516	86
Other receivables - restricted	4,370	3,722
Other assets	1,084	1,124
Total current assets	76,084	72,280
Noncurrent assets:		
Pooled investments and cash - restricted	454,323	637,597
Advances to other funds - restricted	32	52
Investments - restricted	40,124	39,590
Depreciable capital assets, net	960,563	875,820
Nondepreciable capital assets	249,408	132,896
Other receivables - restricted	--	3,401
Other long-term assets	18,261	19,129
Total noncurrent assets	1,722,711	1,708,485
Total assets	$ 1,798,795	$ 1,780,765
DEFERRED OUTFLOWS OF RESOURCES	$ 41,918	$ 40,621

The accompanying notes are an integral part of the financial statements.

Austin-Bergstrom International Airport
A Proprietary Fund of the City of Austin
Statement of Net Position (unaudited)
September 30, 2018 and 2017
(In thousands)

LIABILITIES	**2018**	**2017**
Current liabilities:		
Accounts payable	$ 2,837	$ 2,097
Accounts and retainage payable from restricted assets	33,402	19,759
Accrued payroll	1,542	1,361
Accrued compensated absences	2,355	2,194
Claims payable	--	1
Due to other funds	166	162
Due to other governments	5	5
Accrued interest payable from restricted assets	11,559	11,697
Bonds payable	20	21
Bonds payable from restricted assets	24,249	23,744
Other postemployment benefits payable	1,852	--
Customer and escrow deposits payable from restricted assets	1,116	1,351
Other liabilities	1,685	1,822
Other liabilities payable from restricted assets	--	--
Total current liabilities	80,788	64,214
Noncurrent liabilities, net of current portion:		
Advances from other funds	341	506
Bonds payable, net of discount and inclusive of premium	829,245	857,654
Net pension liability	43,715	46,242
Other postemployment benefits payable	86,267	26,194
Derivative instruments - interest rate swaps	12,349	21,535
Total noncurrent liabilities	971,917	952,131
Total liabilities	$ 1,052,705	$ 1,016,345
DEFERRED INFLOWS OF RESOURCES	$ 185,891	$ 189,161

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Austin-Bergstrom International Airport
A Proprietary Fund of the City of Austin
Statement of Net Position (unaudited)
September 30, 2018 and 2017
(In thousands)

NET POSITION	**2018**	**2017**
Net investment in capital assets	$ 335,667	$ 359,464
Restricted for:		
Bond reserve	3,330	2,719
Capital projects	205,237	171,176
Debt service	21,317	20,849
Operating reserve	16,225	14,874
Passenger facility charges	110,452	90,044
Renewal and replacement	10,000	10,000
Unrestricted	(100,111)	(53,246)
Total net position	$ 602,117	$ 615,880
Reconciliation to government-wide Statement of Net Position		
Adjustment to consolidate internal service activities	5,316	4,055
Total net position - Business-type activities	$ 607,433	$ 619,935

The accompanying notes are an integral part of the financial statements.

Austin-Bergstrom International Airport
A Proprietary Fund of the City of Austin
Statement of Revenues, Expenses, and Changes in Fund Net Position (unaudited)
For the years ended September 30, 2018 and 2017
(In thousands)

OPERATING REVENUES	2018	2017
AIRLINE REVENUE		
Landing Fees	$ 28,302	$ 27,301
Terminal Rental & Other Fees	43,640	34,628
TOTAL AIRLINE REVENUE	71,942	61,929
NON-AIRLINE REVENUE		
Parking	40,092	40,542
Other Concessions	32,044	28,175
Other Rentals and Fees	23,206	18,687
TOTAL NON-AIRLINE REVENUE	95,342	87,404
Total operating revenues	167,284	149,333
OPERATING EXPENSES		
Personnel	52,775	48,276
Communication and utilities	7,469	7,123
Supplies and materials	5,394	4,738
Contractual services	40,214	37,457
Insurance, claims and settlements	399	436
Other	11,875	4,856
Total operating expenses before depreciation	118,126	102,885
Depreciation and amortization	33,723	26,667
Total operating expenses	151,849	129,552
Operating income (loss)	15,435	19,781
NONOPERATING REVENUES (EXPENSES)		
Interest and other revenues	7,542	3,907
Interest on revenue bonds and other debt	(33,318)	(30,058)
Interest capitalized during construction		1,893
Passenger facility charges	30,142	29,100
Other nonoperating revenue (expense)	(375)	(1,859)
Total nonoperating revenues (expenses)	3,991	2,983
Income (loss) before contributions and transfers	19,426	22,764
Capital contributions	7,593	14,751
Transfers in	--	--
Transfers out	(182)	(33)
Change in net position	26,837	37,482
Total net position, beginning	615,880	578,398
Prior period adjustment	(40,600)	--
Total net position, ending	$ 602,117	$ 615,880
Reconciliation to government-wide Statement of Activities		
Change in net position	26,837	37,482
Adjustment to consolidate internal service activities	1,261	1,298
Change in net position - Business-type activities	$ 28,098	$ 38,780

The accompanying notes are an integral part of the financial statements.

Austin-Bergstrom International Airport
A Proprietary Fund of the City of Austin
Statement of Cash Flows (unaudited)
For the years ended September 30, 2018 and 2017
(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	**2018**	**2017**
Cash received from customers	$ 166,712	$ 141,806
Cash payments to suppliers for goods and services	(37,399)	(28,931)
Cash payments to other funds	(27,874)	(26,603)
Cash payments to employees for services	(42,352)	(39,106)
Cash payments to claimants/beneficiaries	(1)	--
Net cash provided by operating activities	59,086	47,166
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in	--	--
Transfers out	(182)	--
Loans to other funds	--	(1)
Loan repayments to other funds	(179)	(178)
Loan repayments from other funds	20	--
Collections from other governments	(453)	940
Net cash provided (used) by noncapitalfinancing activities	(794)	761
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the sale of revenue bonds	--	314,965
Principal paid on long-term debt	(23,765)	(21,964)
Interest paid on revenue bonds and other debt	(36,702)	(26,027)
Passenger facility charges	29,494	25,378
Acquisition and construction of capital assets	(222,152)	(116,503)
Contributions from state and federal governments	7,593	14,350
Contributions in aid of construction	--	401
Bond issuance costs	--	(2,545)
Bond premiums	--	44,459
Net cash provided (used) by capital and related financing activities	$ (245,532)	$ 232,514

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Austin-Bergstrom International Airport
A Proprietary Fund of the City of Austin
Statement of Cash Flows (unaudited)
For the years ended September 30, 2018 and 2017
(In thousands)

CASH FLOWS FROM INVESTING ACTIVITIES:	**2018**	**2017**
Purchase of investment securities	$ (62,111)	$ (81,184)
Proceeds from sale and maturities of investment securities	61,840	49,301
Interest on investments	6,930	3,671
Net cash provided (used) by investing activities	6,659	(28,212)
Net increase (decrease) in cash and cash equivalents	(180,581)	252,229
Cash and cash equivalents, beginning	664,286	412,057
Cash and cash equivalents, ending	483,705	664,286
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	15,435	19,781
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	33,723	26,667
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	4,588	(3,215)
Increase (decrease) in allowance for doubtful accounts	61	191
(Increase) decrease in inventory	(96)	(20)
(Increase) decrease in prepaid expenses and other assets	(430)	(57)
Decrease in other long-term assets	1,140	--
(Increase) decrease in deferred outflows	(11,359)	2,513
Increase (decrease) in accounts payable	740	(387)
Increase in accrued payroll and compensated absences	342	424
Increase (decrease) in net pension liability	(2,527)	1,974
Increase in other postemployment benefits payable	21,325	4,259
Increase (decrease) in other liabilities	(137)	(461)
Increase (decrease) in customer deposits	(235)	591
Increase (decrease) in deferred inflows	(3,484)	(5,094)
Total adjustments	43,651	27,385
Net cash provided by operating activities	$ 59,086	$ 47,166

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Austin-Bergstrom International Airport
A Proprietary Fund of the City of Austin
Statement of Cash Flows (unaudited)
For the years ended September 30, 2018 and 2017
(In thousands)

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	**2018**	**2017**
Capital assets contributed to other funds	$ (814)	$ --
Capital assets acquired through service concession arrangements	213	27,490
Amortization of bond (discounts) premiums	4,140	2,617
Amortization of deferred gain (loss) on refundings	(875)	(890)
Gain (loss) on disposal of assets	(216)	(33)
Transfers to other funds	--	(33)
Capitalized interest	--	1,893

The accompanying notes are an integral part of the financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Austin, Texas (the City) is a municipal corporation incorporated under Article XI, Section 5 of the Constitution of the State of Texas (Home Rule Amendment). The City operates under a Council-Manager form of government. The City Council is composed of a Mayor who is elected at large and ten Councilmembers who are elected by geographic district. The Department of Aviation (the Department) is a department within the City and is included as an enterprise fund under the City's comprehensive annual financial report.

The City of Austin's charter requires an annual audit by an independent certified public accountant. These financial statements present only the Aviation Department and do not purport to, and do not present fairly the financial position of the City as of September 30, 2018 and 2017. These 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. 82, No. 85 through No. 86, and No. 89. In fiscal year 2018, the City implemented the following GASB Statements:

GASB Statement	Impact
75—"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	GASB Statement No. 75 replaces GASB Statement No. 45 and requires governments offering postemployment benefits other than pensions to record as a liability in the current period for total future postemployment benefit obligations for existing employees and retirees in excess of plan assets. In addition, it identifies accepted actuarial methods and assumptions, allows deferral of certain pension expense items, expands financial statement note disclosures, and changes disclosure of required supplementary information. See Note 6. Implementation required restatement of beginning net position. See Note 11.
81—"Irrevocable Split-Interest Agreements"	This statement provides recognition and measurement guidance for situations in which a government is a beneficiary of a split interest agreement. The implementation of this standard had no impact on amounts reported in the financial statements.
85–-"Omnibus 2017"	This statement will improve consistency in the accounting and reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits. The implementation of this standard had no impact on the statements. The only portion applicable was fair value measurement and application, and the City was already following requirements listed in the standard.
86—"Certain Debt Extinguishment Issues"	This statement establishes accounting and financial reporting guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt in the future. The standard requires a restatement of the beginning net position; however, prior amounts were determined to be immaterial and the City did not restate as a result of this implementation.
89–-"Accounting for Interest Cost Incurred before the End of a Construction Period"	This statement establishes the requirements for interest costs incurred before the end of construction period. As a result of the statement interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this standard are to be applied prospectively. No restatement was necessary.

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) Description of Reporting Entity

The Department operates the Airport System, which consists of Austin-Bergstrom International Airport (the Airport). The 4,240-acre Airport opened in 1999 at the site of the former Bergstrom Air Force Base, replacing Robert Mueller Municipal Airport. The 700-acre Mueller site is being redeveloped as a mixed-use urban community by the City of Austin and is not part of the Airport System. The Airport is classified by the Federal Aviation Administration (FAA) as a medium hub airport.

A variety of federal, state and local laws, agreements, and regulations govern the operations at the Airport. The FAA has general jurisdiction over flying operations, including personnel, aircraft, ground facilities, and other technical matters, as well as certain environmental matters. Pursuant to the Airport and Airway Improvement Act of 1982 and other statutes, the City is constrained from transferring Airport revenues to its General Fund. This restriction is embodied in the federal grant agreements entered into by the City. Additionally, federal laws govern the reasonableness of fees that may be charged for the use of Airport facilities, Airport noise limits, and impose certain other restrictions on the City and Airport operations.

Blended Component Units – 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. Following is the Airport's blended component unit.

Austin-Bergstrom International Airport (ABIA) Development Corporation	ABIA Development Corporation is governed by a board composed of the City Council. The entity has no day-to-day operations. Its existence relates only to the authorization for issuance of industrial revenue bonds or to other similar financing arrangements in accordance with the Texas Development Corporation Act of 1979. To date, none of the bonds issued constitute a liability of ABIA Development Corporation or the City of Austin. In addition, City management has operational responsibilities for this component unit. There is no financial activity to report related to this component unit.

(b) Basis of Presentation

The accounts of the Airport are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a set of self-balancing accounts that comprise the Airport's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's cost of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) where the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

(c) Basis of Accounting and Financial Statement Presentation.

(i) The Airport prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP), which provide that revenues are recorded when earned and expenses are recorded when incurred. Grants are recorded as revenues when all eligibility requirements have been met. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(ii) Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Airport's enterprise fund are charges to customers for use of property and for services provided. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(iii) Under the terms of grant agreements, the Airport funds certain programs with specific cost-reimbursement grants. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program.

(d) Budget

The City Manager is required by the City Charter to present a proposed operating and capital budget that includes annual budgets for the City's enterprise funds to the City Council no later than thirty days before the beginning of the new fiscal year. The final budget shall be adopted no later than the twenty-seventh day of the last month of the preceding fiscal year. During the final adoption process, the City Council passes an appropriation ordinance.

Budgets are modified throughout the year. The City Manager is authorized to transfer appropriation balances within a fund and department of the City. The City Council approves amendments to the budget and transfers of appropriations from one fund and department to another. Unencumbered appropriations for annual budgets lapse at fiscal year-end.

(e) Cash, Investments and Accounts Receivable

Most cash balances of the Airport, as well as other related entities, are pooled and invested by the City. Investments purchased with pooled cash, consisting primarily of U.S. government obligations and U.S. agency obligations, are stated at fair value. Interest earned on investments purchased with pooled cash is allocated monthly to each participating fund based upon the fund's average daily balance. Funds that carry a negative balance in pooled cash and investments are not allocated interest earnings nor charged interest expense.

The Airport's portion of this pool is displayed on the statement of net position as pooled investments and cash.

Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2018 and September 30, 2017. Investments in local government investment pools are carried at net asset value per share calculated using the amortized cost method which approximates fair value.

Accounts receivable for the Airport is noted below in thousands:

	2018	2017
Accounts Receivable	$ 5,841	7,260
Allowance for doubtful accounts	(1,859)	(1,798)
	$ 3,982	5,462

(f) 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. Restricted assets used to repay maturing debt and other current liabilities are classified as current.

The balances of restricted assets for the Airport are as follows (in thousands):

	2018	2017
Capital projects	$328,552	$512,644
Customer and escrow deposits	1,116	1,351
Debt service	42,564	67,601
Federal grants	1,976	868
Operating reserve account	16,225	14,874
Passenger facility charge account	110,452	90,044
Renewal and replacement account	10,000	10,000
Revenue bond reserve	40,124	39,513
	$551,009	$736,895

(g) Capital Assets and Depreciation

Capital assets include land, buildings and improvements, equipment, vehicles and intangible assets. Capital assets are defined as assets with an initial individual cost of more than $5,000 and an estimated useful life of greater than one year. Capital assets are recorded at cost, except for contributions by third parties, which are recorded at fair value at the date of contribution. The purchase of land included movable structures that had to be removed for the land to be usable for the Airport's purposes. Intangible assets, which are identifiable, are recorded as capital assets.

Maintenance, repairs, and minor replacements are expended as incurred. Major replacements that extend the useful life of the related assets are capitalized. No depreciation is provided on construction in progress until construction is substantially complete and the asset is placed in service. Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives (in years):

Assets	**Airport**
Buildings and improvements	15-40
Plant and equipment	4-50
Vehicles	3-20
Communication equipment	7
Furniture and fixtures	12
Computers and EDP equipment	3-7

(h) Capitalization of Interest

Prior to fiscal year 2018, Interest costs related to the acquisition of buildings and improvements acquired with debt are capitalized. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. Beginning in fiscal year 2018, the City has implemented GASB 89, so it no longer records capitalized interest. Total interest costs incurred during the year ended September 30, 2017 amounted to approximately $30.1 million, of which $1.9 million was capitalized during 2017.

(i) Deferred Outflows/Inflows of Resources on Derivative Instruments and Refunding

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.

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.

(j) Operating Grants and Capital Contributions

Certain expenditures for airport capital improvements, airport safety and security operations, are significantly funded through the Airport Improvement Program grants of the FAA and grants from the TSA, with certain matching funds provided by the Airport. Funding provided under government grants is considered earned as soon as all the eligibility requirements have been met.

Grants awarded by TSA to finance Airport safety and security are reported in the statement of revenues, expenses and changes in net position as nonoperating revenues. Grants for capital asset acquisition, facility development and rehabilitation are reported as capital contributions, after nonoperating revenues and expenses.

(k) Passenger Facility Charges

Passenger Facility Charges (PFCs) are recorded as nonoperating revenue in the year they are collected by the air carriers from the sale of air travel tickets and remitted to the Airport in accordance with Airport regulations. At September 30, 2018 and 2017, accumulated PFC funds amounted to $110.5 million and $90.0 million, respectively.

Under the Airport's Revenue Bond Ordinance, PFC revenues are not a part of Gross Revenues but may be set aside during a Fiscal Year for the payment of PFC-eligible debt service in the following Fiscal Year. Amounts of $11.1 million and $12.4 million from accumulated PFC funds were used for payment of PFC eligible bond debt service in fiscal years ended September 30, 2018 and 2017, respectively.

(l) Customer Facility Charges

Rental Car Special Facility Revenue Bonds in the amount of $143 million were issued in 2013 by the City to provide for rental car facilities located at the Airport. These bonds are special limited obligations payable solely from and secured by a pledge of revenue to be received from Customer Facility Charges (CFC), which are to be collected by rental car concessionaires from rental car customers. The CFC at the Airport is $5.95 per transaction day and may be adjusted from time to time in order to enable the City to generate CFC revenues sufficient to meet the funding requirements set forth in the indenture for these bonds.

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. Revenue from Customer Facility Charges is excluded from operating and non-operating revenue of the Airport and has not been reported in the accompanying financial statements.

(m) Accrued Vacation, Sick Leave, and Compensatory Time

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 proprietary activities.

(n) 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 (see Note 5).

(o) Other Postemployment Benefits (OPEB)

The City provides certain health care benefits for its retired employees and their families as more fully described in Note 6. At September 30, 2018, the City's total actuarial accrued liability for these retiree benefits was approximately $2.5 billion. The City funds the costs of these benefits on a pay-as-you-go basis.

(p) Long-Term Debt

The Airport issues Airport system revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. For proprietary funds, 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.

(q) Net Position

The financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation, deferred outflows and inflows associated with the debt, and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

- Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At September 30, 2018 and 2017, the Airport's statement of net position reports restricted net position of $366.6 million and $309.7 million respectively.

- Unrestricted Net Position – This category represents the net amount that do not meet the criteria for "restricted" or "net investment in capital assets."

(2) CASH AND INVESTMENTS

The following summarizes the Airport's amount of pooled investments and cash at September 30, 2017 (in thousands):

Pooled Investments and Cash	
Unrestricted	**Restricted**
$12,038	$471,664

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), Assistant Treasurer over Investment Management, Assistant Treasurer over Debt Management, the City Controller, a public sector investment expert, a Financial Advisor's representative, a representative from Austin Energy, a representative from the Austin Water Utility, 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.
The City is authorized to invest in the following investment instruments if they meet the guidelines of the investment policy:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of the State of Texas;
3. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities;
4. Obligations of other states, cities, counties, or other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent;
5. Bankers' acceptances, so long as each such acceptance has a stated maturity of 270 days or less from the date of its issuance, will be liquidated in full at maturity, are eligible collateral for borrowing from a Federal Reserve Bank, and are accepted by a domestic bank whose short-term obligations are rated at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency or which is the largest subsidiary of a bank holding company whose short-term obligations are so rated;
6. Commercial paper with a stated maturity of 270 days or less from the date of its issuance that is either rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies or is rated at least A-1, P1, 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 2018.

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). The State Comptroller oversees TexPool/Texpool Prime, with Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Although there is no regulatory oversight over TexasDAILY, an advisory board consisting of participants or their designees maintains oversight responsibility for TexasDAILY. PFM Asset Management LLC manages the daily operations of TexasDAILY under a contract with the advisory board. JPMorgan Investment Management, Inc. and First Southwest Asset Management, Inc. serve as co-administrators for TexStar under an agreement with the TexStar board of directors. 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, 2018, TexPool, Texpool Prime, TexasDAILY, TexStar, and Texas CLASS had a weighted average maturity of 28 days, 37 days, 34 days, 43 days, and 52 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 measures 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.

The City has the following recurring fair value measurements as of September 30, 2018:

- U.S. Treasury securities of $669.2 million are valued using other observable inputs, including but not limited to, model processes, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing (Level 2 inputs).
- U.S. Agency securities of $1.6 billion are valued using other observable inputs, including but not limited to, model processes, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing (Level 2 inputs).

As of September 30, 2018, the City presented Money Market Funds of $50.7 million, LGIPs of $925.7 million valued using amortized cost, and LGIP's of $137.6 million valued using NAV.

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.

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 securities.

(3) CAPITAL ASSETS AND INFRASTRUCTURE

Airport Fund Capital Asset activity for the year ended September 30, 2018, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets				
Building and improvements	$ 1,166,557	114,868	--	1,281,425
Plant and equipment	36,337	2,375	(2,406)	36,306
Vehicles	15,421	2,291	(1,625)	16,087
Total depreciable capital assets	1,218,315	119,534	(4,031)	1,333,818
Less accumulated depreciation for				
Building and improvements	(316,493)	(30,166)	--	(346,659)
Plant and equipment	(17,487)	(2,010)	2,213	(17,284)
Vehicles	(8,515)	(1,547)	750	(9.312)
Total accumulated depreciation	(342,495)	(33,723) (1)	2,963	(373,255)
Depreciable capital assets, net	875,820	85,811	(1,068)	960,563
Nondepreciable capital assets				
Land and improvements	96,381	--	--	96,381
Arts and treasures	3,375	--	--	3,375
Construction in progress	33,140	235,751	(119,239)	149,652
Total nondepreciable assets	132,896	235,751	(119,239)	249,408
Total capital assets	$ 1,008,716	321,562	(120,307)	1,209,971

(1) Components of accumulated depreciation/amortization increases:
Current year depreciation $ 33,723

Service Concession Arrangements

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, 2018, the unamortized balance was $10.6 million and is presented in other assets. The related deferred inflow balance is $11.7 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.

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 5 years is $5,000. The present value of the future payments was $9.2 million at lease inception. As of September 30, 2018, the unamortized balance was $8.4 million and is presented in other assets. The related deferred inflow balance is $8.8 million. Construction costs totaled $26.8 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, 2018, the City reported the following SCA activities (in thousands):

Service Concession Arrangement	Beginning Asset Construction Cost	Current year Additions	Beginning Accumulated Depreciation	Current Year Depreciation	Ending Accumulated Depreciation	Net Book Value
CONRAC facility	$ 152,496	--	7,624	3,745	11,369	141,127
Bark and Zoom facility	26,558	213	664	675	1,339	25,432
Total	179,054	213	8,288	4,420	12,708	166,559

	Beginning Deferred Inflows	Current year Additions Beginning Accumulated	Beginning Accumulated Amortization	Current Year Amortization	Ending Accumulated Amortization	Ending Deferred Inflows
CONRAC facility	142,361	--	10,135	5,083	15,218	137,278
CONRAC base rent agreement	12,170	--	871	435	1,306	11,735
Bark and Zoom facility	25,673	213	885	453	1,338	25,433
Bark and Zoom base rent agreement	8,957	--	307	154	461	8,803
Total	$ 189,161	213	12,198	6,125	18,323	1 83,249

(4) DEBT

(a) Long-term Liabilities

Description	October 1, 2016	Increases	Decreases	September 30, 2017	Amounts Due Within One Year
Airport activities					
General obligation bonds, net	$ 80	--	(24)	56	21
General obligation bonds and other tax supported debt total	80	--	(24)	56	21
Revenue bonds, net	546,495	359,425	(24,557)	881,363	23,744
Debt service requirements total	546,575	359,425	(24,581)	881,419	23,765
Other long-term obligations					
Accrued compensated absences	1,988	206	--	2,194	2,194
Claims payable	--	9	(8)	1	1
Net pension liability	44,268	5,690	(3,716)	46,242	--
Other postemployment benefits	21,935	4,259	--	26,194	--
Other liabilities	3,043	591	(461)	3,173	3,173
Airport activities total	$ 617,809	370,180	(28,766)	959,223	29.133

Airport Revenue Bonds -- General - The City's Airport fund issues airport system revenue bonds to fund Airport fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport fund. At September 30, 2018, the total airport system obligation for prior lien bonds is $789,189,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are $584,867,972 at September 30, 2018. Revenue bonds authorized and unissued amount to $735,795,000. Bond ratings at September 30, 2018, for the revenue bonds were A (Standard & Poor's) and A1 (Moody's Investors Service, Inc.).

The following table summarizes all Airport System original and refunding revenue bonds outstanding at September 30, 2018 (in thousands):

Series	Fiscal Year	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2005 Refunding	2008 (1)	$ 281,300	176,100	27,575 (2)	0.84 - 1.86%	11/15/2018-2025
2013 Revenue	2013	60,000	52,265	6,675 (3)	2.25%	11/15/2018-2028 (4)
2013A Refunding	2014	35,620	1,364	11 (3)	1.56%	11/15/2018
2014 Revenue	2015	244,495	244,495	231,573 (3)	5.00%	11/15/2026-2044
2017A Revenue	2017	185,300	185,300	187,695 (3)	5.00%	11/15/2026-2046
2017B Revenue	2017	129,665	129,665	131,339 (3)	5.00%	11/15/2026-2046
			$ 789,189			

(1) Series was remarketed in 2008.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate of 4.05% in effect at the end of the fiscal year.
(3) Interest is paid semiannually on May 15 and November 15.
(4) Series matures on May 15 of the final year.

The Series 2005 refunding bonds that were remarketed in 2008 are variable rate demand bonds. These bonds are separated into 4 subseries with a total principal amount of $176,100,000. 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
2005-1	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	$ 44,025	10/15/2018
2005-2	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	44,000	10/15/2018
2005-3	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	44,050	10/15/2018
2005-4	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	44,025	10/15/2018
					$ 176,100	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds or if the agreement expires with no new agreement in place, the bonds will be purchased by the respective liquidity provider and become bank bonds with principal to be paid in annual installments over the remaining life of the bond series beginning on the first business day of the month six months following the triggering repayment event. Thus, under any circumstance, no principal payments will be due within a year of September 30, 2018. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate. The remarketing agent takes the variable debt to auction on a weekly basis; the winning bid determines the weekly rate paid.

Airport Revenue Debt -- Pledged Revenues - The net revenue of the Airport Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding (including revenue bonds and revenue notes). The table below represents the pledged amounts at September 30, 2018 (in thousands):

Gross Revenue (1)	Other Available Funds (2)	Operating Expense (3)	Net Revenue and Other Available Funds	Debt Service Requirement (5)	Revenue Bond Coverage
$ 176,235	5,469	108,045	73,659	21,875	3.37

(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.

(b) Debt Service Requirements (in thousands):

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Revenue Bonds (1) Principal	Revenue Bonds (1) Interest
2019	$ 20	1	24,249	35,646
2020	10	1	26,135	34,682
2021	2	--	26,150	33,702
2022	1	--	25,430	32,748
2023	--	--	26,430	31,769
2024-2028	--	--	135,820	143,741
2029-2033	--	--	102,495	118,931
2034-2038	--	--	130,815	89,905
2039-2043	--	--	166,935	52,864
2044-2048	--	--	124,730	10,880
	33	2	789,189	584,868
Less: Unamortized bond discounts	--	--	(204)	--
Add: Unamortized bond premiums	--	--	64,496	--
Net debt service requirements	33	2	853,481	584,868

Fiscal Year Ended September 30	Total Airport Debt Service Requirements		
	Principal	**Interest**	**Total**
2019	24,269	35,647	59,916
2020	26,145	34,683	60,828
2021	26,152	33,702	59,854
2022	25,431	32,748	58,179
2023	26,430	31,769	58,199
2024-2028	135,820	143,741	279,561
2029-2033	102,495	118,931	221,426
2034-2038	130,815	89,905	220,720
2039-2043	166,935	52,864	219,799
2044-2048	124,730	10,880	135,610
	789,222	584,870	1,374,092
Less: Unamortized bond discounts	(204)	--	(204)
Add: Unamortized bond premiums	64,496	--	64,496
Net debt service requirements	$ 853,514	584,870	1,438,384

(1) Portions of these bonds are variable rate bonds with rates ranging from 0.84% to 1.86%.

(5) RETIREMENT PLANS

(a) General Information

Plan Description. The City participates in funding three contributory, defined benefit retirement plans: the City of Austin Employees' Retirement and Pension Fund (City Employees), the City of Austin Police Officers' Retirement and Pension Fund (Police Officers), and the Fire Fighters' Relief and Retirement Fund of Austin, Texas (Fire Fighters). An Independent Board of Trustees administers each plan. These plans are City-wide single employer funded plans each with a fiscal year end of December 31.

All three plans were created by state law and can be found in Vernon's Texas Civil Statutes as follows:

City Employees' Fund	Article 6243n
Police Officers' Fund	Article 6243n-1
Fire Fighters' Fund	Article 6243e.1

State law governs benefit and contribution provisions. Amendments may be made by the Legislature of the State of Texas.

Plan Financial Statements. The most recently available financial statements of the pension funds are for the year ended December 31, 2017. Stand-alone financial reports that include financial statements and supplementary information for each plan are publicly available at the locations and internet addresses shown below.

Plan	Address	Telephone
City of Austin Employees' Retirement and Pension Fund	418 E. Highland Mall Blvd. Austin, Texas 78752-3720 www.coaers.org	(512)458-2551
City of Austin Police Officers' Retirement and Pension Fund	2520 S. IH 35, Ste. 100 Austin, Texas 78704 www.ausprs.org	(512)416-7672
Fire Fighters' Relief and Retirement Fund of Austin, Texas	4101 Parkstone Heights Dr., Ste. 270 Austin, Texas 78746 www.afrs.org	(512)454-9567

Classes of Employees Covered. The three pension plans cover substantially all full-time employees. The City Employees' fund covers all regular, full-time employees working 30 hours or more except for civil service police officers and fire fighters. Membership in this fund is comprised of two tiers. Group A includes all employees hired before January 1, 2012. Group B includes all employees hired on or after this date. The Police Officers' fund covers all commissioned law enforcement officers and cadets upon enrollment in the Austin Police Academy. The Fire Fighters' fund covers all commissioned civil service and Texas state-certified fire fighters with at least six months of service employed by the Austin Fire Department.

Benefits Provided. Each plan provides service retirement, death, and disability benefits as shown in the following chart. For the City Employees' fund, vesting occurs after 5 years of creditable service. For the other two systems, vesting occurs after 10 years of creditable service. For all three systems, creditable service includes employment at the City plus purchases of certain types of service where applicable. Withdrawals from the systems include actual contributions plus interest at varying rates depending on the system. This applies to both non-vested employees who leave the City as well as vested employees who leave the City and wish to withdraw their contributions. In addition, each plan offers various Deferred Retirement Option Programs (DROP). These are not included in the discussion of benefits provided.

	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.	Members are eligible for retirement benefits at any age with 23 years creditable service (excluding pre-membership military service), age 55 and 20 years creditable service (excluding pre-membership military service), or age 62 and any number of creditable service years.	Members are eligible for normal retirement benefits upon the earlier of age 50 with 10 years of service or 25 years of service regardless of age. Members are eligible for early retirement at 45 with 10 years of service or with 20 years of service regardless of age.
Calculation	Average of 36 highest months of base pay multiplied by years and months of creditable service multiplied by 3.0% for Group A and 2.5% for Group B.	Average of 36 highest months of base salary plus longevity pay multiplied by years and months of service multiplied by 3.2%.	Average of 36 highest months of base salary plus longevity pay multiplied by years of service multiplied by 3.3% with a $2,000 monthly minimum.
Death Benefits	Retiree or active member eligible for retirement, $10,000 lump sum and continuation of benefits to beneficiary if this option was selected. If not eligible for retirement, refund of accumulated deposits plus death benefit from COAERS equal to those deposits excluding purchases of time.	For retirees and members eligible for retirement, $10,000 lump sum and the member's accrued benefit as of the date of death based on annuity selected. Non-vested members receive the greater of $10,000 or twice the amount of the member's accumulated contributions.	Surviving spouse receives 75% of retiree benefits based the greater of 20 years or years of service at time of death. If surviving spouse exists, each dependent receives 15% of the payment paid to the surviving spouse. If no surviving spouse exists, dependents split equally the amount that would have been paid to surviving spouse.
Disability Benefits	After approved for disability benefits, active members may choose from several different disability retirement options. Must have 5 years of service if disability is not job related.	After approved for disability benefits, if disability is the result of employment duties, benefit is based on the greater of 20 years or normal retirement calculation. Must have 10 years of service if disability is not job related.	For the first 30 months, eligible for retiree benefits based on the greater of service at time of disability or 20 years. After 30 months, continuance of annuity may be reevaluated.
Cost of Living Adjustments (COLA)	The plan does not require COLAs. Such increases must be deemed sustainable by the actuary and approved by the City Council and Board of Trustees of the fund. The most recent COLA was put into effect in 2002.	The plan does not require COLAs. Such increases must be approved by the Board of Trustees and the actuary of the fund. The most recent COLA was put into effect in 2007.	The plan does not require COLAs. Such increases must be approved by the Board of Trustees and the actuary of the fund. The most recent COLA was put into effect for 2018.

Employees Covered by Benefit Terms: Membership in the plans as of December 31, 2017, is as follows:

	City Employees	Police Officers		Fire Fighters
Inactive employees or beneficiaries currently receiving benefits	6,225	867		786
Inactive employees entitled to but not yet receiving benefits	2,657	98	(1)	9
Active employees	9,612	1,866		1,045
Total	18,494	2,831		1,840

(1) Includes 45 terminated vested members and 53 nonvested terminated members due refunds.

Contributions. For all three systems, minimum contributions are determined by the enabling legislation cited above. In certain cases the City may contribute at a level greater than that stated in the law. While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted.

	City Employees	Police Officers	Fire Fighters
Employee contribution (percent of earnings)	8.00%	13.00%	18.70%
City contribution (percent of earnings)	18.00% (1)	21.313%	22.05%
City contributions year ended September 30, 2018 (in thousands)	$114,149	34,944	19,809

(1) The City contributes two-thirds of the cost of prior service benefit payments. A rate of 18% was effective October 1, 2012.

(b) Net Pension Liability

The City's net pension liability was measured as of December 31, 2017 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, 2016 using the final 2017 assumptions and then was rolled forward to the plan's year ending December 31, 2017.

Actuarial Assumptions. Actuarial assumptions used in the most recent actuarial valuations include:

	City Employees	Police Officers	Fire Fighters
Inflation Rate	2.75%	3.00%	3.50%
Projected Annual Salary Increases	4.00% to 6.25%	0.00% to 22.50% Service based (1)(2)	1.00% to 8.50% Service based (2)
Investment Rate of Return	7.50%	7.70%	7.70%
Ad Hoc Postemployment Benefit Changes including COLAs	None	None	None
Dates of Experience Studies	2011 - 2015	2012 - 2016	2004 - 2014
Source for Mortality Assumptions	RP-2014 Mortality Table with Blue Collar adjustment. Generational mortality improvements in accordance with Scale BB are projected from the year 2014.	RP-2000 Combined Healthy without projection - Sex Distinct.	RP2000 (Fully Generational using Scale AA) set back two years for males and females - Sex Distinct.

(1) This includes the classification status change upon graduation from the academy.
(2) This does not include assumed general wage increases of 3.25% and 3.00% for Police and Fire, respectively.

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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
City Employees:		
US equity	30.00%	5.30%
International equity	20.00%	6.38%
Emerging markets equities	10.00%	6.62%
Fixed income	24.50%	3.33%
Alternative investments	10.00%	3.95% to 6.34%
Real estate	5.50%	5.52%
Total	100.00%	
Police Officers:		
Domestic equity	42.50%	7.50%
International equity	15.00%	8.50%
Other equity	7.50%	7.50%
US and non-US fixed income	10.00%	3.00%
Other fixed Income	5.00%	3.50%
Real estate	15.00%	4.50%
Timber	0.00%	2.50%
Multi asset class	5.00%	5.00%
Total	100.00%	
Fire Fighters:		
Public domestic equity	20.00%	5.30%
Public foreign equity	22.00%	6.90%
Private equity fund of funds	15.00%	5.60%
Investment grade bonds	13.00%	1.10%
Treasury inflation protected securities	5.00%	0.80%
High yield/bank loans	5.00%	3.80%
Emerging market debt	7.00%	3.60%
Core real estate	5.00%	3.40%
Non-core real estate	5.00%	5.00%
Natural resources	3.00%	5.90%
Total	100.00%	

Discount Rate. The following provides information on the discount rate used to measure the City's total pension liability. Based on the assumptions presented below, the fiduciary net position for all three pension funds was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

	City Employees	Police Officers	Fire Fighters
Single Discount Rate	7.50%	7.70%	7.70%
Change Since Last Measurement Date	None	None	None
Long-term Expected Rate of Return on Pension Plan	7.50%	7.70%	7.70%
Cash Flow Assumptions	Plan member contributions will be made at the current rate. City contributions will be made at the current rate for 28 years and then will decrease to 8%.	Plan member contributions and City contributions will be made at current contribution rates and will remain a level percentage of payroll.	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.

	1% Decrease		Current Discount Rate		1% Increase	
	Rate	Net Pension Liability	Rate	Net Pension Liability	Rate	Net Pension Liability (Asset)
City Employees	6.50%	$ 1,608,628	7.50%	$ 1,147,385	8.50%	$ 762,471
Police Officers	6.70%	553,553	7.70%	420,116	8.70%	307,089
Fire Fighters	6.70%	189,653	7.70%	85,003	8.70%	(3,088)

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 the Financial Statements
September 30, 2018 and 2017
(unaudited)

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, 2017 are as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
Total pension liability at December 31, 2016 (a)	$ 3,591,376	1,106,189	977,723	5,675,288
Changes for the year:				
Service cost	107,767	35,322	23,830	166,919
Interest	266,257	84,472	75,812	426,541
Benefit changes	--	--	8,964	8,964
Differences between expected and actual experience	22,755	17,241	4,360	44,356
Contribution buy back	--	2,915	--	2,915
Benefit payments including refunds	(190,332)	(56,548)	(51,888)	(298,768)
Net change in total pension liability	206,447	83,402	61,078	350,927
Total pension liability at December 31, 2017 (b)	$ 3,797,823	1,189,591	1,038,801	6,026,215
Total plan fiduciary net position at December 31, 2016 (c)	$ 2,299,688	686,020	829,610	3,815,318
Changes for the year:				
Employer contributions	110,846	35,141	19,242	165,229
Employee contributions	56,194	21,437	16,319	93,950
Contributions buyback	--	2,915	--	2,915
Pension plan net investment Income (loss)	376,820	82,072	141,915	600,807
Benefits payments and refunds	(190,332)	(56,548)	(51,888)	(298,768)
Pension plan administrative expense	(2,778)	(1,562)	(1,400)	(5,740)
Net change in total plan fiduciary net position	350,750	83,455	124,188	558,393
Total plan fiduciary net position at December 31, 2017 (d)	$ 2,650,438	769,475	953,798	4,373,711
Net pension liability at December 31, 2016 (a-c)	$ 1,291,688	420,169	148,113	1,859,970
Net pension liability at December 31, 2017 (b-d)	$ 1,147,385	420,116	85,003	1,652,504

The City Employees' fund had no changes of assumptions or benefit terms that affected the total pension liability for the measurement period. The Police Officers' fund also had no changes of assumptions or benefit terms that affected the total pension liability for the measurement period.

The Fire Fighters' fund had no significant changes of assumptions during the measurement period but did have a change in benefit term that affected the total pension liability. Effective January 1, 2018 a cost-of-living adjustment increase of 2.20% went into effect.

(c) Pension Expense

Total pension expense recognized by the City for the fiscal year ended September 30, 2018, was comprised of the following (in thousands):

	Pension Expense
City Employees	$ 203,901
Police Officers	59,126
Fire Fighters	32,775
Total	$ 295,802

(d) Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2018 the City reported deferred outflows of resources related to pensions from the following sources (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
Deferred Outflows of Resources				
Contributions to the plans subsequent to the measurement date	$ 84,001	25,478	14,558	124,037
Differences between expected and actual experience	43,447	21,257	14,903	79,607
Changes in assumptions	52,369	15,334	2,713	70,416
Net difference between projected and actual earnings on pension plan investments	--	8,140	--	8,140
Changes in proportionate share (between funds)	2,013	--	--	2,013
Total	181,830	70,209	32,174	284,213
Deferred Inflows of Resources				
Differences between expected and actual experience	--	4,423	--	4,423
Net difference between projected and actual earnings on pension	69,347	--	35,527	104,874
Changes in proportionate share (between funds)	2,013	--	--	2,013
Total	$ 71,360	4,423	35,527	111,310

The portion of deferred outflows and inflows of resources that will be recognized in pension expense is as follows (in thousands):

Fiscal Year Ended September 30	City Employees	Police Officers	Fire Fighters	Total
2019	$ 55,007	13,895	2,285	71,187
2020	34,929	11,549	(865)	45,613
2021	(30,005)	1,353	(11,675)	(40,327)
2022	(35,301)	(1,134)	(12,567)	(49,002)
2023	1,839	4,381	3,176	9,396
Thereafter	--	10,264	1,735	11,999
Total	$ 26,469	40,308	(17,911)	48,866

(6) OTHER POSTEMPLOYMENT BENEFITS

(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 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 2017 plan year, (January 1 to December 31), the percentage of the maximum subsidy paid by the City was as follows:

Years of Service at Retirement	Percent of Maximum Subsidy Paid by the City
<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: Membership in the plan as of December 31, 2017, is as follows:

Inactive employees or beneficiaries currently receiving benefits	7,178
Inactive employees entitled to but not yet receiving benefits	2,763
Active employees	12,557
Total	22,498

(b) Total OPEB Liability

The City's total OPEB liability of $2,524,897 (in thousands) was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date. Of the total liability, $53,076 (in thousands) is considered to be due within one year and the remaining $2,471,821 (in thousands) is considered to be a long-term liability.

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 valuation from the previous reporting period. As a result, experience studies performed by the pension systems as discussed in Note 7a were also relied upon.

Inflation rate	NA
Salary increases	Vary by retirement group, age, and years of service
Discount rate	3.44%
Healthcare cost trend rates:	
Medical (pre-65)	7.00% graded to 4.50% over 5 years
Medical (post-65)	6.00% graded to 4.50% over 3 years
Prescription drug	9.00% graded to 4.50% over 9 years
Administrative costs	2.50%
Experience studies	Experience for healthcare cost trend rates was based on activity from November 1, 2015 to October 31, 2017 for medical costs and December 1, 2015 to November 30, 2017 for prescriptions.

Sources for mortality rate assumptions include:

General (Actives)	RP-2014 Blue Collar Employee Mortality Tables projected generationally using scale BB from 2014
General (Healthy retirees)	RP-2014 Blue Collar Healthy Annuitant Mortality Tables projected generationally using scale BB from 2014
General (Disabled retirees)	RP-2014 Blue Collar Healthy Annuitant Mortality Tables, set forward 3 years, projected generationally using Scale BB from 2014, with a minimum 3% rate of mortality applicable at all ages
Police (All lives)	RP-2000 Combined Healthy Mortality Tables
Fire (Healthy lives)	RP-2000 Combined Healthy Mortality Tables, set back 2 years, projected generationally using Scale AA from 2000
Fire (Disabled lives)	RP-2000 Disabled Retiree Mortality Tables

Discount Rate. The discount rate for OPEB 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, 2017, the City's actuaries used the Bond Buyer US Weekly Yields 20 General Obligation Bond Index of 3.44%. The discount rate as of December 31, 2016 used in calculating the total OPEB liability as of September 30, 2017 for restating the financial statements was 3.78%. The discount rate decreased 0.34% between these two measurement dates.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the City calculated using the discount rate discussed above, as well as what the total OPEB 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.

1% Decrease		Current Discount Rate		1% Decrease	
Rate	Total OPEB Liability	Rate	Total OPEB Liability	Rate	Total OPEB Liability
2.44%	$ 3,043,665	3.44%	$ 2,524,897	4.44%	$ 2,123,411

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the total OPEB liability of the City calculated using the healthcare cost trend rates displayed above, as well as what the total OPEB liability (in thousands) 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.

1% Decrease	Current Rate	1% Decrease
Total OPEB Liability	Total OPEB Liability	Total OPEB Liability
$ 2,087,263	$ 2,524,897	$ 3,101,315

Schedule of Changes in Total OPEB Liability. Changes in the total OPEB liability for measurement period ended December 31, 2017 is as follows (in thousands):

Total OPEB liability at December 31, 2016	**$ 2,055,627**
Changes for the year:	
Service cost	86,687
Interest	80,132
Differences between expected and actual experience	64,227
Assumption changes	283,099
Expected benefit payments	(44,875)
Net change in total OPEB liability	469,270
Total OPEB liability at December 31, 2017	**$ 2,524,897**

The OPEB plan had no changes in benefit terms during the period. Assumption changes included:

- Lowering the discount rate from 3.78% to 3.44% based on Bond Buyer US Weekly Yields 20 General Obligation Bond Index as of the measurement date,
- Updating medical and prescription drug claim costs to reflect more recent experience,
- Modifying medical and prescriptions drug trend rates by splitting the single category from the previous valuation into three categories for the current valuation, grading these categories for different periods, and lowering the ultimate trend rate from 5.0% to 4.5%, and
- Updating third-party administrator and vendor administrative expenses to reflect more recent contracts and assumed trends on such costs.

(c) Other Postemployment Benefits Expense

Total OPEB expenses recognized by the City for the fiscal year ended September 30, 2018 were $213,006 (in thousands).

(d) Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2018, the City reported deferred outflows and inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows	Deferred Inflows
Benefit payments subsequent to the measurement date	$ 35,830	--
Differences between expected and actual experience	55,720	--
Changes in assumptions	245,603	--
Changes in proportionate share (between funds)	11,713	11,713
Total	$ 348,866	11,713

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	
2019	$ 46,004
2020	46,004
2021	46,004
2022	46,004
2023	46,004
Thereafter	71,303
Total	$ 301,323

(7) DERIVATIVE INSTRUMENTS

Variable Rate Debt Management Program

The Airport has derivatives in the 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.

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, 2018, the Airport has one outstanding swap transaction with initial and outstanding notional amounts noted below. The fair value of the interest rate derivative transaction was estimated based on an independent pricing service. The valuations provided were derived from proprietary models based upon well-recognized principles and estimates about relevant future market conditions. The expected transaction cash flows are calculated using the zero-coupon discounting method which takes into consideration the prevailing benchmark interest rate environment, the specific terms and conditions of a given transaction, and assumes that the current forward rates implied by the benchmark yield curve are the market's best estimate of future spot interest rates. The income approach is then used to obtain the fair value of the transactions, where future amounts (the expected transaction cash flows) are converted to a single current amount, discounted using a rate of return that takes into account the relative risk of nonperformance associated with the cash flows. Where applicable under the income approach an option pricing model is applied such as the Black-Scholes-Merton model, the Black-Derman-Toy model, one of the short-rate models, or other market standard models consistent with accepted practices in the market for interest rate option products. The option models consider probabilities, volatilities, time, settlement prices, and other variables pertinent to the transactions. This valuation technique is applied consistently across all the transactions. Given the observability of inputs significant to the measurements, the fair values of the transactions are categorized as Level 2.

On September 30, 2018, the Airport 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
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Pay 4.051%, receive 71% of LIBOR	8/17/2005	11/15/2025	$ 176,100	(12,349)

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 Airport'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 Airport's interest rate swap agreement as of September 30, 2018 (in thousands):

		Fair Value and Classification		Change in fair value	
Item	Outstanding Notional Amount	Amount	Classification	Deferred Outflows	Deferred Inflows
Hedging derivative instruments (cash flow hedges):					
AIR1	$ 176,100	(12,349)	Non-current liability	9,187	--

Due to the continued low interest rate levels during fiscal year 2018, the Airport's interest rate swap hedging derivative instrument had negative fair values as of September 30, 2018. 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, 2018, the Airport was not exposed to credit risk on its outstanding swap agreement because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Airport would be exposed to credit risk in the amount of the swap's fair value.

The counterparty credit ratings for the Airport's interest rate swap hedging derivative instruments at September 30, 2018, are included in the table below:

			Counterparty Ratings		
Item	Related Variable Rate Bonds	Counterparty	Moody's Investors Service, Inc	Standard & Poor's	Fitch, Inc
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Morgan Stanley Capital Services, LLC	A3	BBB+	A

This swap agreement contains a collateral agreement with the counterparty and requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement. For this swap, the Airport purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/S&P.

Swap payments and associated debt. The net cash flow for the Airport's interest rate swap hedging derivative instruments for the year ended September 30, 2018, is included in the table below (in thousands):

		Counterparty Swap Interest				
Item	Related Variable Rate Bonds	Pay	Receive	Net	Interest to Bondholders	Net Interest Payments
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	$ (7,218)	2,122	(5,096)	(2,258)	(7,354)

Basis and interest rate risk. Basis risk is the risk that the interest rate paid by the Airport on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. At September 30, 2018, the Airport bears basis risk on its swap. This swap has basis risk since the Airport receives a percentage of LIBOR to offset the actual variable rate the Airport pays on the related bonds. The Airport is exposed to basis risk should the floating rate that it receives on a swap drop below the actual variable rate the Airport pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

The Airport 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 Airport'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 Airport'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 Airport is receiving 71% of LIBOR on AIR1 and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Nonperformance/Termination risk. The Airport or the counterparties may terminate its swap if the other party fails to perform under the terms of the respective contracts. If this swap is 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 Airport 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 Airport. Additionally, the Airport purchased swap insurance on its Swap AIR1 to further reduce the possibility of termination risk.

Rollover risk. The Airport 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 the hedging derivative instrument terminates, the Airport will be re-exposed to the risks being hedged by the hedging derivative instrument. The Airport is currently not exposed to rollover risk on its hedging derivative instrument.

Investment Derivative Instruments

At September 30, 2018, the Airport did not have any investment derivative instruments related to interest rate swaps.

(8) LEASE AGREEMENTS

The Airport 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 2018, the Airport fund revenues included minimum concession guarantees of $22,090,118.

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, 2018 (in thousands):

Fiscal Year Ended September 30	Airport Lease Receipts
2019	$ 28,359
2020	29,560
2021	29,507
2022	27,902
2023	27,728
2024-2028	105,933
2029-2033	11,441
2034-2038	8,331
2039-2043	3,568
Thereafter	1,780
Totals	$274,109

(9) COMMITMENTS AND CONTINGENCIES

(a) 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 2018 Capital Budget has substantial contractual commitments relating to its capital improvement plan. Remaining commitments represent current unspent budget and future costs required to complete projects. The Airport has $283,530,000 remaining commitment for its Capital Improvement Plan.

(b) 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 17% of City employees and 24% of retirees use the HMO option; approximately 73% of City employees and 75% of retirees use the PPO option; and approximately 11% of City employees and 1% 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 Utility, 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. This stop-loss insurance covers individual claims that exceed $500,000 per calendar year, up to a maximum of $5 million. In fiscal year 2018, eleven claims exceeded the stop-loss limit of $500,000; during fiscal year 2017, four claims exceeded the stop-loss limit of $500,000, and during fiscal year 2016, ten claims exceeded the stop-loss limit of $500,000. City coverage is unlimited for lifetime benefits. The City does not purchase stop-loss insurance for workers' compensation claims.

The City is self-insured for much of its risk exposure; however, the City purchases commercial insurance coverage for loss or damage to real property, theft and other criminal acts committed by employees, and third party liability associated with the airport, owned aircraft, and electric utility operations. There have been no claims settlements in excess of the purchased insurance coverage for the last four years. The City also purchases insurance coverage through a program that provides workers' compensation, employer's liability, and third party liability coverage to contractors working on designated capital improvement project sites.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits fund and Workers' Compensation fund. Claims liabilities for the Austin Energy, Austin Water Utility, 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 $48.4 to $53.5 million. In accordance with GAAP, $48.4 million is recognized as claims payable in the financial statements with $23.9 million recognized as a current liability and $24.5 million recognized as long term. 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 utility, 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.

Changes in the balances of claims liability are as follows (in thousands):

	Airport	
	2018	2017
Liability balances, beginning of year	$ 1	--
Claims and changes in estimates	--	9
Claim payments	(1)	(8)
Liability balances, end of year	$ --	1

	Employee Benefits (1)		**Liability Reserve**		**Workers' Compensation**	
	2018	2017	2018	2017	2018	2017
Liability balances, beginning of year	$ 18,822	14,310	4,975	9,364	25,299	25,664
Claims and changes in estimates	158,704	18,568	2,963	3,984	5,101	3,524
Claim payments	(161,001)	(14,056)	(3,498)	(8,373)	(3,391)	(3,889)
Liability balances, end of year	$ 16,525	18,822	4,440	4,975	27,009	25,299

(1) For the Employee Benefits Fund, claim payments as reported above, represent amounts paid against claims outstanding at the beginning of the year. Claims initiated after the beginning of the year, but not yet settled, are reported in claims and changes in estimates. Cash paid for claims was $160,180 for the years ended September 30, 2017.

The Liability Reserve Fund claims liability balance at fiscal year-end included liabilities of $2.8 million discounted at 4.44% in 2018 and $3.1 million discounted at 3.75% in 2017.

(10) CONDUIT DEBT

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, 2018, $145 million in revenue and revenue refunding bonds were outstanding with an original issue value of $148.6 million.

The above bonds do not constitute a debt or pledge of the faith and credit of the Airport or the City and accordingly have not been reported in the accompanying financial statements.

(11) RESTATEMENT

During fiscal year 2018, the City implemented a new accounting standard, GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.” This statement revised the standards for determination of the OPEB liability, for accounting and reporting for OPEB expenses and liabilities, and for deferral of certain OPEB expense elements. As a result of implementing this statement, net position was restated at October 1, 2017. The City’s other postemployment benefits payable was eliminated and replaced by a larger OPEB liability which was divided into short- and long-term components. In addition, net contributions made by the City for retiree healthcare benefits from January 1 to September 30, 2017, are recorded as deferred outflows of resources. The impact of these changes on the beginning balances reported in the financial statements is shown below (in thousands):

September 30, 2017	**Airport**
Net position, as previously reported	$ 615,880
Adjustments to properly record implementation of GASB Statement No. 75	(40,600)
Net position, as restated	$ 575,280

(12) DISCRETELY PRESENTED COMPONENT UNIT

Condensed financial information is included below for the discretely presented component unit of the City that is related to the Airport, which is Austin Bergstrom Landhost Enterprises, Inc. (ABLE). 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 Airport or of the City.

The most recently available financial statements for Austin Bergstrom Landhost Enterprises, Inc. are for the year ended **December 31, 2017** (in thousands).

Condensed Statement of Net Position

	2018
ASSETS	
Current assets	$ 1,734
Capital assets	22,429
Noncurrent assets	22,878
Total assets	47,041
Deferred outflows of resources	--
LIABILITIES	
Current Liabilities	4,718
Bonds payable, net of discount and inclusive of premium	--
Noncurrent liabilities	52,329
Total liabilities	57,047
NET POSITION	
Net investment in capital assets	(10,481)
Restricted	3,689
Unrestricted (deficit)	(3,214)
Total net position	$ (10,006)

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	2018
OPERATING REVENUES	
User fees and rentals	$ 15,012
Total operating revenues	15,012
OPERATING EXPENSES	
Operating expenses before depreciation	10,761
Depreciation and amortization	1,155
Total operating expenses	11,916
Operating income (loss)	3,096
NONOPERATING REVENUES (EXPENSES)	
Nonoperating revenues (expenses)	(5,407)
Income (loss) before contributions and transfers	(2,311)
Special item - gain on debt restructure	32,729
Change in net position	30,418
Total net position - beginning	(40,424)
Total net position - ending	$ (10,006)

AUSTIN-BERGSTROM INTERNATIONAL AIRPORT
(A Department of the City of Austin)

Notes to the Financial Statements
September 30, 2018 and 2017
(unaudited)

Statement of Cash Flows

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 14,893
Cash payments to suppliers for goods and services	(6,906)
Cash payments to employees for services	(3,991)
Net cash provided by operating activities	3,996
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Proceeds from the sale of bond	1,122
Net cash provided (used) by noncapital financing activities	1,122
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid on long-term debt	(1,283)
Interest paid on revenue bonds and other debt	(3,805)
Acquisition and construction of capital assets	(1,084)
Payments on capital lease obligations	(7)
Payment from primary government	(3,000)
Bond issuance costs	(539)
Proceeds from the sale of bonds	51,778
Refunding of bonds	(29,000)
Net cash provided (used) by capital and related financing activities	13,060
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	82
Withdrawals from GIC held by trustee	353
Net cash provided (used) by investing activities	435
Net increase (decrease) in cash and cash equivalents	18,613
Cash and cash equivalents, beginning	5,458
Cash and cash equivalents, ending	$ 24,071

AUSTIN-BERGSTROM INTERNATIONAL AIRPORT
(A Department of the City of Austin)

Notes to the Financial Statements
September 30, 2018 and 2017
(unaudited)

Combining Statement of Cash Flows (continued)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	$ 3,096
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	1,155
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(119)
(Increase) decrease in inventory	5
(Increase) decrease in prepaid expenses and other assets	(41)
Increase (decrease) in accounts payable	(13)
Increase (decrease) in accrued payroll and compensated absences	6
Increase (decrease) in other liabilities	(93)
Total adjustments	900
Net cash provided (used) by operating activities	$3,996
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Capital appreciation bonds interest accreted	$ 2,057